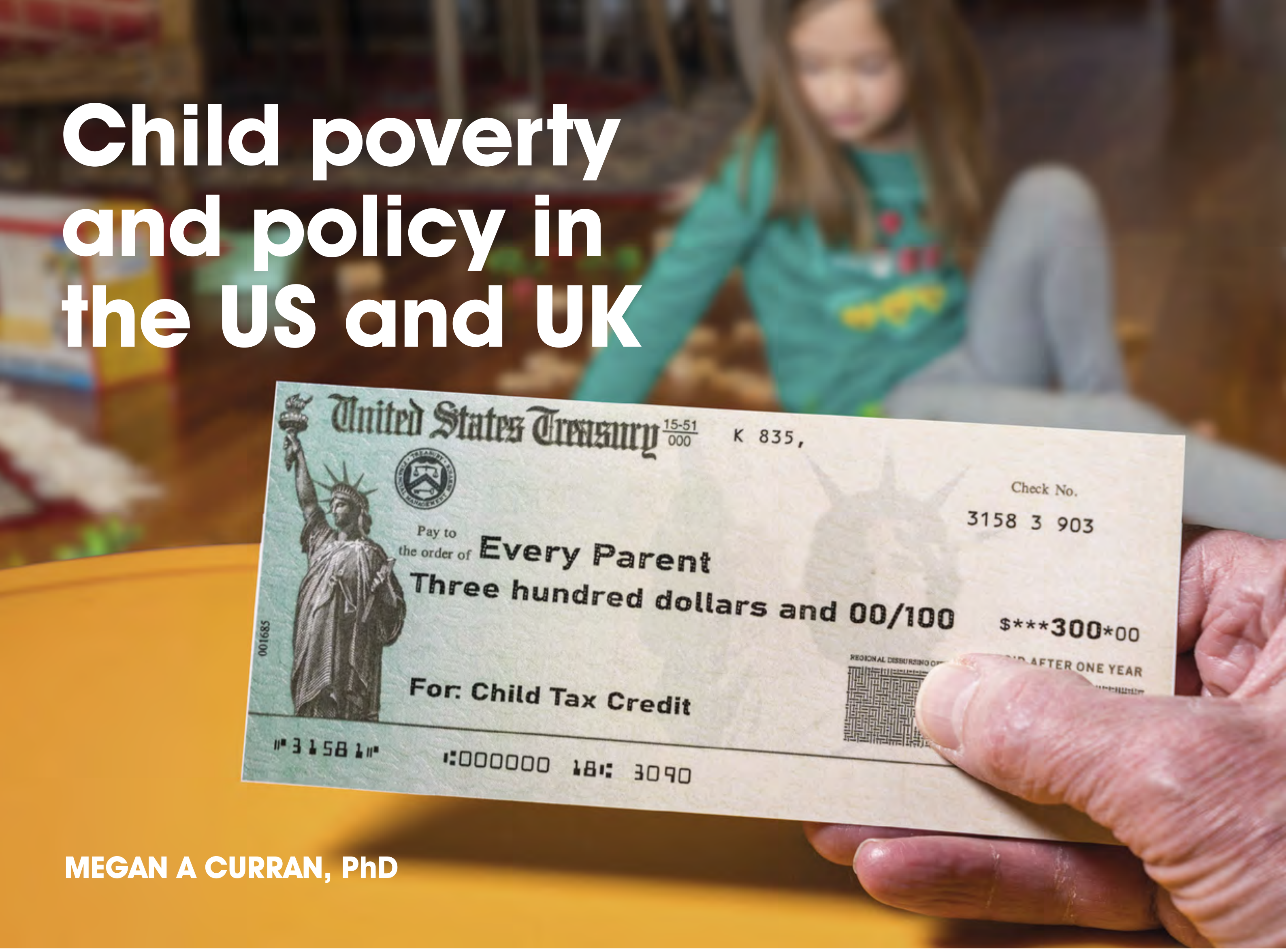

Child poverty and policy in the US and UK

MEGAN A CURRAN, PhD

Since 1997, tax-paying US parents have been able to claim child tax credit once a year. The credit offsets tax owed, sometimes leaving a portion as a cash refund.

The US has long been associated with high rates of child poverty, both on its own terms and relative to other wealthy nations. Currently, the US is in the early stages of repurposing an old policy tool – a national child allowance – to a new end: cutting child poverty during and after the COVID-19 pandemic. How does this compare to the past and present situation for children and child benefits in the UK?

The pandemic has thrown a spotlight on what it means to experience poverty as a child today. Technical terms like 'income poverty', 'deprivation', 'food insecurity' and 'hardship' refer to children whose parents struggled to pay rent during lockdown, children who went without warm winter clothes, without enough to eat when schools were closed, or without sufficient internet, space or other resources to learn and stay connected to others. Amid all this, recent months have seen glimmers of hope for child poverty reduction from a somewhat unlikely place: the United States (US).

Lagging behind on poverty and policy: the US context

Historically, the US has been an outlier in its policy responses to child poverty. Relative to its size, the US spends less on family benefits than many other rich countries and less on children than other age groups.[1] Children's access to cash, housing and food assistance has long been conditioned upon parental employment and earnings. The US has long operated without one of the most common forms of public child support, one that underpinned the creation of the modern UK welfare state: a national child allowance, or child benefit.

The closest policy is the relatively recent federal US child tax credit, introduced in 1997. Various elements set the US child tax credit apart from other child benefit programs. The credit is available just once a year, at tax time, and paid out only partially in cash. Initially, the credit contributes to a family's tax liability; a smaller portion is available as a cash refund.[2] The credit functions as a sort of annual bonus of indeterminate value, rather than a benefit that can be counted upon as part of a household's budget. Access is also dependent upon parental employment and the level of earned income, making it inaccessible to families on the lowest incomes, regardless of need.

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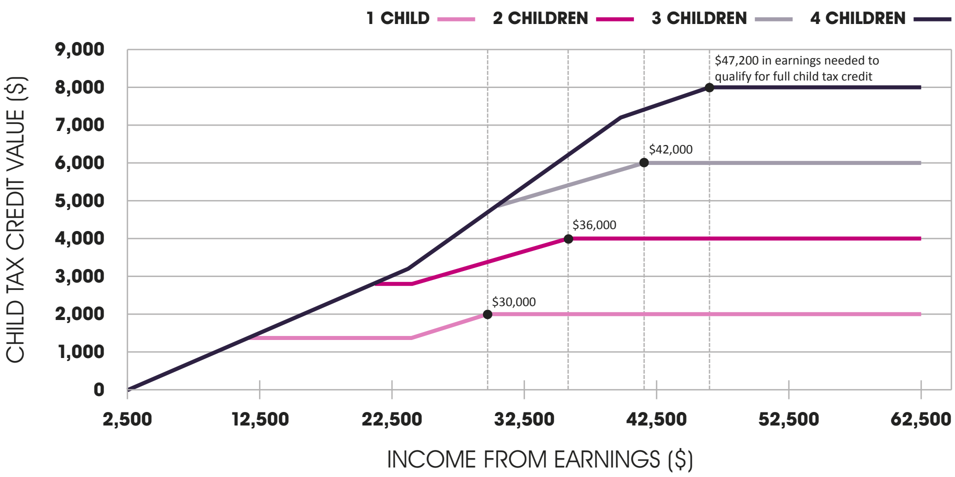
It was not always meant to be this way. The 1991 National Commission on Children recommended the introduction of a $1,000 (£700) per child credit, fully refundable for all children. President Clinton ultimately signed into law a $500 (£350) annual credit available only to middle-income families.[3] Over time, the maximum benefit value expanded – first to $1,000 (£700) and then $2,000 (£1,400) per child in 2017. The 2017 policy change also expanded access significantly upwards in the income distribution; for example, phasing the credit out for a married couple family at $400,000 (£280,000) in earnings without expanding access similarly downwards. This change not only reduced the credit's anti-poverty effectiveness, but the structure of the earnings requirements effectively penalised families for each additional child. As seen in figure 1, families with one child needed to earn, at minimum, $30,000 (£21,000) annually to access the full child tax credit. Families with two children needed to earn $36,000 (£25,200), which is 20 per cent more. If they added a third child, families would need to top up their earnings by 20 per cent again, and so on.[4]

Figure 1: Pre-reform phase-in of the US child tax credit value by income and family size (joint tax filers): 2019



Note: Families earning below $2,500 are not eligible for the child tax credit or additional child tax credit. At higher income levels, the credit is reduced by 5 per cent of adjusted gross income over $200,000 for single filers and $400,000 for joint filers, until it phases out completely.

Source: Reproduced with permission from Curran and Collyer (2020).[4]

As a result, more than a third (35 per cent) of all children in the US were left out of the full child tax credit because their parents did not earn enough to qualify.[5] As figure 2 reveals, this disproportionately excluded children of colour, children in lone-parent households, children in both rural and urban areas, and children in larger families.

Policy evolution in progress

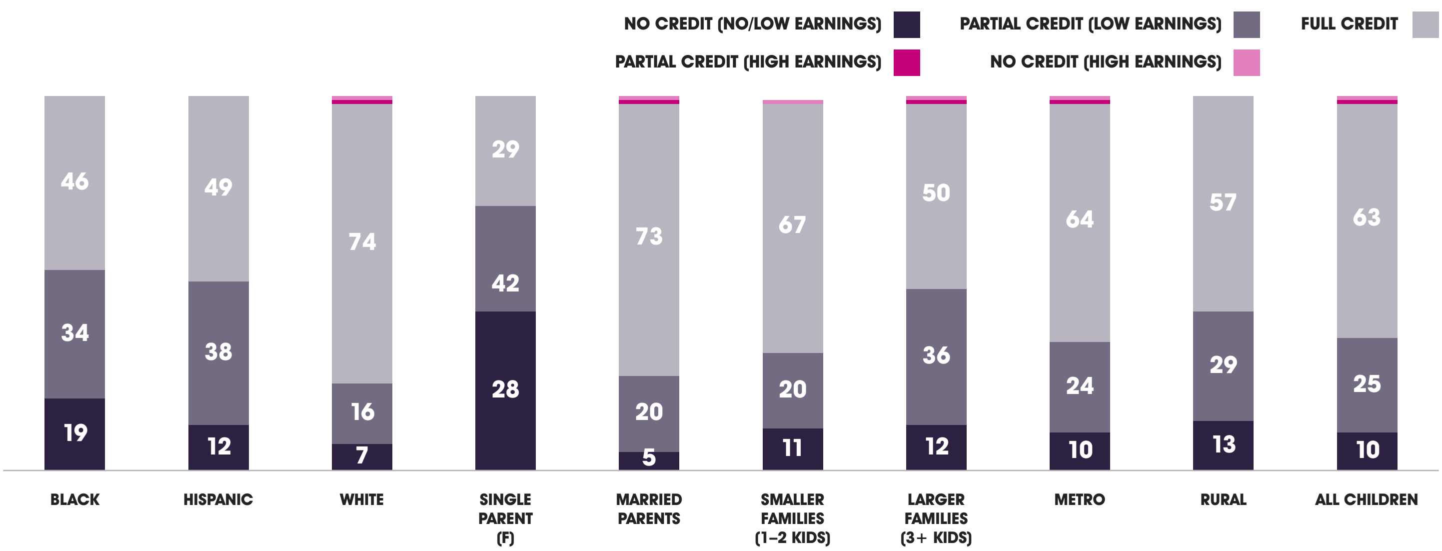
This policy is now set to change. The US has garnered global headlines for taking steps to modernise the child tax credit to cut child poverty, even amid the continuing crisis. The first major change was part of the American Rescue Plan Act, the March 2021 emergency relief package following President Biden taking office. The American Rescue Plan Act makes three important, albeit temporary, changes to the US child tax credit for 2021:

- increasing the value of the benefit, with an additional young child supplement;
- enabling near-universal eligibility, with the full benefit newly available to those on the lowest incomes; *and*
- devising a monthly delivery system for regular cash payments.[6]

Families with children younger than six years old are now eligible for a maximum annual benefit of approximately $3,600 (£2,500) per child, or $3,000 (£2,100) per child aged six to 17. The removal of both earnings requirements and caps on the cash refundability expands eligibility to ensure families with low or no employment income can access the full benefit (closing the gap that excluded one-third of all children because their parents did not earn enough). The child tax credit will now reach far more than 90 per cent of all US children.[7] The introduction of a monthly system means families can opt to receive regular installments of $300 (£210) per young child or $250 (£175) per older child rather than wait for a large payment once a year at tax time.[8]

Independent estimates show that the American Rescue Plan has the potential to halve US child poverty in 2021.[9] The package as a whole combines a range of expanded family income supports, including stimulus checks and expanded unemployment benefits, but the new child tax credit drives much of the poverty reduction. Nevertheless, the new child tax credit drives much of the poverty reduction. Prior analysis using pre-pandemic data, as seen in table 1 (see page 9), reveals that an almost identical child tax credit expansion could cut US child poverty in a single year by close to 45 per cent, with particularly beneficial effects for children of Black, Hispanic, and Native American communities.[10]

Figure 2: Share of children left out of the full US child tax credit, pre-reform



Source: Excerpted with permission from Collyer and others (2019) and Curran and Collyer (2020).[5]

Watched by many interested media professionals, US President Joe Biden and US Vice President Kamala Harris meet with Republican senators about the American Rescue Plan, in the Oval Office of the White House in Washington, DC, Monday, 1 February, 2021.

> **Taken all together – but again, driven largely by an improved child tax credit – the package could continue to see US child poverty remain halved in 2022.**

Table 1: Estimated reduction in US child poverty through a child tax credit expansion

	Poverty rate: *pre-reform*	Poverty rate: *post-reform*	Reduction	Percentage change
Under 18 (all)	13.6%	7.5%	6.1%	–45%
Asian American & Pacific Islander	12.1%	7.6%	4.5%	–37%
Black, non-Hispanic	23.7%	11.3%	12.4%	–52%
Hispanic	21.7%	11.8%	9.8%	–45%
Multiracial and all other groups	11.9%	7.3%	4.6%	–39%
Native American	16.7%	6.4%	10.2%	–62%
White, non-Hispanic	7.0%	4.3%	2.7%	–39%

Source: Excerpted with permission from Columbia University Center on Poverty and Social Policy (2021); based on an expansion along the parameters of the American Family Act (H.R. 1560 in the 116th Congress).

Important caveats to this potential success story remain. These projections represent what is possible if all eligible families receive the child tax credit. As of the time of writing, the only way to claim the credit is to file a federal tax return. The US tax system is complicated to navigate and past tax credit uptake has hovered around 80 per cent.[11] Reduced access to free tax preparation assistance during the pandemic could depress receipt further. Families who do not file taxes regularly (eg, those who do not earn enough income to be required to file) are at greatest risk of missing out on the new credit. Recent experience with pandemic-era stimulus check disbursement through the tax system revealed similar fault lines. Estimates identify up to 12 million individuals, including at least 3.2 million children age-eligible for the new child tax credit, who are disconnected from the US tax system, on very low incomes and only marginally connected to other public supports.[12] Although the new policy expansion is significant, it is also time-limited. The American Rescue Plan Act delivers only pandemic relief and the child tax credit changes are currently guaranteed only for 2021. Public awareness and outreach campaigns are emerging at local levels, but it is increasingly likely that a one-year expansion of the US child tax credit is not enough time to ensure all those who are eligible are reached – muting the short-term poverty effects, despite the potential.

> **As it stands, there remains real work to be done to ensure the future of an expanded child benefit in the US succeeds, but the current path appears a promising one.**

Pandemic relief efforts in the US have also included multiple rounds of emergency cash assistance (Economic Impact Payments or 'stimulus checks'); these were available to individuals below a certain income threshold but delivered through the US tax system. Those who had not filed recent taxes were required to take additional steps to claim the benefit and were at greatest risk of experiencing delays or missing out on their payments entirely.

President Biden has since released his proposal for longer-term economic recovery: the American Families Plan. This would continue the expanded child tax credit, as well as establish systems of subsidised child care and guaranteed paid family leave, and more.[13] Taken all together – but again, driven largely by an improved child tax credit – the package could continue to see US child poverty remain halved in 2022.[14] Alternative longer-term proposals prompt policy reckonings that remain, as yet, unresolved. Republican Senator Mitt Romney, former US presidential candidate, put forward a child benefit proposal – the Family Security Act – with similarly generous monthly payments (though the overall anti-poverty effectiveness is undercut by his proposed concurrent elimination of other cash assistance programs).[15] Senator Romney would have the US Social Security Administration, the federal department in charge of pension payments, deliver the benefit. Given the inherent complexities of the US tax system, that is attractive to some, though such an administrative shift would also require clear (and far from guaranteed) policy provisions to keep the benefit non-taxable, free from interaction as 'countable income' towards other means-tested benefits, and more.[16] As it stands, there remains real work to be done to ensure the future of an expanded child benefit in the US succeeds, but the current path appears a promising one.

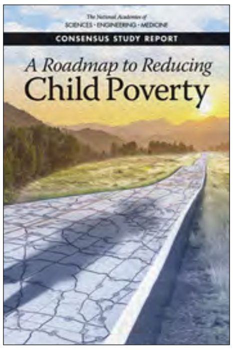
Where to for the UK?

As US social policy expands, the UK approach to children's benefits appears increasingly regressive. The new US child tax credit and child poverty reduction projections coincide with the fourth anniversary of the UK's two-child limit (in universal credit and child tax credit) and rising UK child poverty.[17] Prior to the pandemic, cuts and freezes to UK income supports took the greatest toll on families with children[18] and the ongoing crisis only compounds these effects.[19] The divergent country approaches to children's benefits are now particularly stark. The US now operates a generous, true per-child benefit that is near-universal. The UK's child benefit effectively ties generosity to birth order: the first child can receive a child benefit equivalent to roughly 40 per cent of the new US child tax credit value, but the value of child benefit for second and subsequent children in the UK is just two-thirds that of the first child.[20] The two-child limit also makes the UK child tax credit (and universal credit equivalent) inaccessible to third and subsequent children. While the UK child benefit had been fully universal since its post-war inception, it took on heavy means-tested restrictions in 2013 that exclude more and more children each year.[21]

What may be less obvious amid current circumstances, however, is that the US arguably drew partial inspiration for its current momentum from UK experience. Much of the attention garnered by the US child tax credit expansion centres on the progress it makes towards cutting child poverty in half.

This goal was the motivation of the critical US National Academy of Sciences study, *A Roadmap to Reducing Child Poverty*, commissioned by the US Congress prior to the pandemic that identified a national child allowance as key. Commitments to child poverty reduction exist worldwide, but the UK national child poverty target, first announced in 1999 and enshrined in legislation in 2010, caught the attention of US academics and advocates with a cross-national view[22] and inspired the introduction of national child poverty legislation in the US Congress.[23] In lieu of legislative progress, one of the bill's co-sponsors, Congresswoman Barbara Lee of California, became one of the key policymakers (alongside Congresswoman Lucille Roybal-Allard and others) to secure funding for the *Roadmap* study, now central to the evidence base underpinning the new US child tax credit today.

UK researchers and advocates will, of course, note that the UK government effectively abandoned the UK child poverty target legislation and commitment over the last decade. But there remains space for the UK to reclaim its progress lost. CPAG's own Secure Futures project outlines a vision for the future of UK social security. Centring children within the system can be at the heart, with a revitalisation of UK child benefit and other core income supports alongside a renewed commitment to reducing child poverty and improving children's chances as the first steps.



President Biden's Twitter feed (below) touts the potential the American Rescue Plan has towards meaningful child poverty reduction. This goal informed the Roadmap study (left) put forth by the US National Academies of Sciences, Engineering, and Medicine prior to the pandemic.

Conclusion

It remains too early to know the long-term impacts of the pandemic on social policy. Early indications from the US could portend somewhat unexpected political and policy shifts, moving away from conditionality and towards linking benefits directly to children and families as a principle that has traction in diverse political corners. Senator Romney's public comments on his child benefit proposal[24] signal a social conservative acknowledgement that public supports for children should not necessarily be tied to the employment status of parents – a position that pushes back on a historic central tenet of US social policy. In contrast, current UK social policy treads a path once familiar to the US. As the world continues to shift, so, too, do political and policy opportunities. Ultimately, an old policy – child benefit – may have the potential to transform chances for the next generation.

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Footnotes

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