

The Child Tax Credit:  
How the United States Underinvests in Its Youngest Children in Cash Assistance  
and How Changes to the Child Tax Credit Could Help

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## ABSTRACT

### The Child Tax Credit:

### How the United States Underinvests in Its Youngest Children in Cash Assistance and How Changes to the Child Tax Credit Could Help

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In this dissertation I examine the Child Tax Credit (CTC), who gets it and who doesn't, paying particular attention to children under the age of three, its legislative and political history, and how it could be improved. At \$56.4 billion per year, the Child Tax Credit (CTC) is nearly the largest U.S. federal expenditure on children and families, second only to the Earned Income Tax Credit (EITC), at \$59.5 billion (JCT, 2011). Created in 1997, it has been expanded seven times in just the last decade. Yet in spite of America's federal commitment of dollars and legislative commitment of reform, little has been written about the CTC.

I examine the literature first to see if cash and cash assistance matter, finding on balance that there is strong evidence that it does, particularly for young children; second to show that the U.S. underinvests in this domain in young children relative both to what is needed and to what other advanced industrialized countries do; and third to lay out the case that changes to the refundable CTC offer one opportunity to address this underinvestment. I examine the legislative history of the CTC, as I believe both the policy analysis and history need to be understood to inform the policy responses.

Next, I examine whether the portion of the new safety net that was fashioned as tax policy is working as child policy – specifically, whether it is reaching our youngest children, with initial evidence that it may not be in the case of the CTC (Burman and Wheaton, 2007) yet may be in the case of the EITC (Dowd and Horowitz, 2011). Using the 2011 Current Population March Supplement, I examine empirical evidence of the age distribution of federal tax credits for children, finding that 29% of children under the age of three are in families with too little earnings to get the full CTC, as opposed to 20% of older children. Nearly 13% of children under the age of three are in families with no earnings and as such get no CTC or EITC, as opposed to 8% of older children. While the EITC may disproportionately benefit young children, poor young children are more likely to be left out eligibility of the EITC than their older counterparts. Since infants may or may not be eligible for any CTC or EITC, depending on their birth month, I suggest that as some have found a marriage penalty in parts of the tax code, that there may also be a “baby penalty.” I use micro-simulation to examine the costs and benefits of alternative CTC policies. Here I find that while full refundability may be the optimum CTC policy, that there are other possibilities, including those that increase the phase-in of eligibility, that are less costly, and also substantially lower child poverty among young children, including doubling the CTC for young children, increasing the phase in, and using a look back provision to allow families to use their previous year’s earnings to calculate their refundable CTC and EITC. Yet, only moving to full refundability would do anything for the 12.67% of young children in families with no earnings.

Finally, I propose policy responses that are rooted both in the science of increased cash

investments in young children, and in the politics of working legislatively to get there, suggesting that policy makers consider the question of age equity when examining the distributional effects of tax policies. Implications for research and policy are discussed.

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legislative history of the child tax credit, helping me to organize my many thoughts so that they could be presented in a coherent fashion, and giving comments on multiple drafts of the entire dissertation. Liana Fox took the time to walk me through how to use STATA to do my policy analysis, which allowed me to test a variety of hypotheses, only some of which are presented in this dissertation. Of course, I am also grateful that I had the opportunity to learn from Dr. Al Kahn, who taught me so much in his U.S. social policy class. I have been extremely lucky to be a doctoral student at the Columbia University School of Social Work. Had I not had the privilege, I never would have pivoted from child policy to child tax policy.

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After spending two or three days at a time, a couple times a month for the last dozen plus years walking around the Capitol with my partner and father, Bill Harris, there is no way that I could possibly thank all of the other people, both in and out of government, from the scores of meetings and phone calls in which I had the privilege to participate. They

know who they are.

Of course, all mistakes, biases, and omissions are my responsibility.

## DEDICATION

This dissertation is dedicated to Representative Rosa DeLauro, who first introduced a fully refundable child tax credit in Congress in March of 2003 and serves as a daily reminder of the potential for Congress to make people's lives better; to my mother, Robie Harris, an author and advocate for children having access to information to make safe and healthy choices; to my father and partner, Bill Harris, who had the trust to take me on as a partner when I did not know the difference between policy and politics and whom I will never be able to sufficiently thank for all he has taught me; to my two daughters, Ella and Rosie, who bring me such pride and joy; and especially, to my wife, Emily, who through her work as a pediatrician, a lactation consultant, and in particular a mother, reminds me every single day of the importance of the earliest days of a child's life, and without whose support I never would have had the time to finish my degree.

## CHAPTER 1

### **Introduction and Overview**

In this dissertation I examine the Child Tax Credit (CTC), who gets it and who doesn't, paying particular attention to children under the age of three, its legislative and political history, and how it could be improved. In this chapter, I discuss my rationale for examining the CTC, provide a brief legislative and policy background, and having done so, present an outline of the chapters.

#### ***1. Rationale:***

At \$56.4 billion per year, the Child Tax Credit (CTC) is nearly the largest U.S. federal expenditure on children and families, second only to the Earned Income Tax Credit (EITC), at \$59.5 billion (JCT, 2011). Created in 1997, it has been expanded seven times in just the last decade. Since 2008, nearly \$50 billion in new outlays of refundable child tax credits have been passed by Congress in four separate bills – ranging from approximately \$3.5 billion in 2008 to nearly \$10 billion in annual costs in 2010. The annual cost of the CTC – both the refundable and non-refundable portions – is now \$56 billion. President Obama's budget would move these expansions into baseline law.

Yet in spite of America's federal commitment of dollars and legislative commitment of reform, little has been written about the CTC.

The United States now has a safety net largely conditioned on earnings as opposed to need. In fact, some 91% of all spending in 2010 on federal entitlement benefits went to either people who are not expected to work because they are 65 or older or disabled, or to families with at least one worker (Greenstein, 2012). Excluding those 65 and older and the non-elderly disabled, two-thirds of the remaining entitlement benefits went to working households with at least one worker who worked more than 1,000 hours during the year.

Such a net does not align well with an economy with insufficient jobs. With the passage of welfare reform in 1996, with TANF shrinking, and with increasing investments in refundable tax credits, the CTC and EITC have together become a large component of the safety net.

Refundable credits lift more children out of poverty – 7.2 million people including 4 million children - than any other program or category of program at any level of government (Marr and Highsmith, 2011).

At the same time, while leading child development experts have consistently and unambiguously stressed the importance of the first few years of life, only recently have policies focused on the first few years of life become a focus of public policy (Kamerman and Moss, 2011). For young children, a work-conditioned safety net could be particularly problematic, as their parents are more likely to be out of work and earlier on in their earnings trajectory than the parents of older children. With increasing evidence that cash assistance is particularly important in the early years (Duncan and Magnuson, 2011), I examine the legislative and political history of the child tax credit, as I believe both the policy analysis and the political history need to be understood to

inform the policy responses. Next, I examine whether the portion of the new safety net that was fashioned as tax policy is working as child policy – specifically, whether it is reaching our youngest children, with initial evidence that it may not be in the case of the CTC (Burman and Wheaton, 2007) yet may be in the case of the EITC (Dowd and Horowitz, 2011). I find evidence that young children may be the most likely to be left out of our largest child policies – that is, that a “baby penalty” may exist. Finally, I propose policy responses that are rooted BOTH in the science of increased cash investments in young children, and in the politics of working legislatively to get there.

Policy solutions exist - even politically viable ones.

## ***2. Legislative Background:***

In September of 2002, I decided to write my dissertation on a fully refundable child tax credit. I wanted to do research that would have some chance of actually positively effecting our society. With GOP hegemony in Washington, and tax cuts as far as the eye could see at the time, it seemed that one potential area of opportunity for low-income families, ironically, would be the tax code. While tax cuts are most often regressive in nature, there is always the possibility of progressive tax cuts, even progressive tax relief.

As I finished my course work and began to consider a dissertation on the child tax credit, President Bush was beginning to release his plans for his third tax cut - a package which would total \$350 billion, including outlays, by the time it reached his desk on May 28th, 2003.

As details of the President's '03 tax cut proposal leaked out, it became clear that he would look to accelerate the child tax credit expansion that occurred in his first tax cut of '01. With the possibility (albeit long) of affecting this debate, I took a sabbatical of sorts, to advocate on behalf of making the CTC more refundable. While it would have been useful to have the results of my dissertation at the time, there was no way to get the work done in time to have it be helpful in that session.

Continuing my work with the Children's Research and Education Institute, and the advocacy group Kids Project, I turned my efforts towards trying to get expanded CTC refundability added to the legislation. It was intended to be a six-month effort, involving primarily contact with Hill staff and elected officials, pro bono consultants, and people in the media. Among other efforts, I had multiple conversations with people at both the Brookings-Urban Tax Policy Center and the Institute on Taxation and Economic Policy, encouraging them to run and release specific micro-simulations on the child tax credit in order to have demographic information that was not yet available both to draw attention to the issue through the news media and to use in describing the issue to policy makers.<sup>1</sup>

Ultimately, a CTC refundability expansion worth just 1% of the bill was cut out in the House-Senate conference. David Firestone of the New York Times ended up writing a front page, top fold story, entitled "Tax Law Omits Child Credit In Low-Income Brackets." It is a longer story,

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<sup>1</sup> In one of these discussions, I asked Len Burman at the Tax Policy Center if they might have the ability to estimate if young children were less likely to get the CTC than older children. This exchange, along with subsequent discussions, led to his paper with Laura Wheaton in 2007 finding that it did.

some of which I will detail in chapter 3, but being a slow news day, among other things, it led the news that night and became a story for about 45 days, with over 10 New York Times articles, and more importantly, coverage around the country. Ultimately, a year later, in October of 2004, refundability of the CTC was accelerated for children, even though the GOP had the Presidency and majorities in both chambers.

With new House Democratic Leadership coming in, there was an increased interest in child policy, including the child tax credit. The Democratic House Minority kept on the issue. When they took over in the 2006 election, incoming Speaker Pelosi dedicated the 110th Congress to Children and Families. What followed was four years of legislative expansions of the CTC, including 4 expansions and extensions of refundability that were signed into law, the most recent in December of 2010.

As I write this, there is a lull in tax legislation as the resumption of the tax fight on the extension of the Bush tax cuts will begin in earnest in the summer or fall of this year, as we move fully into the Presidential and Congressional elections.

Over the course of the last years, the Politics of the CTC have changed. An idea that was politically born in Newt Gingrich's 1994 "Contract with America," and used as a Trojan Horse in the 2001 and 2003 tax cuts, has become a progressive tax cut that in part spans across ideologies, building on Ronald Reagan's expansion of the EITC. In each of the last 4 major budget deals, beginning with the January 2008 stimulus, and most recently in the December 2010 tax cut extension, refundability of the Child Tax Credit was expanded. With the CTC set to shrink from \$1,000 to \$500 and lose part of its refundability on January 1<sup>st</sup>, 2013 (along with a series of other tax cuts), there is every reason to believe that this issue will remain public as the



debate over debts and deficits, investments and winning the future continues.

### ***3. Policy Background:***

There has been a plethora of work examining the role of child allowances in other countries (Bradshaw, 2011). The United States invests less in cash family benefits, as a percent of GDP than all but one of the 33 OECD countries, with Korea taking up the rear (OECD, 2011). In addition, there is a fair amount of work examining the effects of a cash benefit on families and children. In the U.S., the Congressional Joint Committee on Taxation and several think tanks have modeled some of the effects of changes in CTC law in order to anticipate the direct cost in decreased federal revenue. At an annual cost of \$56 billion - \$32 billion of which is refundable, it is, after all, only a few billion dollars short of being the single largest federal child benefit in the country.

The legislative and political history of the Child Tax Credit is fascinating (at least to me) and worth documenting. People often group it with the EITC, yet the politics of the two credits are quite different.

More important, perhaps, is laying out the case that while we have evidence that early childhood is the optimum time to invest in human capital - in the domains of time, money, and services (particularly early childhood education), that we underinvest not just in time and services, but also in money. Full refundability of the CTC may be the best solution, along with increasing the credit for the families of young children. Yet, considering the political difficulty of decoupling tax credits from work, there are alternative policies to address this underinvestment including

look-back provisions, (as we did after Hurricanes Katrina and Rita), and counting unemployment insurance (U.I.) as earnings for the purposes of calculating one's CTC and EITC. These alternatives keep the politically important tie to work, while moving towards more economic stability for families.

As Kamerman and Kahn's first wrote in 1995, the optimum time for investment in child policy is early childhood. They examine the three policy domains of time, money, and services. In recent years there has been increasing evidence that early childhood, particularly the time before a child turns three, is the prime time for investment for each of these three domains (with particularly focus on early child education, family leave, and tax credits). There is a great deal of evidence that we underinvest in the first two areas in early childhood (see for instance, Kamerman and Kahn, 1995; Waldfogel, 2006; Garfinkel, Rainwater, and Smeeding, 2010). The dissertation will then focus in on the third area of cash assistance to families, with a particular focus on one of the largest federal child policies, the child tax credit (CTC).

#### ***4. Chapter Outline:***

**Chapter 1** is my introduction, laying out the scope of the dissertation.

In **chapter 2**, I examine the literature (1) to see if cash matters – finding that there is strong evidence that it does, particularly for low-income young children; (2) to show that the U.S. underinvests in this domain in young children relative to what is needed; (3) to show that the U.S. underinvests in this domain relative to other advanced industrialized countries; and, having

done so, (4) to lay out the case that changes to the refundable CTC offer one opportunity to address this underinvestment.

**Chapter 3** is a legislative history of the CTC, as I believe both the policy analysis and the legislative history need to be understood to inform the policy responses.

It begins with the political origins of the Child Tax Credit in the Republican's 1994 campaign manifesto, the Contract with America, and concludes with the December, 2010 tax cut extensions.

My advocacy role, working much of the last decade on the CTC, gives me a perspective from which to write the legislative history, in hopes that the politics of the CTC can help shed light on what policy responses may be possible to address the lack of cash for the families of low-income young children. At the same time, my proximity to the issue is likely to lead to unique biases. Having worked for nearly a decade on the politics of the child tax credit, my interpretation of the history is biased by my proximity to the topic. I will seek to minimize these biases by using public sources for confirmation of information whenever possible, but there is no way to get rid of them all together.

I argue that as a tax credit, the politics of the CTC differ from those of SNAP (formally known as food stamps), unemployment insurance (U.I.), and other cash benefits. Among other differences, this argument is consistent with the work in the area of tax expenditure analysis that is premised on the fact that tax expenditures can be easier to implement and harder to end than regular

spending programs (Kleinbard, 2010). Tax expenditures may receive less scrutiny than direct spending programs, as they are part of a “hidden welfare state” (Howard, 1999). Moreover, non-entitlement spending generally needs to be both authorized and appropriated, necessitating two laws being passed, and then subsequently extended in future years, whereas tax law necessitates only one bill being passed, and can be passed as permanent law, obviating the need for any additional legislation. Furthermore, tax credits are considered “tax cuts” whereas SNAP and U.I. are considered spending.

I lay out a case that as a middle class tax credit, the CTC differs greatly from the EITC in large part because the CTC goes to the vast middle class. Last March, the House Ways and Means Committee held a hearing on “improper tax payments that occur within the administration of refundable tax credits.” The focus was on the error rate of the EITC – and the CTC was not even raised in the hearing.

**Chapter 4** uses micro-simulation to provide new empirical evidence of the age distributions of the CTC eligibility. While there are ethical reasons to move to a universal child allowance - recognizing the rights of children, here the focus is on the economics of doing so. We spent an estimated \$56.4 billion in 2011 on the CTC and another \$59.5 on the EITC – together the largest U.S. federal expenditure on children and families – but is the money appropriately targeted by age? That is, is it reaching low-income families with infants and toddlers?

Using Current Population Survey March Supplement data, I run a micro-simulation seeking empirical evidence of the age distribution of the federal tax credits for children. I use the CPS

data since it is a nationally representative sample allowing me to look to compare children of different ages in the same year.

First, I look to see if young children are disproportionately left out of the CTC, as Burman and Wheaton found (2007). I examine if it is also the case for the EITC both because with the CTC it is the largest federal child policy, and because unlike the CTC, there is evidence that the EITC disproportionately helps young children (Dowd and Horowitz, 2011). Next, I look at basic demographics of the CTC to see how eligibility may vary by race and family structure for both married and single-parent, female-headed households. Last, I model a range of CTC policy alternatives, including ideas mentioned by both policy makers and in the academic literature, examining their costs, their effects on eligibility for young children, and how much they may lift children out of poverty.

Finally, in **chapter 5**, I propose policy responses that are rooted BOTH in the science of increased cash investments in young children, and in the politics of working within a work-based U.S. safety net.

I seek to thread together the policy analysis and the political analysis to lay out opportunities for policy change that are consistent with increasing human capital investment in the early years.

I discuss the possibility of full refundability of the CTC, with a rationale moving beyond tax policy (Burman and Wheaton, 2007, among others), and economic efficiency (Batchelder, Goldberg, and Orszag, 2006), to one based on child policy. The differences in perspectives

between the fields of tax policy and child policy go beyond a simple categorization of implicit and explicit policy. I will also discuss the possibility of increasing the CTC for the families of young children as Duncan and Magnuson (2011) have suggested, and as Senator Chuck Schumer has proposed (although in a non-refundable iteration).

The efficiencies of universal policies (Garfinkel, 1982; Bradshaw, 2011) may in the end be what could lead to full refundability of the CTC, as the costs of means testing family tax credits rise and the cost distance between current law and full refundability shrink. Alternatively, the need for revenue, and the potential of the creation of a VAT, with a need to offset its regressive nature could present an opportunity.

In the meantime, alternatives exist that, by keeping the tie to work, could be more politically possible, while helping the families of young children, and narrowing the gap in cost between current law and full refundability. They could also lead to the undesirable outcome of more clearly bifurcating the deserving from the undeserving poor, as the left continues to embrace compromises incorporating conservative solutions to policy problems (Klein, 2011).

I then look at other cash options that may be more politically achievable in the near to mid-term future in the U.S. First, I will examine the idea of a nationwide look back provision (as we did regionally after Hurricanes Katrina, Rita, and others) – focusing on how it could work and its potential costs, recognizing how administrability issues could hamper it, and examining its similarities to loss provisions on the corporate side of the income tax code.

Next I look at the possibility of counting unemployment insurance as earnings for purpose of calculating CTC and EITC – again focusing on how it would work, costs, and IRS administrability. For both the look back provision and the U.I. policy, I consider the added benefit of the effect on state EITCs, which are pegged to the federal EITC. I argue that both the look back provision and the adaptation of U.I. may be more more politically salient than full refundability among those who champion cash tax benefits to low-income families, as they still maintain the all important (in America) tie to work, as opposed to attaching cash to other behaviors.

Finally, I argue that while efforts to mobilize parents could be fruitful (Skocpol and Dickert, 2001), that opportunities for directly mobilizing key policy makers remain.

## CHAPTER 2

**Literature Review: The Effects of Income on Child Well Being and  
the Case that Changes to the Child Tax Credit Could Help**

On May 1<sup>st</sup>, 1991, the National Commission on Children unanimously approved a proposal for a national policy for America's children. Entitled "Beyond Rhetoric: A New American Agenda for Children and Families," the report called for a comprehensive set of child policies in the United States to address the fact that the most prosperous nation on earth was failing so many children – including a fully refundable \$1,000 Child Tax Credit – in 1991 dollars. While there have been many policy changes in the last 20 years for children and families, America continues to fall short in this area, relative to what research tells us about child policy and relative to what peer nations invest in child and family policy.

In 1995, Dr. Sheila Kamerman and Dr. Al Kahn in *Starting Right: How America Neglects Its Youngest Children and What We Can Do About It*, laid out a framework for understanding child policy as divided into three domains – time, money, and services. Thanks in large part to their research much was already known about how much the U.S. underinvests in child policy relative to its peer nations. In particular, they called attention to America's neglect of young children – those under the age of three - and what can be done (See also, for instance, Kamerman, 1994).

In the intervening years, both child development and policy research have strengthened the case that the earliest years are the optimum time for investment across all three domains of time,



money and services, and moreover, that the United States underinvests across all three domains (See for instance Waldfogel, 2006; Garfinkel, Smeeding, and Rainwater, 2010; Adema, 2011).

This dissertation is focused on the Child Tax Credit, and as such, the literature review will focus on that third domain of child policy - money. In this chapter I will examine the literature first to see if cash matters – finding that while there is some disagreement, on balance there is strong evidence that it does matter – particularly for low-income young children; second to show that the U.S. underinvests in this domain in young children relative to what is needed; and third to show that the U.S. underinvests in this domain relative to other advanced industrialized countries; and, having done so, lay out the case that changes to the refundable CTC offer one opportunity to address this underinvestment.

### ***1. Does Cash Matter?***

There is a vast literature on the role of income. I will attempt to sum up the major points, with details to follow. They include:

*i. Non-experimental studies find that cash likely matters more to the families of poorer children. Income may matter even more for children in deep poverty. These studies indicate positive associations with outcomes for children, generally more in the cognitive areas, than in behavior and health. Effects may differ by age of child and appear to be more important to young children. Duration of poverty also can have negative effects. Cash matters to families both because it may provide material support to children and because it may reduce the stress of the*

*parents. Still, not all literature says additional cash helps young children.*

*ii. Natural experiments demonstrate positive associations with outcomes for children.*

*iii. Experimental studies with random assignment suggest positive effects for young children going into school, but may confound employment with income and since they are limited by samples of children ages 2 to 15 do not pick up on the possible benefits of providing cash to the families of infants and toddlers.*

*i. Non-experimental studies:*

*Cash may matter more to the families of poorer children.*

Duncan and Brooks-Gunn in summing up the work of twelve groups of researchers with 10 different longitudinal developmental data sets, found that income mattered more for low-income children than for higher income children when looking at ability and attainment (1997).

Using the National Institute of Child Health and Human Development Study of Early Childhood Care (NICHD-SECC), Dearing, McCartney, and Taylor looking at within family changes in income-to-needs ratios, also found that changes in income-to-needs ratios proved of little importance to children in non-poor families, but was of great importance for children in poor families (2001). Specifically, when children from poor families experienced increases in income-to-needs that were of at least one standard deviation above the mean for poor families,

they displayed outcomes similar to their non-poor peers in child cognition, language, and behavioral outcomes.

They estimate that the effects of cash transfers to the families of young children equal to the cost of an Early Head Start slot (\$13,108 at the time of their paper) may yield a similar result in cognitive and behavioral outcomes as participating in Early Head Start. The NICHD-SECC data by containing measures of 15-month cognitive ability, allow the authors to strengthen their case for causality.

Examining a multigenerational dataset on living conditions in France, Maurin found that parental income seems to have a large effect on early schooling transitions (2002). A 10% increase in parental income was associated with a 6.5% decrease in the probability of being held back in elementary school. The author used parents' education and grandparents' socioeconomic status to correct for biases in errors of measuring parents' permanent income and to test for existence of hereditary determinants in education and income.

*Income matters even more for children in deep poverty.*

This finding is important, as very poor children are more disadvantaged than children closer but still below the federal poverty line (Smith, Brooks-Gunn, and Klebenov, 1997). Using a differences in differences design in the National Longitudinal Study of Youth, Dahl and Lockner use changes in the federal EITC and find that \$1,000 increases math scores by 2.1% of a standard deviation and reading scores by 3.6% of an SD (2005). They find that the results are

strongest for the poorest. Moreover, they find the effects to be long lasting.

*Cash is important for children's cognitive development.*

There is evidence that family income is a stronger predictor of ability and achievement outcomes for children than measures of parental education and family structure (Duncan and Brooks-Gunn, 1997). Importantly, Duncan and Brooks-Gunn find that parents' education is linked to children's outcomes but has an independent effect from income on children's cognitive outcomes – that is, that income effects are statistically significant and meaningful (1997). Still others argue that parental education may be more important (see, for instance, Bowles, Gintis, and Osborne Groves, 2005). Either way, it seems clear that cash is important for children's cognitive development.

*Effects differ by age of child and appear to be more important to young children.*

Income effects appear to be strongest during preschool and early school years (Duncan, Brooks-Gunn and Klebanov, 1994; Smith, Brooks-Gunn, and Klebanov, 1997).

Duncan and Brooks-Gunn's work across 10 different longitudinal developmental data sets finds that family economic conditions in early childhood appeared to be more important for shaping ability and achievement than economic conditions in adolescence and that associations between income and achievement were larger for children in low-income families than for children in more affluent families (1997).

Using a sibling analysis to reduce selection bias, Duncan, Brooks-Gunn, Yeung, and Smith find that family income at early childhood – particularly deep and persistent poverty – had significant long term effects on children’s educational attainment (1998).

Dearing, McCartney, and Taylor find that with increases in income for poor children there are improvements in outcomes for children as early as age 3 (2001).

One reason increased cash resources may be particularly important to young children is a replacement of potential labor force earnings. Maternal employment in the first year of a child’s life, and in particular, full-time employment, is associated with lower cognitive scores for preschool children at ages 3, 4, and 5 (Waldfogel, 2006). Effects persist at least to age 7 or 8, and while these are not causal studies, the preponderance of the evidence shows the same trends.

*Cash matters to families both because it may provide material support to children and because it may reduce the stress of the parents.*

The quality of the home environment, often operationalized as the either the learning opportunities provided by parents or parent-child conflict associated with economic stress (Conger, Conger, and Elder, 1997), explains as much as ½ of the association between family income-to-needs and child outcomes (Duncan and Brooks-Gunn, 2000).

Using the Panel Study of Income Dynamics (PSID) and its 1997 Child Development Supplement,

Yeung, Linver, and Brooks-Gunn examined how income matters to the development of young children (2002). They found that behavior scores were associated with maternal emotional distress and parenting practices, while achievement scores were related to a family's ability to provide a stimulating home environment.

*Duration of poverty also has negative effects.*

The longer children are in poverty, the worse off they are. Children persistently poor score worse on a variety of cognitive and language outcomes than never poor children. Children who are poor on occasion fall between the two other groups (Smith, Brooks-Gunn, and Klebenov, 1997).

While the preponderance of non-experimental studies show a positive correlation between income and cognitive outcomes for children, these studies are plagued by the potential for unmeasured factors or omitted variable bias. Natural experiments and actual experiments can provide stronger evidence of causality.

*Cash or Material Hardship?*

Using the Early Childhood Longitudinal Study Kindergarten class of 1998-1999, Gershoff, Aber, Raver, and Lennon test a theoretical model to tease apart the differential effects of income and material hardship on child outcomes finding that they do not move hand in hand (2007). Material hardship - operationalized as food insecurity, residential instability, and lack of medical insurance – rates do not decline for families until they reach 200% of the federal poverty

line (Gershoff, 2003).

Different goals would suggest different policy interventions. Family income appears to reduce parental stress almost entirely by reducing material hardship. If academic achievement is the goal, then income support will help children. If a reduction in behavioral problems is the goal, then it may be more effective to target downstream material hardship.

*Not all literature says additional cash helps young children:*

The primary criticism of much of the above research is confined to the research based on non-experimental data. Simply put, it is a question of selection bias. That is, are there unmeasured factors that simultaneously explain both parents' income and their children's outcomes?

Mayer provided a series of tests to measure omitted-variable bias, finding large reductions in the estimated effect of parental income (1997). She finds that much of the estimated effect in the literature is, therefore, non-existent. She finds that transfer income has a smaller impact than overall income on children's test scores, teenage childbearing, dropping out of school, and single motherhood, but similarly small positive effects in years of schooling, wages, and earnings.

However, Mayer did not test income effects on young children in low-income families (Duncan and Magnuson, 2003). While she does cast doubt on the effect of parental income on some behavioral problems such as teen childbearing, her evaluations of "true" effect of permanent income on total number of years of education, on earnings, or on basic cognitive tests are large and no lower than the evaluation using ordinary linear regression (Maurin, 2002).

Blau presents estimates of the effect of parental income on children's cognitive social, and emotional development, finding small effects with what he describes as modestly larger effects of permanent income, using mother daughter data from the National Longitudinal Survey of Youth (1999). Using fixed and random effects models to control for correlation between income and unobserved characteristics in the child outcome equation, he finds the largest income effects on the Behavior Problem Index, and the smallest effects on verbal memory. Specifically, he finds that a \$2,040 value of a credit would lead to an increase of 3% of a standard deviation or less in outcomes.

As Maurin points out, Blau does not regress children's test scores on the logarithm of parental income, but rather, on the level of parental income, and as such assumes that a marginal dollar has the same effect on affluent and poor families (2002). Moreover, 3% of a standard deviation may not be such a small effect. Most importantly for this dissertation, Blau does not see if the effects vary by age of child, potentially averaging out the differences.

Attempting to get rid of the problem of endogeneity, Shea focuses on income variation in families due to outside factors – union, industry and job loss, that arguably represent luck, finding that changes in income due to luck have negligible impact on children's human capital development (2000). Using the Panel Study of Income Dynamics, a longitudinal data set that allows him to link parents to adult children, Shea finds, however, that parents' income does matter for families whose father has less than a High School education, but not in families with low-income per se.



More recently, using data from the Fragile Families and Well-Being Study, a sample of children starting at birth from twenty U.S. cities, Berger, Paxson and Waldfogel find that even under the most generous assumptions, large income transfer programs would have relatively small effects on children's cognitive and behavioral outcomes (2009). They find that raising a family's income by \$3600 in the first year and \$2400 in the next 4 years (as proposed by Duncan and Magnuson, 2003) would have little effect. Even raising families' income to the poverty threshold – which would take an average annual grant of approximately \$9,000 - would have little effect. They find that the home environment, “properly measured,” fully explains the difference in outcomes between children of low-income families and those of affluent families.

*ii. Natural experiments:*

Almond, Hoynes, and Schanzenbach (2011) examine the impact of food stamps on birth outcomes, using variation in month that the food stamp program began operating in each U.S. county. Using a differences in differences analysis, they find that pregnancies exposed to the Food Stamp Program three months before birth resulted in increased birth weight. Their study, by using an exogenous increase in income suggests that the relationship between income and birth weight is causal.

Examining a change in the Child Tax Credit in Canada, Milligan and Stabile found positive effects on test scores, and measures of child and maternal mental health and well-being (2008). Importantly, they observed different effects depending on the gender of the child. There were

strong positive effects in educational outcomes and physical health for boys, whereas for girls, there were stronger positive effects on mental health.

Employing another natural experiment, using temporal variation in state EITC changes, Strully, Rehkopf and Xuan, also find associations between prenatal poverty and lower birth weights, finding that state EITCs increase birth weights and reduce maternal smoking (2010).

More recently, research on higher EITC payments suggests increases improve maternal health, an important effect on its own, but also likely to improve the lot of children. Also employing a differences in differences design, the study uses the exogenous event of changes in the federal EITC, finding in data from the Behavioral Risk Factors Surveillance Survey that the number of days with poor mental health and fraction reporting excellent or good health both improved (Evans and Garthwaite, 2010).

Using a representative population of 1420 rural children ages 9 to 13 at intake, Costello, Compton, Keeler, and Angold find that large increases in cash transfers from a casino to a Native American population resulted in a great reduction in psychiatric symptoms of poor children – to the point where after the transfers, previously poor children had the same scores as never poor children (2003).

The study involved annual psychiatric assessments taking place before a casino came in and started giving out large and increasing dividends – up to \$6,000 per person at the end of the study – to Native American families. Employing a differences in differences design, the authors

find the huge effect described above. That said, it is important to note, that the casino employees gave preference in hiring to Native Americans. As such, while the transfers clearly had an effect, the authors are unable to control for the potential effect of possible employment.

The results of these natural experiments are different than those of Duncan and Brooks-Gunn who find that cash income may have little effect on health and behavior (1997).

*iii. Experimental studies:*

Experimental studies – those with random assignment - provide the gold standard of evaluating causality in policy.

In the 1990s, four studies, all with random assignment, all on single parent, low-income families (and thus perhaps not generalizable to other poor families), took place to examine the effects of welfare reform. These studies included Connecticut's Jobs First, the Los Angeles Jobs First GAIN, the New Brunswick and British Columbia Sites of the Canadian Self-Sufficiency Project, and the Atlanta, Georgia, Grand Rapids, Michigan, and Riverside, California sites of the National Evaluation of Welfare to Work Strategies (Morris, Duncan, and Rodrigues, 2004).

These programs were designed to increase employment in some cases with earnings supplements, and in some cases to improve social behaviors (Morris, Huston, Duncan, Crosby, and Bos 2001).

In general, the research that looks at the various data from welfare and employment random assignment experiments in the 1990s find that programs that increase both employment and income had beneficial effects on preschool and school age children, but that programs that just increased employment had few effects for these children (Morris, Huston, Duncan, Crosby, and Bos, 2001; Morris and Duncan, 2002; Morris, Duncan, and Rodrigues, 2004) and potentially negative effects for adolescents (Gennetian, Duncan, Knox, Vargas, Clarke-Kauffman, and London, 2002).

Moreover, children were between the ages of 2 and 15 at the time of random assignment, so the addition of cash in the earliest years (before 2) cannot be measured. That said, Duncan and Rodrigues found that \$800 to \$2200 in benefits for a young child leads to an achievement effect size of 5 to 12% of a standard deviation.

Morris and Gennetian, using instrumental variables analysis and data from randomly assigned families in the Minnesota pilot welfare reform program, suggest that increases in income improve the development of low-income children with regards to both school engagement and positive social behavior (2003). Their findings are only marginally significant, yet consistent with much of the observational research discussed before. They find that an increase of \$1,000 in income results in a  $\frac{1}{4}$  to  $\frac{1}{3}$  SD increase in a scale measuring school engagement and positive behavior – larger effects than others have found. However, they caution that the increase in income they observe is accompanied by increases in employment, suggesting that children could perhaps “sense” their increase in income. They are unable to tease out whether this is an

employment effect or an income effect, or what combination it could be.

*Experimental studies support the non-experimental studies demonstrating that cash assistance may be particularly important for young children.*

For each \$1,000 programs added to yearly incomes of low-income families, young children gained an average of 5% to 6% of a standard deviation in school achievement – equivalent to about ½ the average racial gap in test scores of black and white kindergartners (Morris, Gennitian, and Duncan, 2005; Duncan, Morris, and Rodrigues, 2011).

***2. The United States underinvests in cash assistance to young children relative to what is needed:***

It is clear then, that the preponderance of the evidence suggests that money, particularly in the early years, can provide a moderating effect on poverty, and moreover, that consistent as opposed to intermittent income can also play a role. Evidence from both natural experiments and randomized trials suggest that “income plays a causal role in boosting younger children’s achievement” in preschool and elementary school (Duncan and Magnuson, 2011).

Families with children have only limited economic protection at a level significantly lower than the country’s low federal poverty level, let alone the international standard of 50% or even 40% of median family income (Kamerman and Kahn, 1997).

This evidence that the optimum time of cash investment in human capital is in the early years, is juxtaposed with three stark facts. First, that infants and toddlers are more likely than any other age group to be poor. Second, The U.S. spends a lot in cash assistance relative to other federal child and family policies. Third, in spite of this investment, young children are particularly likely to be left out of social policies general, making their families even more dependent on cash assistance.

Theoretically, then America's children should receive larger child allowances – and to the extent the amount differs by age, the youngest children should receive higher benefits than other children. Yet, it seems likely that young children would receive proportionally less than older children, as the parents of young children are less likely to be in the labor force and are earlier on in their earnings trajectories. Initial evidence suggests this is true with respect to the CTC (Burman and Wheaton, 2007).

*(i) In the United States, infants and toddlers are more likely than any other age group to be poor*

Infants and toddlers are more likely to be poor than any other age group in the United States (see, for instance, Redd, Karver, Murphey, Moore, and Knewstubb, 2011).

This fact exists for primarily two reasons. First, people generally earn more later in life, and as such, the parents of young children are earlier on in their earnings trajectory – that is, on average they are likely to make more as their children get older. Secondly, the parents of young children are less likely to be employed, as the childcare needs of young children are not universally

covered as they are for much of the year for school age children.

Adding to this differential poverty by age, is the fact the U.S. wealth gap between young and old is as wide as it has even been since it was first measured by the Census Bureau in 1984 (Yen, 2011).

Moreover, young children, dependent on adults, are particularly susceptible to risk (Shonkoff and Phillips, 2000).

This dissertation attempts to examine whether or not tax policies potentially exacerbate the relative poverty of infants and toddlers to older children. (While tax expenditures do not count in the formal definition of poverty in the U.S., they are counted in the new supplemental poverty measure, and, more importantly, are directly relevant to the wellbeing of low-income young children).

*(ii) The U.S. spends a lot in cash assistance, relative to other federal U.S. child and family policies*

From the standpoint of federal child policy, the vast majority of spending is through cash assistance, either in the form of tax expenditures or direct spending. The most recent year for federal expenditure data on children, 2010, included increases in many areas from the American Recovery and Reinvestment Act (ARRA). While the increases in refundable tax credits have been moved in part into baseline law, along with other efforts such as Race to the Top and Head

Start/Early Head Start, many of the other increases – in Medicaid, SNAP, and many other areas - have expired with the end of the two year stimulus.

Federal tax expenditures on children total approximately \$144.4 billion, including refundable tax credits, the dependent exemption, and other tax expenditures. Federal health expenditures on children totaled \$87.2 billion under ARRA. Education benefits totaled \$78.2 billion. Nutrition dollars – much of which are delivered in the form of a near cash benefit, totaled \$56.7 billion. Income security came in at \$52.4 billion. Early education came in at \$12.1 billion, social services at just over \$10 billion, and housing training, and other benefits at less than that number (Isaacs, Hahn, Rennane, Steuerle, and Vericker, 2011).

With tax expenditures, much of childhood nutrition, and income security benefits taking the form of cash or near cash assistance, it is clear that the vast majority of federal expenditures on children come through the form of cash assistance – and that a majority of that cash assistance - \$74.5 billion in 2010 – comes in the form of refundable tax credits.

It is worth adding that relative to other advanced industrialized countries, the U.S. underinvests in young children as well (See for instance, Kamerman and Kahn, 1995; Garfinkel, Smeeding and Rainwater, 2010; Waldfogel, 2006; and Adema 2011). That said, it is notable that the distribution of tax expenditures across children by age is assumed to be equal (Adema, 2011). If this dissertation finds evidence that suggests otherwise, then the U.S. investment in young children relative to other advanced industrialized countries may be even weaker than assumed.



*(iii) Young children are particularly likely to be left out of social policies generally, making their families even more dependent on cash assistance*

Across America, by the time a child reaches the age of 5, she is generally eligible for free childcare for much of the day and much of the year in the form of primary school. While federal state and local investments in early care and education exist, they are by no means comprehensive, leaving families of young children particularly dependent on cash aid.

As the Urban Institute's examination of public expenditures on children in the early and elementary years found, total public investment in children more than doubles between the early childhood years and the elementary years (Macomber, Isaacs, Vericker, and Kent, 2010). The authors find that this discrepancy is primarily driven by state and local spending. In fact, the study claims that federal expenditures on children is consistent across age groups – this finding, though, is conditioned on the assumption that tax credits are evenly distributed by age of child – which the above analysis in this chapter disputes.

It is likely then, that the U.S. underinvests in cash help to very young children. And, the assistance that is provided, with great variation year to year, could be working in conflict with what is in the best interests of children and society. Finding out the magnitude of that underinvestment, and possible ways to address it are the focus of this dissertation.

***3. The United States underinvests in cash assistance to young children relative to other advanced industrialized countries:***

Poverty rates in the U.S. relative to other countries are abysmal in both absolute terms and relative terms. Cross national comparative research clearly indicates that social policies like children's allowances help explain why child poverty rates are so much lower in most other advanced industrialized democracies (Aber, 2007).

U.S. child poverty is not simply due to the fact that we have increasing numbers of children born into single parent homes. Comparing the 33 countries of the OECD, the United States has the highest poverty for families without work, and the fourth highest poverty for both single earner families and dual earner families (Adema, 2011).

At the same time the United States' public spending on family benefits in cash, in-kind transfers, and tax transfers lags all but three OECD countries. The total GDP spent in family benefits averages 2.23% for OECD countries, ranging from 0.5% in Korea to over 3.5% in Denmark, France, Iceland, and the United Kingdom. The United States spends about 1.2% of GDP on these policies (Adema, 2011). Importantly, the U.S. has the highest proportion of family benefits being distributed through tax transfers. With the lack of full refundability of the CTC, a huge proportion of the U.S.' already limited family benefits are distributed through policies that cannot reach the most vulnerable children.

The U.S. has no explicit family policy (Kamerman and Kahn, 1997). Those countries that do have family policy are more generous to children and families (Kamerman and Kahn, 1983). Children are expensive. The Child Tax Credit is viewed as tax policy as opposed to child or

family policy, and therefore is often viewed in light of its effect on taxes (knocking people out of positive income tax liability) as opposed to its effect on child development.

All rich countries – with the exception of the United States – have child allowances – universal cash benefits paid to parents of all income classes (Garfinkel, Rainwater, and Smeeding 2010). These child allowances began at different times in different countries, but were already emerging as a trend in 1983 (Kamerman and Kahn, 1983), over a decade before the U.S. first created the essentially non-refundable Child Tax Credit (there was a small refundability component for larger families).

Examining the experience of other countries – Australia, Canada, England, France, Germany, Israel, Sweden, and comparing them to the United States - Kamerman and Kahn demonstrate that there is a low correlation between unemployment rates within countries and the generosity of their family policies (1983). Rather, it is willingness to tax that correlates perfectly with generosity of a country's family policy.

The Child Tax Credit is the United States' version of a child allowance. Child allowances vary by size, duration, family composition, and how often the transfer takes place. Austria's child allowance, for instance, is quite small, but it provides long term support for families (Kamerman and Kahn, 1991). Germany gives larger child allowances to families with children under the age of six (Kamerman and Kahn, 1991). France has a single-parent allowance for children under the age of three (Kamerman and Kahn, 1991). Hungary has a more modest child allowance for single parents, but is not constrained to the families of young children (Kamerman and Kahn,

1991). Sweden has made an enormous commitment to its universal child allowance, spending 0.8% of its Gross National Product in 1989-1990 on what has been described as the “cornerstone of its welfare system” (Kamerman and Kahn, 1991).

Advanced industrialized countries have a wide variety of reasons for their child allowances, including encouraging higher birthrates, recognizing “family work” and supporting traditional families, providing economic support for families with young children, encouraging women to enter or leave the labor force, supporting child development, providing a cheaper alternative to expensive early care, facilitating work family balance, supporting gender equity, and facilitating parents’ choices between staying at home and entering the paid labor force (Kamerman and Kahn, 1991).

The U.S. CTC, as will be discussed in the next chapter, was in large part designed to support traditional families. As tax policy, little thought was given to child development. With high immigration allowing young workers to enter the U.S. whose taxes can in part pay for retirees’ needs, few have seen the need for a pro-natalist policy here.

And, while the size of the benefit varies, only in the U.S. are those most in need of the allowance left out (Garfinkel, Rainwater, and Smeeding 2010).

In most countries, the benefit is given out monthly (Garfinkel, Rainwater, and Smeeding 2010). In the U.S., the CTC is given out in a lump sum tax refund. Families file in April and receive their CTC following that. The family of a child born in December may receive their CTC within

six months. A family of a child born in January, however, cannot file until the following year, leading to a lag time of up to 18 months. This lag is particularly problematic for the families of infants, those, who discussed above, would most benefit from the transfer.

It seems clear then, that that the U.S. underinvests in family benefits for young children relative to other rich nations.

***4. The case that changes to the refundable CTC offer one opportunity to address this underinvestment:***

It seems clear then, that (1) young children are more likely to be poor than anyone else in America, (2) investments in their human capital are likely to be the most productive, and (3) America underinvests in these children. Clearly there are different ways to address this underinvestment. In the remainder of this chapter, I seek to make the case that the tax code, and in particular, the Child Tax Credit provides a ripe opportunity to do so, by making the following points:

- i. Tax expenditures can be viewed similarly to direct spending
- ii. The bulk of federal cash assistance to families of children is delivered through refundable tax credits, specifically, the CTC and the EITC
- iii. Tax refunds and “direct” spending differ in who they benefit
- iv. Initial findings suggest young children are the most likely to be left out of eligibility of the child tax credit

- v. Large swings in earnings for the families of young children are particularly deleterious, and can happen due to macro events (recessions or floods) or something more personal to the family
- vi. Tax credits based on earnings can amplify these swings
- vii. Recessions have a negative impact on children, and may pose a particular burden on the families of young children, exacerbating the potential to leave young children out of earnings-based benefits
- viii. Refundable tax credits can be stimulative, simultaneously helping the macro economy and the individual recipients.

*(i) Tax expenditures can be viewed similarly to direct spending*

The United States spends over \$1 trillion a year in tax expenditures subsidizing a vast array of activities from drilling for oil, to buying a home or health insurance, to offsetting the costs of raising a child. A long line of work going back decades has supported the argument that tax expenditures are merely spending through the tax code (Surrey and McDaniel, 1985; Marron, 2011). There are perhaps only six prominent people who feel otherwise – 5 on the Supreme Court who ruled this past Spring in *Arizona Christian School Tuition Organization v. Winn et al.* that a tax expenditure is not the same as direct spending in their decision to uphold a state nonrefundable tax credit going to private religious schools, and Grover Norquist of Americans for Tax Reform who still considers tax expenditures not spending. The Court Majority made their claim on legal as opposed to a policy basis. Norquist’s position is influenced by his desire to “shrink government down to the size where it can be drowned in a bath tub.” Calling tax

expenditures tax cuts allows him to push elected officials to replace tax expenditures with other tax cuts as opposed to other spending.

From the standpoint of the recipient, getting \$1,000 check in the mail as a refund on your taxes or sending \$1000 less to the government for having a dependent under the age of 17 is no different than getting a \$1,000 check in the mail as a cash benefit for have a dependent under the age of 17.

From the standpoint of the government, it is may differ in administrative cost, budgeting, and the legislative process, but it is still \$1000 less money than the Federal government otherwise would have.

*Administrative cost:*

The IRS estimates that less than 1% of the cost of the EITC goes to administration of the tax benefit (Greenstein and CBPP staff, 2012). It is cheaper to administer than Medicaid, SNAP, housing vouchers, SSI, and school meals, each of which cost less than 10% to administer in Federal and State costs.

Even accounting for the costs of tax preparers – estimated to be no more than another 3%, the EITC is a highly efficient policy. After all, writing checks and putting them in the mail doesn't necessitate a lot of overhead.

*Error Rates:*

There is a significant EITC error rate. Last year, \$17 billion in outlays went to families who provided erroneous returns. The error rate is due to a variety of factors, including complexity in calculating the EITC, lack of third party data, timing of data (after refunds go out), tax law changes, and difficulty in detecting fraud (Olsen, 2011).

While there is no comparable estimate of the CTC error rate, last year \$4.2 billion in ACTC (refundable CTC) went to families filing with only an Individual Taxpayer Identification Number (ITIN). While some of these families could have been properly filing taxes on investments earned while they were in the United States, the majority are likely families whose earnings come from people not working in the country legally. The CTC was created in 1997, the year after welfare reform made eligibility for Food Stamps, the EITC, and the newly created TANF conditioned on citizenship. Since at the time, the CTC was full all purposes not refundable, Congress never bothered to exclude non-citizens. As refundability of the CTC grew, more and more families filing with an ITIN collected an ACTC, leading to \$4.2 billion in outlays last year.

While there are no specific estimates of the cost of administration of the CTC, presumably they are in line with the costs of EITC administration. Some argue that were the U.S. to move to full refundability for the CTC, that the IRS would be “ill-equipped” to handle this new population of filers (Holt and Maag, 2009). The fact that the administrative costs of the EITC are so low – and involve many filers who were it not for the EITC wouldn’t be filing, suggests otherwise.



Moreover, were the U.S. to move to a fully refundable CTC, the costs would be even lower, as tax liability would not need to be measured for eligibility – a family would only have to provide information showing that a dependent under the age of 17 was living in the household.

*Budgeting:*

For budgeting purposes, nonrefundable tax expenditures count as a reduction in tax receipts for the government, while refundable tax expenditures like other spending count as an outlay.

Therefore, in budget tables, refundable credits and nonrefundable credits occupy separate lines – so the non-refundable portion of the CTC and the refundable portion of the CTC are separate line items.

Importantly, the fact that refundable credits counts as outlays effects the ability of the Senate to expand refundables under the budget reconciliation process.

Budget reconciliation is subject to limited debate in the Senate, meaning that no cloture vote is needed to move to a final vote on the measure. This allows a simple majority of 50 + 1 senators to advance legislation instead of needing 60 votes to cut off debate. The Bush tax cuts of 2001 and 2003 moved under reconciliation. If the budget contains both tax and spending reconciliation instructions, then only 5% of the tax instruction can be used for outlays. As such, if budget reconciliation instructions call for \$350 billion in tax cuts, for all practical purposes, only 5% of that, or \$17.5 billion, can be allocated to refundables without triggering a 60-vote point of order.

The ability to move refundable credits in the Senate under reconciliation – just 51 votes – is therefore constrained simply by the fact that unlike other tax expenditures, they are classified as outlays. This Senate rule curiosity raises the question of whether Congress could move to constrain other tax expenditures by getting them reclassified as outlays.

*Legislative process:*

Tax expenditures move through Congress via a slightly different process than some direct spending. Annual non-entitlement spending technically necessitates two laws being signed into law, both authorizing legislation and appropriating legislation. (Congress violates this rule year after, authorizing on appropriations bill, yet the vast majority of policies are authorized on separate legislation). For instance, in order for Head Start to be created, first it needs to be authorized by Congress and signed by the President, and then a separate law needs to appropriate funds to pay for Head Start. Each year, a new law needs to be passed to appropriate funds for such a program. A specific dollar amount is appropriated (which rarely covers all potentially eligible), as opposed to tax expenditures and entitlements which may define an eligibility level and allow funds sufficient to cover such a population. Every few years, the program may need to be reauthorized.

As such, getting domestic discretionary money involves multiple laws being passed, and necessitates attention year after year, with efforts to increase appropriations to move towards covering more eligibles.

Tax expenditures act more like entitlements. Once the law is written they are often permanent – necessitating an act of Congress to repeal. Eligibility as defined by the law is what determines the treasury’s commitment, as opposed to Congress asking for a specific dollar amount to be allocated.

Of course, not all tax law is permanent. Some years ago, Congress implemented new budget rules, calling for ten-year budget windows, in order to more fully account for out year effects of policies to have a better understanding of their costs. The tax legislation in recent history has taken advantage of these ten-year windows to obfuscate the real costs of policies. Policies are phased in or sunsetted, so that the average cost over 10 years is significantly less than it would be if the policy were fully in place for all 10 years. Other tax policies are just implemented for one year, putting Congress in the position to either extend them or risk the ire of voters for allowing a tax increase.

*“Hidden welfare state:”*

By far, the greatest rationale for the increase in tax expenditures is that it is a way for both parties in Congress to increase spending while getting credit for cutting taxes and in so doing obscure the true costs of their actions. In the last decade, countless Republican and Democratic candidates have proposed more and more targeted tax expenditures.

Christopher Howard has called it the “Hidden Welfare State” (1999). With the recent attention

on annual deficits and the long term U.S. debt, tax expenditures have received much greater attention from elites.

Former chief of staff to the Congressional Joint Committee on Taxation Edward Kleinbard has called tax expenditures “ the sacred tax cows,” claiming that tax breaks are not the main tool to create new spending programs (Montgomery, 2011).

It is worth noting that if the CTC and EITC were considered one tax expenditure, they would have been the single largest individual income tax expenditure in 2010, at \$111.3 billion, beating out even the exclusion of employer provided healthcare (\$105.7 billion) and the mortgage interest deduction (\$90.8 billion) (figures from Sherlock, 2011).

*(ii) The bulk of federal cash assistance to families of children is delivered through refundable tax credits, specifically, the CTC and the EITC*

This year, all tax credits that are at least partially refundable will total an estimated \$131.7 billion, inclusive of the nonrefundable portion of the credits. The refundable portion alone will total \$77.1 billion – over \$75 billion of which is the refundable CTC and EITC. The others are the small health care coverage tax credit, and the American opportunity tax credit totaling less than \$2 billion in refundability (JCT, September, 2011). By sending all of these dollars through child-conditioned credits (there is a small, non-child EITC), more dollars get to low-income children than would otherwise through other tax alternatives, for instance if we had a negative income tax which would be spread out over the larger population including filers without

children (Brazer, 1968; Garfinkel, 1968).

For comparison's sake, \$16.6 billion will go to TANF – the level set in the 1996 welfare reform legislation, a level that was never indexed, and has therefore diminished in purchasing power by approximately 28% over the last 15 years (Finch and Schott, 2011). The number of families receiving AFDC or TANF benefits continues to shrink. For every 100 families with children in poverty the number receiving AFDC or TANF dropped from 82 families in 1979 to 68 families in 1996 (the year welfare reform passed) to 27 in 2010 (Trisi and Pavetti, 2012).

A total of \$56 billion was available for SNAP in 2009 – a high point, with its expansion in the recovery ACT (Rosenbaum, 2011). While the 2011 CTC and EITC estimates are also based on increases from ARRA, the increases in the refundable credits are budgeted to continue into the future, while SNAP has been targeted for decreases).

There are, of course, policies specifically targeting the United States' youngest children – WIC and Early Head Start among them. Nevertheless, with over one-quarter of young child in poverty, clearly more needs to be done.

*(iii) Tax refunds and “direct” spending differ in who they benefit*

Having established that tax expenditures are spending through the tax code, it is worth noting that the choice to run a program through the tax code can effect the targeting of the policy.

Simply put, eligibility is generally based in part on some form of tax liability as opposed to say, need of the recipient, or the potential benefit to society.

The cornucopia of nonrefundable tax credits that litter the code leave out many potentially worthy recipients for this reason – leading to an inefficient designation of eligibility (Batchlder, Goldberg, and Orzsag, 2006).

Therefore, and particularly in the case of children, it is at least worth examining who these expenditures go to, how much do they get, and whether this tax expenditure viewed as a program is sufficiently reaching those who should get it.

Doing so involves applying a child policy lens to a tax policy question.

*(iv) Initial findings suggest young children are the most likely to be left out of eligibility of the child tax credit*

Since most federal cash assistance to children comes through refundable tax credits, eligibility and size of benefit are conditioned on tax liability as opposed to some other criterion. On the phase in range of the credits, the more you earn, the higher the credit. Young children are more likely to be poor than children of all other ages – their parents are most likely to have lower income or no income whatsoever. Yet, since the CTC and EITC eligibility and size are conditioned on earnings, they may receive the smallest benefits – right when they need it the most. In fact, initial evidence suggests that this may be the case for the CTC (Burman and Wheaton, 2007).

Examining CPS data using the Brookings-Urban Tax Policy Center Transfer Income Model, Burman and Wheaton find that 17.6% of children were in families too poor to get any CTC, compared to 15.4% of children ages 6 to 9, and 13.6% of children ages 10 to 16 (2007). They found that overall, 34.8% of children under the age of two were in families too poor to get the full credit, versus 27.6% of older children. At the time of their analysis, the eligibility threshold of the CTC was \$11,750, whereas now it is \$3,000.

A recent paper on the EITC by Dowd and Horowitz (2011) finds that over the course of a lifetime, young children are more likely to get an EITC than older children. That is, EITC use is highest when children are youngest. Interestingly, as the policy chapter will highlight, it is possible for the EITC to go more to younger children than older children, while still leaving out more young children, as young children are more likely to be in families with no earnings, and thus ineligible for any EITC.

Dowd and Horowitz also found out that most EITC recipients claim the credit for short periods. While 20% claim the EITC for over five years, 61% only claim it for one or two years.

The study used IRS federal tax return data the study tracks participants of the EITC from 1989 – 2006, and as such, the authors point out that they were unable to include families whose tax filing status has changed – potentially leaving out families who move to single parent status.

The EITC is different than CTC. As children age and parents earn more, some will earn enough to be ineligible for EITC. This does not happen except at very top for the CTC.

The analysis in the policy chapter will attempt to provide a snapshot of whether or not current CPS data lends credence to Burman and Wheaton's findings for the CTC – and whether or not the EITC size by age of child tracks the CTC. Since the CTC and EITC phase in over approximately the same earnings range, they would likely do so *in the phase-in range*.

So, while the CTC and EITC together lift more children out of poverty than any other program or category of programs at any level of government (Marr and Highsmith, 2011), they may be helping the most disadvantaged infants and toddlers the least.

*(v) Large swings in earnings for the families of young children are particularly deleterious, and can happen due to macro events (recessions or floods) or something more personal to the family*

Research suggests that changes in family income from year to year – income volatility - may be particularly damaging to children (See, for instance, Duncan and Brooks-Gunn, 1997; Dahl, DeLeire, and Schwabish, 2011). Using the NICHD-SECC, Dearing, McCartney, and Taylor find that changes in family income-to-needs matters more for young children with less (2001). These findings are consistent with experiments on monkeys showing that monkeys with little food, while worse off than those with a consistent supply of sufficient food, are better off than those who received a varied and unpredictable supply of food, and therefore were unable to predict or rapidly adapt to biweekly changes in food availability (Rosenblum and Pausly, 1984). At the same time, there is evidence that there is great variation year to year in the amount that families receive in tax credits (Barrow and McGranahan, 2000; Scott, 2010), which combined



are the single largest federal cash policies for children. Moreover, while some families do fall into eligibility when their earnings go down, for the poorest families, the CTC and EITC are procyclical – that is, from both a micro- and macro-economic standpoint, as the earnings of the low-income families go down, they credits are reduced - right when they need it the most.

*(vi) Tax credits based on earnings can amplify these swings*

Since tax credits are based on previous years earnings, for families in the phase in range, a large drop in earnings will correspond to a drop in size of their CTC and EITC. Businesses and wealthy individuals can average out losses and gains over years, allowing them to better plan for the future - but low-income families have no ability to do such planning through the tax code. The code simply does not allow them to average out their credits over years. If swings in earnings can be deleterious to low-income young children, the CTC and EITC have the potential to amplify this effect. Attempts to average out the size of these benefits could lead to a tax policy that is more consistent with what we know about child development. One such effort was the look back provision, created after Hurricanes Katrina, Irene, and Wilma. Congress, recognizing that the loss of earnings due to a hurricane would lead to the loss of tax credits allowed residents in the effected regions of these storms to opt to use their previous year's earnings to calculate their refundable CTC and EITC, dampening the negative effect of the storms on earnings.

*(vii) Recessions have a negative impact on children, and may pose a particular burden on the families of young children, exacerbating the potential to leave young children out of earnings-*

*based benefits*

Several months ago, I asked John Irons at the Economic Policy Institute whether unemployment in the current recession was equally distributed among the families of children of different ages. My concern was that the parents of younger children were more likely to be last in at their jobs and could be more likely, therefore, to be the first laid off – or the last hired. EPI had taken a look at the effect of the recession on children, and therefore had a model that allowed them to look at this quite easily. While it is neither peer reviewed nor published – it was posted on an EPI blog - Dr. Irons run of the numbers validated my concern – that is that young children are more likely than the children of any other age to have an unemployed parent. Clearly more research would be needed to confirm these results, and to tease out what is causing such an outcome. That said, if true, it suggests that in a recession young children are even more likely than they already would be in normal economic times to get either a smaller CTC and EITC or no credits whatsoever.

Some evidence even suggests that recessions are associated with reduced fetal growth, which has the possibility of leading to long term negative health consequences for children who were in utero during economic contractions (Margerison-Zilko, Catalano, Hubbard, and Ahern, 2011). Furthermore, there is an increased incidence of “nonaccidental head trauma” in infants associated with this recession (Huang, O’Riordan, Fitzenrider, McDavid, Cohen, and Robinson, 2011; Berger, Fromkin, Stutz, Makoroff, Schirbano, Feldman, Tu, and Fabio, 2011).

Such health outcomes may be related to the fact that the proportion of children with a parent who

is unemployed or underemployed doubled from 2007 to 2010 (Mishel and Shierholz, 2011).

There has been much research on the long-term negative effects of recessions on the children of the unemployed (Orszag, 2009). Much of the research has focused on the emotional effect of unemployment on children. Clearly the economic impact on children is serious – and exacerbated by the corresponding shrinking of tax credits.

(It is worth noting that in all of these cases, there are some families who fall into eligibility – their earnings drop, making them for the first time eligible for the EITC or for a larger EITC. For families who drop into this range, the EITC can serve as a stabilizing force, as opposed to exacerbating the loss of income).

*(viii) Refundable tax credits can be stimulative, simultaneously helping the macro economy and the individual recipients.*

Over the last four years, refundable tax credit expansions have been attached to several bills whose stated purpose was to stimulate the economy – including the January 2008 stimulus, the January 2009 stimulus, and the December 2010 tax cut/unemployment insurance extension bill. Since refundable tax credits go to families who are living paycheck to paycheck, the dollars received are likely to be spent as opposed to saved, making their way back into the economy at large. CBO has deemed that refundable credits are more stimulative than all other tax stimulus options (Elmendorf, 2011). At the same time, they suggest a multiplier effect in the range of 0.2 to 1.0, suggesting that bang for the buck is not nearly as good as direct spending. Others, such as

Dr. Mark Zandi of Moody's Analytics have estimated a larger multiplier effect of 1.22 (2009). It is important to note, that unlike direct spending, tax credits are received in the summer following the tax year for which they are implemented. So, while unemployment insurance goes to recipients as often as every week – and presumably is spent soon thereafter, going right back into the economy, tax credits are received as a lump sum. A family files their taxes by April 15 of the following year and get their check sometime thereafter as a lump sum. The small advanced EITC that allowed workers to get their EITC with their paycheck was recently ended. This lag in receipt led the Tax Policy Center in its grading of tax components of what would become ARRA to give the refundable CTC expansion a B+, stating that it was the most highly targeted of all of the tax provisions of ARRA, and had the benefit come immediately, and been as generous as the original House version, it would have received an A- instead (Altshuler, Burman, Gleckman, Halperin, Harris, Maag, Rueben, Toder, and Williams, 2009).

In sum, it seems clear that the largest cash benefit for children, indeed the largest cash benefit for children, simply because of the fact that it is run through the tax code, may be leaving out the youngest children who need it the most, and subjecting these same families to an amplified earnings effect – both of which are strongly associated with negative effects on young children and their human capital development.

There is a difference between explicit and implicit policy (Kamerman and Kahn, 1997). As explicit policy, the Child Tax Credit may be sound tax policy, lowering the tax burden of families with children – but as child and family policy it may need to be redesigned to better align with the child development knowledge.

In the policy analysis, I will examine this first possibility – that young children, those who would most benefit from cash assistance, may be the most likely to be left out of our country’s largest child policy. Before doing so, it is worth knowing the legislative history of the Child Tax Credit, as paired with the policy analysis, it can help to shed light on a path forward for future policy changes to fix this misallocation of resources.

## CHAPTER 3

### **The Legislative History of the Child Tax Credit**

The legislative and political history of the Child Tax Credit is fascinating and worth documenting. People often confuse it with the Earned Income Tax Credit, yet the politics of the two credits are quite different. The CTC goes to the broad middle of the population including some families in the bottom of the earnings distribution, benefitting over 3/4s of all children, whereas the EITC goes only to families in the bottom two quintiles of the earnings distribution, benefitting less than ¼ of all children (table 1). As such, the CTC is a quasi-universal program and enjoys the wide support associated with such inclusion, while the EITC is seen as a credit for low-income, working families. Yet at the same time, expansions of the CTC – since they have focused on the eligibility of families, are more progressive than expansions of the EITC, since they are focused on increasing the CTC for larger families or married couples. That is, CTC expansions add dollars to families at the bottom of the earnings distribution, while expansions of the EITC add dollars to families in the bottom two-fifths of the distribution.

In this chapter, I discuss the context from which I pieced together this legislative history, briefly discuss some of the relevant political science literature, and having done so, detail the major legislative events relating to the CTC in chronological order, ending with the December, 2010 tax cut extensions.

#### ***1. Context:***

I have gathered many of the primary resources needed for a legislative history of the CTC. These include media accounts, minutes from Congressional hearings and floor speeches, and advocacy papers and analyses. Where I find mention of the CTC in the memoirs of high-ranking officials in the Clinton and (George W.) Bush White Houses, I incorporate it.<sup>2</sup> I participated in scores of meetings and phone calls on the CTC - the vast majority of which included my partner and father, Bill Harris - with staff and elected officials from the House, Senate, and the Obama Presidential Transition Team and administration. That said, this chapter relies on information that can be found in public sources, though it would presumably be quite difficult to piece together without first having a sense of what happened.

It is important to examine the optimal policy from the standpoint of child development. My hope is that marrying the legislative history with the policy analysis may lead to policy recommendations that may be more likely to be enacted in the short run, and therefore be helpful to very young children and their families.

## ***2. A Brief Discussion of the Political Science Literature:***

Policy change of course happens for a variety of reasons. At times, change can come in response to a large public event (Derthick, 1975; Pierson, 2005), as it has with the CTC, which began after the revolutionary 1994 election and the GOP takeover of Congress. Often policy change comes incrementally over a long period of time, as opposed to following one event (Hayes, 1982), as it

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<sup>2</sup> As of this writing, there are yet to be accounts from high-ranking officials in the Obama administration that provide direct information of the CTC legislative history.

also has with the CTC, which has evolved in the many years since it was first created in 1997. Kingdon argues that “windows of opportunity” exist to enact legislation (1995). And certainly, the tale of the CTC that follows indicates that some of the changes in the CTC were due to people scrambling through these windows. Some analysts focus on the history or promise of social movements (Skocpol and Dickert, 2001) and others focus on the role of child advocates (De Vita and Mosher-Williams, 2001). Still others, including in particular, works by lawmakers, focus on the importance of both individual lawmakers and institutional mechanisms for change, including the work of staff, and the roles of committees and hearings (see for instance, Obey, 2007; Waxman, 2009). It is no surprise, perhaps, that lawmakers view change as they saw it made through the lenses of elected officials and their staffs who made it happen.

While no doubt all of these factors contributed at least in part to the creation and expansions of the child tax credit, this chapter is largely limited to a legislative point of view, primarily Congress’s and secondarily the Executive’s, focusing on those institutional mechanisms that allowed for changes that might not otherwise have been accomplished. The CTC is after all, a tax expenditure, part of what Howard has labeled the “hidden welfare state” (1999), that are both easier to enact and harder to end than other legislation (Kleinbard, 2010). While the creation of the CTC received a lot of publicity starting with the 1994 elections, subsequent changes have happened largely under the radar, i.e. outside of public scrutiny. This paper should add insight into why it happened. I will leave it to other scholars to debate the merits of examining the policy through one of these other lenses.

Moreover, there are limitations to what can be gleamed from an examination of legislative



history, ranging from the conscious or unconscious selective omission of information that does not conform to my potential biases, to the question of whether or not the history can shed light on the potential for policy change in the future (Hayes, 1982).

For the balance of this chapter, I walk through the legislative history of the CTC in chronological order. First I present a timeline of the major legislative events relating to the CTC, and then detail each of the events below.

### ***3. The Legislative History of the Child Tax Credit:***

#### **Legislative Time Line of the Child Tax Credit**

- |                  |  |
|------------------|--|
| <b>9/27/1994</b> | GOP House Minority introduces the “Contract with America;” calls for a \$500 partially refundable per child tax credit.  |
| <b>3/19/1996</b> | President Clinton introduces FY97 Budget Proposal calling for a \$500 non-refundable per child tax credit.   |
| <b>8/5/1997</b>  | President Clinton signs “Taxpayer Relief Act of 1997 (P.L. 105-34)” into law, creating a \$500 CTC made partially refundable for families with more than two children. |
| <b>6/7/2001</b>  | President Bush signs “Economic Growth and Tax Reform Reconciliation Act of   |

2001” into law, doubling the CTC to \$1,000 (phased in over several years) and making it refundable for families with any number of children and earnings above \$10,000 (an indexed threshold that would rise every year).

- 3/12/2003** Rep. DeLauro introduces an amendment to make the CTC fully refundability for CTC in House Budget Committee, fails on party line vote, with all Democrats in favor.
- 5/8/2003** Finance Committee tax markup: Acceleration of refundability of CTC added to Chairman's mark
- 5/23/2003** Conference agreement: Acceleration of refundability dropped from House and Senate compromise bill
- 5/28/2003** President Bush signs "Jobs and Growth Tax Relief and Reconciliation Act of 2003" into law
- 5/29/2003** New York Times front page story, "Tax Law Omits \$400 Child Credit for Millions"
- 10/4/2004** Jobs bill: Refundability of CTC accelerated  
Combat pay penalty fixed permanently for CTC and temporarily for EITC

- 9/2005** Legislation in response to Hurricane Katrina: Congress creates "look back" provision allowing affected families to use their previous year's earnings to calculate their refundable CTC and EITC
- 1/3/2007** Speaker Pelosi announces she will dedicate the 110<sup>th</sup> Congress to children and families. Appoints Representatives DeLauro and Miller to head the effort.
- 5/22/2007** Speaker Pelosi hosts "National Summit on Children and Families"
- 10/26/2007** Chairman Rangel releases "Mother of All Tax Bills," which would expand eligibility of the CTC by lowering the threshold to a de-indexed \$8500.
- 12/2007** Chairman Rangel adds CTC threshold of \$8500 to annual tax extenders bill.
- 12/2007** Senate strips out CTC provision and passes tax extenders.
- 1/2008** President Bush and Speaker Pelosi agree to a tax stimulus that includes a one time refundable per Child Tax Credit of \$300 for up to two children for families with earnings of at least \$3,000
- 9/2008** Chairman Rangel again adds CTC threshold of \$8500 to annual tax extenders bill
- 9/29/2008** House rejects TARP bill, markets plunge in response

- 10/1/2008** Senate attaches tax extenders to TARP and passes it
- 10/3/2008** House passes TARP with extenders attached, lowering the CTC eligibility threshold for one year to \$8500.
- 1/22/2009** House Ways and Means Committee passes recovery package lowering CTC eligibility threshold to \$0
- 1/27/2009** Senate Finance Committee passes recovery package lowering CTC eligibility threshold to \$8,000
- 2/11/2009** In negotiations, House and Senate agree to new eligibility level of \$3,000.
- 2/17/2009** President Obama signs into law the American Recovery and Reinvestment Act, lowering the CTC eligibility threshold to a de-indexed \$3,000 for two years
- 1/28/2010** PAYGO passes as part of debt limit extension, allowing future extensions of refundability of current policy CTC to be extended without having to offset the costs
- 12/17/2010** Extension of 2001/2003 Bush Tax Cuts, CTC refundability from 2001 cuts and ARRA extended through 2012.

*1994: The Contract with America*

Six weeks before the 1994 Congressional midterm election, House Republicans stood on the steps of the Capital and released their “Contract with America,” detailing what they would do if they were to take control of Congress. Under the leadership of Minority Leader Newt Gingrich, the House GOP committed to bringing to the floor a set of rule changes and nine bills within the first 100 days of the 104<sup>th</sup> Congress. One of those bills was entitled the “American Dream Restoration Act,” which promised “A \$500-per-child tax credit, begin repeal of the marriage penalty, and creation of American Dream Savings Accounts to provide middle-class tax relief” (Norquist, 1995).

It appears to be the case that one of the central reasons that the CTC was included in the Contract with America was to “strengthen the family” (Gingrich, 1995). The idea of a CTC was popular with conservative “pro-family” groups, and in particular Christian Conservatives, like the Family Research Council (FRC).<sup>3</sup> FRC saw the CTC as one way to support families who chose to homeschool their children. Christian Conservatives could provide the energy for the policy, as they were known to turn out votes reliably, and the CTC could help rouse electoral support. Yet a wider coalition existed to support the idea of a CTC. For libertarians, there was the benefit of government allowing families to make their own choices on how they spent their money.

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<sup>3</sup> While FRC considers itself “pro-family,” in support of what some call the traditional family, others believe the opposite to be true. FRC has since been designated as a hate group for its anti-gay stance by the Southern Poverty Law Center.

Contract with America co-author Grover Norquist saw the CTC as one way to divert revenue from Washington, by diverting money bound for the treasury and leaving it directly in the pockets of families. He argued that cutting taxes so that every family received a \$500 tax credit for every child would begin to “reduce the damage Clinton’s tax policies do to families.” The CTC could offset payroll taxes<sup>4</sup> and more generally, send less revenue to the government that could be put to use in spending programs. The CTC in the contract in America was slated to be partially refundable to the extent that an employee’s payroll tax, including the employer share, exceeded its EITC (Greenstein and Shapiro, 2001).

In his 1995 book on the GOP takeover of Congress, Norquist wrote of the problem of not indexing tax credits, arguing that the dependent exemption lost ½ of its value because “the federal government wanted more money and rather than raising taxes directly and honestly, the politicians simply let inflation eat away at the value of every child’s deduction” (1995). It was estimates from the conservative Heritage Foundation that Norquist used to show the impact of the creation of a \$500 per child tax credit for children under the age of 18, by state and in terms of dollars and children helped.

The CTC then, was a way for the GOP using conservative think tank and interest group honed policy, to run on a family friendly platform, cut taxes, shrink government, while appealing to pro-family conservatives and libertarians at the same time. It was a political winner.

The fact that conservatives, who had never embraced a stronger role for government in child and

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<sup>4</sup> Clinton, of course, was not responsible for payroll taxes.

family policy, were claiming the “pro-family” label did not go unnoticed (see for instance, Kamerman and Kahn, 1997).

President Clinton embraced the Child Tax Credit, including a CTC starting at \$300 per child gradually increasing to \$500 in his FY 1997 Budget released at the beginning of 1996 (Joint Committee on Taxation, 1996). Unlike the original CTC in the Contract with America, it was proposed as a non-refundable credit. Welfare reform had yet to pass, and heading into the reelection, perhaps the White House considered it was not worth the risk to add refundability to a budget that was primarily a political document and would not become law. The Clinton Administration had already successfully advocated for a significant expansion of the refundable EITC. The moderate pro-business Democratic Leadership Council called for a \$750 per child tax credit (DLC, 1997A) and suggested that it too be made refundable (DLC, 1997B).

While the GOP Contract with America CTC had been refundable and the Clinton Budget had been non-refundable, here the parties flipped back. In negotiations over the 1997 Balanced Budget Agreement, the White House insisted on some refundability for the CTC. Gingrich referred to it as “welfare,” so the Clinton administration brought in Daniel Mercado of the Savannah, Georgia Police Department, to rebut the Speaker’s claim. The Speaker subsequently agreed to accept a small amount of refundability, yet the entire budget deal almost fell apart when Gingrich left a meeting when the White House asked for more refundability. It was finally pieced back together in a subsequent call between chief of staff Erskine Bowles and the Speaker (Sperling, 2005).

As part of the Taxpayer Relief Act of 1997 (P.L. 105-34), a \$500 Child Tax Credit was passed into law and signed by President Clinton. In the midst of the House and Senate compromising on the costs of the overall tax package, the age was reduced from all children under 19 to children under 17, and the value of the CTC was reduced from \$500 to \$400 for the first year, increasing back to \$500 in the out years. For families with more than two children, it was made partially refundable, to complement the EITC (Shvedov, 2010). At the time, families got a higher EITC if they had a second child, but nothing more for additional children. The 1997 CTC was made refundable up to the difference in a families' payroll tax liability and their EITC. Nothing more would happen with the CTC during the Clinton administration.

*2001: Economic Growth and Tax Reform Reconciliation Act of 2001*

President Bush was narrowly elected in November of 2000. Having received fewer votes than Al Gore, it was hard to make the case that the "compassionate conservative" had a conservative mandate when he entered office on January 20<sup>th</sup> of 2001.

While many look back at the legacy of the two terms of President Bush and think first of the wars in Afghanistan and Iraq, it was also the domestic events that took place in the months before September 11<sup>th</sup>, specifically the 2001 tax cut, that set the parameters of the discussion on the size of government that continue today.

In June of 2001, President Bush pushed through one of the largest tax cuts in U.S. history at a 10-year cost of \$1.3 trillion. In fact, that cost, estimated by the official Congressional arbiter of



tax estimates – the Joint Tax Committee, underestimated the real cost of the cuts.

Some years back Congress adopted ten year budgeting, in order to better account for costs of programs. Often, a program's costs and benefits – even just those counted on the Congressional “books” – do not occur in the same year. Ten year budgeting was implemented to get more accurate estimates of the effects of a policy on the treasury.

The 2001 tax cuts took advantage of the ten-year budget window. In order to minimize the overall 10-year cost of the tax cuts while maximizing the ultimate effect of the cuts, the tax cuts were phased in. In the first year, only some cuts would take place, growing in each year. While some were to be fully implemented in the middle of the decade, others would not be until the 10<sup>th</sup> year. The cost of the Bush tax cuts in 2010 therefore was estimated to be approximately twice the average annual cost of the cuts. Moreover, by reducing the tax liabilities of many middle-income families, the Bush tax cuts pushed many of these families onto the Alternative Minimum Tax (AMT). Congress knew at the time that it would need to pass laws to keep the AMT, designed in the 1980s to make sure that wealthy families paid at least some tax, from hitting middle class families. Each year, the costs of “patching” the AMT continue to rise, and now are on the order of magnitude of \$75 billion per year.

The phase in of the tax cuts over the decade also allowed the distributional effects of the cuts to be blurred. Cuts for most of the population could phase in over a few years, whereas the most regressive tax cuts – like repeal of the estate tax, only gradually increased, and did not get fully implemented until the 10<sup>th</sup> year.

Still, some tax cuts for middle class families were needed in order to show some semblance of distributional equity and in order to get the bill through the Senate Finance Committee, where Senate tax legislation is first introduced, and off the floor.

In this context, the child tax credit was doubled to \$1000 per child in the bill, and made partially refundable for potentially all children in a family - not just for families with more than two children. In 2001, there were only two women on the Senate Finance Committee, both moderates – Democrat Blanche Lincoln from Arkansas and Republican Olympia Snowe from Maine. Both are given credit for making the CTC refundable for all children in a family. Surely others were involved in this effort. Ron Haskins, in his review of this chapter, pointed out that Republican Representative Nancy Johnson of the House Ways and Means Committee called or met with Senator Snowe and gave her the idea for how to have refundability and still maintain work incentives.

The parameters of refundability came about partly for policy reasons, and partly to contain its costs. Families would get 15% of each dollar of earnings above a threshold, since 15% was approximately a family's payroll tax burden. Harkening back to the Contract with America, then, the CTC was seen as offsetting the payroll tax. Some found this argument curious, as the EITC already served this purpose. Nevertheless, that is how Congress arrived at the 15% rate.

In order to limit the costs and make sure that only people working close to full time were eligible, the Senate passed an eligibility threshold of \$10,000. Of course earnings are only a

proxy for work, so families with very little work could still have earnings sufficient for a full CTC, whereas families earning the minimum wage were only eligible for a credit of a few hundred dollars.

In conference, in order to contain the costs of the CTC, and the overall costs of the tax cut to \$1.3 trillion, the CTC was phased in, starting in year one at \$600, then moving up to \$1000, and the eligibility threshold index of \$10,000 was indexed. Every year, until subsequent legislation in 2008, the eligibility threshold increased.

Most often, indexation in the tax code serves to preserve the purchasing power of the original benefit level. Here, the case was different. In future years, with stagnant wages for low-income families, and a minimum wage that did not increase for years, indexation had the perverse effect of leading to shrinking CTCs for some families, and pushing other families out of eligibility all together.

Nevertheless, it was the 2001 Bush tax cut, the tax cut that eliminated the estate tax for the wealthiest families (albeit temporarily) that led to the beginning of refundability of the CTC for families with any number of children.

The other relevant piece of information about the 2001 tax cut is that it was passed through the Senate under reconciliation. In order to end debate in the Senate, sixty votes are needed rather than a simple majority of 51. The original Congressional Budget and Impoundment Control Act of 1974 created special rules for budget reconciliation bills, including their passage by a simple

majority. If the Senate chose, budget bills could contain “reconciliation instructions” in order to achieve some net change in the budget. Debate on reconciliation instructions is limited to thirty hours, and therefore does not need sixty votes to pass. As such, the Republican Congress passed a budget in 2001 with reconciliation instructions for the Senate Finance Committee to cut revenue by \$1.3 trillion.

Reconciliation allows the Senate majority to move some legislation that it could not otherwise move without sixty votes, including most recently, the Affordable Care Act, colloquially known as Obama’s Health Care Reform. Yet, reconciliation only applies to a ten-year window, meaning that anything passed under reconciliation expires at the end of the decade. Therefore, the Bush tax cuts were set to expire on December 31<sup>st</sup>, 2010. As will be detailed below, they were extended for two years at the end of 2010, and are set to expire at the end of this year. The consequences of this legislative rule will become clear as the chapter progresses.

### *2003: Jobs and Growth Tax Relief and Reconciliation Act of 2003*

The first post-9/11 election in 2002 swept in a net 8 House seats for the GOP and more importantly, gave them a net two seats in the Senate allowing them to regain the majority, (having briefly lost in in 2001 when Republican Jim Jeffords became an independent, caucused with the Democrats, leading to 51 Democratic votes in the Senate).

With majorities in the House and Senate and the election wins behind them, the GOP pushed through a budget with reconciliation instructions for tax cuts again.

This time, President Bush was pushing to cut dividend taxes, taxed at the time at ordinary income rates of up to 39.6%.

In March, as the budget began to move through the House Budget Committee, Congresswoman Rosa DeLauro of New Haven offered an amendment in committee to the budget that would make the CTC fully refundable. Under the amendment as offered, all families, regardless of whether they had any earnings or not, would receive a full \$1,000 child tax credit for each child. As expected, it lost on a party line vote. It received no attention, but should be recognized as the first time Congress voted on a fully refundable Child Tax Credit.

Before the tax cut fight was fully joined, the Bush administration was rumored to be looking for a tax cut of approximately \$350 billion over a decade. When they announced a plan for a cut of \$674 billion, the astute reporters Jonathan Weisman and Mike Allen noted on the front page of the Washington Post that the Administration may have doubled their ask so as to be able to negotiate back to their original goal of \$350 billion.

Unlike the Senate, the rules of the House give the majority party total control over the process of moving legislation, that is, if they can keep their party voting with them. While the Republicans had reconciliation, with a 50-50 Republican to Democrat balance in the Senate, the partisan breakdown of committee members meant that the GOP would need every Republican vote on the Senate Finance Committee in order to move a bill to the floor. With any tie votes in the Senate, including that for majority leader, the Vice-President casts the tie-breaking vote.

Moderate Olympia Snowe was a hold out. She was reluctant to cut dividend taxes. While more and more Americans received dividends, the vast majority of the dividend tax cut would go to the those with earnings over 250,000. Moreover, Senator Snowe was aware of the fact that once the bill moved out of committee she would lose her leverage, as conservative Democrats could provide the 50<sup>th</sup> vote to get the bill off of the floor of the Senate.

While a main purpose of the 2003 tax cut was to lower dividend tax rates, and thereby, theoretically increase investments and grow the economy, the other main part of the bill would accelerate all of the 2001 personal tax cuts, including the non-refundable portion of the CTC. Those cuts that in 2001 were phased in to slowly would be accelerated.

Left out of acceleration, curiously, were just three items – the estate tax, the 2001 EITC expansion, and the refundable portion of the CTC.

Teaming up with Senator Lincoln, Senator Snowe submitted an amendment in committee to accelerate the refundable portion of the CTC at a cost of \$3.5 billion over two years. Consulting with Chairman Grassley, Senators Snowe and Lincoln withdrew their amendment as the Chairman offered to include it in his manager's amendment.

Having agreed to accelerate the increase in the refundable CTC, Chairman Grassley now had the votes to move the bill to the floor.

The House had passed a somewhat different measure. While the House left out acceleration of the refundable CTC, the biggest difference between the two chambers was that Chairman Bill Thomas of the tax writing Ways and Means Committee was insisting on lowering capital gains in lock step with dividends.

In conference, Thomas prevailed in spite of the objections of the administration, in lowering both the capital gains rates and dividend rates to 15%.

With a more conservative bill coming out of conference, Senator Snowe was no longer willing to support the bill. The conferees, meeting off of the Senate floor with Senate President Dick Cheney needed a fiftieth vote. Senator Lincoln would not provide that vote, and in the end, while the bill passed, the provision accelerating refundability of the CTC was dropped in conference. The provision, at a cost of \$3.5 billion would have been just 1% of the overall bill.

The administration had never left refundability out of their 2003 proposed bill and now cut it out of the conference agreement. The economic team in the Bush administration believed that rebates sent to lower-income families would either be saved or used to pay down credit card debt, and thus would not stimulate the economy (Rove, 2010). In his memoir on his time in office, President Bush does not mention these families being left out. He does, however point out that after the bill passed the Senate that Vice-President Cheney joked that he did not get to vote often, but that when he did, he was always on the winning side (Bush, 2010).

Tax bills have many components. It is common for reporters to seize on those items where there

is disagreement between the negotiating parties. The coverage of tax bills often focuses on the politics of the bill, and maybe one or two components of the bill. Here the story was about the dividend cut, the capital gains cut, and getting to 50 votes.

Most of the major papers, in discussing the agreement, said that the bill would accelerate the 2001 Bush tax cuts, sending a CTC to all but the wealthiest families. Since the refundable portion of the CTC was not being accelerated, the families of 11.9 million children were left out of the bill (Lee and Greenstein, 2003). Still more low-income children were not eligible for a CTC at all since they were in families with earnings under the eligibility threshold of \$10,500. In all, the media reports were off by a total of about 20 million children (Harris, 2003).

Since no public attention had been paid to the lack of acceleration of refundability of the CTC, which would have benefited the families of 11.9 million children receiving a refundable CTC with earnings over \$10,500, reporters were unaware that it had been left out, much less cut out of the all-GOP negotiations in Vice-President Cheney's Senate office.

One paper reporting that the CTC would go to all but the wealthiest was the New York Times. The NYT was in the midst of hiring its first ombudsperson in response to the fallout from a series of fabricated stories from a staff reporter, Jayson Blair. On the morning of May 24<sup>th</sup>, 2003, the day after the final bill passed the Senate, the NYT – along with the other major papers) again reported that the tax cut would accelerate the CTC for all but the wealthiest families.

The NYT received a call that morning saying that they were off by about 20 million children and



requesting to speak to an ombudsperson. Within minutes, the NYT called back, said they take mistakes very seriously, and asked for details.

The following Tuesday, May 28<sup>th</sup>, President Bush, surrounded by the many men who helped him pass the bill, signed the Jobs and Growth Tax Relief and Reconciliation Act of 2003 into law.

On the morning of Wednesday, May 29<sup>th</sup>, the New York Times put a photograph of the signing on the front page, top fold, under which ran the headline, “Tax Law Omits \$400 Child Credit for Millions.” It happened to be a slow news day. The President’s Spokesperson Ari Fleischer was peppered with questions about the CTC, at one point referring to it as public assistance. It would be the only time that the Bush administration would refer to the refundable credit in terms relating it to welfare. The story ran on all three of the major network news programs that night, leading on two of the stations. While it was relevant to public discussion of the CTC, it did not rise to the level of importance to be included in Fleischer’s memoir (Fleischer, 2005).

Several months earlier the Democratic Polling Firm of Greenberg, Quinlin, and Rosner (GQR) paired up with the Republican Firm, Public Opinion Strategies (POS). They had run a poll looking at messaging around the CTC. Stan and Anna Greenberg designed the survey to test potential arguments of opponents to simulate how they would affect likely voters. Bill McInturff, the founding partner of POS, at the time had more Congressional clients than any other Republican pollster and was widely respected. He said that while their data didn’t compel his clients to be for the refundable CTC, that they couldn’t fight against it politically and win in the arena of public opinion. They found that the most likely anti-CTC message of calling the

refundable CTC welfare wouldn't even work among Republicans. It was a message that couldn't work at the time, even against a fully refundable CTC.

The story took off. Over the next six weeks, David Firestone of the NYT would file over a dozen articles on the issue. Congressional Democrats called for legislation to address the issue.

Just five days after Firestone's first story, USA Today ran a story saying that approximately one million children from military and veterans' families had been left out of the bill. The story was based on a report by Arloc Sherman, at the time at the Children's Defense Fund, which itself followed the issue being raised on Friday night's NewsHour by Mark Shields, and subsequently by Tim Russert on Sunday's Meet the Press. It could now be seen as unpatriotic to be against the refundable CTC.

Republican Senators John McCain and John Warner said the issue should be addressed. Other GOP Senators joined in support. Compromise legislation was crafted to address the bill. It contained the \$3.5 billion measure to accelerate the refundable CTC. It also added to the eligibility of the CTC – not by bringing in more low-income families, but by moving the phase out level from \$110,000 to \$150,000. That is, the Senate bill, an effort to fix the fact that low-income children were left out of the tax bill, added better off children to eligibility.

On June 10<sup>th</sup>, the New York Times ran a story by David Firestone entitled, "Bush Presses House Republicans on Credits for Poor," in response to Ari Fleisher's saying that Bush would tell GOP lawmakers if asked about the bill to "pass it." President Bush had run on a platform of being a

“compassionate conservative.” He may have been open to the idea of helping the working poor. That said, the President had left the refundable CTC out of his original proposal, in spite it adding up to a rounding error and there was no evidence that his newfound public support of the bill had anything to do with an actual effort to get it passed.

The GOP House majority was loath to add to refundability. Some conservatives see refundable tax cuts as using the tax code as welfare - a perversion of the code. As such, the majority came up with the one solution that would allow them to save face without actually having an acceleration of refundability signed into law. Knowing Democrats in the Senate would vote against it, they brought to the floor and passed a bill accelerating refundability, while making the entire CTC permanent, at a cost of approximately ½ a trillion dollars. The bill was too expensive for the Democrats in the Senate, who had railed against the cost of the Bush tax cuts to the treasury. With reconciliation passed and the bill needing 60 votes it went nowhere legislatively in 2003.

However, the politics of the refundable CTC were changed. While the Wall Street Journal editorial page has referred to families with incomes too low to get the accelerated CTC as “lucky duckies,” it was now considered difficult for the GOP to be publically against the CTC. Over the course of the weeks leading up the August recess, the Democratic House leadership, under the encouragement of Congresswoman DeLauro, suggested members to go down to the floor of the House day after day to rail on the GOP for not accelerating tax cuts for working people. The Democrats were now on record in favor of a tax credit for working families, including waitresses, home health aides, and troops. Having been on the wrong side of the issue with the

public, GOP elected officials and their spokespeople no longer called the CTC “public assistance.”

*2004: The Jobs Bill*

Under the Constitution, tax legislation must be introduced first in the House of Representatives. Since the rules and customs of the Senate lead to bills being fashioned more often than not in committees rather than by leadership and with many compromises to get to a majority or 60 votes, final versions of tax bills are often written by the Senate. Historically, this had not been the case. In the past, the House would pass a bill and send it to the Senate. The Senate would then pass its own bill and meet in Conference to resolve their differences.

At times the House passes legislation to advance a message, knowing that the Senate will kill the bill. Other times, the House is hesitant to pass legislation, preferring for the Senate to move first, so that they don't have to be on record voting for an unpopular bill that isn't going to become law anyways.

In these situations, the Senate can take up a tax bill that has passed the House, but never gone anywhere, and use the bill as a shell, taking out all of the language and putting in their own bill, thus complying with the words of the Constitution, if not the intent.

In 2004, just such a situation existed. Large multi-national companies had been parking profits overseas under a provision in the tax code known as deferral. U.S. companies with overseas

profits must pay taxes equal to the difference between the taxes they pay in the country where their profits are earned and what they would owe in the United States. However, those taxes do not need to be paid until companies “repatriate” the profits, that is bring them back to the United States. Deferral leads to two behaviors by such firms. First, they credit as much of their earnings as possible to foreign locals. Second, they put off repatriating their profits for as long as they wish.

In 2004, these companies were seeking a tax holiday – the opportunity to bring their profits back from overseas at a much reduced rate, under the premise that doing so would allow them to create jobs back home in the U.S.

The Senate had a House revenue measure that they had never taken up that they could use as a shell bill. It happened to be the Child Tax Credit bill that the House passed in June of 2003 to include the children left out of the 2003 reconciliation bill.

In this shell, they put the 2004 Jobs Bill, which lowered the corporate rate for repatriated profits to 5%. A year and a half after the May 2003 passage of the bill that left out acceleration of the refundable CTC, the Senate, in their bipartisan negotiations to pass the bill, as they needed sixty votes to pass the bill, included a one year acceleration of the refundable CTC.

In the intervening year, as more was learned about the one million children in families of troops and veterans that were left out of the 2003 bill, a quirk in the tax code was discovered.

Some time ago, Congress, in an effort to increase the compensation for people in combat, passed a bill prohibiting combat pay from being taxed. Troops working in a combat theater, at the time which included Afghanistan and Iraq, did not have to pay income taxes on their combat pay. Unknown at the time was the fact that this so called benefit had the perverse effect of keeping combat pay from counting as earnings towards calculating a families' refundable CTC or EITC. In essence, we sent men over to war (women who went did not serve in official combat positions) and at the same time took away their CTC and EITC. Obviously, for soldiers receiving base pay, particularly those who were the sole-earner in their family, the result of this policy was particularly problematic, leading to losses of thousands of dollars in tax credits per family.

The 2004 tax bill quietly fixed the combat pay provision for the refundable CTC permanently. While Senator Lincoln proposed an amendment in the Conference to fix it permanently for the EITC as well, the conservative Senator Don Nickles blocked the measure, along with Senator Trent Lott, and Representatives Bill Thomas and Tom Delay. Senator Nickles said that it would be better to study the issue before fixing it permanently. (The real negotiating for the bill was not happening in the Conference Committee anyway, but during breaks in Chairman Thomas' private office in the Capitol, known as a hideaway, out of sight of the public and the press).

The EITC combat pay penalty was patched year after year, and eventually fixed permanently.

While attempts were made to draw attention to the fact that the indexation of the refundability level of the CTC led to people losing eligibility, coverage of the issue only materialized the day

after the conference committee, a day too late, in an article by Jonathan Weisman in the Washington Post.

In all, the refundable portion of the bill, including both the one-year acceleration of the refundable CTC and the combat pay provisions, was estimated to cost \$2.33 billion. In the same bill, General Electric was said to receive a total tax benefit of approximately \$2 billion.

### *2005: Hurricane Katrina*

With Bush newly elected to a second term, conservatives were pushing to reduce the estate tax further. Senator Jon Kyl, a member of the Senate Finance Committee and the second most senior Republican in the Senate, was leading the effort in Congress. For those on the left, there was concern that they would be successful. There was a group of moderate to conservative Democratic senators who believed that the “death tax burden” was too high. The concern was so deep, that the Life Insurance Industry had hired lobbyists to keep the estate tax from being cut further. Wealthy families’ life insurance was predicated on there being an estate tax. Insurance values were calculated on what the inheritors would receive. With a 45% estate tax rate, insurers were only on the hook for the remainder of the estate. If that rate were cut, insurance companies would owe more to wealthy families, as these families would be getting larger inheritances passed on which the companies were insuring against.

On Monday, August 29<sup>th</sup>, 2005 Hurricane Katrina reached the continental United States, arriving in Southeast Louisiana.

Senator Kyl, along with Senator Jeff Sessions, was reported to be looking for a millionaire business owner killed in the storm so that they could use it in their effort to repeal or lower the estate tax (Milbank, 2011). They were unsuccessful.

Of course, in its wake, Katrina left people dead, more homeless, and many jobless.

Hurricane Katrina can be seen as a reminder of why the CTC and EITC are not sufficient substitutes for a properly functioning child benefit or welfare allowance. Both eligibility and size of benefit of the CTC and EITC are conditioned on earnings. As such, when a family loses earnings, even if it is through no fault of its own, as when a hurricane rips through their home, they can also lose parts or all of their CTC and EITC.

Congress, fortunately, drafted legislation to respond to the needs of the states and people affected by Hurricane Katrina, and subsequent Hurricanes Rita and Wilma. The White House wanted to provide tax incentives for the return of businesses and for hiring local workers (Bush, 2010). As such, since tax provisions would be included in the bill, it had to originate in the House.

While Republicans were still in the majority, in committee conversations around what was seen as a national problem without ideological issues, the Majority was convinced that loss of CTC and EITC due to the hurricanes was a real problem both for the families directly affected and for the communities that would feel a commensurate loss in purchasing power. There are provisions in the tax code that allow farmers, businesses, and wealthier people to smooth out their taxes



over years. The IRS typically gives automatic time extensions to businesses and individuals and federally declared disaster zones.

Recognizing this issue, the committee drafted a “Look Back” provision, allowing families in the affected region to opt to use their previous year’s earnings for calculating their refundable CTC and EITC. Families were allowed to opt in, so as not to hurt the families who may have fallen into eligibility as a result of losing earnings. While there is no evidence that the Bush Administration helped on this issue, the fact that it was not blocked could have something to do with their take on the horrors of Katrina. Both at the time and in reflecting back later, having been called a racist, the President considered it the worst moment of his presidency (Bush, 2010). It is also conceivable that it was not blocked because of his idea of compassionate conservatism. In 2000, as a Presidential nominee, he called on the GOP Congress not to “balance the budget on the backs of the poor.” More likely, perhaps, is the fact that it was too small to worth bothering over, and was part of a larger set of trade offs in the legislation.

Both the Clinton Foundation and ACORN subsequently worked in the region to sign families up for their credits, but little is known about how much this provision helped.

Passing the Look Back provision, while only on a regional level, and only for a year, was the first time that Congress passed a law that partially decoupled receipt of the credit from earnings. Families only needed to be earnings-eligible the year before in order to receive the credit.

While such a response demonstrates that Congress can appropriate special funds for a particular

problem without creating a new program for the entire country, the fact that they have not done so in subsequent disaster legislation suggests that a more comprehensive response is warranted. In 2011, all fifty states had federally declared disasters. After Hurricane Irene last summer, legislation was introduced in both the House and the Senate to create a look back provision modeled on the one created after Katrina for people in these disaster zones. It was never passed.

*2007: Pelosi sworn in as Speaker/Democratic Control*

Tracking polls showed President's Bush approval dropping after Hurricane Katrina, and never recovering. Against this backdrop, and under a campaign coordinated by Minority Leader Nancy Pelosi and Congressman Rahm Emanuel, the Democrats swept to power in the 2006 midterm election, winning control of the House for the first time since the GOP won in 1994 on the Contract with America and a 51-49 majority in the Senate.

In 2004, in the midst of his bid for the Presidency, Minority Leader Dick Gephardt had decided to step down from Congress. Minority Whip Pelosi – the number two leader for the House Democrats ascended to the leadership of the Democratic House. With the election of 2006, she would become the first woman Speaker of the House.

Ms. Pelosi was unknown to the country at the time, and as such the rollout of her ascension was carefully choreographed. Two days before she was sworn in, events were held in Baltimore, where she grew up as the daughter of the Mayor. She was an Italian-American from Baltimore. The unsaid message being that she was not just a liberal from San Francisco.

The day before Pelosi was sworn in, there was just one event open to the media, a women's tea, highlighting the fact that she would be the first woman Speaker. And at this event, Speaker-Elect Pelosi said that she would dedicate the 110<sup>th</sup> Congress to children and families. She announced that she was asking her closest confidants, Representatives Rosa DeLauro and George Miller to head this effort for her.

DeLauro and Miller would chair the Steering and Policy committee of the House, in charge of committee assignments for all members. DeLauro was a senior member on the House Appropriations committee, and chaired the subcommittee on Agriculture. Miller, who was the founding chair of the House Select Committee on Children, Youth, and Families in the 1980s, was now chairing the House Education and Labor Committee. Miller's chief of staff, whose history with Miller went back to the days of the Select Committee, became Pelosi's chief of staff.

Having announced that she was committing the Congress to children and families, Speaker Pelosi scheduled a "National Summit on Children and Families," for May 22<sup>nd</sup>, asking Representative Chaka Fattah to join Representatives DeLauro and Miller in the effort. Ms. Pelosi spent almost the entire day at the summit, leaving only for a meeting on the war in Iraq. Little press showed up. But in the weeks leading up the summit, the Speaker held three meetings with policy experts on what to do about children and families<sup>5</sup>. Most importantly, she invited the

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<sup>5</sup> Dissertation committee member John Lawrence Aber presented at the May 22<sup>nd</sup> summit. Dissertation committee chair Jane Waldfogel presented at one of the summit pre-meetings as did I, where among other things, I mentioned that preliminary evidence suggested that young children, particularly infants and toddlers, may be more likely than older children to be ineligible for the child tax credit.

most senior House members and their senior staff to the meetings, signaling her commitment to the issue.

While Pelosi's commitment to child and family policy has been little acknowledged in public, it was clear to her colleagues that she wanted to get something done in the area.

*2007: Rangel's "Mother of All Bills" / Tax Extenders*

After 36 years in the U.S. House, the 2006 election also led to Representative Charlie Rangel ascending to the chairmanship of the Ways and Means Committee for the first time.

In the fall of 2007, Mr. Rangel offered a major tax reform bill that would, among other things, repeal the AMT. With tax increases included in the measure, the proposal was soundly criticized by Republicans. Recognizing that it would not become law, the Democrats never brought it to the House floor for a vote. The bill was to be revenue neutral. It is very difficult to have the tax increases and tax cuts perfectly cancel each other out. Under the encouragement of Representative DeLauro and at Chairman's Rangel's request, the drafters of the legislation, after receiving the Joint Tax Estimates for the net cost of the overall bill, took the extra dollars in revenue and applied them towards reducing the CTC earnings threshold. The way the numbers came out led to a reduced CTC threshold of \$8500. The eligibility for the CTC was also de-indexed. While Rangel's bill, which he called "the Mother of All Bills," would not become law, it did, for the first time propose this new eligibility level for the CTC.

If a tax measure is first enacted as a temporary, one-year measure, its cost scored over ten years is greatly reduced. Many such provisions enter the code, and every year they need to be extended for a year or two. Every year or two, Congress needs to pass what is colloquially referred to as a “tax extenders” bill, containing provisions ranging from deductions for teachers who buy classroom supplies, to the Research and Design credit, to the state and local tax deduction. With interests at risk for losing potentially billions in tax subsidies, tax extenders can take on a legislative momentum of their own.

With revenue measures originating in the House, and with the commitment of the Speaker to children and families and the Chairman to the CTC, the Ways and Means committee attached a provision that would lower the threshold of eligibility of the refundable CTC to \$8500 for one year. Doing so for one year would get the provision enacted into law, and then embedded with the other extenders, with the likely outcome of getting extended each year on the coattails of the well-advocated-for business tax extenders.

In the Ways and Means committee markup of the bill, Republicans offered an amendment to strip a provision for trial lawyers and use the proceeds to reduce the CTC threshold further. There was no way this amendment would pass – it was just a way to embarrass Democrats for supporting lawyers, however what President Bush’s Press Secretary had once called “public assistance” was now being advocated for by GOP House members on the Ways and Means committee, at least rhetorically.

However, with Democrats in the majority, it was Senate Republicans who would provide enough

votes to get to a cloture-invoking 60-vote threshold. The insisted that the Senate strip out the CTC provision before passing the measure and sending it back to the House.

*2008: The Bush Stimulus*

In January 2008, with the economy faltering, it was clear that something needed to be done. A recession had officially begun in December of 2007.

President Bush proposed tax cuts. The Democrats argued that increased unemployment insurance and expanded food stamps were the best way to get money back into the economy. Harry Reid, the Leader of the Senate said that if the President could work out a compromise with Speaker Pelosi and Minority Leader Boehner, that the Senate would go along with it. In order to get Bush's support and that of enough Senate Republicans, Pelosi would need to come to an agreement with Boehner.

The House Republicans of course had observed the House Democrats' attempts at expanding the refundable CTC in late 2007. According to senior Democrats, Leader Boehner said that his caucus could not pass spending programs like U.I. or food stamps, but that they could do the refundable CTC because it was a tax cut. Ultimately the agreement contained a one-time expansion of refundability of the CTC with Leader Boehner accepting the refundable CTC that Speaker Pelosi had championed.

HR 5140, the bipartisan House passed stimulus bill, provided tax rebates including a refundable

CTC to families with earnings between \$3,000 and \$25,000. According to the Tax Policy Center, the bill provided a refundable CTC to approximately 34.2 million children. Families with children received a total of \$21.8 billion in refundable rebates, including \$9.8 billion specifically in refundable Child Tax Credits.

This group included 6.3 million children who were newly eligible for the CTC, those who live in families with earnings between \$3,000 and the previous eligibility threshold of \$12,000.

For the first time - unlike in the 2003 tax bill that was sold as stimulus – refundable tax credits were included in a stimulus bill, credits that the Bush administration had considered in 2002 as not stimulative (Rove, 2010). That said, while the elected officials referred to the refunds as “Child Tax Credits,” the internal revenue code was not changed to reflect this oratory.

Therefore, in contrast was the subsequent Obama stimulus legislation in 2009 (the American Recovery and Reinvestment Act), the CTC had not technically been expanded.

Speaker Pelosi was excoriated by some of her usual allies for agreeing to a package that did not include expanded unemployment insurance and food stamps, even though the total dollars that went out in refundable credits were higher than those proposed for U.I. and food stamps.

#### *2008: TARP / Tax Extenders*

In October of 2008, nearly a year into the recession, the economy was teetering on the brink. Things were so bad that the conservative President Bush was calling on Congress to pass the

Troubled Assets Relief Program (TARP). TARP was fundamentally different than a stimulus bill. Economists were worried that credit would dry up leading to devastating consequences to the economy. TARP would provide the government with money to purchase assets and equity from financial institutions to provide liquidity to the markets.

House members were nervous to be voting for a bill that could be considered a bailout for banks and would cost \$700 billion. The House leadership of both parties committed with the help of the Bush administration to share the votes needed to pass the bill. But when the final bill came to a vote, not enough votes were available, and the House voted it down. Stock indexes plummeted as one measure of the public's reaction to the House vote.

In order to pass TARP, the Senate would need to augment the measure. With the year running out, and tax extenders still yet to be done, the Senate added the 2008 House tax extenders bill to TARP, passed the overall bill, and sent it back to the House. This time, the House passed TARP.

The 2008 House tax extenders bill drafted by Chairman Rangel, now added to TARP and signed into law, like the 2007 House tax extenders bill, lowered the eligibility threshold of the refundable CTC from \$12,050<sup>6</sup> to \$8,500 within the internal revenue code. If the House had passed TARP the first time, it never would have been signed into law. But, with the Senate scurrying to address the economy, there was no time to change the House tax extenders bill.

Therefore, TARP became the first vehicle to lower the official eligibility threshold of the

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<sup>6</sup> What was once an eligibility threshold level of \$10,000 had grown to \$12,050 because of indexation.



refundable CTC within the internal revenue code, and the second bill passed within the year that expanded eligibility, this time, for a one-year cost of \$3.129 billion. The additional credit was worth up to \$532.50 per family – the equivalent of approximately two full weeks of work at the minimum wage.

*2009: The Obama Stimulus: The American Recovery and Reinvestment Act*

The next month, Senator Obama was elected to the Presidency, and Democrats dramatically increased their majorities in the House and the Senate.

The Obama transition team, recognizing that the magnitude of the economic problem was quite a bit bigger than they had previously thought, announced that they would be putting together a large stimulus package.

Needing some Republican votes in the Senate, and having run on the idea of a post-partisan presidency, the President's Team decided to include tax cuts as one component of their package. The President ran in part on the platform of creating a "Make Work Pay" tax credit, a refundable tax credit of up to \$500 for adults making under \$250,000. The Make Work Pay Credit (MWPC) would become a centerpiece of the Obama stimulus.

The MWPC offered \$500 to an adult. It gave \$1,000 to a couple. Yet, a mom with a child only got \$500. A mom with two children only would get \$500. Children, while indirectly helped by the MWPC, would not be eligible for this credit. (Ultimately, in negotiations, the MWPC was

reduced to \$400). For children to be helped directly, some form of a child-conditioned credit would need to be added to the package.

The President-Elect had worked to expand the EITC as a State Senator in Illinois (see for instance, Grumman, 1999). He had also tried to expand eligibility of the refundable CTC as a Senator in 2007 and 2008, but was rebuffed by more senior members associated with the policy, and by an institution that was following the lead of the House, rather than leading the charge on the legislation.

The House passed their version of ARRA before the President was sworn in. They lowered the eligibility threshold of the refundable CTC to \$0 for two years – the first dollar of earnings.<sup>7</sup> The Senate was less generous, lowering the threshold to \$8,000. In subsequent negotiations, the CTC eligibility threshold was lowered to \$3,000, de-indexed, and included in the recovery package. On February 11<sup>th</sup>, President Obama signed ARRA into law in Denver, Colorado, the city where he had had accepted his party's nomination in August of 2008.

The provision was estimated to cost \$14.83 billion over two years. Importantly, its expiration would be coterminous with the Bush tax cuts. If the Bush tax cuts were to be extended (as they subsequently were in December of 2010), it would be difficult not to extend the ARRA CTC expansion at the same time, as the idea of extending tax cuts for the wealthy, while letting them expire for working families could potentially be politically perilous.

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<sup>7</sup> Since the expansion of CTC eligibility passed with TARP was for only one year, the ARRA proposed expansions would be measured against the previous baseline, reducing the threshold from \$12,050 instead of \$8,500. The House proposed reduction, then, was to reduce the threshold from \$12,050 to \$0. The Senate's was from \$12,050 to \$8,000.

Nearly two-thirds of the benefits (65.6%) went to families with earnings below \$20,000 and 92% went to families with earnings below \$30,000 (TPC, 2009). More importantly, lowering the threshold provided a CTC of up to \$1432.50 to the families of 15.9 million children, including 5.5 million newly eligible children.

Single-earners working full time, full year at the minimum wage with one child, for the first time, were eligible for the full \$1,000 CTC, instead of the \$82.50 they received before.

Single-earners working full time, full year at the minimum wage with two or more children became eligible for a \$1,515 CTC instead of the \$82.50 they received before.

When the minimum wage was raised in the summer of 2009, their credit would rise to \$1,725.

While part of the argument for including the CTC expansion in ARRA was that it was stimulative – the Tax Policy Center had given it the highest grade of all of the tax policies in the bill (Altshuler, Burman, Gleckman, Halperin, Harris, Maag, Rueben, Toder, and Williams, 2009) – clearly, it was a continuation of the effort of the House Democrats to add eligibility to the measure. Among many other policies, ARRA, unlike the 2008 Bush Stimulus, included large expansions of both the Supplemental Nutrition Assistance Program (popularly known as Food Stamps) and Unemployment Insurance, which leading economists again called stimulative (see for instance, Zandi, 2009).

Republicans claimed that ARRA was just a wish list of every Democratic priority that had been dreamed up over the years, and that it was the intent of the President to move all of ARRA into baseline law. With the CTC, they weren't entirely wrong.

### *2010: PAYGO*

A depressed economy combined with increased stimulus spending was leading to dramatic increases in short term deficit projections. Moreover, the GOP minority had decided to oppose the President on every move. The Senate Republican Leader Mitch McConnell even claimed that his most important job was making President Obama a one term President.

At the same time, it was time for Congress to pass a statutory increase in the debt limit in order to pay for obligations previously incurred by laws it had passed.

House Blue Dog and Senate moderate Democrats were getting skittish about all of the spending. In order to pass the debt limit increase, President Obama agreed to attach statutory Pay-As-You-Go language (known as PAYGO), and to subsequently commit to appointing a deficit reduction commission.

PAYGO would force Congress to only pass bills that would not add to the deficit. Each bill, therefore, would have to have "pay fors" to offset any costs. With the Bush Tax Cuts expiring at the end of 2010 and with the President having committed to extending the tax cuts for those making less than \$250,000, Congress created a series of exceptions to PAYGO. Any other

spending would have to be offset by tax increases or spending cuts. These exceptions would allow some policy extensions to be passed without having to pay for them, essentially creating a new baseline law. The exceptions were not small. In addition to making the Bush tax cuts permanent for those under \$250,000, the bill said that the ARRA expansion of the CTC could be made permanent without violating PAYGO as well. This was particularly important, as the out year costs of just this provision, the ARRA CTC expansion, have increased to over \$10 billion per year. The full annual cost of the refundable CTC, all of which is protected under PAYGO is \$32.2 billion (JCT, 2011).<sup>8</sup>

The effort to attach PAYGO to the debt limit increase was led by House Majority Leader Steny Hoyer, a confidant of Blue Dog democrats, and the number two leader in the House. Hoyer also has had a long history of supporting issues related to child and family policy. It was strongly advocated for by the Obama Administration as well who wanted the policy and pointed out that the optics of locking in tax cuts for the middle and upper classes, while leaving out low-income working people would be terrible.

This inclusion of the ARRA CTC expansion in PAYGO was enormously important to the chances of the CTC refundability expansions being extended into the future. Any time the Bush tax cuts would be up for renewal, the ARRA CTC expansion would be able to move with it for no extra PAYGO cost. Had PAYGO not included the refundable CTC, Congress would have to

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<sup>8</sup> Some may think that in advocating for the CTC to be a PAYGO exception, that the implicit argument is that these means-tested provisions are more important than the deficit. While I believe that to be the case, here the argument is less broad. Simply put, if PAYGO would except the extension of the Bush Tax Cuts for both the middle class and the wealthy, it could also except the extension of tax cuts for low-income families. On a first order analysis, both add to the deficit.

find \$32 billion in program cuts or tax increases for every year that they wanted to extend it. And, detractors would have few excuses if they tried to extend the other tax cuts while leaving out these families.

*2010: Extension of the 2001 Bush Tax Cuts*

With the economy not in a depression but still in the doldrums, the Republicans swept to power in 2010, winning back control of the House. After the elections, the President would have less than two months to secure a number of items on his agenda before having to work with a GOP House majority. With the Bush tax cuts expiring, the President appointed Vice-President Biden to negotiate with the Senate to get to a deal. Having not passed a budget with reconciliation instructions, they would need 60 votes in the Senate to get anything passed, and presumably the House would go along.

Mitch McConnell tasked his number two, Senator Kyl to negotiate with Biden. In order to get the Strategic Arms Reduction Treaty with Russia passed, Kyl was insisting on increased money for nuclear plants. He was also pushing an estate tax cut. He would not support the Bush Tax Cut extension without the cuts for the wealthiest. Moreover, Kyl would not agree to extend the President's signature Make Work Pay Credit.

President Obama badly needed to pass an Unemployment Insurance (U.I.) extension for both the people eligible for the help and the economy as a whole. Republicans did not want to do it. In order to get a deal on U.I., and move on to other items while he still had a Democratic House, the

President agreed to an extension of all of the tax cuts, including the ARRA CTC expansion, but without the Make Work Pay Credit. Also included were a one-year payroll tax cut. The two-year cost of the ARRA CTC expansion was estimated to be \$19.743 billion.

The President was widely criticized for going back on his promise to let the tax cuts for the wealthiest expire. Yet, had he done so, he would never have extended U.I. Furthermore, he pushed the tax debate into the 2012 election, a time when the electorate is more likely to be paying attention to the stark trade offs. The consequences of pushing this debate into the 2012 cannot be overstated, both in terms of the politics and the policy and are discussed in the concluding chapter of this dissertation.

America may not be entirely unique in its CTC expansions. Here, over the last eighteen years, the CTC has moved from an idea in the Contract to America to a refundable CTC approaching full refundability.

In the United Kingdom, Tony Blair made a commitment to ending child poverty in a generation, and largely under the radar dramatically reduced absolute poverty, a large component of which involved combining their various child benefits into one Child Tax Credit that was fully refundable for families with and without earnings, and then increasing its value. Like the U.S. CTC, the wealthiest families are left out. Unlike the U.S., all families at the bottom of the earnings spectrum, including those with no earnings are included (Waldfoegel, 2010).

Here too, leaders, in this case Speaker Pelosi with the encouragement of Representative DeLauro

made a commitment to families and children. And, largely under their leadership, and certainly under the radar<sup>9</sup>, the CTC has been expanded and in so doing reduced child poverty (See, for instance, Sherman, 2009).<sup>10</sup> In fact, the major expansions of refundability of the CTC were attached to much larger bills, thus remaining outside of the view of the public – the 2008 Bush stimulus, TARP, ARRA, and the December 2010 tax extensions.

Of course, while spending significant sums on means-tested programs, the U.S. has not made a commitment to the elimination of child poverty. And, with recent austerity measures the U.K. has taken some steps backward. Still, while the reductions in poverty here are not as dramatic as the U.K., their magnitudes are meaningful, and will be discussed in the next chapter, with particular importance for our nation's youngest children in poverty – those who could most benefit from increases in income transfers.

There is a larger point I want to make here regarding the relationship of political analysis and policy analysis. From the perspective of policy analysis it is worth asking what is the optimum policy. In the case of the CTC, child policy experts often say full refundability. However it is insufficient to just say let's have full refundability and leave it at that.

From the perspective of children, it is also worth asking what is the optimum policy. And here the answer is the best policy is one that is implemented. Therefore it is essential that

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<sup>9</sup> The CTC ARRA expansion only shows up as a footnote in the recent Urban-Brookings Tax Policy Center analysis of the President's Tax Proposals as Outlined in his Budget, in spite of the fact that it costs an additional \$83 billion over the coming decade (Tax Policy Center, 2012).

<sup>10</sup> The amount that poverty was reduced due to the CTC eligibility expansion in ARRA is estimated in chapter 4.



policymakers have options that can be turned into law. The last decade of the CTC has demonstrated that when policymakers had alternative options for expanding eligibility they were able to implement improvements to the policy with a real impact on children. So did the Affordable Care Act. If single payer health insurance were the only option for expanding affordable health care, ACA never would have passed. When policymakers had options beyond full refundability, and when they had large enough bills to which they could be attached, they expanded the CTC.

Over the last decade, Congress implemented a variety of expansions of the CTC. Each iteration depended on the legislative vehicle. When tax cuts were being accelerated in 2003, Congressional advocates sought to accelerate the CTC. When Hurricane Katrina struck, these advocates created a look back provision. When one-year tax extenders were being drafted, Congress drafted a one-year expansion of eligibility of the CTC. When stimulus checks were being mailed out at the beginning of 2008, Congress created CTC rebates. When ARRA was drafted, Congress created another expansion of eligibility of the CTC. When U.I. was extended in 2010, Congress attempted to make U.I. count as earnings for the purposes of calculating the refundable CTC and EITC. And, when Hurricane Irene arrived in the summer of 2011, Congress tried again to create a look back provision.

The look back provision and the U.I. as earnings are two different policy responses trying to address the same basic issue, each with a different shape. One is relevant in time of U.I. legislation and reform. The other is relevant in a time of disaster legislation. The latter is preferable in theory – it would cover more children, but whatever could get signed into law is

preferable to children. Of course, passing this U.I. reform could theoretically keep the other from passing by diminishing the need for it. This is a trade off which policymakers and advocates need to weigh.

Going forward, lowering the CTC threshold to \$0 like the EITC may be good policy, but it can sound (incorrectly) to some like the CTC would be decoupled from work. Indexing the amount of the credit may make sense in the context of the AMT being indexed. A look back provision may make sense in the context of legislation relating to damages from storms. U.I. counting as earnings may make sense in the context of U.I. reform. Policy analysts do not need to know the politics of a given policy. It is just useful to know that having alternative options helps policymakers who may be sympathetic to the underlying policy problem.

Yet policy analysis still must provide – when possible – information on what the optimum policies are in theory. If policy analysis also provided more doable options for policymakers, it may lead to more policy change that is implemented. The additional \$10 billion per year going the refundable CTC provides some evidence that the provision of alternatives can help.

If Congress didn't have a variety of options for expanding the CTC, if the only option were full refundability, the huge expansions over the last decade never would have happened. Therefore it is imperative that policy analysts suggest second best options in addition to the ideal policies. In some policy areas, these second best alternatives have already been written about. Health policy is one such area. In other areas they have not – and the child tax credit is one such area.



## CHAPTER 4

### **Policy Analysis: Micro-simulation Estimates of Some Costs and Benefits of Alternative Expansions of the Child Tax Credit**

The United States spent an estimated \$56.4 billion in 2011 on the CTC and another \$59.5 on the EITC – together the largest U.S. federal expenditure on children and families – but is the money appropriately targeted by age? That is, is it reaching low-income families with infants and toddlers? I look to see if my findings concur with Burman and Wheaton's assertion that infants and toddlers are the least likely children to be eligible for the CTC (2007). I examine if it is also the case for the EITC both because with the CTC it is the largest federal child policy, and because unlike the CTC, there is evidence that the EITC disproportionately helps young children (Dowd and Horowitz, 2011). I then look at the demographics of those receiving the CTC to see how eligibility may vary by race and family structure for both married and single-parent, female-headed households. Finally, I model a range of CTC policy alternatives, including ideas mentioned by both policy makers and in the academic literature, examining their costs, their effects on eligibility for young children, and how much they may lift children out of poverty.

This chapter is organized into four overall sections: a description of how the current CTC works, data, method, and results. The results are then divided into three areas, a description of the effects of current policy, a description of alternative CTC policies, and a simulation of the effects of moving to these alternative CTC policies.

## I. How the Child Tax Credit works:

Under current law, families receive a CTC of \$1,000 for each child under the age of 17. If you have one child, you can get \$1,000. Two children, you can get \$2,000. Five children, \$5,000, and so on.<sup>11</sup>

A child's eligibility status for the CTC varies by the earnings of their family. There are families who are not eligible, families in the phase-in range, families who are eligible for the full credit, families in the phase out range, and families with income too high to be eligible. More specifically, there are six different groups related to a child's eligibility status for the CTC:

1. No Credit, No earnings: Children in families with no earnings, who get no CTC
2. No Credit, Poor w/ Earnings: Children in families with some earnings below \$3,000, who get no CTC
3. Phase-in: Children in families in the phase in range, with earnings above \$3,000, who get a partial credit.
4. Full Credit: Children in families who receive the full CTC
5. Phase-out: Children in families in the phase out range, with earnings above \$110,000, who get a partial credit.

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<sup>11</sup> Technically, a family can opt for a refundable CTC calculated as described above or, if they have more than two children, the amount by which their social security taxes exceed the EITC. In practice, since such a small minority of families is ever in a situation where the latter credit would be larger than the former, as the EITC almost always more than offsets their payroll tax liability, I calculate the CTC as if all families choose the initial formula.

6. No Credit, High Income: Children in families with earnings too high to get any CTC. (These families could have earnings as low as \$130,000, so “high income” may be a misnomer, but indicates that this group is fundamentally different than those who get nothing because they earn too little).

Families with no income tax liability - those families at the bottom of the earnings spectrum who work and have earnings, pay payroll taxes, but no income taxes – can be eligible for a refundable credit, known in the IRS tax code as the Additional Child Tax Credit (ACTC). CPS data does not provide tax liability information, making it impossible to tease out the relative benefits of the CTC and the ACTC. However, for the purposes of describing the CTC in this dissertation, I refer to the CTC as the policy inclusive of both the CTC and the ACTC, as they run seamlessly together.

Families too poor to get the full CTC can get an ACTC equal to 15% of each dollar of earnings above \$3,000. The maximum ACTC a family can receive is equal to the maximum CTC they could receive - \$1,000 x the number of children under 17 in their household.

Unlike their middle class neighbors, families in the phase in range of eligibility of the CTC do not get an increased CTC for each child. A family with earnings of \$5,000 would get a CTC equal to \$450, whether or not they have one, two, three, or ten children, while a family with sufficient tax liability, and earnings of say, \$75,000 would get \$1,000 for each child. This leads to an asymmetry in the program, specifically disadvantaging families with multiple children.

The CTC goes to the broad middle of the population, but phases out for families with higher earnings. Specifically, families lose \$50 in CTC for each \$1,000 in earnings they have above \$110,000.

As such a family with one child is eligible for a partial CTC if they have earnings up to \$129,000. A family with two children is eligible for a partial CTC if they have earnings up to \$149,000, and so on.

Since CTC eligibility is restricted to families with children under the age of 17, from here on out, when I refer to the population of children, I will be referring to children under the age of 17. At times, I will collapse categories 1, 2, and 3 in the analysis into the group of children in families too poor to receive the full CTC.

## II. DATA:

Using the 2011 Current Population March Supplement data, I ran a micro-simulation seeking empirical evidence of the age distribution of the federal tax credits for children. I use CPS data since it is a nationally representative sample and allows me to compare children of different ages in the same year. IRS tax data, often used to calculate effects of tax policies allows users to calculate estimates of take up. However, it does not include families with no earnings. Using the CPS allows me to estimate what would happen to these families.

I used the 2011 CPS since it is the most current survey. The benefits of the CTC ARRA

expansion did not accrue to families until 2010 (since they filed for their 2009 taxes in April of 2010). Using the 2011 survey allows me to model the effects of ARRA and other CTC policies in 2010, since it is retrospective data, referring to employment and earnings in the prior year, 2010. This survey also was taken in the midst of the down economy, when children may be particularly vulnerable.

*Sample:*

The CPS is a monthly probability sample taken by the Bureau of Labor Statistics (BLS) of approximately 60,000 households of the civilian non-institutional population of the United States. The March supplement provides additional detail necessary for estimating CTC eligibility. In particular, it has data on the previous year's income from all sources. The sample is made up of separate samples of each of the 50 states and the District of Columbia. As such the CPS only covers a subset of those eligible for the CTC. Since the CTC goes to non – civilians, specifically the families of our armed services, to some people outside of the 50 states and D.C. (including partial credits to Puerto Rico), and to people filing for the refundable CTC without a social security number (including \$4.2 billion in payments in just the refundable portion of the CTC in 2011), the CTC estimates from the CPS will likely underestimate the overall cost of the program. Studies have estimated that the CPS produces an approximately 10% - 15% undercount of undocumented immigrants (Passel and Cohn, 2009). While the CPS weighting should offset some of this undercount, those not sampled may be more likely to be low-income, and therefore more likely to be situated in the income spectrum that is eligible for the refundable CTC. That said, the population sampled by the CPS includes the vast majority of those eligible



for the CTC.

At the same time, the CPS while allowing me to estimate CTC eligibility does not allow me to make a great estimate of take up. Therefore, the analyses in this dissertation will be of the entire universe of eligible children, as opposed to the subset more likely to take it up. Since take up of tax credits is high, the likely differential between these estimates and others that discounted for take up, is likely to be slim. There are no estimates of CTC take up in the academic literature. EITC take up estimates are very high, ranging from 83% to 144% (Scholz, 1994). A high error rate in filers may account for a take up rate of over 100%. While there is some evidence that take up rates for non-means tested programs may vary as much as those for means-tested programs (Currie, 2004), compliance with the IRS code, particularly on the benefit side, should be high. Furthermore, tax benefits unlike some social programs, provide an opportunity for for-profit entities to move into low-income neighborhoods and sign people up for their credits. Therefore, the CTC take up rate may be as low as 83% but likely approaches full take up. My cost estimate of \$49 billion comes in slightly higher than OMB's estimate of \$46 billion and would be consistent with such take up. However, my estimate is somewhat lower than that of Congress's.

According to the Congressional Joint Committee on Taxation (JCT) – the official scorekeeper for taxes in Congress, the total CTC cost in 2010 for both the refundable and non-refundable portions was \$56 billion. My estimate of the cost of the current CTC is \$48.194 billion. JCT estimated the two-year cost of the ARRA CTC expansion to be \$14.83 billion, whereas this analysis suggests a one-year cost of \$5.98 billion. So the estimates may be off by approximately

20%. As the analyses here estimate the cost of provision of the policy if there were 100% take up, this should lead to a larger estimate. However, since the CPS does not include the non-civilian population, people outside the 50 states and the D.C., and may not include many of the ITIN filers collecting \$4.2 billion in refundable CTC in 2010, my estimates should be a bit lower than those of the Congressional Joint Committee on Taxation. In particular, I may undercount the cost of the refundable portion of the CTC. Since approximately 15% of the cost of the refundable CTC went to ITIN filers, it may be worth considering that the estimates of the additional costs of each of the CTC policy alternatives could be approximately 15% higher than the estimates I provide.

That being said, this analysis should provide good estimates of the relative costs of each of the policies, and ballpark estimates of the actual costs.

The 2010 March supplement includes 204,983 individuals, including 54,800 children under the age of 17 - those age eligible for the CTC. All families with children under the age of 17 are used for this analysis, 30,071 families in all.

*Variables:*

In order to conduct the analysis, I used the following variables from the CPS: family id, household id, and personal id (in order to sort all individuals into families; age, family earnings, family relationship of parents (married, single parent, etc), number of persons in household, number of families in household, race including the variable for Hispanic, marital status,

earnings weight (to properly weight the earnings of each household), poverty level, poverty status, family income, and individual weight (to properly weight individuals).

In order to create a poverty variable, I took the CPS poverty ratio variable, and classified families with under 100% of FPL as poor, and families equal or greater than 100% of FPL as not poor.

Next, I created race/ethnicity variables, by sorting the using both the race variable and the variable for Hispanic. In order to obtain mutually exclusive groups, I made “Hispanic” a race variable, and sorted the other races for all people not classified as Hispanic. White was defined as white, non-Hispanic. Black was defined as black, non-Hispanic. Asian was defined as Asian (non-Hispanic), and all other people were sorted into “other.”

For family structure, I only counted married families with a spouse present as “married.” For families that were separated, or the spouse was absent, I treated them as unmarried. Doing so, if anything led to a diminished differential in the CTC status of married and unmarried couples, providing me with a conservative estimate of the potential variance. I sorted “single families” into female-headed and male-headed households. In my discussion of the results, I only present married families and female-headed families, as female-headed, single family homes are a particular concern of people interested in poverty in the United States.

Next, I applied the CPS March Supplemental weight of the head of household to everyone in the family, since a family’s earnings are the same for everyone in a family. I dropped the marital status for everyone except the head of household, as households are the unit of measurement for

tax liability, and therefore, I am interested in whether or not the head of household is married.

Next, I sorted families by age of youngest child, so as to eventually examine the difference in eligibility for families with children of different ages. Doing so allows me to compare the credits of families with children under the age of three, to those of families without children under the age of three. In order to tie each person into a family and a household with the proper weights, I collapsed the child variables, age variables, race variables, weight variables, family structure variables, family earnings, weights, poverty status, and family income by a unique id for each person. I took out of the sample families where the youngest person was over the age of 16, since they are ineligible for the CTC.

Next, I sorted children into age groups for families with children under the age of 3, and families with children ages 3-16. Sorting families in such a way, allowed me to make comparisons at the family level. I used these variables to compare families with children under the age of 3 with families with children between the ages of 3 and 16, and who did not have children under the age of three. However, I was particularly interested in knowing the actual number of children in each eligibility category and how many children were affected by different policies, as opposed to families. Therefore, having initially sorted the data by family, I reshaped the data, in order to separate the children from their families, and provide child-level estimates. At the same time, reshaping the data, allowed me to keep the family structure, family earnings, earnings weights, and other variables attached to each child. Last, I created new age groupings of the children with the reshaped data, so I could compare children of different ages with each other.

### III. METHODS:

I conducted the micro-simulation using STATA.<sup>12</sup> First, I constructed a variable for CTC eligibility, using the parameters of current law. Next, I constructed a variable to calculate a family's CTC by applying the current policy CTC to the CPS variable on family's earnings. Families with earnings less than or equal to \$3,000 received no CTC. Families with earnings above \$3,000 received a CTC equal to 15% of each dollar of earnings above \$3,000 up to a maximum CTC equal to \$1,000 times the number of children under the age of 17 in a household. For families with earnings above \$110,000, their CTC was calculated by reducing their maximum CTC by \$50 for each additional \$1,000 in earnings. These calculations resulted in the full CTC received by a family. Last, in order to calculate a per-child CTC, I divided the family CTC by the number of children under 17 in a household to estimate a family's per child tax credit.

In order to simulate movement in eligibility I constructed variables for 9 alternative policies, using the same techniques, but plugging in the parameters for each policy that are described below in the section on alternative CTC policies. Current policy provides a maximum \$1,000 per child tax credit. Some proposed alternatives envision tripling that per CTC to \$3,000. Some of these policies could move families up to, for instance, \$1500 per child. In so doing, these families would receive more per child than the full CTC under current policy, but less than a full CTC of \$3000 per child under the new proposal. Therefore, in order to have an "apples to apples" comparison when examining the relative merits of moving to a new CTC policy, I

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<sup>12</sup> For a more thorough picture of the micro-simulation, I have attached the Stata code in Appendix 1.

assumed that under any policy, a child receiving at least \$1,000 was getting the "full credit."

In order to estimate the costs of each policy, I estimated the mean CTC for each policy with the weighted sample and multiplied that by the Census estimate of the total number of children under the age of 17 in 2010 - 69,786,172 children, including 12,019,152 under the age of 3 and another 57,767,020 between the ages of 3 and 16.

In order to estimate the potential reductions in poverty, I looked at the population of children under 17 in poverty in 2010, and then added a family's estimated CTC to their earnings to see if it moved a family over the poverty threshold.

As a fully refundable child tax credit has been proposed as a possible policy by both academics and policy makers (Duncan and Magnuson, 2011; Rep. DeLauro, March, 2003), I will examine what the effect of the policy would be on the age distribution of federal tax credits for children, considering as well, the effect of indexing the amount of the credit at different levels. As the role of women in society has changed radically, and as more children are in single parent, women-headed families, I will also run a distributional analysis by family type. It would be useful to know how much less women headed families get in CTCs and EITCs than other families, due to both the presence of only a single earner and the fact that women earn, on average, 77 cents for every dollar a man earns.

I did not model potential behavioral changes that could result from changes in the CTC for several reasons: (1) people are generally unaware of the fact that they get the credits; (2) even if

they were aware, it is unlikely to affect the estimates; and (3), most of the proposed changes I model are relatively modest and therefore at most may produce only a relatively modest effect on work. Should one have any additional questions on the modeling, I have attached my STATA code in Appendix 1 in order to provide readers with a copy of my coding.

*People are unaware that they get the CTC:*

For the other policy changes, there is a possibility that with an increased CTC, people may be more or less likely to work. This incentivized behavior is unlikely to be realized however. The CPS asks respondents if they got the CTC or EITC. Almost everybody says no. People do not realize that they get the CTC or EITC, since taxes can be less than transparent. If people are not aware that they get the credit, it is unlikely that a marginal increase in the credit would lead to a change in their behavior. That said, it is of course possible.

*Changes in behavior would not affect the estimates:*

Full refundability – giving the CTC to families even if they have no earnings, could theoretically be a disincentive to work. However, in estimating the costs of full refundability, the estimate would only change if people at the top of the earnings spectrum – those with earnings over \$110,000 all of a sudden stopped working in order to get a \$1,000 per child tax credit. Such a behavior change seems unlikely on its face. Under such a scenario, the universe of children in families with earnings under \$110,000 would be unlikely to change, so the estimates would be

unlikely to change. If middle income or lower income people cut their work, they would still get the \$1,000 CTC either way, leading to no effect on the cost or age distribution estimates.

#### IV. FINDINGS:

In the first part of this section I present findings on eligibility and benefits for both the CTC and EITC under current policy. The second part describes nine alternative CTC policies and then presents the results of simulating those changes.

##### *A. Effects of Current Policies*

In examining the CTC and EITC, I look at receipt and benefit amounts not just by age, but also by the six different groups related to a child's eligibility status for the CTC as outlined above:

1. No Credit, No earnings
2. No Credit, Poor w/ Earnings
3. Phase-in
4. Full Credit
5. Phase-out
6. No Credit, High Income

[See Table 1]



Table 1 shows the percentage of children in each category of eligibility status for both the CTC and the EITC and the total number of children in each category in millions. The first section describes the eligibility status for all children. The next two sections provide the same information first for children under the age of three and then older children. The bottom section of table 1 lists the percentage of children too poor to get the full CTC. This figure is calculated by summing up the first three CTC eligibility categories: (1) those children who get no credit in families with no earnings, (2) those children who get no credit in families with some earnings (less than or equal to \$3,000), and (3) those children in families who get a partial credit in the phase-in range of the CTC.

The CTC goes to most families. It is worth noting that over three-quarters of families receive at least a partial CTC, whereas less than a quarter get any EITC. Over 8% of all children, 5.85 million children, are in families with no earnings, and therefore receive no CTC and no EITC. The fact that our largest federal child policy leaves out so many children – those who need it the most - is of concern.

Perhaps more importantly, 12.67% of children ages 0 – 2, approximately 1.5 million children, get neither the CTC nor the EITC - those that need it the most. In fact these estimates for young children are too low. The family of a child born in December can file their taxes by April 15<sup>th</sup>, and receive a CTC and an EITC for their child, if they are eligible. They may receive their credit in the summer, around when their child is 6 months old. The family of a child born in January, however, cannot file for a CTC or EITC for their child until the following year. Therefore, this

family may not receive their first CTC and EITC until their child is 1.5 years old. Middle class families can adjust their withholding in order to pay less tax within the tax year, allowing them to enjoy the benefit of their CTC in the year their child is eligible. However, lower-income families, specifically those whose credits more than offset their federal taxes, do not have this option. An employer cannot give their employee negative taxes. In my analyses, I have assumed that all infants are eligible for the CTC, leading my estimates to be too low.

It is clear that, consistent with Burman and Wheaton (2007), children between 0 and 2 are disproportionately left out. While just over 20.5% of all children are in families too poor to get the full CTC, over 29% of children ages 0 – 2 are in such families. Burman and Wheaton looked at the CTC in 2007, when both the policy and the economy were different, finding that 34.8% of children one and under were in families too poor to get the full credit vs. 31.1% of all age-eligible children. Since the time of their paper, the policy has changed dramatically with the 2008 expansion of eligibility and the subsequent 2009 passage of ARRA, leading to dramatically improved eligibility for children. It seems then that eligibility improved for all children with these policy changes, but perhaps more so for older children than the youngest. (This trend is consistent with my findings as discussed later in this chapter in the section on table 3).

The EITC is a similar story. It is true that children under the age of three are more likely to receive at least some EITC than older children - 41% of younger children vs. 35% of older children. This finding is consistent with Dowd and Horowitz's findings (2011) discussed in chapter 2. However, it is worth pointing out that 12.67% of young children are too poor to get any EITC, vs. 7.98% of older children. Therefore, while the EITC may benefit more young

children, at the same time, like the CTC, poor young children are more likely to be left out of eligibility for the EITC than their older counterparts. This is true for two reasons. First, as the numbers indicate, young children are more likely to be in a family without earnings. Second, as discussed earlier, infants may or may not be eligible for any EITC whatsoever, depending on their birth month.

[See Table 2]

Table 2 shows how CTC eligibility/ receipt varies by race/ethnicity and family structure for all children, for children under the age of 3, and for older children. Table 2 presents the percentage of children in each category of eligibility by race and family structure. The first section describes the eligibility status for all children. The next two sections provide the same information first for children under the age of three and then older children. Finally, the bottom section of table 3 lists the percentage of children too poor to get the full CTC.

Eligibility status of the CTC is not equally distributed by race. This finding is consistent with earlier work examining eligibility for previous CTC policies by race (Harris, 2003; Burman and Wheaton, 2005). While approximately 20.5% of all children are in families too poor to get the full CTC, nearly 30% of Hispanic children and 38% of African-American children are in these families. More striking over  $\frac{1}{2}$  of African-American children under 3 are in families too poor to get the full CTC. Part of this result is tied to the fact that African-American children are over 3 times more likely than white children to be in a family without earnings (18.15% of African-American children vs. 5.27% of white children).

Children in single parent homes, a growing demographic are in particularly bad shape when it comes to CTC eligibility. In fact, over  $\frac{1}{2}$  of all children in female-headed homes are in families too poor to receive the full CTC. This is in part because  $\frac{1}{4}$  of these families have no earnings whatsoever. It may also be due in part to the presence of only one potential wage earner, and the fact that women make on average only 77 cents for every dollar a man makes.

Over  $\frac{2}{3}$ s of children under the age of three in female-headed homes are too poor to get the full CTC. With the majority of births to women under the age of 30 now occurring outside of marriage (Wildsmith, Berger, Manlove, Barry, and McCoy-Roth, 2012), this discrepancy in tax credits for families by parental status may continue to increase.

*B. Alternative CTC policies:*

Proposals to reform the CTC, while scarce in the academic literature, have been proffered by politicians. Since low-income young children are disproportionately left out of eligibility of the CTC, it is important to analyze possible reforms in terms of expansions of eligibility, credit size, and costs. Therefore, it is worth looking at both those reforms that have been proposed, and alternative proposals that could possibly reach these children more effectively or efficiently.

This analysis will examine current law, pre-ARRA law, and eight additional CTC proposals, including all of those proposed in Congress that could affect young children and several additional alternatives, simulating movement in eligibility category, changes in CTC size, and

reductions in poverty for children under 3, comparing them to older children.

These policy alternatives discussed, broadly speaking, can be classified into two types of reforms – those that increase the full credit and have little effect on families in the phase-in range, and those that focus on the phase-in range. For the purposes of this dissertation, I will not analyze proposals to add eligibility to children older than 16 such as those floated by Senator Blanche Lincoln (D-Arkansas) in the late spring of 2003.

### *1. Current Policy:*

Current policy on the CTC is the baseline from which all comparisons are made in this analysis. It should be noted that *current policy* is different than *current law* as under current law, in 2013, the CTC decreases from \$1,000 to \$500 and essentially reverts to being non-refundable. Current policy therefor is a \$1,000 CTC, whereas current law is a \$500 CTC. As discussed in chapter 4, the likelihood of Congress and the President not intervening to keep this decrease from happening is slim.

Current policy includes a phase-in rate of 15%, an eligibility threshold of \$3,000, and a maximum credit of \$1,000 per child.

### *2. Pre-ARRA:*

Pre-ARRA, the CTC was less generous to low-income families. While previous analyses in this

dissertation examine the effects of ARRA on eligibility, it is worth comparing pre-ARRA to current policy and other alternatives to see how it stacks up in costs, eligibility changes, and increases in credits.

Pre-ARRA includes a phase-in rate of 15%, an eligibility threshold of \$12,550 (it was legislated to be \$10,000 and was indexed, and would be \$12,550 today), and a maximum credit of \$1,000 per child.

### *3. Lower the Eligibility Threshold to Zero (Pelosi/DeLauro/Rangel):*

In the negotiations in Congress leading up to passage of ARRA in January of 2009, the House initially passed a bill that lowered the eligibility threshold of the CTC to 0, allowing every dollar of earnings to count towards the CTC. The Senate bill only lowered the threshold to \$8,000. As a compromise, the final measure ended at a threshold of \$3,000. It is worth knowing the benefits and costs of lowering the threshold to zero, which would allow every poor child in a household with earnings to be eligible for at least a partial CTC.

Lowering the eligibility threshold to 0 includes the same phase-in rate of 15% and a maximum credit of \$1,000 per child.

### *4. Index the Value of the Credit:*

The value of the CTC has never been indexed, meaning it has eroded in purchasing power every

year since it was increased to \$1,000. Perversely, the initial law only indexed eligibility for the threshold. This meant that for those low-income families with stagnant wages, their credits shrunk over time. Some lost part of their credit; some lost eligibility all together. Indexation of the eligibility threshold ended with the passage of ARRA.

While there has been no formal proposal to index the value of the credit, it is worth considering what the costs and benefits of doing so would be. It also provides a view of what an increased credit more generally would look like. In order to examine the relative benefit of indexing, the analysis assumes that the credit was indexed in 2001 when it was first made refundable. Since indexation in the federal tax code is rounded off, and since the eligibility threshold would have moved from \$10,000 to \$12,550 over the decade, the analysis assumes that the credit would now be \$1,255 instead of \$1,000.

The indexed credit policy includes a phase-in rate of 15%, an eligibility threshold of \$3,000, and a maximum credit of \$1,255 per child.

*5. Triple the Value of the CTC (Senator Santorum's Proposal):*

As of this writing, one of Rick Santorum's only specific economic policies he has laid out in his quest to become President would triple the CTC. While this policy would be hugely expensive, it is worth examining its costs and benefits, since it is at least theoretically possible that Mr. Santorum could become President or at least the Republican nominee some cycle in the future. Moreover, it is reasonable to at least consider the effects of dramatically increasing the overall

credit, a goal of so-called “pro-family” right wing groups such as the Family Research Council (considered a hate group by the Southern Poverty Law Center). Mr. Santorum’s proposal does not mention the refundable component of the CTC. Since leaving out an increase in refundability would essentially leave out all families in poverty from the increase in policy, and since Mr. Santorum has not specifically said that the refundability wouldn’t be increased, this analysis assumes, perhaps too generously, that the policy would triple the credit for both the refundable and non-refundable portions of the CTC.

Tripling the CTC includes a phase-in rate of 15%, an eligibility threshold of \$3,000, and a maximum credit of \$3,000 per child.

*6. Double the CTC for children under the age of 6 (Schumer):*

In February 2007, shortly after regaining the majority, Senator Schumer, a member of the (tax writing) Finance Committee introduced a bill that would double the CTC for children under the age of 6. Such a policy would presumably be one way to increase resources in a targeted way to young people. Curiously, his proposal did NOT double the CTC for children who receive the refundable CTC, thus, like Santorum, leaving out those children who could most benefit from the assistance. With some work, it is possible that the Senator would fix this oversight. Therefore, this analysis assumes that the CTC would be doubled for both the refundable and non-refundable portions of the CTC.

Doubling the CTC for children under 6 includes a phase-in rate of 15%, an eligibility threshold



of \$3,000, a maximum credit of \$2,000 per child under 6, and a maximum credit of \$1,000 per child for children between the ages of 7 and 16. (It is worth noting that the IRS may not look favorably on the potential increases in error rates due the somewhat complicated calculations that families with children in both categories would have to make. That said, the IRS does not write law, and, obviously, accommodates the policy-making choices of the legislative branch).

Since families with more children lead to more families being in the phase in range instead of getting the full credit, and, since the families of low-income children under 3 are more likely to be in the phase in range than families with just older children, any increase in the phase in range could diminish the infant credit penalty. Three options for doing so are presented: providing 15 % of earnings for each child in the phase in range, giving families in the phase in range a fraction of the full family credit that middle class families get, and doing the same in a more generous way. They make up the next three reform policies presented in the analysis. By focusing these reforms on the phase-in, resources are targeted to those most in need – at least those in working poor families.

*7. Increase the Phase In Amount By Providing 15% of Earnings above the eligibility threshold for EACH child in the family:*

Since families who get the full credit get \$1,000 for each child, it seems fair that families in the phase in would get at least 15% of earnings for each child up the full \$1,000 credit. Under current law, a family earning \$7,000 gets a total credit of \$600 whether they have one child, two children, three children, or more. A family making \$70,000 gets \$1,000 if they have one child,

\$2,000 if they have 2 children, \$3,000 if they have three children, and so on.

Providing a 15% per child phase-in, for the purposes of analysis, would maintain an eligibility threshold of \$3,000, and a maximum credit of \$1,000 per child.

*8 and 9. Increase the Phase In Amount By Calculating the Phase in as a Percent of the Full Family CTC:*

It is entirely conceivable – whether or not Rick Santorum is ever elected President – that the CTC could be increased at some point. Increases in the CTC do not lead to any increases in credits to those in the phase-in range. Therefore, tying the lot of those families in the phase in range to those who get the full CTC would increase the chances that future potential increases in the CTC would include low-income families. At the same time, tying the credit of families in the phase-in range to the credit of those families who get the full amount, allows for increases in credits to those families with more children in the phase in – a family with three children, instead of getting 15% of earnings above some threshold would get, say 15% of the full family credit (\$3,000) for each \$1,000 in earnings.

This analysis calculates the “tied phase-in” in two ways. Families receive 10% of the full family credit for each \$1,000 of earnings. As such, with \$5,000 in earnings, they would get 50% of the full family CTC. A family with one child would get \$500. A family with two children would get \$1,000. A family with four children would get \$2,000. A family with \$10,000 in earnings would get the full family CTC.

The analysis runs the numbers again in an effort to see what the relative costs and benefits would be of providing a more generous rate of 15% of the full credit for each \$1,000 in earnings.

Under such a policy, a family with earnings of \$6,667 would get the full family CTC.

*10. Full refundability:*

Full refundability – giving the full \$1,000 to the families of all children at the bottom end of the earnings spectrum - may work differently. It is the only option that gets the credit to the over 8% of children in families without earnings and the 12.7% of children under 3 in these families. All other options leave out these 5.85 million children – including 1.5 million under the age of 3.

*C. Effects of alternative CTC policies:*

In order to examine the effects of the various CTC policy options, this analysis considers (1) the changes in eligibility status of children, (2) the costs of the policies, (3) the average increase in benefits each policy provides, (4) the relative bang for buck of each policy, (5) the relative effects on reducing poverty, assuming that the CTC were treated as earnings for calculating poverty status, and (6) the cash benefits of each policy to a family with a single earner working full time, full year at the minimum wage. Before doing so, I first examine the effects of the American Recovery and Reinvestment Act on the CTC, as it is the largest change in CTC eligibility since the 2001 Bush tax cut, and provides a baseline policy change, from which to compare other alternative CTC policies.

*Effect of the American Recovery and Reinvestment Act on CTC:*

The American Recovery and Reinvestment Act (ARRA), a.k.a. the Obama stimulus package, signed into law in February 2009, contained the largest expansion of the CTC since the 2001 Bush tax cut, lowering the eligibility threshold from \$12,000 to \$3,000, for a two-year cost of \$14.83 billion (according to the official Congressional Joint Committee on Taxation Estimate). Lowering the eligibility threshold did two things: children who received a partial credit, but were too poor to receive the full credit got an increase, and children in families with earnings between \$3,000 and \$12,000 who were previously ineligible for any CTC moved into eligibility for at least a partial CTC.

Approximately 90% of the dollars of the ARRA expansion of the refundable CTC went to families with earnings below \$30,000 and approximately 2/3s (66%) went to families with earnings below \$20,000 (CTJ, 2010).

The average poor family who was helped by the CTC expansion in ARRA received a total increase of over \$900 in family child tax credits. This increase was limited by the fact that families who before ARRA nearly received a full CTC were limited to an increase of only the difference between what they got and \$1,000 per child. For instance, a family with one child receiving a pre-ARRA CTC of \$900 could only receive a maximum increase of \$100.

Since pre- and post-ARRA, families with no earnings get no CTC, the only children eligible to

move up in eligibility were those in working families, specifically those in families with earnings above \$3,000. The vast majority of the 8.5% of children in working families too poor to get any credit before ARRA became eligible for at least a partial credit. Approximately 5.5% received a partial credit, and 1% got the full \$1,000 per child CTC. Of the 12.3% of children in families who pre-ARRA who got a partial credit, well over  $\frac{1}{2}$  - 7.6% now receive the full \$1,000 per child CTC.

For the families of low-income children under 3, the expansion of ARRA led to an even greater increase in eligibility. Of the 12.7% of low-income children under the age of three in working families who were ineligible for any credit pre-ARRA, over 3/4s moved into eligibility for at least a partial CTC. Of the 13.9% in the phase-in range pre-ARRA, 8.85% moved up to the full CTC.

It is clear then, that ARRA significantly improved the eligibility status of both young children and older children. But how would the alternative policies described above stack up?

### *1. Changes in Eligibility Status of Children*

The focus on this dissertation is the cash benefits the CTC provides to low-income families – particularly those families with children under the age of 3, where cash assistance can be of particular help. Therefore, in comparing the relative merits of various CTC policy options it is worth looking at what the policy does for families with children in the bottom three rungs of eligibility – those in families with no earnings, those in families with earnings too small to get

any credit, and those in families with earnings who get a partial CTC, but not a full CTC.

[See table 3]

Table 3 presents the percentage of children in each category of eligibility status for each of the 10 CTC policies listed above. The first section describes the eligibility status for all children. The next two sections provide the same information first for children under the age of three and then older children. Finally, the bottom section of table 3 lists the percentage of children too poor to get the full CTC.

First off it is worth noting that full refundability, by design, moves all children in these three categories up to a full credit. It is the only policy that does anything for the approximately 8.38% of all children and 12.67 % of children under the age of 3 in families with no earnings. You can't design a tax credit that reaches these children unless you somehow decouple eligibility from work or earnings.

What about the approximately 12% of all children and 16% of children under 3 in families with earnings? For these children, the policies that deal directly with the phase-in have much greater impact on moving the children to a full credit. It is worth noting that the 15% per child phase in, the least expensive of all the options, moves more children to a full credit than lowering the threshold to 0. For just over \$3 billion, the 15% tied phase in takes over ½ of all previously ineligible children in working families and over ½ of children under 3 who receive partial or no credit and moves them to full eligibility.

Indexing the credit, increasing the credit, even tripling the credit, all do nothing for children in the bottom three categories. Only doubling the credit for children under 6 does something for children in these categories, by moving more children to the full \$1,000 per child CTC. That said, it should be noted, that it does not move any of the children in these categories to the new full \$2,000 CTC that would go to middle class families under such a proposal.

Clearly then, policies that just increase the CTC without focusing on the phase-in do nothing for families too poor to get the full CTC. But from the standpoint of the family, what increases do each of these policies provide?

## *2. Costs of the policies:*

[See table 4]

Table 4 presents the costs and dollar benefits to families of each of the ten policies. The first line contains my estimates of the costs of each policy. The next line contains the additional costs of each policy. I include these estimates as they are the relevant numbers that Congress would have to consider in moving from current policy to one of the alternative policies. In order to get these estimates, I simply subtract my estimate of the cost of current policy CTC from the estimated costs of each of the alternatives. For instance, the additional cost of moving to full refundability would be the cost of full refundability, \$61.53 billion, minus the cost of current policy, \$48.94 billion, for a total additional cost of \$12.59 billion.

Next table 4 presents the mean dollar increases per family of each of the nine policy alternatives to the current CTC divided by families with children under 3, and families without children under the age of 3. These estimates are provided to give a sense of the magnitude of the benefit from the perspective of the family. Since the dissertation is focused on the potential for the CTC alternatives to get cash to low-income families with young children, this section also looks at the benefit for the families of children in poverty. Since only full refundability gets cash to families with no earnings, this table also looks at the average benefit for the families of children in poverty who have some earnings.

Last, since the marginal costs of the proposals vary significantly, table 4 presents one way to examine the relative merits of each proposal, showing the “bang for buck” of each policy alternative. This is calculated by dividing the average benefit to families by the additional cost of each alternative. The limitations of this analysis is discussed when I present the results.

Importantly the costs of the four policies that directly increase the phase in (0 threshold, 15% per child phase-in, and the 10% and 15% tied phase in) are significantly less costly than increases to the entire credit. These policies range in annually additional costs from \$1.55 billion to \$3.06 billion.

Indexing or increasing the CTC for all children, doubling for children under the age of 6, and tripling the CTC cost annually from \$12.00 billion to \$85.49 billion. Each of these policies cost more than full refundability, the cost of giving all children at the bottom the full \$1,000 per child



tax credit, would cost \$11.77 billion.

*3. Average increase in benefits of the policies:*

For all children, the biggest average dollar increases in the credit come from those policies that increase the overall credit. Under Senator Santorum's proposal of increasing the per-child CTC to \$3,000, families would receive an increase of approximately \$1,000 per child, and \$2,000 per family. Doubling the credit for children under 6, as Senator Schumer proposed, would add an average of \$647 per child, for all children under the age of 6.

However, with the evidence that cash assistance is particularly productive for low-income young children, it is worth focusing on what the average increases look like to children in poverty.

Here the results flip. Those policies that address the phase-in help the most. Clearly, the fully refundable CTC gives the largest dollar increase to poor families with children under the age of 6 – a total of \$679 per child, and \$1,462 for their families. Poor older children, and poor families with older children each get slightly less assistance than the youngest children, but not much – about \$200 less per family.

Doubling the credit for children under the age of 6 gives the second best benefit to young children, an average of \$262 per child for children under the age of 3. For families with children under 6, the increase of approximately \$533, is equivalent to the dramatically cheaper policy of the 15% tied phase in which results in an increase of \$526 per family.

The three policies that directly deal with the phase-in each give per child increases ranging from \$120 to \$208. For older children the increases are similar. Yet, with these policies, families of poor young children do receive modestly more than families of older children. With these policies, families of young children receive increases ranging from \$356 to \$526. Families of older children get between \$115 and \$147 less.

Tripling the CTC does very little for the families of poor children, adding an additional \$78 in CTC to families with children under the age of three.

Since nine of the ten policy regimes do nothing for the 8.38 % of all children and 12.67% of children under the age of 3 who are in families with no earnings, it is worth examining what the policies do for poor working families – the groups targeted by the policies. Here, the trends are consistent with the analysis of the increases for all poor children – those policies that deal with the phase in are most beneficial to poor children and young children in particular.

(Under full refundability, average increases in the CTC for *working* poor families are *less* than those for *all* poor families, since this analysis does not include the generous assistance provided to families with *no* earnings).

#### 4. *Bang For Buck:*

Since the policy proposals differ significantly in cost, one way to compare their benefits is to calculate the relative “bang per buck” of each proposal. One way to do this is to look at the

average dollar increase in credit for each increased billion spent to enact the policy. Since the focus of this dissertation is young children in low-income families, this analysis is restricted to young children in poor families.

Traditionally, many economists have assumed that policies that are “targeted” to a population are more efficient, as they send limited resources to a specific population, limiting the overall cost of a program or tax expenditure (see for instance, Weisbrod, 1969). However, much work has been done to show that the costs of means-testing (in administration, among other factors) are so high that universal programs can be more efficient (see for instance, Garfinkel, 1982). Health care policy in the U.S. is one area where the benefits of a universal program – Medicare for older Americans, or models of a single-payer program for all Americans – are clear.

More recent work by Batchelder, Goldberg, and Orszag (2006) argues that uniform refundable credits are more efficient approach for tax incentives whose intention is to correct for positive externalities if there is no evidence that externalities or elasticities related to the tax credit vary by income class. That is, if a child tax credit is supposed to incentivize a family to invest more in a child, absent evidence that either (1) society would not benefit from having poor families invest more in their children or (2) that poor families’ investments in children will not be as affected by a \$1,000 credit as those of richer families, then the CTC should be fully refundable.

While it is theoretically possible that poor families may be less likely to invest a marginal \$1,000 in their children, in fact, it is likely that poor families are more likely to invest a marginal \$1,000 in their children – as they are cash poor, and their likelihood of investing it in children may be

more affected by \$1,000 as it is worth more to poor families than to wealthier families.

Either way, absent evidence to the contrary, it would be more efficient to have a fully refundable CTC. As such, a “bank for buck” analysis may not be the most appropriate analysis of the relative merits of the policy options outlined. Nevertheless, if seen in this cautionary light, it can add some perspective to the relative merits of the policy options. After all, those policies with higher bang for the buck generally move towards full refundability, and therefore are potentially more efficient than current policy.

On a per child analysis, the policies that deal with the phase in provide the biggest bang for buck. Even lowering the threshold, in a per child analysis, seems to be a very efficient way to increase dollars going to poor young children. This is in large part due to how cheap the policy is – it is an efficient way to get money to young children, but doesn’t send much money their way.

ARRA, designed to stimulate the economy and help poor families, was a relatively efficient way to target resources to the families of poor children under 3.

It is worth noting that increasing the credit for all children under 6, while helpful to poor young children, is at first glance, an inefficient way to help them.

Increasing the credit by indexing it or tripling is the most inefficient way to get resources to these children.

For families, however, the increased phase-in policies provide a modestly better bang for buck than lowering the threshold to 0, and dramatically better than all of the other policies.

*5. Relative effects on reducing poverty, assuming that the CTC were treated as earnings for calculating poverty status:*

Clearly the official Federal Poverty Line (FPL) is not the best measure of poverty over all.

Among many of its much-discussed deficiencies is the fact that it is measured pre-tax.

Therefore, the CTC cannot technically lift a child out of poverty, (at least directly), as it does not count towards the measure. That said, for the purpose of analysis and comparing the policy options, one can examine the effect of the CTC on poverty, if the CTC were counted towards poverty eligibility.

Moreover, the CTC and EITC provide generous assistance to many low-income families, who may be helped significantly, but not enough to move above the poverty threshold. As such, it is not the best measure of a policy's strengths.

Still, in spite of these limitations, looking at the poverty threshold does give some context to what the policies would do. In 2010, 21.80% of all children under 16 (those age-eligible for the CTC) were poor. For children under the age of 3, the number was a staggering 25.95%. For all children, the number is 20.92%.

[See table 5]

Table 5 presents the effects of the CTC policy alternatives on reducing poverty, for all children, for children under 3, and for older children. It is divided into four sections.

First, it presents the percentage of children lifted above the Federal Poverty Line (FPL). Next, it presents increased percentage of children lifted above the FPL by each policy alternative. These estimates are calculated by subtracting the percent lifted above poverty by the current CTC from the percent lifted above poverty by a policy alternative. For instance, 8.23% of all children are lifted above the poverty line by the current CTC. 10.94% of all children would be lifted above the poverty line by a fully refundable \$1,000 CTC. Therefore, the increased percentage of children lifted above the FPL by moving to full refundability is the difference between those two numbers, 2.71%.

The next section of table 5 presents another way to examine the effect of the CTC policy alternatives on poverty, presenting what percentage of children would be in poverty if the CTC counted towards the measure.

Since more children under the age of 3 are in poverty (25.95%) than older children (20.92%), the absolute reduction in percentage of numbers does not allow one to compare how much poverty is reduced in each age group. Therefore, the last section of table 5 presents the percentage reduction of children in poverty for each policy. These estimates give one gauge to examine how much of the problem is being addressed by the CTC, where the problem is defined as children being below 100% FPL.

First off it is worth noting that the current CTC cuts poverty by 37.75% for all children under the age of 16, and by 28.40% for children under the age of 3. Second, it is worth noting that all of the proposals cut poverty by amounts nearing  $\frac{1}{2}$  of all children – and over that in two cases – full refundability and Senator Schumer’s proposal. For children under 3, the proposals cut poverty by nearly  $\frac{1}{3}$ , and over that in the same two cases.

With the single exception of Senator Schumer’s proposal, every CTC policy iteration cuts poverty more for older children than for those under 3. His policy would cut poverty by 5 percentage points for all children under the age of 3, dramatically more than full refundability, which would only cut poverty by 1.81 percentage points among this population. It is worth noting that on a bang for buck basis, though, this proposal is less efficient than any of the three phase-in increase proposals. Moreover, as discussed earlier, the phase-in proposals do more for children in poverty, they just lift less above the poverty threshold. It is also worth adding that the reason more children would be lifted over the poverty threshold by this policy than by full refundability, is that this policy would double the CTC to \$2,000 for young children, while full refundability as modeled, would just get a full \$1,000 CTC to all children. A fully refundable CTC of \$2,000 would of course do more for poor children than a \$2,000 partially refundable CTC.

*6. Relative benefits of each policy to a family with a single earner, working full time, full year at the minimum wage:*

One way to examine the benefit of each policy to families is to look at how much of a credit would go to a two parent family with both parents working full time, full year at the minimum wage, and to a single parent family working full time, full year at the minimum wage. While many people may disagree with the prospect of giving the credit to families with no earnings, it is hard to argue against the idea of people working full time, full year getting a full credit.

These “example” families are presented, as one way to explain the effects of the policies on working families. Since families with two children and a single-earner working full-time full-year at the minimum wage do not earn the full CTC for both children, this table is one way to demonstrate what would happen.

The Federal minimum wage is currently \$7.25 per hour. I calculate full-time full year work to be 40 hours a week for 50 weeks. Therefore a single earner working full-time full-year would make \$14,500 per year. And dual earners would make twice that - \$29,000 per year.<sup>13</sup>

[See table 6]

Table 6 presents the dollar benefits of each policy alternative to families working full-time, full-year at the minimum wage. The first section of the table presents the benefits to families with a single earner working full-time, full year at the minimum wage for families with one, two, and

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<sup>13</sup> Some may argue that full-time full-year work would include 52 weeks instead of 50 weeks. Estimating the CTC for families who work the extra two weeks, would result in an additional \$87 in CTC for single earner families, and an additional \$174 in CTC for dual earner families. While those increased estimates are meaningful, they do not affect the overall trends discussed in this section.



three children. For instance, a single earner family with minimum wage earnings under current policy would get a \$1,000 family CTC if they had one child, a \$1,725 family CTC if they had two children, and a \$1,725 total family CTC if they had three children. The second section of the table presents the benefits to families with two earners, working full-time, full year at the minimum wage for families with one, two, and three children.

*Single-Parent Families:*

First off it is worth noting that ARRA significantly increased the CTC for single parent “minimum wage” families, adding over \$700 to families with one child, and \$1,432.50 to families with two children. Second, it is worth noting that all of the policies that deal with the phase in – with the exception of lowering the threshold to 0 - move these families to the full credit for each child. A single earner family with two children, for the first time, would get the full \$2,000 family CTC. A family with three children would get the full \$3,000.

Lowering the threshold to 0 would give a \$275 boost to single earner families with two children and a bit more to families with 3 children, but nothing to families with one child.

While doubling the policy for children under age 6 would give a big boost to such a family with one child, it does nothing for single parent minimum wage families with more than one child.

Those policies that simply increase the credit help single parent families with one child, but do nothing for families with more than one child.

*Married Families:*

Since, under current law, married families making the minimum wage already get the full CTC for each child if they have one, two, or three children, the policies that increase the credit are the ones that help these families.

As such, there is a differential effect of the policies on these hypothetical families. For single-parent families, those policies that address the phase in do the most help, since under current law they do not get a full CTC. For married families, those policies that increase the overall credit help the most, since under current law they already get a full CTC.

A Baby Penalty?

In summary, the findings demonstrate that young poor children are disproportionately left out of both the CTC and the EITC – our two largest federal child policies. This finding is compounded by the fact that the families of babies born after the first of the year may not receive their tax credits for a year and a half. All other tax expenditures are either non-refundable leaving out low-income young children, or do not go to low-income young children at all.

Many have pointed out that there exist “marriage penalties” in the tax code, places where families pay more in taxes simply because of the fact that the grown-ups are married. The findings above suggest that the tax code may also contain a “baby penalty.” While the CTC and

EITC are extremely important in alleviating the poverty of families with young children, the fact is that they disproportionately leave young children out of eligibility and can be improved.

By design full refundability may be the optimum CTC policy for helping out low-income young children, as it is the only policy that gets anything to the 12.67% of children under the age of three who are in families without earnings. That said, decoupling eligibility of the CTC from work remains a tall order in the current political environment.

Those policies that increase the phase-in do more for low-income young children, and get more money to them in a more efficient way than all of the other proposals. In particular, proposals to simply increase the size of the credit do close to nothing for poor children.

Doubling the credit for children under the age of 6, does the most to move young children – all children - over the poverty threshold. Policies that just increase the per- child CTC to \$1,000 can only move a family's earnings up a maximum of \$1,000 per children. Doubling the credit to \$2,000 allows more families to move over the threshold.

Of the three proposals that deal specifically with the phase-in, the latter two (tied phase-ins) may be the best options available. In the future, there is the possibility of increasing the overall CTC, even if it does little to help low-income families. If beforehand, the amount of the credit in the phase-in range was linked to the amount of the full family CTC, such a policy change would benefit people in the phase in range as well. This change in the CTC would tie the lot of those in the phase in to those who get the full credit, a more powerful constituency, obviating the need in

the future to single out those in the phase in legislatively.

Limitations:

There are limitations of not doing the broader analysis of federal cash assistance. I am seeking to find out if the U.S. underinvests in young children in the domain of cash, as we do in the domains of services and time. While tax credits are the largest source of federal cash for children, by leaving out other major sources of cash for families, including, in particular, SNAP and WIC, I do not capture the net effect of federal policies. That said, looking at the CTC and EITC can give one measure of what we do.

Likewise, there are limits to using a micro-simulation model, including in my case, the assumption that the credit would go to all who are earnings-eligible.

It is worth noting, that changes in the tax code could produce behavioral effects that are not picked up in these analyses. All child allowances are pro-natal for all families - not just for those without earnings. Theoretically providing additional cash assistance to families for more children not based on work, could lead to some families without earnings having more children, which could lead to having increases in the number of children in poverty. Decoupling cash assistance from work could serve to remove incentives to work or to marry – however, the absence of an incentive, in this case a weak incentive, is not the same as a disincentive to work or to marry. To the extent that credits remain based on earnings, as they do in all of the previous iterations, the credit remains, at least theoretically, pro-marriage and pro-work for families with

earnings below \$110,000. The more you earn, the higher the credit until you reach the full \$1,000. Marrying or working more (or at least earning more), provides equal or greater credits for families with earnings below \$110,000.

## CHAPTER 5

### **Conclusion**

In this last chapter, I summarize the findings of the literature review, the legislative history of the child tax credit, and the policy analysis, present implications for both research and policy, briefly discuss where the CTC may be headed at this time, and finally, harkening back to earlier discussions of the possibilities of a child allowance in the United States, suggest that future opportunities for improving the CTC may in large part be dependent on the leadership of our elected officials.

#### *1. Summary of findings:*

In chapter 2, I examined the literature, demonstrating that cash matters and that where evidence was available in experiments, that cash assistance matters. Most of these studies examined whether children in families with higher incomes do better than children in families with lower incomes. Of course, those who receive cash assistance may be negatively selected so that there may be a negative association between for instance TANF receipt and child outcomes. However, on balance, the evidence from both natural and controlled experiments was consistent with the non-experimental studies that cash assistance. The preponderance of the evidence suggested that cash was particularly important for young children.

Chapter 2 also examined the literature to demonstrate that while cash may be particularly

important to young children, America underinvests in this domain relative both to what young children need and to what other advanced industrialized countries spend.

Finally in chapter 2, I presented a case that changes to the refundable CTC offer one opportunity to address this investment. Here I showed that tax expenditures can be viewed similarly to direct spending, that the bulk of federal cash assistance to families with children comes through the tax code mostly in the form of the CTC and EITC, that tax refunds and “direct” spending differ in who they benefit, that young children therefore may be the most likely to be left out of eligibility of the CTC, that large swings in earnings to the families of young children are deleterious and can happen due to events outside their control, that family tax credits can amplify these swings, that recessions have a negative impact on children potentially exacerbating the potential to leave young children out of earnings-based benefits, and finally that refundable tax credits can be stimulative, simultaneously helping the macro economy and the individual recipients.

In chapter 3, I presented a legislative history of the CTC, highlighting that the U.S. child allowance was politically launched in the Republican House’s 1994 political document, the “Contract with America,” subsequently made refundable for even the first and second child in a family under President Bush, and increased over the last decade with particular support from the Democratic House Leadership. Here, the legislative history highlighted the fact that America’s version of a child allowance has largely grown under the radar, that is, outside of the attention of the public. Moreover, the expansions of the refundable CTC over the last decade have demonstrated that policy analysis should provide recommendations for both optimum policies and alternative policies that may be more likely to become law. There is a tendency for policy

analysts to just call for full refundability and leave it at that. While full refundability would be great, it is an insufficient response to the concerns of deep poverty. Alternatives exist that can be implemented in the interim – and therefore help kids in practice, not just theory. From the perspective of children, the optimum policy is one that can be signed into law. As such, it is imperative that policy analyses also provide alternative policy options for policymakers to consider. Having a variety of policy options allows a policymaker to weigh the policy merits against the politics.

In chapter 4, I examined 2011 March CPS data and find that 29% of children under the age of three are in families with too little earnings to get the full CTC, as opposed to 20% of older children. Nearly 13% of children under the age of three are in families with no earnings and as such get no CTC or EITC, as opposed to 8% of older children. And, while the EITC may disproportionately benefit young children, poor young children are more likely to be left out eligibility of the EITC than their older counterparts. Since infants may or may not be eligible for any CTC or EITC, depending on their birth month, I suggest that as some have found a marriage penalty in parts of the tax code, that there may also be a “baby penalty.”

Next I used micro-simulation to examine the costs and benefits of alternative CTC policies. Here I found that while full refundability may be the optimum CTC policy, that there are other possibilities, including those that increase the phase-in of eligibility, that are less costly, and also substantially lower child poverty among young children. Doubling the CTC for young children would lift even more children out of poverty than moving to full refundability, reflecting the fact that by moving to a \$2,000 CTC, more families could cross the federal poverty line. Yet, only



moving to full refundability would do anything for the 12.67% of young children in families with no earnings.

There are limitations of not doing the broader analysis of federal cash assistance. I am interested in the age distribution, as I want to see if the U.S. underinvests in young children in the domain of cash, as we do in the domains of services and time. Looking at tax credits, the largest federal source of cash for young children, while not the whole picture, will give a sense of what we do. Yet by focusing exclusively on tax credits, I leave out other major sources of cash for families including SNAP, TANF, UI, SSI, Child Support, as well as state and local cash policies. As such, my net distributional analysis, by age will not capture either the full federal effort, or, perhaps more importantly, the full effort from the perspective of a family. Estimating this net effect would be an important future analysis.

There are also limits inherent in using a micro-simulation model, including the presumption that those who are earnings-eligible for tax credits actually receive them.

The CTC and EITC are success stories, extremely important to low-income families with young children, yet these opportunities for improvement exist. With poor children under the age of three disproportionately left out of the most costly child policies, and their need for cash assistance so clear, something must be done to reform the CTC. There are implications both for research and policy.

## *2. Implications for Research:*

Implications for research abound, including opportunities for examining (i) natural experiments, (ii) areas related more broadly to the possibility of a baby penalty, (iii) other child tax research issues, and (iv) questions of interdisciplinary research.

i. *Natural Experiments:*

A series of natural experiments exist, that were proper data available, could lead to better understanding the relationship between cash transfers and child wellbeing.

*Combat Pay:*

The combat pay CTC and EITC penalty ended in 2005. The possibility of a differences in differences analysis exists. Before 2005, some families with a member in combat lost over \$4000 in tax credits. After 2005, they got them back. While families with a parent in combat are by no means to be considered representative of the country, and while families may endure increasing stress the longer the nation is at war which could bias the estimates, the analysis nevertheless could add to the literature examining the links between transfers and child wellbeing.

*The American Recovery and Reinvestment Act:*

With a economic and political push to get the 2009 recovery package dollars out the door as

quickly as possible, much of the direct help to families, in the form of increased unemployment insurance and SNAP, was available in 2009. Since 2009 taxes were not counted until April 15, 2010, and since credits weren't received until the summer of 2010, there may be an opportunity to study the large expansion of the refundable CTC, and the smaller expansion of the EITC by using a difference in difference study. This opportunity may also exist when examining other CTC expansions over the last decade, including in particular those in 2001 and at the end of 2008 when the eligibility threshold dropped to \$8500.

*Month of Birth:*

Perhaps more importantly, one could examine the difference in child outcomes for children born in December versus those born in January. Do the December babies who receive their CTC and EITC when they are 11 months younger than the January babies do any better? Might it be possible to use the November and February babies, to see how the differences compare month to month? One benefit of examining this area, is that experimental studies on the effects of cash transfers to families have only measured effects as young as the age of two. An additional benefit, if data were available, is that it would be an analysis of a scaled policy, as opposed to an experiment that may or may not be scalable. Furthermore, the cash benefits are large enough that some differences may be observed.

Absent advanced payments in tax credits, the month of birth issue with tax credit eligibility is potentially a recurring natural experiment that could measure the impact of the "baby penalty" or more particular, the effect of cash transfers to babies. One could look retrospectively at the

results from other data sets that contain measures of interest, perhaps even allowing for the estimate of effects in the out years, this is, when a child turns 17 or 18. One could also move forward with opportunities to measure other areas of interest, or add month of birth to ongoing studies so as to make this analysis possible. The existence of Child Tax Credits in other countries suggests that there may be cross-national opportunities for research as well, that may in the U.K. for instance, also allow for examining the effect of a fully refundable CTC on infants – that is one not conditioned on work.

ii. *Other implications for research related to the possibility of a baby penalty:*

If a baby penalty exists in the tax code because child tax benefits are conditioned on earnings, might there be other implications in looking at a baby penalty, beyond the study of tax credits?

*What is the effect on young children of having a safety net largely conditioned on work?*

*Does a baby penalty exist with other work-conditioned benefits?*

With two-thirds of federal entitlement benefits that don't go to the elderly and the disabled going to working households, it is worth examining whether a baby penalty exists in other work-conditioned benefits in addition to tax credits. That is, are babies specifically, and young children more generally, more likely to be left out of the majority of federal entitlement benefits since their parents on average are more likely to have lower earnings than the parents of older children, or no earnings whatsoever. With welfare reform the law of the land and with jobs now scarce, are young children even more vulnerable than previously perceived?

Some argue that most of the safety net should be conditioned on work, or more specifically earnings. Can a work-conditioned safety net work for infants and toddlers? If not, is there a larger indictment of work-conditioned benefits - that is that they leave out those who need it the most. Of course, the U.S. pairs work-conditioned benefits with some non-work-conditioned benefits such as SNAP and WIC. Do they sufficiently offset the effects of the baby penalty?

*Variation in wealth by age of child:*

It may also be worth examining whether wealth differs by age of children. If young children are the most likely to be poor in this country, if they are the most likely to be too poor to get the full CTC and EITC, are they also the same group who has the least wealth? Since wealth increases with age, we likely already know the answer qualitatively, but measuring the magnitude and its implications could yield useful findings, since wealth could be particularly important in the first year of life, when a parent is more likely to be at least partially out of the paid labor force.

*Does cash matter more in the first year of life or the year before?*

With evidence that cash appears to be particularly important in the first years of life, and with the importance of the prenatal period to a child's health and wellbeing, it may be important to examine whether cash is particularly important in the year before a child is born. Such an effect may be very difficult to measure, and its implications for policy would likely lie outside of the tax code. Still, it could be theoretically modeled and may potentially provide greater knowledge

on how to increase the chances for young children born into poverty.

*Do cash and other early childhood policies matter more in the early years because young children are more vulnerable or because parents are younger? Are both issues at work?*

Parents of younger children are younger parents, less experienced at parenting than when they have older children. Part of the reason families with young children have lower earnings is due to the fact that parents of younger children earn less than they do later in life. Clearly one factor is that young children are in a period of great developmental growth. Might the age of a parent also contribute to this effect, since a younger parent or teen parent may have less developed parenting skills than older parents?

*Young kids and unemployment?*

While John Irons has taken an initial look to see if young children are more likely than older children to have a parent who lost in a job in the Great Recession – and found out that they were (2011), there is work to be done to confirm this finding, and more work to be done to see if young children are disproportionately effected be either recessions or layoffs of a caregiver. It is theoretically possible that the parents of younger children are more likely to keep their job than those of older children, since younger parents receive less in earnings, and thus may be less costly to keep employed when a firm needs to cut costs. At the same time, it is theoretically possible that these same parents are more expendable, since they may have less work experience or seniority built up than that of the parents of older children. If young children are more likely

to have a parent lost a job, there could be effects on the child both through a family's loss of income and associated benefits, and through the potential mental health effect on a caregiver.

*(iii) Other child tax research opportunities:*

There are a variety of opportunities for examining the implications of child tax policy beyond the questions of natural experiments and possible baby penalties. I will mention just one.

*Use IRS ITIN numbers to estimate the number of children in low-income families whose parents are undocumented*

With \$4.2 billion in refundable CTC going to families filing with an Individual Taxpayer Identification Number, it may be possible to estimate the number of low-income children in families with an undocumented parent. Since \$4.2 billion went out in 2010, there are a minimum of 4.2 million children in families who received a CTC after filing with an ITIN. This number must be much higher, as families eligible for a refundable CTC receive a credit of up to \$1,000. If receipt of credit were evenly distributed by child, there would be 8.4 million children in families filing with an ITIN.

Some families do not file for their refundable CTC. It is likely that families with an undocumented worker may be even less likely to file. Others may make too little to be eligible for the CTC and still others might make too much to be eligible for the refundable CTC. It is likely that a small percentage of ITIN filers could be filing on investment income, and therefore

not necessarily be working without permission from the U.S. government. People from abroad making investments in the U.S., filing taxes on their earnings, and being eligible for a refundable CTC is likely to be very small.

These estimates potentially could give a better understanding of the number of children in low-income working families whose parents are undocumented.

*(iv) Opportunities for interdisciplinary research:*

In addition to the specific implications for research outlined above, there are other research considerations, including the potential of (1) combining tax policy analysis with child policy analysis and (2) marrying policy analysis with political analysis.

*Combining tax policy and child policy:*

Too often, the child tax credit has been seen through the lens of tax policy. The tax policy researchers in general are not focused on child development. Moving forward, it would be important for family policy experts to work together with tax policy experts on efforts to create a tax policy that is more beneficial to families, and productive for the nation as a whole.

The differences in perspectives between the fields of tax policy and child policy go beyond the categorization of implicit and explicit policy. Seen through the lens of child policy, the CTC's lack of full refundability leads to a variety of distortions in receipt of the credit. This dissertation



is focused on young children, and, to a much lesser extent highlighted children of color and single-parent, female-headed homes. Others are differentially impacted by the eligibility rules as well. The families of some troops are left out (Welch, 2003). Still other work has shown that the CTC has a disproportionate positive impact on rural families (Durst and Farrigan, 2011).

Yet with the needs of young children so clear, and with tax credits being such a central component of the U.S. social welfare system, something must be done.

*Marrying policy analysis and political analysis:*

The 1991 National Commission on Children report called for a fully refundable \$1,000 CTC, yet in 2012 America still does not have such a policy. The implication is that the reason we do not yet have a fully refundable CTC may be due more to politics than a lack of policy analysis.

Clearly, there is literature that combines these two lenses (see for instance, Kamerman and Moss, 2011). Moving forward, where there are gaps between what policy analysis would prescribe and what policy exists, perhaps the possibility of looking at a marrying policy analysis with a political analysis or legislative history of the issue could lead to other opportunities for policy options, that simple policy analysis devoid of the political lens may ignore.

*Cross national comparative research:*

A more comprehensive and updated comparative analysis of countries' child allowances would be well worth doing, with opportunities to examine variations in child allowance delivery, size,

eligibility, and funding mechanisms. A political analysis, examining the politics of child allowances in different countries along the lines of Moss and Kamerman's book on the Politics of Parental Leave Policies, would be worth documenting and may provide some clues for opportunities in other policy regimes, including abroad and within U.S. states.

### 3. *Implications for Policy:*

Implications for policy include (i) the case for full refundability, (ii) a discussion of second best alternatives, (iii) other policy opportunities *directly* related to the CTC, and (iv) other policy opportunities *indirectly* related to the CTC.<sup>14</sup>

#### *i. The case for full refundability:*

Clearly, full refundability would be the optimum response, as it would bring all children at the bottom of the earnings spectrum up to eligibility. This policy paid significant dividends in the U.K. Moreover, the simplification of administrability that comes with moving to full refundability could allow for distribution of the CTC through electronic benefit transfers, allowing the families of babies and older children, to receive a monthly "allowance" in the year they are eligible, as opposed to in the following year. Families would get the money while their children are young and when they most needed it. Such an option used to exist for the EITC, the

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<sup>14</sup> With the needs of young children so clear, policy implications also exist that may not effect size or receipt of the CTC, including strengthening both Early Head Start (EHS) and Women, Infants, and Children (WIC), and moving to a paid family leave policy that would allow low-income families in a broader range of firm sizes to take advantage of leave. However, this section, consistent with the dissertation, focuses on areas that affect the CTC.

“advanced EITC.” Riddled with a high error rate and a low take up rate, the advanced EITC was recently ended by Congress. Since it was dependent on a family’s earnings, it was calculated as an estimate, leading to some cases where families owed the IRS money back after receiving overpayments. With clear eligibility rules, a fully refundable CTC should be significantly easier to administer making such advanced payments possible.

*Full refundability paired with an increased and indexed benefit:*

In the late 1960s, social security was increased several years in a row, and then indexed for inflation. Elderly poverty went from approximately 30% down to nearly 10%. Ideally, moving to full refundability of the CTC would be coupled with an increase in the credit, and certainly indexation of the benefit so that it does not continue to erode over time. This recommendation is consistent with others seeking to use the tax code to alleviate child poverty (Waldfogel, 2009; NYC Center for Economic Opportunity, 2012).

*Vehicle for redistribution to offset future regressive taxes:*

Moving forward, as the country considers to bat around the idea of moving to a Value Added Tax for more revenue or a Carbon Tax for both revenue and to slow down the rate of climate change, mechanisms for getting dollars to low-income families become more important. Each of these policies is regressive and would necessitate rebates to at least America’s poorest families. Moreover, families can’t wait a year for their rebates. Piggybacking rebates onto a fully refundable CTC could be one way to address this issue for families. Alternatively, the need for

revenue, and the potential of the creation of a Value Added Tax (VAT), with a need to offset its regressive nature, could present an opportunity of moving to a fully refundable CTC.

*Universal family credits:*

Both policy academics and policy makers have suggested combining the CTC, EITC, and other child tax policies into a single policy, or into two separate policies – a child credit, and a work incentive credit (See for instance, Burman, Maag, and Rohaly, 2005; Emanuel and Reed, 2006). Such a plan would be consistent with previous calls to “make work pay” (Ellwood, 1988). With a \$17 billion EITC error rate, and the fact that full refundability at a cost of approximately \$12 billion would both simplify the code and presumably reduce the error rate, there certainly seems the opportunity for a grand bargain to marry simplification with full refundability. And, with the possibility of tax reform on the horizon, as the annual cost of the Bush tax cuts increases, it must be seen as a possibility.

The efficiencies of universal policies (Garfinkel, 1982; Bradshaw, 2011) may in the end be what could lead to full refundability of the CTC, as the costs of means testing family tax credits rise – as exemplified by error rates - and the cost distance between current law and full refundability shrink. However, some in the Democratic Party remain skittish about providing additional cash to families who are not employed.

*ii. Second best alternatives to full refundability:*

While full refundability clearly would be the optimal child tax credit, alternatives exist that would improve the lot of young children and as such are worth pursuing.

*Increasing Phase-In:*

As a second best measure to full refundability, policies dealing with the phase-in range could be employed. As modeled in chapter 4, those that tie the amount of the family CTC to the full family CTC would have the biggest benefits for young children, at a relatively modest cost.

*Increasing credit for young children:*

Increasing the credit for young children, as proposed by Duncan and Magnuson (2011) and Senator Schumer would do wonders as well. As proposed it would lift more children over the poverty line than a \$1,000 fully refundable CTC, cutting all child poverty, including for young children in half. Of course, a fully refundable \$2,000 CTC would do more for poor children than a \$2,000 partially refundable CTC for young children.

*Partially decoupling eligibility from work:*

In the meantime, alternatives to full refundability exist that, by keeping the tie to work, could be more politically possible, while helping the families of young children, and narrowing the gap in cost between current law and full refundability. They could also lead to the undesirable outcome of more clearly bifurcating the deserving from the undeserving poor, as the left continues to

embrace compromises incorporating conservative solutions to policy problems (Klein, 2011).

This third category of option, decoupling eligibility from work, lies between full refundability and changes in eligibility. There are at least two possible options for expanding the CTC by decoupling eligibility from work: creating a nationwide look back provision and counting unemployment insurance as earnings for calculating the refundable CTC and EITC. While there is no evidence of the direct impact of these policy changes on young children, clearly these policies would increase resources for low-income families, some of whom have young children.

*Nationwide look back provision:*

Creating a nationwide look back provision, as was done regionally after Hurricanes Katrina, Rita, and Wilma, would smooth families' tax benefits over two years, and allow families not to lose their benefit when they needed it the most. Such a policy could benefit a variety of families in different situations, including those that take time off in the first year of a child's life (that is, the subset that can afford to take time off from paid work), would not lose their corresponding CTC and EITC.

*Count unemployment insurance as earnings for calculating the refundable CTC  
and EITC:*

A less ambitious option would allow Unemployment Insurance to count as earnings for the purposes of calculating both the refundable CTC and the EITC. The "U.I. as earnings" option

would only apply to the subset of families who have a member collecting U.I., but would provide an important lift to those eligible. Counting U.I. as Earnings would also have the benefit of pumping more dollars into the economy when the economy is in recession, as unemployed families with children are more likely to spend their credits as they receive them.

For both the look back provision and the U.I. policy, there is an added benefit. Approximately  $\frac{1}{2}$  of all states have a state EITC, pegged to the rate of the federal EITC. Were the lookback provision or the U.I. as earnings provision enacted, it is likely that some states would have to extend a proportional benefit to their taxpayers through their state EITC.

Since families already file taxes on Unemployment Insurance, and since the I.R.S. already has a record of the previous year's earnings of families, the administrative costs of these proposals are likely to be small, and significantly cheaper than other proposals to find new ways to get money to low-income families like conditional cash transfers. Furthermore, by maintaining the all-important (in the United States) tie to work, they may be as politically salient.

*iii. Other policy opportunities directly related to the CTC:*

In addition to the specific implications for policies outlined above, there are two other policy considerations, first the concept of adding “age equity” to discussions of tax reform, and second, the importance of locking in policy changes soon.

*Adding the concept of “age equity” to discussions of tax reform:*

Scholars often talk about horizontal equity and vertical equity in discussing the tax code and the possibility of tax reform. Horizontal equity refers to people earning approximately the same income paying approximately the same tax. With earnings on investment taxed at the much lower rate of 15% than earnings on labor, clearly the code is not horizontally equitable. Vertical equity refers to progressivity in the code – that is the code is vertically equitable if people who earn more pay higher tax rates than those who earn less. With billionaire Warren Buffet pointing out that he pays less in taxes than his secretaries, clearly the current code is not vertically equitable.

Advocates for “fiscal discipline” often discuss the idea that by borrowing now, the federal government is robbing future generations of children. The emphasis in this argument is often that we are taking from children. But this issue can more precisely be labeled one of generational equity. One generation borrowing from a future generation. And, if we cut programs that benefit young children in order to satisfy this concern, it is quite distinct from age equity.

With the possibility of tax reform on the horizon then, perhaps the concept of “age equity” could enter the discourse, along side horizontal and vertical equity, so that one concern in a possible revamping of the code would be the distributional effect of credits by age, with corresponding distributional charts as one way to examine the merits of a proposal.<sup>15</sup> Under such a frame, it

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<sup>15</sup> The idea of “age equity” as a concern for tax policy can be considered as related to earlier proposals to create Child Impact Statements as much legislation triggers Environmental Impact



will be clear that the families of children receive a large number of meaningful tax expenditures, while at the same time the families of young children get less.

*Locking in increases soon:*

With the United States projected to be made up of increasing proportions of African-American and Latino children, and with these populations disproportionately left out of the CTC, there is an urgency and changing baseline CTC policy sooner as opposed to later.<sup>16</sup> Future expansions, even assuming no inflation, are likely to cost more and more. For this reason too, while indexing the amount of the CTC does little to help poor young children now, it is worth achieving, if only to lock in the purchasing power of the CTC into baseline now, before the credit erodes any further.

Refundable tax credits continue to be more politically protected than spending programs. The current House budget proposal explicitly cuts SNAP, while doing nothing explicitly to the CTC and EITC. While the intent is to cut the tax credits as well, the House majority chose not to highlight the fact, wary of being on record again against tax cuts for working families.

Moreover, the domestic discretionary component of the Federal budget is now shrinking in real dollars, as conservative lawmakers have successfully made the case to freeze funding in this area, leaving fewer opportunities in this area in the short-run for costly expansions.

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Statements. However, issuing age distributional tables of tax policies may be easier to achieve than the larger concept of a C.I.S.

<sup>16</sup> There may also be an opportunity for demographers to estimate future child poverty based on projected changes in the racial proportions of children. While poverty is not static, Latino and African-American children are much more likely to be poor than other children.

*iv. Other policy opportunities indirectly related to the CTC:*

In addition to the specific implications for policies outlined above, there are other policy options that would indirectly increase the CTC for low-income families.

*Increase the minimum wage:*

An increase in the minimum wage would directly increase the earnings of families working at or near the minimum wage and as such potentially increase the CTC and EITC for families in the phase in range of either policy.

*Pay equity:*

With women currently making 77 cents of each dollar that a man in an equivalent job makes, pay equity legislation could increase the take home pay of low-income, working women and in so doing, have a proportional impact on increases in CTC and EITC for families in the phase-in range of the credits. Of course, families in the phase-out range of the EITC, could potentially see a reduction in tax credits corresponding to their increases in earnings. That said, these families in the phase-out range of the EITC would not see a reduction in combined earnings and tax credits, since the EITC phases out at a rate of less than a dollar for each dollar in increases in earnings.

*Job policies:*

Other economic policies, both micro and macro, that increase the number of jobs available to the parents of low-income children, or the wages of these parents, could also lead to increases in the CTC and EITC for low-income families. With two-thirds of federal entitlement dollars going to families with an earner working at least 1,000 per year (excluding assistance to the elderly and the disabled), such an increase may have a larger effect than on the benefit size and eligibility of the CTC.

*4. What may be next for the CTC: The 2012 Primary and General Elections*

It may be impossible to predict what issues will be important in an election. The war in Iraq was a central issue in the 2008 Democratic Primary campaign, yet it was the economy that had moved center stage by the general election.

Whatever issues arise, it is clear that a major choice for the country lies ahead. On December 31<sup>st</sup>, 2012, all of the Bush tax cuts and the Obama ARRA cuts will expire. Central to the debt ceiling deal negotiated last summer is a provision forcing Congress to pass a law or laws to cut spending or increase taxes by \$1.2 trillion by the end of this year. If not, across the board cuts of (with some limitations) of an equivalent amount, called sequestration, will begin immediately on January 1<sup>st</sup>, 2013.

The December 2010 tax extension deal included a one-year payroll tax deduction. In December

of 2011, with the temporary payroll tax cuts expiring, the President and the Democrats pushed the Republicans to extend the cuts. With Tea Party opposition, the GOP majority hesitated and found themselves on the defensive, arguing against tax cuts for working people.

The Republican House Majority continues to offer bills that would restrict refundable CTC eligibility to filers with a Social Security Number. With \$4.2 billion in refundable CTCs going to families filing on Individual Taxpayer Identification Numbers, many in the GOP see an opportunity to save money while highlighting an “undeserving” population, the children of undocumented workers. Pushback by the Democratic House Leadership (with the help of Ways and Means ranking member Sandy Levin and House Caucus Vice-Chair and Ways and Means Committee member Xavier Becerra) with some additional support from Republican Senator Marco Rubio of Florida has stalled this effort.

Some in the GOP continue to seek ways to limit the high error rate in administration of the EITC. Yet, they are reluctant to say anything negative about the CTC. After all, the CTC is a broad middle class tax cut. Ironically, expansions in eligibility are seen in this light- as extensions of a middle class tax cut, but disproportionately benefit the poorest. A dollar added to refundability of the CTC by lowering the eligibility threshold is more progressive than a dollar added to the EITC, as the CTC eligibility expansion dollars go to families who do not make enough to get a full credit and are at the bottom of the income spectrum, whereas the EITC expansions are spread out over the bottom and lower-middle sections of the income spectrum. Lowering the threshold from \$12,050 to \$3,000 as done in ARRA, meant that the benefits are focused on the newly eligible families and on increasing the credits of families who do not get

the full CTC. The ARRA EITC expansion that lessened the marriage penalty, on the other hand, is spread out over all EITC eligible families, not just those in the bottom quintile, and can even raise the threshold of the phase-out of the credit. Both are important in helping low-income families with children, but their distributional effects are not identical.

As we move from the primary election to the general, the differences between the two parties on taxes is receiving a fair amount of attention. One distinction is clear already: The Republicans want to extend all of the Bush Tax Cuts, the Democrats want to extend them for people making less than \$250,000.

Yet another distinction on taxes exists between the parties. Democrats want to extend tax cuts for working families, specifically the refundable CTC. House Republicans, with their recent budget, are on record voting to let them expire, the equivalent of a tax increase on thirteen million families (Marr, 2012). The likely GOP presidential nominee, Mitt Romney has said he supports the House GOP Budget and his plan, like the House budget, while extending the CTC refundability from the Bush tax cuts, allows the ARRA CTC expansion to expire. Governor Romney may be putting himself in a difficult position. No less a conservative voice than that of the National Review editorial board had called for Romney to quintuple the CTC to \$5,000 and, echoing the contract with America, recommended it be made refundable to the extent of a family's entire federal tax liability – including payroll taxes (National Review, February 20, 2012).

On March 21<sup>st</sup>, 2012, in the House Budget Committee, the lead Democrat Representative Chris

Van Hollen offered a non-binding “sense of the House” amendment to the Budget deal, saying that Congress should not lower income tax rates for the wealthy by scrapping tax benefits for the middle class and the poor. The amendment failed 15 – 20 (Bloomberg Bureau of National Affairs Daily Tax RealTime, March 21, 2012). Whether the issue rises in prominence in the coming election is yet to be known, but in the first blast email from the Obama campaign after Rick Santorum dropped out of the race – a time some may refer to as the unofficial beginning of the general election, campaign manager Jim Messina wrote in his list of things should give Americans “pause” about Governor Romney:

Despite the lessons of recent history, Romney would double down on the disastrous tax policies that handed windfalls to the wealthy, but stacked the deck against the middle class. Under Romney, millionaires and billionaires would get a \$250,000 tax cut, *while families with kids making less than \$40,000 a year would, on average, actually see their taxes go up.* (Messina, April 11, 2012).<sup>17</sup> (Emphasis mine).

It was the first time the Obama campaign targeted the GOP for allowing taxes to go up by letting the ARRA CTC expansion expire.

More recently, recent polling suggests that in the most competitive House districts, that a

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<sup>17</sup> Messina had watched U.S. Senate candidate for Montana Jon Tester’s numbers sink in the two weeks before his narrow victory over incumbent Senator Conrad Burns in 2006, while the Republican National Committee ran television advertisements suggesting Tester would raise taxes on Montana’s families by allowing the CTC to expire. Tester narrowly eked out victory with just 623 votes over the ½ percentage point threshold that could have led to a recount. In this election, the Democrats may be assuming a more offensive role in debating who is defending tax cuts for families.

message based on a middle class tax hike - arguing that the incumbent “voted to raise taxes on middle class and working families in order to pay for tax cuts for CEOs, big corporations that outsource jobs, big oil companies that are more profitable than ever, and millionaires and billionaires, giving them a tax break of 265,000 dollars on top of the Bush tax cuts” - is the single strongest attack against the House budget among all likely voters and independents in particular (Greenberg, Carville, and Seifert, 2012). With evidence of the potential of this issue, Romney may be forced to develop a more nuanced position than that which he has already taken.

While some may criticize Democrats for raising the issue of tax increases since it could implicitly be embracing the right’s argument for tax cuts, it seems clear that the expiration of the ARRA expansion of the refundable CTC could provide a ripe opportunity for Democrats to contrast their agenda with that of the Republicans. Only time will tell whether the parties choose to engage on this issue and whether it ultimately has any effect. But whatever the politics are, what happens in November will affect the shape of the CTC moving forward, and that in turn, will be of great import to America’s low-income families, particularly those with infants and toddlers.

### *Epilogue:*

On October 22-24, 1967, the Citizens Committee for Children (CCC) hosted a conference in Warrenton, Virginia, to examine measures to enhance the “economic welfare of children.” Concerned with increasing evidence that family size may be an independent cause of child poverty, they turned their attention to a “social instrument [that] had not received the attention its

popularity in other countries deserved” (Burns, 1968).

Conferees included experts in social welfare, sociology, demography, and economics; federal, state and local officials concerned with poverty, human resources, and welfare programs; representatives of social welfare beneficiaries; and persons experienced in the field of mass communication. Presenters included Mollie Orshansky, the economist who had recently developed the U.S. federal poverty threshold, presenting on poverty and the economist Harvey Brazer presenting on tax policy and children’s allowances, arguing that a child allowance or even a “people’s allowance” with a phase out range at the top (a “vanishing tax credit”) could be a more progressive redistribution of income than a simple negative income tax (Brazer, 1968).

The Children’s Allowance Conference, as it was called, was chaired, and the proceedings subsequently edited, by Emeritus Professor Eveline M. Burns of the Columbia University School of Social Work, a social economist and “leading thinker in the field of social security.”

It was left to Lisle Carter, Jr., the Assistant Secretary for Individual and Family Services at the U.S. Department of Health, Education, and Welfare, to provide the “Perspective from Washington.” Carter posited that “before any new kind of income maintenance program is undertaken, the American people are going to have to understand the need for it and be willing to commit the resources for it. They will not do that before they know a lot about both the need and the kinds of programs that can meet it” (Carter, 1968).

Forty-five years ago academics and policy makers, drawing on comparative family policy, came



together to discuss the possibility of a child allowance to address child poverty in the United States. They were onto something.

Yet, it was not until thirty years later, in 1997 that the U.S.'s non-universal version of a child allowance, the child tax credit, was created, with conservatives leading the effort. Refundability was expanded in subsequent negotiations in Congress with Democrats leading the effort, yet while the legislative record exists, it is not known to the public.

It may be that in order for the U.S. to move to a comprehensive family policy – or even to move to full refundability - that a social movement needs to be built around parents - they vote (Skocpol and Dickert, 2001). Yet for this one policy, the Child Tax Credit, much has happened under the radar.

The United States is, after all, a representative democracy, not a direct democracy. Every year Congress passes legislation – even the current Congress. In the end, it is policy makers who make policy. And if policy makers who understand the benefits of family policy are in a position to make change, particularly in the context of more costly bills, they just may do so.

**Table 1: CTC and EITC Eligibility Status by Age**

<b>All Children ages 0 - 16</b>	<b>CTC</b>		<b>EITC</b>	
	<b>%</b>	<b># in millions</b>	<b>%</b>	<b># in millions</b>
no credit, no earnings	8.38	5.85	8.38	5.85
no credit, poor w/ earnings	1.96	1.37		
phasein	10.17	7.10	7.28	5.08
full credit	61.5	42.92	6.8	4.75
phaseout	7.81	5.45	20.96	14.63
no credit, high income	10.18	7.10	56.58	39.49
<b>total</b>	<b>100</b>	<b>69.79</b>	<b>100</b>	<b>69.79</b>
<b>Children ages 0 - 2</b>				
no credit, no earnings	12.67	1.52	12.67	1.52
no credit, poor w/ earnings	3.16	0.38		
phasein	13.25	1.59	11.15	1.34
full credit	57.76	6.94	8.49	1.02
phaseout	5.42	0.65	21.13	2.54
no credit, high income	7.73	0.93	46.56	6.00
<b>total</b>	<b>100.00</b>	<b>12.02</b>	<b>100.00</b>	<b>12.02</b>
<b>Children ages 3-16</b>				
no credit, no earnings	7.98	4.61	7.98	4.61
no credit, poor w/ earnings	1.85	1.07		
phasein	9.89	5.71	6.92	4.00
full credit	61.85	35.73	6.64	3.84
phaseout	8.03	4.64	20.94	12.10
no credit, high income	10.41	6.01	57.52	33.23
<b>total</b>	<b>100.00</b>	<b>57.77</b>	<b>100.00</b>	<b>57.77</b>
<b>Too poor to get full CTC</b>				
	<b>%</b>	<b># in millions</b>		
<b>children 0 - 16</b>	20.51	14.32		
<b>children 0 - 2</b>	29.08	3.49		
<b>children 3 - 16</b>	19.72	11.39		
<b>Receive at least partial EITC</b>				
	<b>%</b>	<b># in millions</b>		
<b>children 0 - 16</b>	35.04	24.46		
<b>children 0 - 2</b>	40.77	4.90		
<b>children 3 - 16</b>	34.50	19.94		

**Table 2: CTC Eligibility Status, by Race and Family Structure, in %**

<b>All Children</b>	<b>CTC</b>	<b>white</b>	<b>black</b>	<b>hispanic</b>	<b>asian</b>	<b>other</b>	<b>female-married headed</b>	
no credit, no earnings	8.38	5.27	18.15	10.77	4.5	12.66	2.53	25.27
no credit, poor w/ earnings	1.96	1.42	3.77	2.36	0.75	3.06	0.71	5.63
phasein	10.17	6.52	16.13	16.7	5.44	12.2	6.49	20.7
full credit	61.5	62.77	56.04	62.87	57.35	57.75	65.72	47.27
phaseout	7.81	10.25	2.73	4.06	11.86	5.35	10.65	0.52
no credit, high income	10.18	13.77	3.18	3.24	20.11	8.97	13.91	0.6
<b>Children ages 0 - 2</b>								
no credit, no earnings	12.67	6.45	26.63	17.58	6.21	16.75	2.35	37.26
no credit, poor w/ earnings	3.16	2.42	4.37	3.55	2.84	5.65	0.69	8.99
phasein	13.25	8.24	20.47	19.46	7.33	17.06	8.72	23.27
full credit	57.76	64.33	45.27	53.06	58.7	49.92	68.46	30.39
phaseout	5.42	7.78	1.36	2.97	9.47	1.7	8.22	0.01
no credit, high income	7.73	10.78	1.91	3.38	15.45	8.91	11.56	0.08
<b>Children ages 3-16</b>								
no credit, no earnings	7.98	5.17	17.28	10.02	4.34	12.09	2.54	23.93
no credit, poor w/ earnings	1.85	1.34	3.71	2.23	0.55	2.7	0.71	5.26
phasein	9.89	6.38	15.68	16.39	5.27	11.53	6.29	20.41
full credit	61.85	62.64	57.15	63.96	57.22	58.84	65.49	49.16
phaseout	8.03	10.45	2.87	4.18	12.08	5.86	10.86	0.58
no credit, high income	10.41	14.02	3.32	3.23	20.55	8.97	14.11	0.66
<b>Too poor to get full CTC</b>								
<b>children 0 - 16</b>	20.51	13.21	38.05	29.83	10.69	27.92	9.73	51.60
<b>children 0 - 2</b>	29.08	17.11	51.47	40.59	16.38	39.46	11.76	69.52
<b>children 3 - 16</b>	19.72	12.89	36.67	28.64	10.16	26.32	9.54	49.60

Table 3: CTC Policy Alternatives: Eligibility Status by Age, in %

	current CTC	pre ARRA 0 threshold	index credit 1255.00	triple ctc children < 6	double for 15% / child phase in	15% tied phase in	full refund
<b>All Children ages 0 - 16</b>							
no credit, no earnings	8.38	8.38	8.38	8.38	8.38	8.38	8.38
no credit, poor w/ earnings	1.96	8.47	1.96	1.96	1.96	1.96	
CTC phasein	10.17	12.30	9.70	10.17	7.57	3.84	4.20
full \$1,000 CTC	61.50	52.86	63.92	73.64	68.13	67.83	69.43
CTC phaseout	7.81	7.81	7.81	2.04	6.10	7.81	7.81
no CTC, high income	10.18	10.18	10.18	3.80	7.85	10.18	10.18
<b>Children ages 0 - 2</b>							
no credit, no earnings	12.67	12.67	12.67	12.67	12.67	12.67	12.67
no credit, poor w/ earnings	3.16	12.69	3.16	3.16	3.16	3.16	
CTC phasein	13.25	13.91	13.93	13.25	8.07	5.96	6.96
full \$1,000 CTC	57.76	47.57	60.24	66.63	70.93	65.06	67.22
CTC phaseout	5.42	5.42	5.42	1.42	2.88	5.42	5.42
no CTC, high income	7.73	7.73	7.73	2.86	2.28	7.73	7.73
<b>Children ages 3-16</b>							
no credit, no earnings	8.47	8.47	8.47	8.47	8.47	8.47	8.47
no credit, poor w/ earnings	1.70	7.59	1.70	1.70	1.70	1.70	
CTC phasein	9.01	11.59	8.28	9.01	9.01	3.39	3.48
full \$1,000 CTC	62.43	53.97	64.87	74.82	62.43	68.05	69.67
CTC phaseout	7.80	7.80	7.80	2.25	7.80	7.80	7.80
no CTC, high income	10.59	10.59	10.59	3.75	10.59	10.59	10.59
<b>Too poor to get full CTC</b>							
children 0 - 16	20.51	29.15	18.08	20.51	17.91	14.18	12.58
children 0 - 2	29.08	39.27	26.60	29.08	23.90	21.79	19.63
children 3 - 16	21.76	27.65	16.75	19.18	19.18	13.56	11.95

Table 4: CTC Policy Alternatives: Mean Dollar Increases in CTC

	current CTC	pre ARRA	0 index threshold	1255 credit	triple ctc	double for children < 6	15% / child phase in	10% tied phase in	15% tied phase in	full refund
<b>Total Cost (billions\$)</b>	48.94	42.96	50.64	60.58	128.57	68.19	51.45	52.14	52.92	61.53
<b>Additional Cost (billions\$)</b>		-5.98	1.70	11.64	79.63	19.25	2.51	3.20	3.98	12.59
<b>Mean \$ Increase/Family</b>										
w/ youngest child 0-2		-193	59	295	1,931	1,131	104	129	157	451
w/ youngest child 3-16		-141	38	296	2,064	250	54	68	85	281
poor w/ youngest 0-2		-516	188	38	78	533	356	435	526	1,462
poor w/ youngest 3-16		-467	161	45	109	158	241	305	379	1,263
working poor w/ youngest 0-2		-799	291	59	121	825	551	674	815	1,113
working poor w/ youngest 3-16		-767	264	74	179	258	396	501	622	905
<b>\$ Benefit/Billions Spent</b>										
poor families w/ youngest 0-2		-86	111	3	1	28	142	136	132	116
working poor fams w/ youngest 0-2		-134	171	5	2	43	219	211	205	88



**Table 6: CTC Policy Alternatives: Costs & Maximum CTC for Minimum Wage Workers\***

	current CTC	pre ARRA	0 threshold	index credit	1255	triple double for	15% / child	10% tied	15% tied	full
						ctc children<6	phase in	phase in	phase in	refund
<b>Single min wage earner family CTC</b>										
w/ 1 child	1,000	293	1,000	1,255	1,725	1,725**	1,000	1,000	1,000	1,000
w/ 2 children	1,725	293	2,000	1,725	1,725	1,725	2,000	2,000	2,000	2,000
w/ 3 children	1,725	293	2,175	1,725	1,725	1,725	3,000	3,000	3,000	3,000
<b>Married min wage earner family CTC</b>										
w/ 1 child	1,000	1,000	1,000	1,255	3,000	2,000**	1,000	1,000	1,000	1,000
w/ 2 children	2,000	2,000	2,000	2,510	3,900	3,900**	2,000	2,000	2,000	2,000
w/ 3 children	3,000	2,468	3,000	3,765	3,900	3,900**	3,000	3,000	3,000	3,000

\* Federal minimum wage = \$7.25/hour; full time, full year work = 2000 hours;  
as such single earner makes \$14,500/year and two earners make \$29,000/year  
\*\* For children < 6

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## APPENDIX 1

## STATA code

The following code takes the 2011 Current Population March Supplement data and estimates the numbers that provide the basis for my tables. In order to move to population percentage estimates, I then applied percentages derived from this program to CPS population estimates for the number of children under 17, or under 3, depending on the question.

Before running this program, one must first download the CPS data and run the following program to create a STATA file from the CPS (Roth, 2012).

<http://www.nber.org/data/progs/cps/cpsmar11.do>

*STATA coding:*

```
capture log close
```

```
local mydate: di %tdCYND date(c(current_date),"DMY")
log using log`mydate'.log, replace
```

```
use cpsmar11.dta, clear
```

```
keep a_age fearnval a_sex a_ernlwt hsup_wgt fsup_wgt a_fnlwgt h_seq ///
h_numper ffpos hnumfam h_type h_hhnum peridnum a_famrel prdtrace pehspon ///
a_maritl fpovcut povll ftotval
```

```
sort h_seq ffpos
```

```
rename ffpos familyid
rename h_seq houseid
rename peridnum personid
rename a_age age
rename fearnval familyearnings
    note familyearnings: "family earnings can be negative"
rename a_famrel familyrelationship
rename h_type householdtype
rename h_numper numpersonsinhousehold
rename hnumfam numfamiliesinhousehold
rename prdtrace raceonly
rename pehspon hispanic
rename a_maritl maritalstatus
rename fsup_wgt earningsweight /**this is the march supp weight*****/
rename fpovcut povertylevel
```

```

rename povl povlpovertyratio
rename ftotval familyincome
rename a_fnlwgt indweight

```

```

gen poverty = 1 if povlpovertyratio <= 3
replace poverty = 0 if povlpovertyratio > 3

```

```

gen female=(a_sex==2)

```

```

gen race = 1 if raceonly==1 & hispanic ==2
  replace race = 2 if raceonly==2 & hispanic ==2
  replace race = 3 if hispanic ==1
  replace race = 4 if raceonly==4 & hispanic ==2
  replace race = 5 if (raceonly==3 | raceonly>4) & hispanic ==2

```

```

label def race 1 "white" 2 "black" 3 "hispanic" 4 "asian" 5 "other"
label val race race

```

```

/*****married only includes people with spouse present; separated and
spouse absent treated as unmarried*****/

```

```

gen married=(marital==1 | marital==2)

```

```

gen familystatus = 1 if married ==1
replace familystatus = 2 if married !=1 & familyrelationship==1 & female==1
replace familystatus = 3 if married !=1 & familyrelationship==1 & female==0

```

```

label def familystatus 1 "married" 2 "femaleheaded" 3 "maleheaded"
label val familystatus familystatus

```

```

/*****rename other variables*****/

```

```

gen uid=(houseid*10)+familyid

```

```

order uid houseid familyid personid

```

```

/*****generate variables for all age groups*****/

```

```

gen child=1 if age<=16
gen age01=(age<=1)
gen age02=(age<=2)
gen age03=(age<=3)
gen age45=(age>=4 & age<=5)
gen age05=(age<=5)

```

```

gen age611=(age>5 & age<12)
gen age1216=(age>=12 & age<=16)
gen age616=(age>=6 & age<=16)

```

```

/*Next two lines create a variable that is the march supp weight of the
head of household and assign that value to everyone in the family*/

```

```

gen headwgt=earningsweight if familyrelationship==1

```

```

bysort uid: egen headmarchwgt=sum(headwgt)
bysort uid: egen totchild = count(child)

```

```

bysort uid: egen nchild01 = sum(age01)
bysort uid: egen nchild02 = sum(age02)
bysort uid: egen nchild03 = sum(age03)
bysort uid: egen nchild45 = sum(age45)
bysort uid: egen nchild05 = sum(age05)
bysort uid: egen nchild611 = sum(age611)
bysort uid: egen nchild1216 = sum(age1216)
bysort uid: egen nchild616 = sum(age616)

```

```

bysort uid: egen householdsize = count(uid)

```

```

/***** drop marital status for everybody except head of household*****/
replace marital = . if familyrelationship != 1
replace married = . if familyrelationship != 1
replace familystatus = . if familyrelationship != 1

```

```

/*this loop assigns a number to each person in the family by ascending age
(youngest person=1, second youngest=2, etc) */

```

```

sort uid age
by uid: gen ageorder = 1 if _n == 1
forvalues sub =2/13 {
by uid: replace ageorder = `sub' if _n == `sub'
}

```

```

/*this loop creates variables that have each person's age in the family by
ascending age (chage1=age of youngest child, etc)*/

```

```

forvalues sub =1/13{
gen chage`sub'=age if ageorder==`sub'
gen chrace`sub'=race if ageorder==`sub'
gen chweight`sub'=indweight if ageorder==`sub'
}

```

```

/*add all variables to collapse statement--note that collapse takes the
mean of the variable across families*/
collapse totchild nchild01 nchild02 nchild03 nchild45 nchild05 nchild611 ///
nchild1216 nchild616 ///
chage1 chage2 chage3 chage4 chage5 chage6 chage7 chage8 chage9 chage10 ///
chage11 chage12 chage13 ///
chrace1 chrace2 chrace3 chrace4 chrace5 chrace6 chrace7 chrace8 chrace9 ///
chrace10 chrace11 chrace12 chrace13 ///
chweight1 chweight2 chweight3 chweight4 chweight5 chweight6 chweight7 chweight8
chweight9 ///
chweight10 chweight11 chweight12 chweight13 ///
familystatus married marital householdsize ///
familyearnings headmarchwgt povertylevel poverty povertyratio familyincome, by(uid)

order uid familystatus married maritalstatus householdsize ///
familyearnings headmarchwgt

label val familystatus familystatus
label val chrace* race

replace familyearnings = 0 if familyearnings < 0

gen familyearnings2 = familyearnings
replace familyearnings = . if chage1>16

label var chage1 "age of youngest child"

gen familystatus2 = familystatus
replace familystatus = . if chage1>16
replace familyearnings = . if familystatus == .

save "dissertationdatadistribution.dta", replace

/*only keep families with a child less than 17*/
drop if chage1>16
drop if familystatus==.

/***** there were 421 children in families by themselves whom we dropped*****/
drop if familyearnings < 0

save "dissertationdata.dta", replace

clear all
capture log close
cd "/Users/davidharris/Desktop/Dissertation/Dissertation Data/Dissertation

```

Liana/Dissertation Data Files/"

capture log close

local mydate: di %tdCYND date(c(current\_date),"DMY")  
log using log`mydate'.log, replace

use dissertationdata.dta, clear

```

/***** generate agecategories*****/
gen agegrouping = 1 if chage1 < 3
replace agegrouping = 2 if chage1 > 2 & chage1 < 6
replace agegrouping = 3 if chage1 > 5 & chage1 < 14
replace agegrouping = 4 if chage1 > 13 & chage1 < 17

```

```

label def agegrouping 1 "age 0-2" 2 "age 3-5" ///
  3 "age 6-13" 4 "age 14-16"
label val agegrouping agegrouping

```

```

/***** generate 2 agecategories*****/
gen agegrouping2 = 1 if chage1 < 3
replace agegrouping2 = 2 if chage1 > 2 & chage1 < 17

```

```

label def agegrouping2 1 "age 0-2" 2 "age 3-16"
label val agegrouping2 agegrouping2

```

```

/***** generate 3 agecategories*****/
gen agegrouping3 = 1 if chage1 < 3
replace agegrouping3 = 2 if chage1 > 2 & chage1 < 14
replace agegrouping3 = 3 if chage1 > 13 & chage1 < 17

```

```

label def agegrouping3 1 "age 0-2" 2 "age 3-13" ///
  3 "age 14-16"
label val agegrouping3 agegrouping3

```

```

/***** generate CTC variable*****/
gen maxctc = 1000 * totchild

```

```

gen ctcpasein = (familyearnings - 3000) * (.15)
replace ctcpasein = 0 if familyearnings <= 3000
replace ctcpasein = 0 if ctcpasein >= maxctc

```

```

gen ctcpaseout = (-.05) * (familyearnings - 110000) + maxctc
replace ctcpaseout = 0 if familyearnings <= 110000
replace ctcpaseout = 0 if ctcpaseout < 0

```



```

gen noctcpoor = 1 if familyearnings <= 3000
gen noctcrich = 1 if familyearnings > 110000 & ctcpaseout == 0

gen familyctc = maxctc
replace familyctc = ctcpasein if ctcpasein < maxctc & ctcpasein != 0
replace familyctc = ctcpaseout if ctcpaseout < maxctc & ctcpaseout != 0
replace familyctc = 0 if (noctcpoor == 1 | noctcrich == 1)

replace familyctc = . if familystatus == .

gen ctc = familyctc / totchild

gen ctccat = 0 if familyearnings == 0
  replace ctccat = 1 if noctcpoor == 1 & familyearnings > 0
  replace ctccat = 2 if ctcpasein != 0
  replace ctccat = 3 if familyctc == maxctc
  replace ctccat = 4 if ctcpaseout != 0
  replace ctccat = 5 if noctcrich == 1
  replace ctccat = . if chage1 >= 17

label def ctccat 0 "notworking" 1 "noctcpoorworking" ///
  2 "ctcpasein" 3 "fullctc" 4 "ctcpaseout" 5 "noctcrich"
label val ctccat ctccat

/***** generate indexedCTC variable*****/
gen indexedmaxctc = 1255 * totchild

gen indexedctcpasein = (familyearnings - 3000) * (.15)
replace indexedctcpasein = 0 if familyearnings <= 3000
replace indexedctcpasein = 0 if indexedctcpasein >= indexedmaxctc

gen indexedctcpaseout = (-.05) * (familyearnings - 110000) + indexedmaxctc
replace indexedctcpaseout = 0 if familyearnings <= 110000
replace indexedctcpaseout = 0 if indexedctcpaseout < 0

gen indexednoctcrich = 1 if familyearnings > 110000 & indexedctcpaseout == 0

gen indexedfamilyctc = indexedmaxctc
replace indexedfamilyctc = indexedctcpasein if indexedctcpasein < indexedmaxctc &
indexedctcpasein != 0
replace indexedfamilyctc = indexedctcpaseout if indexedctcpaseout < indexedmaxctc &
indexedctcpaseout != 0
replace indexedfamilyctc = 0 if (noctcpoor == 1 | indexednoctcrich == 1)

replace indexedfamilyctc = . if familystatus == .

```

```

gen indexedctc = indexedfamilyctc / totchild

gen indexedctccat = 0 if familyearnings == 0
    replace indexedctccat = 1 if noctcpoor == 1 & familyearnings > 0
    replace indexedctccat = 2 if indexedctcphasein != 0
    replace indexedctccat = 3 if indexedfamilyctc == indexedmaxctc
    replace indexedctccat = 4 if indexedctcphaseout != 0
    replace indexedctccat = 5 if indexednoctcrich == 1
    replace indexedctccat = . if chage1 >= 17

label def indexedctccat 0 "notworking" 1 "noctcpoorworking" ///
    2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
label val indexedctccat indexedctccat

/***** generate CTCpreARRA variable*****/

gen CTCphaseinpreARRA = (familyearnings - 12550) * (.15)
replace CTCphaseinpreARRA = 0 if familyearnings <= 12550
replace CTCphaseinpreARRA = 0 if CTCphaseinpreARRA >= maxctc

gen noctcpoorpreARRA = 1 if familyearnings <= 12550

gen preARRAfamilyctc = maxctc
replace preARRAfamilyctc = CTCphaseinpreARRA if CTCphaseinpreARRA < maxctc &
CTCphaseinpreARRA != 0
replace preARRAfamilyctc = ctcphaseout if ctcphaseout < maxctc & ctcphaseout != 0
replace preARRAfamilyctc = 0 if (noctcpoorpreARRA == 1 | noctcrich == 1)

replace preARRAfamilyctc = . if familystatus == .

gen preARRActc = preARRAfamilyctc / totchild

gen preARRActccat = 0 if familyearnings == 0
    replace preARRActccat = 1 if noctcpoorpreARRA == 1 & familyearnings > 0
    replace preARRActccat = 2 if CTCphaseinpreARRA != 0
    replace preARRActccat = 3 if preARRAfamilyctc == maxctc
    replace preARRActccat = 4 if ctcphaseout != 0
    replace preARRActccat = 5 if noctcrich == 1
    replace preARRActccat = . if chage1 >= 17

label def preARRActccat 0 "notworking" 1 "noctcpoorworking" ///
    2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
label val preARRActccat preARRActccat

gen increasedctc = ctc - preARRActc
gen increasedfamilyctc = familyctc - preARRAfamilyctc

```

```

/***** generate EITC variable*****/
gen eitcfamily = 1 if totchild == 1 & (familystatus ==2 | familystatus == 3)
    replace eitcfamily = 2 if totchild == 1 & (familystatus ==1)
    replace eitcfamily = 3 if totchild == 2 & (familystatus ==2 | familystatus == 3)
    replace eitcfamily = 4 if totchild == 2 & (familystatus ==1)
    replace eitcfamily = 5 if totchild >= 3 & (familystatus ==2 | familystatus == 3)
    replace eitcfamily = 6 if totchild >= 3 & (familystatus ==1)

label def eitcfamily 1 "one kid, single" 2 "one kid, married" ///
    3 "two kids, single" 4 "two kids, married" ///
    5 "3+ kids, single" 6 "3+ kids, married"
label val eitcfamily eitcfamily

gen maxeitc = 3050 if eitcfamily == 1 | eitcfamily == 2
    replace maxeitc = 5036 if eitcfamily == 3 | eitcfamily == 4
    replace maxeitc = 5666 if eitcfamily == 5 | eitcfamily == 6

gen eitcphasein = 0
    replace eitcphasein = .34 * familyearnings if ///
        (eitcfamily == 1 | eitcfamily == 2) & familyearnings < 8970
    replace eitcphasein = .40 * familyearnings if ///
        (eitcfamily == 3 | eitcfamily == 4) & familyearnings < 12590
    replace eitcphasein = .45 * familyearnings if ///
        (eitcfamily == 5 | eitcfamily == 6) & familyearnings < 12590

gen eitcphaseout = 0
    replace eitcphaseout = (-.1598) * (familyearnings - 16450) + maxeitc if ///
        eitcfamily == 1 & familyearnings >16450 & familyearnings < 35535
    replace eitcphaseout = (-.1598) * (familyearnings - 21460) + maxeitc if ///
        eitcfamily == 2 & familyearnings >21460 & familyearnings < 40545
    replace eitcphaseout = (-.2106) * (familyearnings - 16450) + maxeitc if ///
        eitcfamily == 3 & familyearnings >16450 & familyearnings < 40363
    replace eitcphaseout = (-.2106) * (familyearnings - 21460) + maxeitc if ///
        eitcfamily == 4 & familyearnings >21460 & familyearnings < 45373
    replace eitcphaseout = (-.2106) * (familyearnings - 16450) + maxeitc if ///
        eitcfamily == 5 & familyearnings >16450 & familyearnings < 43352
    replace eitcphaseout = (-.2106) * (familyearnings - 21460) + maxeitc if ///
        eitcfamily == 6 & familyearnings >21460 & familyearnings < 48362
    replace eitcphaseout = 0 if eitcphaseout < 0

gen noeitcpoor = 1 if familyearnings <= 0

gen noeitcrich = 1 if eitcfamily == 1 & familyearnings >= 35535
    replace noeitcrich = 1 if eitcfamily == 2 & familyearnings >= 40545
    replace noeitcrich = 1 if eitcfamily == 3 & familyearnings >= 40363

```

```

replace noeitcrich = 1 if eitcfamily == 4 & familyearnings >= 45373
replace noeitcrich = 1 if eitcfamily == 5 & familyearnings >= 43352
replace noeitcrich = 1 if eitcfamily == 6 & familyearnings >= 48362

gen familyeitc = maxeitc
  replace familyeitc = eitcphasein if eitcphasein < maxeitc & eitcphasein != 0
  replace familyeitc = eitcphaseout if eitcphaseout < maxeitc & eitcphaseout != 0
  replace familyeitc = 0 if (noeitcpoor == 1 | noeitcrich == 1)

gen eitc = familyeitc / totchild

gen eitccat = 1 if noeitcpoor == 1
  replace eitccat = 2 if eitcphasein != 0
  replace eitccat = 3 if familyeitc == maxeitc
  replace eitccat = 4 if eitcphaseout != 0
  replace eitccat = 5 if noeitcrich == 1
  replace eitccat = . if chage1 >= 17

label def eitccat 1 "noeitcpoor" 2 "eitcphasein" 3 "fulleitc" ///
  4 "eitcphaseout" 5 "noeitcrich"
label val eitccat eitccat

/***** generate kidcredits variable*****/
gen familycredits = familyctc + familyeitc
gen kidcredits = ctc + eitc

/***** label poverty ratio*****/
label def povertyratio 1 "Under .50" 2 ".50 to .74" ///
  3 ".75 to .99" 4 "1.00 to 1.24" 5 "1.25 to 1.49" 6 "1.50 to 1.74" ///
  7 "1.75 to 1.99" 8 "2.00 to 2.49" 9 "2.50 to 2.99" 10 "3.00 to 3.49" ///
  11 "3.50 to 3.99" 12 "4.00 to 4.49" 13 "4.50 to 4.99" 14 "5.00 and over"
label val povertyratio povertyratio

gen poverty50pct = 1 if povertyratio == 1
gen poverty100pct = 1 if povertyratio < 4
gen poverty150pct = 1 if povertyratio < 6
gen poverty200pct = 1 if povertyratio < 8

/***** generate lifted above poverty variables*****/
gen liftedabovepoverty = 1 if poverty == 1 & (familyincome + familyctc) >= povertylevel
  replace liftedabovepoverty = 0 if poverty == 1 & (familyincome + familyctc) <
povertylevel
gen liftedabovepovertypreARRA = 1 if poverty == 1 & (familyincome + preARRAfamilyctc)
>= povertylevel
  replace liftedabovepovertypreARRA = 0 if poverty == 1 & (familyincome +
preARRAfamilyctc) < povertylevel

```

```
gen liftedabovepovertybyARRA = 1 if liftedabovepoverty == 1 &
liftedabovepovertypreARRA == 0
    replace liftedabovepovertybyARRA = 0 if poverty == 1 &
liftedabovepovertybyARRA != 1
```

```
/*****generate CTC variable*****/
```

```
gen maxctc = 1000 * totchild
```

```
gen ctcpasein = (familyearnings - 3000) * (.15)
replace ctcpasein = 0 if familyearnings <= 3000
replace ctcpasein = 0 if ctcpasein >= maxctc
```

```
gen ctcpaseout = (-.05) * (familyearnings - 110000) + maxctc
replace ctcpaseout = 0 if familyearnings <= 110000
replace ctcpaseout = 0 if ctcpaseout < 0
```

```
gen noctcpoor = 1 if familyearnings <= 3000
gen noctcrich = 1 if familyearnings > 110000 & ctcpaseout == 0
```

```
gen familyctc = maxctc
replace familyctc = ctcpasein if ctcpasein < maxctc & ctcpasein != 0
replace familyctc = ctcpaseout if ctcpaseout < maxctc & ctcpaseout != 0
replace familyctc = 0 if (noctcpoor == 1 | noctcrich == 1)
```

```
replace familyctc = . if familystatus == .
```

```
gen ctc = familyctc / totchild
```

```
gen ctccat = 0 if familyearnings == 0
    replace ctccat = 1 if noctcpoor == 1 & familyearnings > 0
    replace ctccat = 2 if ctcpasein != 0
    replace ctccat = 3 if familyctc == maxctc
    replace ctccat = 4 if ctcpaseout != 0
    replace ctccat = 5 if noctcrich == 1
    replace ctccat = . if chage1 >= 17
```

```
label def ctccat 0 "notworking" 1 "noctcpoorworking" ///
    2 "ctcpasein" 3 "fullctc" 4 "ctcpaseout" 5 "noctcrich"
label val ctccat ctccat
```

```
*****/
```

```
/****generate ctc alternative policy variables*****/
/**]lower eligibility threshold to 0 - House ARRA proposal*****/
```

```

gen zerothresholdphasein = (familyearnings) * (.15)
replace zerothresholdphasein = 0 if familyearnings <= 0
replace zerothresholdphasein = 0 if zerothresholdphasein >= maxctc

gen zerothresholdnoctcpcor = 1 if familyearnings <= 0

gen zerothresholdfamilyctc = maxctc
replace zerothresholdfamilyctc = zerothresholdphasein if zerothresholdphasein < maxctc &
zerothresholdphasein != 0
replace zerothresholdfamilyctc = ctcpaseout if ctcpaseout < maxctc & ctcpaseout != 0
replace zerothresholdfamilyctc = 0 if (zerothresholdnoctcpcor == 1 | noctcrich == 1)

replace zerothresholdfamilyctc = . if familystatus == .

gen zerothresholdctc = zerothresholdfamilyctc / totchild

gen zerothresholdctccat = 0 if familyearnings == 0
    replace zerothresholdctccat = 1 if zerothresholdnoctcpcor == 1 & familyearnings > 0
    replace zerothresholdctccat = 2 if zerothresholdphasein != 0
    replace zerothresholdctccat = 3 if zerothresholdfamilyctc == maxctc
    replace zerothresholdctccat = 4 if ctcpaseout != 0
    replace zerothresholdctccat = 5 if noctcrich == 1
    replace zerothresholdctccat = . if chage1 >= 17

label def zerothresholdctccat 0 "notworking" 1 "noctcpcorworking" ///
    2 "ctcpasein" 3 "fullctc" 4 "ctcpaseout" 5 "noctcrich"
label val zerothresholdctccat zerothresholdctccat

gen zerothresholdincreasefamily = zerothresholdfamilyctc - familyctc
gen zerothresholdincrease = zerothresholdctc - ctc

/**full refundability for low-income kids - D. House budget 2003 proposal***/

gen fullrefundabilityfamily = maxctc
replace fullrefundabilityfamily = ctcpaseout if ctcpaseout < maxctc & ctcpaseout != 0
replace fullrefundabilityfamily = 0 if noctcrich == 1

replace fullrefundabilityfamily = . if familystatus == .

gen fullrefundabilityctc = fullrefundabilityfamily / totchild

gen fullrefundabilityctccat = 3 if fullrefundabilityfamily == maxctc
    replace fullrefundabilityctccat = 4 if ctcpaseout != 0
    replace fullrefundabilityctccat = 5 if noctcrich == 1
    replace fullrefundabilityctccat = . if chage1 >= 17

```

```

label def fullrefundabilityctccat 3 "fullctc" ///
    4 "ctcphaseout" 5 "noctcrich"
    label val fullrefundabilityctccat fullrefundabilityctccat

gen fullrefundabilityincreasefamily = fullrefundabilityfamily - familyctc
gen fullrefundabilityincrease = fullrefundabilityctc - ctc

/**double ctc for kids 5 and under (Schumer plus)*****/

gen schumermaxctc = (1000 * nchild616) + (2000 * nchild05)

gen schumerctcphasein = (familyearnings - 3000) * (((.15 * nchild616) + (.3 * nchild05)) /
totchild)
replace schumerctcphasein = 0 if familyearnings <= 3000
replace schumerctcphasein = 0 if schumerctcphasein >= schumermaxctc

gen schumerctcphaseout = (((-.05 * nchild616) + (-.025 * nchild05)) / totchild) *
(familyearnings - 110000) + schumermaxctc
replace schumerctcphaseout = 0 if familyearnings <= 110000
replace schumerctcphaseout = 0 if schumerctcphaseout < 0

gen schumernoctcrich = 1 if familyearnings > 110000 & schumerctcphaseout == 0

gen schumerfamilyctc = schumermaxctc
replace schumerfamilyctc = schumerctcphasein if schumerctcphasein < schumermaxctc &
schumerctcphasein != 0
replace schumerfamilyctc = schumerctcphaseout if schumerctcphaseout < schumermaxctc
& schumerctcphaseout != 0
replace schumerfamilyctc = 0 if (noctcpoor == 1 | schumernoctcrich == 1)

gen schumerctc = schumerfamilyctc / totchild

gen schumerctccat = 0 if familyearnings == 0
    replace schumerctccat = 1 if noctcpoor == 1 & familyearnings > 0
    replace schumerctccat = 2 if schumerctcphasein != 0 & schumerctc < 1000
    replace schumerctccat = 3 if schumerfamilyctc == schumermaxctc ///
        | (schumerctcphasein != 0 & schumerctc >= 1000) | (schumerctcphaseout !=
0 & schumerctc >= 1000)
    replace schumerctccat = 4 if schumerctcphaseout != 0 & schumerctc < 1000
    replace schumerctccat = 5 if schumernoctcrich == 1
    replace schumerctccat = . if chage1 >= 17

label def schumerctccat 0 "notworking" 1 "noctcpoorworking" ///
    2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
    label val schumerctccat schumerctccat

```

```
gen schumerincreasefamily = schumerfamilyctc - familyctc
gen schumerincreasectc = schumerctc - ctc
```

```
/**triple ctc for all kids (Santorum plus)*****/
```

```
gen santorummaxctc = 3000 * totchild
```

```
gen santorumctcphasein = (familyearnings - 3000) * (.15)
replace santorumctcphasein = 0 if familyearnings <= 3000
replace santorumctcphasein = 0 if santorumctcphasein >= santorummaxctc
```

```
gen santorumctcphaseout = (-.05) * (familyearnings - 110000) + santorummaxctc
replace santorumctcphaseout = 0 if familyearnings <= 110000
replace santorumctcphaseout = 0 if santorumctcphaseout < 0
```

```
gen santorumnoctcrich = 1 if familyearnings > 110000 & santorumctcphaseout == 0
```

```
gen santorumfamilyctc = santorummaxctc
replace santorumfamilyctc = santorumctcphasein if santorumctcphasein <
santorummaxctc & santorumctcphasein != 0
replace santorumfamilyctc = santorumctcphaseout if santorumctcphaseout <
santorummaxctc & santorumctcphaseout != 0
replace santorumfamilyctc = 0 if (noctcpcr == 1 | santorumnoctcrich == 1)
```

```
replace santorumfamilyctc = . if familystatus == .
```

```
gen santorumctc = santorumfamilyctc / totchild
```

```
gen santorumctccat = 0 if familyearnings == 0
  replace santorumctccat = 1 if noctcpcr == 1 & familyearnings > 0
  replace santorumctccat = 2 if santorumctcphasein != 0 & santorumctc < 1000
  replace santorumctccat = 3 if santorumfamilyctc == santorummaxctc ///
    | (santorumctcphasein != 0 & santorumctc >= 1000) |
(santorumctcphaseout != 0 & santorumctc >= 1000)
  replace santorumctccat = 4 if santorumctcphaseout != 0 & santorumctc < 1000
  replace santorumctccat = 5 if santorumnoctcrich == 1
  replace santorumctccat = . if chage1 >= 17
```

```
label def santorumctccat 0 "notworking" 1 "noctcpcrworking" ///
  2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
label val santorumctccat santorumctccat
```

```
gen santorumincreasefamily = santorumfamilyctc - familyctc
gen santorumincreasectc = santorumctc - ctc
```



```

/**increase ctc to 1255 and index*****/

gen max1255ctc = 1255 * totchild

gen ctc1255phasein = (familyearnings - 3000) * (.15)
replace ctc1255phasein = 0 if familyearnings <= 3000
replace ctc1255phasein = 0 if ctc1255phasein >= max1255ctc

gen ctc1255phaseout = (-.05) * (familyearnings - 110000) + max1255ctc
replace ctc1255phaseout = 0 if familyearnings <= 110000
replace ctc1255phaseout = 0 if ctc1255phaseout < 0

gen noctc1255rich = 1 if familyearnings > 110000 & ctc1255phaseout == 0

gen family1255ctc = max1255ctc
replace family1255ctc = ctc1255phasein if ctc1255phasein < max1255ctc &
ctc1255phasein != 0
replace family1255ctc = ctc1255phaseout if ctc1255phaseout < max1255ctc &
ctc1255phaseout != 0
replace family1255ctc = 0 if (noctc1255rich == 1 | noctc1255rich == 1)

gen ctc1255 = family1255ctc / totchild

gen ctc1255cat = 0 if familyearnings == 0
  replace ctc1255cat = 1 if noctc1255rich == 1 & familyearnings > 0
  replace ctc1255cat = 2 if ctc1255phasein != 0 & ctc1255 < 1000
  replace ctc1255cat = 3 if family1255ctc == max1255ctc ///
  | (ctc1255phasein != 0 & ctc1255 >= 1000) | (ctc1255phaseout != 0 &
ctc1255 >= 1000)
  replace ctc1255cat = 4 if ctc1255phaseout != 0 & ctc1255 < 1000
  replace ctc1255cat = 5 if noctc1255rich == 1

label def ctc1255cat 0 "notworking" 1 "noctc1255rich" ///
  2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctc1255rich"
label val ctc1255cat ctc1255cat

gen ctc1255increasefamily = family1255ctc - familyctc
gen ctc1255increasectc = ctc1255 - ctc

/**change phasein to 15% per child*****/

gen ctc15perchildphasein = (familyearnings - 3000) * (.15 * totchild)
replace ctc15perchildphasein = 0 if familyearnings <= 3000
replace ctc15perchildphasein = 0 if ctc15perchildphasein >= maxctc

```

```

gen family15perchildctc = maxctc
replace family15perchildctc = ctc15perchildphasein if ctc15perchildphasein < maxctc &
ctc15perchildphasein != 0
replace family15perchildctc = ctcphaseout if ctcphaseout < maxctc & ctcphaseout != 0
replace family15perchildctc = 0 if (noctcpoor == 1 | noctcrich == 1)

replace family15perchildctc = . if familystatus == .

gen ctc15perchild = family15perchildctc / totchild

gen ctc15perchildcat = 0 if familyearnings == 0
    replace ctc15perchildcat = 1 if noctcpoor == 1 & familyearnings > 0
    replace ctc15perchildcat = 2 if ctc15perchildphasein != 0
    replace ctc15perchildcat = 3 if family15perchildctc == maxctc
    replace ctc15perchildcat = 4 if ctcphaseout != 0
    replace ctc15perchildcat = 5 if noctcrich == 1
    replace ctc15perchildcat = . if chage1 >= 17

label def ctc15perchildcat 0 "notworking" 1 "noctcpoorworking" ///
    2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
label val ctc15perchildcat ctc15perchildcat

gen ctc15perchildincreasefamily = family15perchildctc - familyctc
gen ctc15perchildincreasectc = ctc15perchild - ctc

/**change phasein to 10% of maxctc for each $1,000 of earnings @ first $ of earnings**/

gen ctctiedphasein = (familyearnings/1000) * (maxctc) * (.10)
replace ctctiedphasein = 0 if familyearnings <= 0
replace ctctiedphasein = 0 if ctctiedphasein >= maxctc

gen noctctiedphaseinpoor = 1 if familyearnings <= 0

gen familytiedphaseinctc = maxctc
replace familytiedphaseinctc = ctctiedphasein if ctctiedphasein < maxctc &
ctctiedphasein != 0
replace familytiedphaseinctc = ctcphaseout if ctcphaseout < maxctc & ctcphaseout != 0
replace familytiedphaseinctc = 0 if (noctctiedphaseinpoor == 1 | noctcrich == 1)

replace familytiedphaseinctc = . if familystatus == .

gen tiedphaseinctc = familytiedphaseinctc / totchild

gen tiedphaseinctccat = 1 if familyearnings == 0
    replace tiedphaseinctccat = 2 if ctctiedphasein != 0
    replace tiedphaseinctccat = 3 if familytiedphaseinctc == maxctc

```

```

replace tiedphaseinctcat = 4 if ctcpaseout != 0
replace tiedphaseinctcat = 5 if noctcrich == 1
replace tiedphaseinctcat = . if chage1 >= 17

label def tiedphaseinctcat 1 "notworking" ///
  2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
label val tiedphaseinctcat tiedphaseinctcat

gen tiedphaseinincreasefamily = familytiedphaseinctc - familyctc
gen tiedphaseinincreasectc = tiedphaseinctc - ctc

/**change phasein to 15% of maxctc for each $1,000 of earnings @ first $ of earnings**/

gen ctctiedphaseinb = (familyearnings/1000) * (maxctc) * (.15)
replace ctctiedphaseinb = 0 if familyearnings <= 0
replace ctctiedphaseinb = 0 if ctctiedphaseinb >= maxctc

gen noctctiedphaseinpoorb = 1 if familyearnings <= 0

gen familytiedphaseinctcb = maxctc
replace familytiedphaseinctcb = ctctiedphaseinb if ctctiedphaseinb < maxctc &
ctctiedphaseinb != 0
replace familytiedphaseinctcb = ctcpaseout if ctcpaseout < maxctc & ctcpaseout != 0
replace familytiedphaseinctcb = 0 if (noctctiedphaseinpoorb == 1 | noctcrich == 1)

replace familytiedphaseinctcb = . if familystatus == .

gen tiedphaseinctcb = familytiedphaseinctcb / totchild

gen tiedphaseinctcatb = 1 if familyearnings == 0
  replace tiedphaseinctcatb = 2 if ctctiedphaseinb != 0
  replace tiedphaseinctcatb = 3 if familytiedphaseinctcb == maxctc
  replace tiedphaseinctcatb = 4 if ctcpaseout != 0
  replace tiedphaseinctcatb = 5 if noctcrich == 1
  replace tiedphaseinctcatb = . if chage1 >= 17

label def tiedphaseinctcatb 1 "notworking" ///
  2 "ctcphasein" 3 "fullctc" 4 "ctcphaseout" 5 "noctcrich"
label val tiedphaseinctcatb tiedphaseinctcatb

gen tiedphaseinbincreasefamily = familytiedphaseinctcb - familyctc
gen tiedphaseinbincreasectc = tiedphaseinctcb - ctc

/*****estimate those lifted above poverty*****/
gen liftedabovepovertyzerethreshold = 1 if poverty == 1 & (familyincome +
zerethresholdfamilyctc) >= povertylevel

```

```
replace liftedabovepovertyzerethreshold = 0 if poverty == 1 & (familyincome +
zerethresholdfamilyctc) < povertylevel
```

```
gen liftedabovepovertyfullrefund = 1 if poverty == 1 & (familyincome +
fullrefundabilityfamily) >= povertylevel
replace liftedabovepovertyfullrefund = 0 if poverty == 1 & (familyincome +
fullrefundabilityfamily) < povertylevel
```

```
gen liftedabovepovertyschumer = 1 if poverty == 1 & (familyincome + schumerfamilyctc)
>= povertylevel
replace liftedabovepovertyschumer = 0 if poverty == 1 & (familyincome +
schumerfamilyctc) < povertylevel
```

```
gen liftedabovepovertysantorum = 1 if poverty == 1 & (familyincome + santorumfamilyctc)
>= povertylevel
replace liftedabovepovertysantorum = 0 if poverty == 1 & (familyincome +
santorumfamilyctc) < povertylevel
```

```
gen liftedabovepovertyctc1255 = 1 if poverty == 1 & (familyincome + family1255ctc) >=
povertylevel
replace liftedabovepovertyctc1255 = 0 if poverty == 1 & (familyincome +
family1255ctc) < povertylevel
```

```
gen liftedabovepovertyctc15perchild = 1 if poverty == 1 & (familyincome +
family15perchildctc) >= povertylevel
replace liftedabovepovertyctc15perchild = 0 if poverty == 1 & (familyincome +
family15perchildctc) < povertylevel
```

```
gen liftedabovepovertytiedphasein = 1 if poverty == 1 & (familyincome +
familytiedphaseinctc) >= povertylevel
replace liftedabovepovertytiedphasein = 0 if poverty == 1 & (familyincome +
familytiedphaseinctc) < povertylevel
```

```
gen liftedabovepovertytiedphaseinb = 1 if poverty == 1 & (familyincome +
familytiedphaseinctcb) >= povertylevel
replace liftedabovepovertytiedphaseinb = 0 if poverty == 1 & (familyincome +
familytiedphaseinctcb) < povertylevel
```

```
/******generate earnings quintile******/
xtile earningsquintile = familyearnings [aw=headmarchwgt], nq (5)
xtile earningsquintile2 = familyearnings2 [aw=headmarchwgt], nq (5)
```

```
save "generatevariablesdata.dta", replace
```

```
clear all
capture log close
```

```
cd "/Users/davidharris/Desktop/Dissertation/Dissertation Data/Dissertation
Liana/Dissertation Data Files/"
```

```
capture log close
```

```
local mydate: di %tdCYND date(c(current_date),"DMY")
log using log`mydate'.log, replace
```

```
use generatevariablesdata.dta, clear
```

```
reshape long chage chrace chweight, i(uid) j(rank)
drop if chage == .
```

```
/***** generate reshaped agecategories*****/
gen rsagegrouping = 1 if chage < 3
replace rsagegrouping = 2 if chage > 2 & chage < 6
replace rsagegrouping = 3 if chage > 5 & chage < 14
replace rsagegrouping = 4 if chage > 13 & chage < 17
```

```
label def rsagegrouping 1 "age 0-2" 2 "age 3-5" ///
  3 "age 6-13" 4 "age 14-16"
label val rsagegrouping rsagegrouping
```

```
save "reshapevariablesdata.dta", replace
```

```
clear all
```

```
capture log close
```

```
cd "/Users/davidharris/Desktop/Dissertation/Dissertation Data/Dissertation
Liana/Dissertation Data Files/"
```

```
capture log close
```

```
local mydate: di %tdCYND date(c(current_date),"DMY")
log using log`mydate'.log, replace
```

```
use reshapevariablesdata.dta, clear
```

```
/*****Use chweight instead of headmarchwgt*****/
/*****Use rsagegrouping instead of agegrouping *****/
```

```
/*****TABLE 1*****/
```

```
/*****Look at % ineligible for CTC/EITC*****/
tab ctccat [aw= chweight]
tab ctccat if chage < 3 [aw= chweight]
tab ctccat if chage >= 3 [aw= chweight]
```

```

tab eitccat [aw= chweight]
tab eitccat if chage < 3 [aw= chweight]
tab eitccat if chage >= 3 [aw= chweight]

```

```

/*****TABLE 2*****/

```

```

/*****distribution of kidcredits by race*****/
tab ctccat chrace [aw= chweight], column nofreq
tab ctccat chrace if chage < 3 [aw= chweight], column nofreq
tab ctccat chrace if chage >= 3 [aw= chweight], column nofreq

```

```

/*****check n of distribution of kidcredits by race*****/
tab ctccat chrace

```

```

/*****ctc cat by familystatus for under 3s and overs*****/
tab ctccat familystatus [aw= chweight], column nofreq
tab ctccat familystatus if chage < 3 [aw= chweight], column nofreq
tab ctccat familystatus if chage >= 3 [aw= chweight], column nofreq

```

```

/*****TABLE 3*****/

```

```

tab ctccat [aw= chweight]
tab ctccat if chage < 3 [aw= chweight]
tab ctccat if chage >= 3 [aw= chweight]

```

```

tab preARRActccat [aw= chweight]
tab preARRActccat if chage < 3 [aw= chweight]
tab preARRActccat if chage >= 3 [aw= chweight]

```

```

tab zerothresholdctc [aw= chweight]
tab zerothresholdctc if chage < 3 [aw= chweight]
tab zerothresholdctc if chage >= 3 [aw= chweight]

```

```

tab ctc1255 [aw= chweight]
tab ctc1255 if chage < 3 [aw= chweight]
tab ctc1255 if chage >= 3 [aw= chweight]

```

```

tab santorumctc [aw= chweight]
tab santorumctc if chage < 3 [aw= chweight]
tab santorumctc if chage >= 3 [aw= chweight]

```

```

tab schumerctc [aw= chweight]
tab schumerctc if chage < 3 [aw= chweight]
tab schumerctc if chage >= 3 [aw= chweight]

```

```
tab ctc15perchild [aw= chweight]
tab ctc15perchild if chage < 3 [aw= chweight]
tab ctc15perchild if chage >= 3 [aw= chweight]
```

```
tab tiedphaseinctc [aw= chweight]
tab tiedphaseinctc if chage < 3 [aw= chweight]
tab tiedphaseinctc if chage >= 3 [aw= chweight]
```

```
tab tiedphaseinctcb [aw= chweight]
tab tiedphaseinctcb if chage < 3 [aw= chweight]
tab tiedphaseinctcb if chage >= 3 [aw= chweight]
```

```
tab fullrefundabilityctc [aw= chweight]
tab fullrefundabilityctc if chage < 3 [aw= chweight]
tab fullrefundabilityctc if chage >= 3 [aw= chweight]
```

```
/*****TABLE 4*****/
```

```
/*****get means of policies for grossing up costs*****/
tabstat preARRActc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat ctc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat zerothresholdctc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat ctc1255 [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat santorumctc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat schumerctc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat ctc15perchild [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat tiedphaseinctc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat tiedphaseinctcb [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat fullrefundabilityctc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat eitc [aw= chweight], by (rsagegrouping) stats (mean median n)
tabstat kidcredits [aw= chweight], by (rsagegrouping) stats (mean median n)
```

```
/*****FAMILY means for average increase in ctc by policy*****/
```

```
/*****ALL FAMILIES*****/
tabstat familyctc [aw= chweight], stats (mean median n)
tabstat preARRAfamilyc [aw= chweight], stats (mean median n)
tabstat zerothresholdfamilyctc [aw= chweight], stats (mean median n)
tabstat fullrefundabilityfamily [aw= chweight], stats (mean median n)
tabstat schumerfamilyctc [aw= chweight], stats (mean median n)
tabstat santorumfamilyctc [aw= chweight], stats (mean median n)
tabstat family1255ctc [aw= chweight], stats (mean median n)
tabstat family15perchildctc [aw= chweight], stats (mean median n)
tabstat familytiedphaseinctc [aw= chweight], stats (mean median n)
tabstat familytiedphaseinctcb [aw= chweight], stats (mean median n)
```

tabstat familyctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat preARRAfamilyctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat zerothresholdfamilyctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat fullrefundabilityfamily if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat schumerfamilyctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat santorumfamilyctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat family1255ctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat family15perchildctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat familytiedphaseinctc if chage < 3 [aw= chweight], stats (mean median n)  
 tabstat familytiedphaseinctcb if chage < 3 [aw= chweight], stats (mean median n)

tabstat familyctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat preARRAfamilyctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat zerothresholdfamilyctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat fullrefundabilityfamily if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat schumerfamilyctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat santorumfamilyctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat family1255ctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat family15perchildctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat familytiedphaseinctc if chage >= 3 [aw= chweight], stats (mean median n)  
 tabstat familytiedphaseinctcb if chage >= 3 [aw= chweight], stats (mean median n)

/\*\*\*\*\*FAMILIES in POVERTY\*\*\*\*\*/

tabstat familyctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat preARRAfamilyctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat zerothresholdfamilyctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat fullrefundabilityfamily if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat schumerfamilyctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat santorumfamilyctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat family1255ctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat family15perchildctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat familytiedphaseinctc if poverty == 1 [aw= chweight], stats (mean median n)  
 tabstat familytiedphaseinctcb if poverty == 1 [aw= chweight], stats (mean median n)

tabstat familyctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)  
 tabstat preARRAfamilyctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)  
 tabstat zerothresholdfamilyctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)  
 tabstat fullrefundabilityfamily if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)  
 tabstat schumerfamilyctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)  
 tabstat santorumfamilyctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)  
 tabstat family1255ctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean median n)



```

tabstat family15perchildctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean
median n)
tabstat familytiedphaseinctc if poverty == 1 & chage < 3 [aw= chweight], stats (mean
median n)
tabstat familytiedphaseinctcb if poverty == 1 & chage < 3 [aw= chweight], stats (mean
median n)

tabstat familyctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean median n)
tabstat preARRAfamilyctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean median
n)
tabstat zerothresholdfamilyctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean
median n)
tabstat fullrefundabilityfamily if poverty == 1 & chage >= 3 [aw= chweight], stats (mean
median n)
tabstat schumerfamilyctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean median
n)
tabstat santorumfamilyctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean
median n)
tabstat family1255ctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean median n)
tabstat family15perchildctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean
median n)
tabstat familytiedphaseinctc if poverty == 1 & chage >= 3 [aw= chweight], stats (mean
median n)
tabstat familytiedphaseinctcb if poverty == 1 & chage >= 3 [aw= chweight], stats (mean
median n)

```

/\*\*\*\*\*FAMILIES in POVERTY w/ EARNINGS\*\*\*\*\*/

```

tabstat familyctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats (mean median
n)
tabstat preARRAfamilyctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats (mean
median n)
tabstat zerothresholdfamilyctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats
(mean median n)
tabstat fullrefundabilityfamily if poverty == 1 & familyearnings > 0 [aw= chweight], stats
(mean median n)
tabstat schumerfamilyctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats (mean
median n)
tabstat santorumfamilyctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats
(mean median n)
tabstat family1255ctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats (mean
median n)
tabstat family15perchildctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats
(mean median n)
tabstat familytiedphaseinctc if poverty == 1 & familyearnings > 0 [aw= chweight], stats
(mean median n)
tabstat familytiedphaseinctcb if poverty == 1 & familyearnings > 0 [aw= chweight], stats

```

(mean median n)

tabstat familyctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw= chweight], stats  
(mean median n)

tabstat preARRAfamilyctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw= chweight],  
stats (mean median n)

tabstat zerothresholdfamilyctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw=  
chweight], stats (mean median n)

tabstat fullrefundabilityfamily if poverty == 1 & familyearnings > 0 & chage < 3 [aw=  
chweight], stats (mean median n)

tabstat schumerfamilyctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw= chweight],  
stats (mean median n)

tabstat santorumfamilyctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw= chweight],  
stats (mean median n)

tabstat family1255ctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw= chweight],  
stats (mean median n)

tabstat family15perchildctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw=  
chweight], stats (mean median n)

tabstat familytiedphaseinctc if poverty == 1 & familyearnings > 0 & chage < 3 [aw=  
chweight], stats (mean median n)

tabstat familytiedphaseinctcb if poverty == 1 & familyearnings > 0 & chage < 3 [aw=  
chweight], stats (mean median n)

tabstat familyctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw= chweight], stats  
(mean median n)

tabstat preARRAfamilyctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

tabstat zerothresholdfamilyctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

tabstat fullrefundabilityfamily if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

tabstat schumerfamilyctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw= chweight],  
stats (mean median n)

tabstat santorumfamilyctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

tabstat family1255ctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw= chweight],  
stats (mean median n)

tabstat family15perchildctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

tabstat familytiedphaseinctc if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

tabstat familytiedphaseinctcb if poverty == 1 & familyearnings > 0 & chage >= 3 [aw=  
chweight], stats (mean median n)

/\*\*\*\*\*TABLE 5\*\*\*\*\*/

```

/*****estimate % of kids in poverty*****/

```

```

tab poverty [aw= chweight]

```

```

tab poverty if chage <= 16 [aw= chweight]

```

```

tab poverty if chage < 3 [aw= chweight]

```

```

tab poverty if chage >= 3 & chage <= 16 [aw= chweight]

```

```

/*****Look at how many kids and how many families, *****/

```

```

/*****and how many infants, are lifted above poverty line by CTC *****/

```

```

/*****at 3k threshold, 12550 threshold, and other iterations*****/

```

```

tab liftedabovepoverty [aw= chweight]

```

```

    tab liftedabovepoverty if chage < 3 [aw= chweight]

```

```

    tab liftedabovepoverty if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertypreARRA [aw= chweight]

```

```

    tab liftedabovepovertypreARRA if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertypreARRA if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertybyARRA [aw= chweight]

```

```

    tab liftedabovepovertybyARRA if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertybyARRA if chage >=3 [aw= chweight]

```

```

/*****estimate lifted above poverty by policy fix*****/

```

```

tab liftedabovepovertyzerothreshold [aw= chweight]

```

```

    tab liftedabovepovertyzerothreshold if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertyzerothreshold if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertyfullrefund [aw= chweight]

```

```

    tab liftedabovepovertyfullrefund if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertyfullrefund if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertyschumer [aw= chweight]

```

```

    tab liftedabovepovertyschumer if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertyschumer if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertysantorum [aw= chweight]

```

```

    tab liftedabovepovertysantorum if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertysantorum if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertyctc1255 [aw= chweight]

```

```

    tab liftedabovepovertyctc1255 if chage < 3 [aw= chweight]

```

```

    tab liftedabovepovertyctc1255 if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertyctc15perchild [aw= chweight]
  tab liftedabovepovertyctc15perchild if chage < 3 [aw= chweight]
  tab liftedabovepovertyctc15perchild if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertytiedphasein [aw= chweight]
  tab liftedabovepovertytiedphasein if chage < 3 [aw= chweight]
  tab liftedabovepovertytiedphasein if chage >=3 [aw= chweight]

```

```

tab liftedabovepovertytiedphaseinb [aw= chweight]
  tab liftedabovepovertytiedphaseinb if chage < 3 [aw= chweight]
  tab liftedabovepovertytiedphaseinb if chage >=3 [aw= chweight]

```

```

/*****Appendix 2*****/

```

```

/*****# of families who benefited by ARRA*****/
tab ctccat preARRActccat [aw= chweight], nofreq cell
tab ctccat preARRActccat if chage < 3 [aw= chweight], nofreq cell
tab ctccat preARRActccat if chage >= 3 [aw= chweight], nofreq cell

```



**Appendix 2: Effect of American Recovery and Reinvestment Act on CTC Eligibility by Age of Child**  
**pre-ARRA CTC eligibility**

CTC eligibility	noctc/noearn	noctc, earn	phase-in	full ctc	phaseout	noctchigh	Total
no ct, no earnings	8.38	0	0	0	0	0	8.38
no ct w/ earnings	0	1.96	0	0	0	0	1.96
ctc phase-in	0	5.49	4.68	0	0	0	10.17
full ctc	0	1.02	7.61	52.86	0	0	61.5
ctc phaseout	0	0	0	0	7.81	0	7.81
no ct high income	0	0	0	0	0	10.18	10.18
<b>Total</b>	<b>8.38</b>	<b>8.47</b>	<b>12.30</b>	<b>52.86</b>	<b>7.81</b>	<b>10.18</b>	<b>100.00</b>

**pre-ARRA CTC eligibility for under 3s**

CTC eligibility	noctc/noearn	noctc, earn	phase-in	full ctc	phaseout	noctchigh	Total
no ct, no earnings	12.67	0	0	0	0	0	12.67
no ct w/ earnings	0	3.16	0	0	0	0	3.16
ctc phase-in	0	8.19	5.06	0	0	0	13.25
full ctc	0	1.34	8.85	47.57	0	0	57.76
ctc phaseout	0	0	0	0	5.42	0	5.42
no ct high income	0	0	0	0	0	7.73	7.73
<b>Total</b>	<b>12.67</b>	<b>12.69</b>	<b>13.91</b>	<b>47.57</b>	<b>5.42</b>	<b>7.73</b>	<b>100.00</b>

**pre-ARRA CTC eligibility for 3s and over**

CTC eligibility	noctc/noearn	noctc, earn	phase-in	full ctc	phaseout	noctchigh	Total
no ct, no earnings	7.98	0	0	0	0	0	7.98
no ct w/ earnings	0	1.85	0	0	0	0	1.85
ctc phase-in	0	5.24	4.65	0	0	0	9.89
full ctc	0	0.99	7.5	53.35	0	0	61.85
ctc phaseout	0	0	0	0	8.03	0	8.03
no ct high income	0	0	0	0	0	10.41	10.41
<b>Total</b>	<b>7.98</b>	<b>8.08</b>	<b>12.15</b>	<b>53.35</b>	<b>8.03</b>	<b>10.41</b>	<b>100.00</b>