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## **Policies to Promote the Healthy Development of Infants and Preschoolers**

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### **I. SUMMARY**

As documented in From Neurons to Neighborhoods: The Science of Early Development,<sup>1</sup> developmental and intervention research suggests that children's preschool years are a time of great risk – and opportunity - for their long-term development. Crucial needs during this period include prenatal and perinatal health care; adequate economic resources; responsive caregivers; and, when called for, intensive early-education and mental-health interventions.

Improving children's environments appears to pay off differentially for deprived vs. normal or enriched environments. Avoiding deprivation is crucial for an infant or preschooler's healthy development; research on payoffs to enhancing already adequate environments often fails to establish significant impacts.

What are the most important policy issues for children's healthy development? There is clear evidence of the dangers of prenatal exposure to poor nutrition, infections and environmental neurotoxins (e.g., alcohol, lead), most of which are readily preventable with established interventions. Routine pediatric care for infants can effectively screen for and treat many important causes of early developmental delays.

Developmental research has also established the importance of the quality of caregiving during the first year of life. How early maternal employment, whether voluntary or mandated, affects quality of care and subsequent child development is unclear, but recent studies suggest that it is linked to problems for at least some groups of low-income infants. As a result, it appears sensible to endorse policies that provide parents with genuine choices regarding care arrangements for their infants.

Recent experiments and many nonexperimental studies suggest that economic deprivation during the preschool years is harmful for children's development. Accordingly, policy should minimize the chance that children experience severe economic hardship early in life, although it should also be mindful of the employment disincentives that these policies may create.

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<sup>1</sup> Shonkoff and Phillips, 2000

When family and neighborhood environments fail to ensure that children arrive ready for school, intervention research indicates that early childhood may be a particularly fruitful time for additional investments in educational programs.

Taken together, the science of early childhood suggests that policy should treat the preschool years as a distinct period and recognize that low-income families often have difficulties meeting some early childhood needs. Recognizing both intervention opportunities and resource constraints, it appears that we are spending too little on children, and in particular too little on younger relative to older children.

We propose a package of policies that:

- provide prenatal care, perinatal screening and health insurance coverage for other medical needs;
- provide early childhood educational and mental health services for needy children;
- offer parents genuine choices regarding infant care arrangements; and
- assure a stable and minimally adequate standard of living for preschool children.

Elements of our proposal include:

- Universal prenatal and perinatal screening services plus health insurance coverage;
- Intensive center-based early-education programs for high-risk children, beginning at age three. These programs would be in addition to the universal Pre-K programs for four-year-olds presented in the Wolfe and Scrivner chapter. We also recommend experimentation to guide considerable investments in interventions to address severe behavioral and emotional problems in young children;
- Exemptions from all welfare-related work requirements when children are younger than six months and exemptions from full-time (more than 30 hours per week) work requirements for mothers of children between six months and one year. Work requirements imposed on mothers with children older than 12 months would not be affected. At the same time, working parents (one per family) would be entitled to six months of parental leave;
- A child allowance for children under the age of five living in families with incomes under \$60,000. The (taxable) allowance would be \$300 per month during the child's first year and \$200 per month between ages 1 and 5, with no benefits for older children. Families with two children under age 5 would receive allowances for both children. No additional allowances would be extended to families with more than two age-qualifying children.

We are mindful of both the total cost and the distributional consequences of our policy proposals. We estimate our proposal's net cost to be \$29.1 billion per year. We expect that its beneficial impacts on child development would be several times that amount.

Children in low-income families would benefit most from the policies we advocate. Our recommended expansion of prenatal and perinatal medical care and intensive early-education

and behavioral/emotional interventions are targeted almost exclusively on children in low-income families. Our package of economic supports would boost the family incomes of single mothers earning \$0 and \$10,000 annually by about \$1,900 and \$3,000 respectively. The income increase for a single mother with \$20,000 earnings could be as large as \$3,200, although that figure depends crucially on the nature of her state's child care subsidy schedule.

Low-income married couples would also see an income boost, but in this case the income change depends somewhat upon their division of paid employment. Couples earning \$30,000 and \$50,000 per year would enjoy income increases of at least \$1,400. Since we phase out benefits at \$60,000 and eliminate the current child tax credit and child care tax deduction, the net income of a couple earning \$100,000 would fall by \$2,000 to \$3,000.

## **II. ABOVE ALL, CHILDREN'S DEVELOPMENTAL NEEDS**

Children's developmental needs, rather than maternal employment or other policy goals, motivate the design of our package of proposals. We base our policy ideas on the voluminous body of research on the minimum set of conditions needed to ensure children's healthy development.<sup>2</sup>

The case for our recommended medical and early childhood education interventions is strong. The consequences of prenatal and perinatal threats to children's healthy development are well understood and policy responses are straightforward. Results from several evaluations of high-quality center-based interventions have demonstrated remarkably profitable improvements in the lives of economically disadvantaged children.

Our proposed work exemptions for mothers caring for infants and child allowance for families with preschool children are based on research indicating that early maternal employment and low incomes may be detrimental to young children. Accordingly, our policies are designed to give parents of young children genuine choices for caring for their children and provide a modest but steady, non-stigmatizing source of economic support.<sup>3</sup>

We are not advocating a wholesale return to the failed set of support policies that produced the welfare reform revolution of the 1990s. Instead, we begin with scientific evidence on children's developmental needs and fashion a set of policies that meet those needs. Despite professed goals of promoting child well-being, current policies privilege maternal employment over child goals. We reverse those priorities, so as not to promote maternal employment at the expense of children's well-being.

In fact, there are relative few such conflicts emanating from our proposals. In part, this is due to the age-specific nature of children's needs. Since research suggests that children's economic needs are vital in the preschool but perhaps not later years, our child allowance applies only to children under the age of six and falls by one-third after the first year of life. Since research only warns of adverse consequence of maternal employment in the child's first months of life, our proposals for supporting parents' choice in caring for their children applies to infants but not older children. Since economic research suggests rather modest work disincentives from

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<sup>2</sup> Shonkoff and Phillips, 2000. Duncan served on the committee that wrote From Neurons to Neighborhoods and Magnuson assisted in drafting portions of some of its chapters.

<sup>3</sup> In these respects our proposals resemble those of Blau, 2001.

increases in unearned income, on average our proposed child allowance would have relatively little impact on mothers' labor supply.

### **III. SOME DETAILS**

#### **Prenatal care, perinatal screening and health insurance**

Since developing fetuses and infants are particularly sensitive to harmful environmental influences and biological insults, early and adequate prenatal care and screenings provide one of the most cost-effective ways to intervene to promote the development of young children. Medical professionals recommend that women have at least one prenatal visit during the first trimester of pregnancy because it reduces the risks of costly and deleterious birth complications. Especially important for low-income mothers are that professionals ensure the availability of social and psychological supports.

Rates of prenatal care have increased over the past 15 years. As of 1998, some 83% of mothers received prenatal care in the first trimester, although rates were as low as 63% for mothers who were at higher risk for birth complications such as adolescents and low-income mothers. Only 4% of mothers did not receive any prenatal care or very late care (during the third trimester)<sup>4</sup>. A 1997 survey indicated that of women who had not received prenatal care, about a third of mothers lacked insurance or financial means to pay for their visits.<sup>5</sup> Because we are seeking to cover the costs of one or perhaps two additional prenatal visits, as well as education and outreach, we suspect that the necessary funding may be rather modest.

Trends in unmet health needs of young children are also encouraging. Some 11% of children under 18 years old were without health insurance coverage, based on data collected from January to June 2001, down from nearly 14% in 1997. Maternal reports in the 1997 National Health Interview Survey show that only 2% of children between birth and four years of age had unmet health needs, 3% had not seen a doctor in the past year, and medical care for 4% of children had been delayed because of concerns about the cost of care. At the same time, the rate of unmet care was five times as high among poor children as non-poor children.<sup>6</sup>

Given an estimated per child per year health care cost of \$1,200, and an estimated 1.1 million children between birth and five years old with unmet health care needs, the cost of the additional funding reaches \$1.7 billion. The total cost of providing insurance to all uninsured children under age six is roughly \$3.2 billion.<sup>7</sup> The cost of providing health insurance to all uninsured children under age 18 would cost approximately \$ 9.8 billion.

#### **Early education interventions**

Intervention studies suggest that the preschool period may be a particularly profitable time for human-capital investments. Several recent comprehensive reviews of experimental

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<sup>4</sup> Martin et al., 2002.

<sup>5</sup> Centers for Disease Control and Prevention, 2000.

<sup>6</sup> Bloom and Tonthat, 2002.

<sup>7</sup> As of February of 2002, states were allowed to use their State Child Health Insurance Program (SCHIP) funds to cover prenatal health care for mothers. In addition, unspent chip funds amounting to \$3.2 billion are available for state spending through 2006. In the short term, these funds may be able to cover expansion costs. However, in the long term additional expenditures are likely to be necessary.

evaluations of early child-focused center-based programs have concluded that intensive programs improve children's short-term cognitive development and long-term academic achievement, as well as reduce children's special education placement and grade retention.<sup>8</sup> Some of these programs also improve children's long-term social behavior, as indicated by fewer arrests and reports of delinquent behavior.<sup>9</sup> In addition, recent nonexperimental evaluations of Head Start, a less intensive and less expensive early education intervention, have also shown important long-term behavioral and academic benefits.<sup>10</sup>

The current national evaluation of Head Start will provide crucial evidence on the effectiveness of program components such as curriculum and part vs. full-day services. The ongoing evaluation of Early Head Start is providing important information about the importance of starting center-based care early in childhood. We propose that this evidence be used to guide a \$10 billion expansion in Head Start-type early-education programs targeted on high-risk children. This money would be on top of that spent on the universal pre-K programs for four year olds presented in the Wolfe and Scriver chapter. We suspect that the two major uses of additional funds will be in expanding coverage and expanding existing programs from part- to full-day for three year olds, although longer-run results from the Early Head Start experiment may establish the wisdom of targeting programs at even younger ages.

It is tempting to think that less intensive and less costly attempts to enrich the child care environments of preschoolers, for example by offering child care subsidies to low-income parents and introducing more rigorous regulations, will also be cost-effective. But evidence here is mixed.<sup>11</sup> The benefits of increasing the quality of more typical child care do not appear to be very large.<sup>12</sup> Attempts to impose higher child care quality standards, in absence of substantial general subsidies, may increase the cost of care to the point that low-and middle-income mothers are forced out of the formal care market.<sup>13</sup> Taken together, this evidence leads us to channel resources into child allowances, which enable parents to purchase higher quality care, and into intensive early-childhood education programs, rather than less intensive, but more universal, child care quality enhancement.

It is also tempting to generalize from the very successful parenting inventions program developed by David Olds and believe that some of our center-based early-education program money is better spent on parenting interventions.<sup>14</sup> A more general look at parent-based interventions suggests that many improve parenting but, with few exceptions, program-induced improvements in parenting do not translate into improvements in low-income children's academic outcomes.<sup>15</sup>

### **Early interventions for severe behavioral and emotional problems**

Research has established that children with serious behavioral and emotional health problems have limited ability to achieve the social and cognitive competencies that serve as the

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<sup>8</sup> Barnett, 1995; Farran, 2000; Heckman, 2000 Karoly et al., 1998.

<sup>9</sup> Schweinhart et al., 1993; Reynolds et al., 2001, Yoshikawa, 1994.

<sup>10</sup> Garces, Thomas and Currie, in press.

<sup>11</sup> Vandell and Wolfe, 2002.

<sup>12</sup> NICHD Early Child Care Study and Duncan, 2002.

<sup>13</sup> Currie and Hotz, 2002.

<sup>14</sup> Olds et al., 1999.

<sup>15</sup> Gomby et al., 1999 and Magnuson and Duncan, 2002. Some programs for parents of children with high levels of externalizing behavior problems have been successful in improving children's behavior.

foundation for school success. Debilitating levels of anxiety and conduct disorders can be diagnosed in young children and may have long-term effects on children's psychological, behavioral and social adjustment.<sup>16</sup> Limited evidence suggests that some therapeutic interventions are effective, but waiting lists for such services suggests a lack of professionals trained to provide them.

Although the Individuals with Disabilities Education Act mandates the provision of family services for children with social and emotional problems, in practice nearly all services provided are centered on cognitive, language, and motor impairments. Consequently, the policy has not provided comparable entitlement screening and intervention services to children with severe behavioral and emotional problems. Furthermore, many of the professionals who come into contact with children at risk for such problems (e.g., child protective service workers) are not well trained or supervised in the area of children's mental health.<sup>17</sup> This is just one symptom of a larger lack of coordination of services to provide needed help for children with serious behavioral and emotional problems.<sup>18</sup>

We envision eventual federal levels of support for behavioral and emotional interventions to parallel those currently afforded Head Start – perhaps \$5 billion annually. But our knowledge base is insufficient to warrant such an expenditure level at the current time. Given the importance of young children's mental health for their later development, we propose that we first lay the foundations for policies that will provide more effective early detection and treatment for young children's serious mental health problems by funding basic and intervention research related to the identification and treatment of mental health problems in infants and young children.

### **Welfare exemptions and parental leave for infant care**

A child's early months are a crucial time in which children need a responsive caregiver. While the vast majority of children whose mothers choose to work in their first year of life develop normally, emerging research suggests that maternal employment during the first year of children's lives may have a negative effect on children's cognitive development and academic achievement that persists into early childhood. Furthermore, these negative effects are particularly pronounced when mothers work more than 20 hours a week and among low-income children.<sup>19</sup> Prudent policy should ensure that all parents are given a genuine choice about working when their children are very young.

Welfare reform has removed some of those choices for low-income families. Prior to the 1996 welfare reform legislation (PRWORA), states were required to exempt mothers with infants (less than 12 months old) from work requirements. TANF legislation gave states the option of completely eliminating those exemptions. Roughly half of states have shortened the exemption period, whereas a few have eliminated it altogether. This is particularly worrisome in light of the 40-hour combined work and activity participation requirements likely to be passed as part of the 2002 PRWORA reauthorization.

We propose exempting mothers from all welfare-related work requirements when their children are younger than six months of age, and exempting them from full-time work

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<sup>16</sup> Knitzer, 2000; Shonkoff and Phillips, 2000.

<sup>17</sup> Shonkoff and Phillips, 2000.

<sup>18</sup> Knitzer, 2000.

<sup>19</sup> Waldfogel, Han, and Brooks-Gunn, 2002; Brooks-Gunn, Han, and Waldfogel, in press.

requirements (more than 30 hours per week) when their children are between six months and one year.

Parental-leave policies also have the potential to promote parental choice and improve parents' choices with respect to the care of their infants. The Family and Medical Leave Act enables parents to take up to three months of leave with job protection from companies with 50 or more employees. Here we propose extending the period of parental leave to six months following the birth of a child. In combination with a \$300/month child allowance, it amounts to a government-financed partially-paid leave.

### **Avoiding economic deprivation with a child allowance**

Economic deprivation and child development. Economic resources matter because they enable parents to buy food, housing, stimulating home learning environments and other “inputs” needed for children’s successful development. Children’s basic needs for food and shelter are self-evident. Research on children’s home learning environments shows that stimulation, emotional support, structure and safety are associated with the well-being of children from all economic backgrounds.<sup>20</sup> Poverty and persistent poverty are strongly associated with suboptimal home environments.<sup>21</sup>

Cognitive stimulation within the home appears to be particularly important for children’s cognitive development. The more positive home learning environments of high- vs. low-income children account for as much as half of the high- vs. low-income gap in test scores of preschool children, and as much as one-third of the gap in the achievement scores of elementary school children.<sup>23</sup>

Economic resources may also shape children’s lives through their impact on parents’ mental health. Low-income parents are at greater risk of depression and other forms of psychological distress such as low self-worth and negative beliefs about control.<sup>24</sup> Poor mental health contributes to lower-quality parenting. For example, in the case of depression, mothers’ responses to the needs of their children tend to be less consistent, frequent, and positive. Research in this field has emphasized the associations among economic decline, economic strain, parental psychological well-being, and children’s outcomes.<sup>25</sup>

Despite vast correlational evidence, how and even whether family economic resources affect child development remains a controversial issue. Experimental evidence establishing the importance of economic resources comes from a series of welfare reform evaluations undertaken during the 1990s. Some of these programs augmented family economic resources while others did not. In all cases, participants were randomly assigned to a treatment group that received the welfare-reform package or to a control group that continued to live under the old welfare rules.

Comparable analyses of these data by Morris et al.<sup>26</sup> revealed that welfare reforms that both increased work and provided financial supports for working families generally promoted children’s achievement and positive behavior. In contrast, welfare reforms that mandated work

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<sup>20</sup> Bradley et al., 1994.

<sup>21</sup> Garrett et al., 1994; Votruba-Drzal, 2002.

<sup>23</sup> Smith et al., 1997.

<sup>24</sup> Gazmararian et al., 1995; Pearlin and Schooler, 1978; Rosenberg and Pearlin, 1978.

<sup>25</sup> McLoyd, 1990.

<sup>26</sup> Morris et al. 2001.

but did not support it financially had few impacts -- positive or negative -- on children. Thus, it appeared that merely increasing maternal employment had no impact on children's achievement, but increasing both work and income did.

Experimental welfare-reform impacts on children depended crucially on the ages of the children studied. Preschool and elementary-school children were helped by the reforms that increased family resources (infants were not studied). For adolescents, even generous reforms that promoted maternal employment may have increased school problems and risky behavior.<sup>27</sup>

Turning to the nonexperimental literature, Duncan and Brooks-Gunn<sup>28</sup> coordinated analyses of 12 groups of researchers working with 10 different longitudinal developmental data sets. They find that family economic conditions in early childhood appeared to be more important for shaping ability and achievement than did economic conditions during adolescence, and that associations between income increments and achievement were much larger for children in low- than higher-income families.

Evidence from the broader nonexperimental literature on causal links between economic conditions early in life and child achievement is mixed. Duncan et al.'s<sup>29</sup> analysis relating children's completed schooling to average household incomes in early and middle childhood and in adolescence shows that income in early childhood matters for children's academic achievement, particularly for children in low-income families. Impressive in the Duncan et al. study is that its statistical controls for family income later in childhood address many of the usual concerns about bias from unmeasured variables. A study relating sibling differences in childhood-stage-specific income to sibling differences in achievement also suggests the importance of economic conditions in early childhood.<sup>30</sup>

Other studies, few of which focus directly on the role of early-childhood income, reach mixed conclusions regarding the importance of income. Blau<sup>31</sup> finds small and insignificant effects of current income on child achievement and larger (although still modest) effects of long-run income, but he failed to distinguish early childhood as a distinct period. Mayer provided a set of tests for omitted-variable bias and found large reductions in the estimated impact of parental income, which lead her to conclude that much of the estimated effect of income in the literature is spurious.<sup>32</sup> However, her methods are not well suited for testing the income impacts for preschool children living in low-income families. Studies using instrumental-variables technique are unable to estimate income impacts very precisely, with some suggesting that income matters a great deal<sup>33</sup> and others not.<sup>34</sup>

All in all, there is more than enough evidence – both experimental and nonexperimental – on the importance of income for children's development to support the wisdom of policies that prevent episodes of deep or persistent poverty during children's preschool years.

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<sup>27</sup> Gennetian et al., 2002.

<sup>28</sup> Duncan and Brooks-Gunn, 1997.

<sup>29</sup> Duncan et al., 1998.

<sup>30</sup> Levy and Duncan, 2000.

<sup>31</sup> Blau, 1999.

<sup>32</sup> Mayer, 1997.

<sup>33</sup> Maurin, 2002.

<sup>34</sup> Shea, 2000.

A child allowance. Although we favor work-based approaches (e.g., the Earned Income Tax Credit) to boosting the incomes of low-income families, we view as crucial the fact that young children's needs for minimally adequate family incomes exist regardless of whether or not their mothers work. Thus, we propose a modest child allowance that is independent of parental employment.

Specifically, we propose a child allowance for preschool children in families with annual incomes below \$60,000. Payments would be \$300/month during the child's first 12 months of life, \$200/month between ages 1 and 5, and zero after that. Economies of scale argue for smaller payments to families with two preschoolers, but since there are no economies of scale with formal child care arrangements, we would not reduce the payments in the case of second children. To avoid fertility incentives and in light of some evidence suggesting that family cap provisions in welfare reform may provide fertility disincentives, we would not pay more than two allowances to any given family.

Our monthly child allowance would stabilize and enhance economic conditions in the crucial preschool period, particularly for families with few resources. As with the new child tax credit, the provision of a child allowance to higher-income families (in our case to families with incomes as high as \$60,000) recognizes the value of parenting of nonpoor families, avoids the stigma associated with means-tested programs and would help generate political support from all classes. The higher (\$300 vs. \$200 per month) payment during a child's first year would help provide mothers of infants more choices with respect to the care of those infants, and reflect the fact that infant care is typically more costly than child care for older children. Compared with annual "payments" from tax credits or deductions, a monthly payment is a more visible recognition of the importance of supporting parents and, for low-income parents, is less subject to exploitation by tax preparation services.

With approximately 4.6 million children under the age of 12 months, 3.0 million of whom are eligible for the child allowance, and 18.3 million between the ages of one and five years, 11 million of whom are eligible, the cost of the child allowance would total \$39.4 billion per year. However, as detailed below, the net cost of the child allowance is considerably less since we would: i) count the child allowance as taxable income; ii) consider part (in the case of TANF benefits) or all (in the case of Food Stamps) of the allowance as "countable" income; iii) eliminate the child tax credit; and iv) eliminate the child care tax deduction.

The politics of a child allowance. With its unconditional payments to families with preschool children, our proposed child allowance swims against the strong political tide of welfare reform. Concerns that the old AFDC-based welfare system discouraged work and encouraged out-of-wedlock fertility fueled the TANF-based reforms of 1996. Isn't our proposal so fundamentally at odds with American values that it will forever be politically unthinkable?

We believe that our proposal is indeed politically feasible. First, it rests on scientific evidence regarding conditions needed to ensure that all children enter school ready to learn. Second, it is consistent with recent political successes in supporting children through the new child tax credit. Third, its structure of time-limited supports is not inconsistent with welfare reform's message to those contemplating having children that they will need to work to support their children's needs. None of our proposals would alter work requirements or change any other provisions for mothers with children older than age 1.

#### **IV. FUNDING AND INTEGRATION WITH CURRENT PROGRAMS**

All told, the gross cost of our proposals totals \$57.9 billion (see Table 1). Their net costs are much less – \$29.1 billion - since our child allowance overlaps with existing government-financed sources of support. Long-run benefits are likely to total more than \$29.1 billion.

##### **Cost savings**

We propose that child allowance income be counted as taxable income; the existing child tax credit and child care tax deduction be eliminated; and TANF cash assistance be reduced. Treating the child allowance as taxable income would reduce its net cost by \$4.6 billion.

Since the existing child tax credit, which is partially refundable, serves the same function as our proposed child allowance, we propose that the tax credit be eliminated for children age 5 and under, but maintained for older children. By 2010, when the child tax credit will amount to \$1,000 per child, this change would reduce the net cost of our proposal by \$16.8 billion.

The existing dependent care tax credit (which we refer to as the child care tax credit throughout this paper) serves some of the same purposes as our child allowance. In the case of the child care tax credit, the overlap is complete. Thus, we propose eliminating the existing child care tax deduction for children age 5 and under, a step that would save roughly \$1.7 billion per year.

It is important to consider how our proposed child allowance would be integrated into existing income support programs such as TANF and Food Stamps. It is reasonable to count the child allowance as income sources in these programs, which in the case of Food Stamps would reduce Food Stamp expenditures by \$3.4 billion.

What about TANF? Surely the child allowance serves many of the purposes of TANF cash assistance. But there are many more strings to TANF assistance than there would be to receipt of a child allowance. We have already spelled out our proposed exemption period (six months for any work/participation requirement; another six months for a greater-than-30-hour work/participation requirement). Beyond this and Federal law, states would be free to stipulate conditions of receipt for TANF benefits.

As to how states count child allowance income in computing TANF cash benefits we propose that states be limited to counting no more than 50 cents of every dollar of child allowance income. A 50% benefit reduction rate ensures that the monthly incomes of TANF recipients with young children increase by at least \$100 per child. But the remaining \$100/month per child for children 1-5 and \$150/month for infants constitutes a cost saving worth close to \$2.3 billion per year.

##### **Benefits**

It is difficult to forecast the economic benefits of our proposal. Based on existing intervention research, we would not expect that added income from the child allowance would produce measurable benefits to children growing up in middle-class families. However, research does suggest a possible payoff to both early education interventions and stabilizing the economic resources for children in families in the bottom 20-25% of the income distribution. Because close

to \$20 billion of our proposal's cost goes to low-income families,<sup>35</sup> benefit-cost ratios of 1.5 or higher for these funds would reduce the long-run overall net cost of our proposal to zero. Benefit-cost ratios of some intensive early intervention programs are much higher than that (Karoly et al., 1998).

## V. THE DISTRIBUTION OF NET BENEFITS

To investigate the distributional consequences of our proposals, we simulate their effects on single and two-parent families with different earnings levels. Table 2 shows our simulations for single-parent families with annual earnings of \$0, \$10,000 and \$20,000. In the case of parents with \$20,000 earnings the impacts depend greatly on whether the state of residence provides child care subsidies with high or low thresholds. The details behind our assumptions are provided in an appendix.

To illustrate the simulations, take the case of a single mother earning \$10,000. Currently, this woman would be entitled to no TANF cash benefits but an additional \$2,340 in Food Stamps and a \$4,008 Earned Income Tax Credit. She would pay \$600 in payroll taxes and, net of child care subsidies, would pay \$600 in out-of-pocket child care costs. Her net income is \$15,148, more than \$5,000 higher than her earnings and illustrative of work incentives currently in place for single parents working nearly full time at the minimum wage.

How would our policies affect this woman's income? First, the higher income occasioned by her \$6,000 child allowance payment would reduce her work modestly, so that her earnings would fall from \$10,000 to \$9,500. Consequently, her EITC payment would be reduced slightly to \$3,810. Because the child allowance would be treated as countable income for her Food Stamp allotment, Federal Income Tax and child care subsidy, her Food Stamp income would fall to \$612, she would be taxed \$32 and her net child care costs would nearly double to \$1,074. All in all, her net income would rise by \$3,098 to \$18,246.

All told, our package of economic supports would boost the family incomes of a single mother earning \$0 and \$10,000 annually by about \$2,000 and \$3,300 respectively. The income increase for a single mother with \$20,000 earnings could be as large as \$3,200, although this depends crucially on the nature of her state's child care subsidy scheme.

Low-income married couples would also see an income boost, but in this case the income change depends somewhat upon their division of paid employment. Working couples lose their child care tax credit while one-earner couples had no credit to lose in the first place. Two-earner couples earning \$30,000 and \$50,000 per year would enjoy income increases of \$1,445 and \$1,508, respectively. Corresponding income increases for single-earner couples are \$2,753 and \$2,452. Since we phase out benefits at \$60,000 and eliminate the current child tax credit and child care tax deduction, the net income of a couple earning \$100,000 would fall by about \$3,000 in the case of two-earner couples and \$2,000 for single-earner couples.

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<sup>35</sup> If low-income is defined by 1.5 times the poverty line, then Census data indicate that 5.7 million children live in low-income families. How many of the \$27.6 billion in net benefits go to them? We calculate that \$19.9 billion does. This is the sum of \$14.9 billion in child allowance payments, and the \$12.0 billion in Head Start and mental health intervention expenditures and health service, less the \$5.7 billion in Food Stamp and TANF expenditure reductions and their \$1.3 billion share of increased taxes and reduced tax credits and deductions.

Beyond these impacts on cash incomes are the benefits of the expanded medical care and early-education and mental-health interventions, most of which are targeted on children in low-income families.

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## Appendix: Assumptions behind Tables 1-3

### Table 1:

#### COSTS OF PROGRAM COMPONENTS:

To obtain the \$39.4 billion **child allowance** figure, we use published Census data and assume that 65% of the 22.9 million children under six are living in families with incomes less than \$60,000, which implies that 3.0 million children qualify for the infant credit and 11.9 million qualify for the ages 1-5 credit.  $\$3600 \times 3.0 \text{ million} = \$10.8 \text{ billion}$  and  $\$2400 \times 11.9 \text{ million} = \$28.6 \text{ billion}$ , giving the total cost of \$39.4 billion.

To obtain the \$0.3 billion **welfare exemption** figure, we rely on current caseload data and assume that 42% of children on TANF are under age 6, and 5.4% are under 1 year of age. We assume that one-half of the TANF families live in states that exempt mothers from work requirements in the first year of their children's lives. Of the remaining 2.1 children in states with work requirements, only 5.4% of children (.11 million) receiving TANF are under 1 year of age. Although some states have work requirements imposed as early as six weeks, others impose requirements at six months. We assume that on average mothers would receive full TANF cash benefits for an additional 3 months. Given a median state benefit of \$400,  $.11 \text{ million} \times 3 \times \$400 = \$ .13 \text{ billion}$ . The additional costs associated with requiring only part-time employment for mothers of children 6 to 12 months of age are determined in a similar fashion. Again, half of the TANF caseload lives in states that exempt mothers of infants from fulltime work requirements. With only 5.4% of children receiving TANF under 1 year of age, and an assumed marginal increase in TANF benefits of \$300 for six months. The resulting cost ( $11 \text{ million} \times 6 \times \$300$ ) is \$0.2 billion, and the resulting total cost is \$0.3 billion.

Our \$10.0 billion for added **early education** intervention funding is an assumed value.

Our \$5.0 billion in eventual **behavioral/emotional problem intervention** funding is an assumed value.

To obtain the \$1.7 billion for **prenatal and perinatal screening**, we begin with data indicating that 4.6 % of all children (1.1 million) have unmet health care or delayed health care. We further assume that the average Medicaid expenditure per child per year is \$1,200.  $1.1 \text{ million} \times \$1,500 = \$1.2 \text{ billion}$ . If additional spending were to attempt to cover the health care costs of all uninsured children under age six (11.7 % of children) the necessary funding would equal \$3.2 billion.

#### COST SAVINGS:

To obtain the \$16.8 billion figure for cost savings due to the **elimination of the Child Tax Credit**, we assumed that of the 22.9 million U.S. children under age 6 potentially eligible for tax credit, 15% of their families are not receiving the child tax credit because their earned income is too low to qualify, and 23% only qualify for one-half of the credit. The remaining 62% receive

the full credit.  $.23 \times 22.9 \times \$500 = \$2.6$  billion;  $.62 \times 22.9 \times \$1000 = \$14.2$  billion. Total cost saving is therefore \$16.8 billion.

To obtain the \$4.6 billion figure for tax saving due to **considering the child allowance as taxable income**, we again assumed that 22% of the children's families do not pay taxes. We assume a marginal tax rate of .15 (recall that the allowance is restricted to families with gross incomes below \$60,000) for the remaining 78% and their \$30.5 billion in taxable child allowance income. The resulting estimate for savings is  $.78 \times \$39 \text{ billion} \times .15 = \$4.6$  billion.

To obtain the \$3.4 billion figure for **reduced Food Stamp spending**, we use recent caseload data that indicates that 50% of the 22.9 million Food Stamp recipients are children. Assuming an even age distribution, that results in approximately 3.8 children under age six receiving food stamps. Consequently, about 26% of child allowance eligible children are receiving TANF/Food stamps. Food Stamps Benefits are calculated by reducing maximum monthly benefit for family of 3 (\$335) by 1/3 of the family income (excluding child care costs and some other things). Assuming that income is increased by \$10.2 billion ( $.26 \times \$39.4 \text{ billion}$ ), Food Stamp expenditures are reduced by 1/3 of this amount.  $10.2 \times .33$  equals the Food-Stamp related cost savings of \$ 3.4 billion.

The \$1.7 billion in **reduced Child Care Tax Credits** was estimated with data from the Congressional Budget Office.

To obtain the \$2.3 billion **reduction in TANF funding**, we assume that 1.7 million children under 6 are receiving TANF, which is about 12% of all children who are receiving the child allowance. Since we consider only 50% of the child allowance as "countable" income for the purposes of calculating TANF benefits,  $.12 \times \$39 \text{ billion} \times .5 = \$ 2.3$  billion.

### **Tables 2 and 3:**

These tables assume that families have two children, one 12 months or younger and the second between one and five years of age. In the case of married parents we assume that they file joint taxes. In the case of dual earner couples, we assume equal earnings for each spouse.

The **TANF and Food Stamp benefit** calculations are based on information from the 2000 Green Book. TANF benefits are based on the median state maximum monthly benefit for eligible mothers with two children - \$400.

**EITC benefits** were calculated from the assumed levels of earned income and the 2001 benefit schedule.

The **child care tax credit** is a refundable credit that amounts to between 20-30% of child care expenditures up to \$4,800 for two children. It is only available to families in which both parents are employed or looking for work.

The **child tax credit** is only partially refundable, and we calculate the amounts based on the rate of \$1,000 per child (it is currently \$600 per child and is scheduled to increase to \$1,000 in 2010).

**Income tax** was based on 2001 rates assuming that families claimed a standard deduction for a family with two children.

**Payroll tax** is assumed to amount to 6% of earned income.

We assume that **unsubsidized child care costs** amount to \$390 a month per child, a likely conservative estimate for center-based child care, but over-estimate for non-center based child care.

The state chosen to illustrate the **generous child care subsidy state** is Wisconsin. For working families with two children, subsidies are given to families with incomes up to approximately \$27,000. The estimated co-pay for the child care is approximately 11% of the earned income and child allowance. Illinois illustrates the **not generous child care state**. In Illinois families with two children with gross incomes exceeding \$24,000 are no longer eligible for subsidies.

We incorporate the **employment disincentive** inherent into our estimates by assuming that a 10% increase in unearned family income leads to a 2% reduction in labor supply (i.e., an income elasticity of .20; Blundell and Macurdy, 1999). In the case of two employed parents, the income elasticity is applied to each parent. In applying this estimate, we first assumed no labor supply response and calculated the net percentage change in family income from all of the other components of our policy package. We then reduced pre-proposal earnings by 20% of this percentage change.

**Table 1: Cost and Funding Summary**

| <b>Program Component</b>                                                                                                                                                                                                                         | <b>Cost</b>                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Child allowance for children under the age of 5 (\$300/month for infants; \$200/month age 1-5)                                                                                                                                                   | \$39.4 billion                |
| Exemptions from all welfare-related work requirements when children are between birth and six months; exemptions from full-time work requirements for mothers of children between six months and one year. Six months of unpaid maternity leave. | \$ 0.3 billion                |
| Intensive center-based early-education programs for high-risk children                                                                                                                                                                           | \$10.0 billion                |
| Intensive interventions for severe behavioral and emotional problems                                                                                                                                                                             | \$5.0 billion (eventual cost) |
| Universal prenatal and perinatal screening and medical care for children under age 5 without insurance                                                                                                                                           | \$3.2 billion                 |
| <b><i>TOTAL COST</i></b>                                                                                                                                                                                                                         | <b>\$ 57.9 billion</b>        |
| <b>Cost savings</b>                                                                                                                                                                                                                              | <b>Cost Savings</b>           |
| Elimination of child credit for children <6 years old                                                                                                                                                                                            | \$16.8 billion                |
| Considering child allowance as taxable income for federal Income Tax purposes                                                                                                                                                                    | \$ 4.6 billion                |
| Considering child allowance as countable income in Food Stamp and other in-kind assistance program                                                                                                                                               | \$ 3.4 billion                |
| Reduction of child care tax credit                                                                                                                                                                                                               | \$1.7 billion                 |
| Reduction in TANF block grant (cash assistance) owing to states being able to consider one-half of child allowance as countable income.                                                                                                          | \$2.3 billion                 |
| <b><i>TOTAL COST SAVING</i></b>                                                                                                                                                                                                                  | <b>\$28.8 billion</b>         |
| <b><i>NET COST</i></b>                                                                                                                                                                                                                           | <b>\$29.1 billion</b>         |
| <b><i>TOTAL BENEFITS</i></b><br><i>(increased adult productivity, reduced crime, etc.)</i>                                                                                                                                                       | <b>?</b>                      |

**Table 2: Simulation of Proposed Policies for Single-Parent Families with Two Children, by Income and Whether State of Residence Provides a Generous Child Care Subsidy**

|                         | <i>Current</i> | <i>Proposed</i> | <i>Current</i> | <i>Proposed</i> | <i>Current</i><br><i>(Not</i><br><i>Generous</i><br><i>Child Care</i> | <i>Proposed</i><br><i>(Not</i><br><i>Generous</i><br><i>Child Care</i> | <i>Current</i><br><i>(Generous</i><br><i>Child Care</i><br><i>Subsidy)</i> | <i>Proposed</i><br><i>(Generous</i><br><i>Child Care</i><br><i>Subsidy)</i> |
|-------------------------|----------------|-----------------|----------------|-----------------|-----------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>Earnings</b>         | <b>0</b>       | <b>0</b>        | <b>10,000</b>  | <b>9,500</b>    | <b>20,000</b>                                                         | <b>20,000</b>                                                          | <b>20,000</b>                                                              | <b>19,400</b>                                                               |
| Child Allowance         | ...            | 6,000           | ...            | 6,000           | ...                                                                   | 6,000                                                                  | ...                                                                        | 6,000                                                                       |
| TANF                    | 4,800          | 2,400           | 0              | 0               | 0                                                                     | 0                                                                      | 0                                                                          | 0                                                                           |
| Food Stamps             | 4,020          | 2,352           | 2,340          | 612             | 0                                                                     | 0                                                                      | 0                                                                          | 0                                                                           |
| EIC                     | 0              | 0               | 4,008          | 3,810           | 2,547                                                                 | 2,547                                                                  | 2,574                                                                      | 2,674                                                                       |
| Child Care Tax Credit   | 0              | ...             | 0              | ...             | 684                                                                   | ...                                                                    | 395                                                                        | ...                                                                         |
| Child Tax (Refundable)  | 0              | ...             | 0              | ...             | 500                                                                   | ...                                                                    | 500                                                                        | ...                                                                         |
| Income Tax              | 0              | 0               | 0              | -32             | -604                                                                  | -1,624                                                                 | -724                                                                       | -1,534                                                                      |
| Payroll Tax             | 0              | 0               | -600           | -570            | -1,200                                                                | -1,200                                                                 | -1,200                                                                     | -1,150                                                                      |
| Child Care Expenditures | 0              | 0               | -600           | -1,074          | -2,280                                                                | -9,360                                                                 | -2,200                                                                     | -2,794                                                                      |
| Child Care Subsidies    | 0              | 0               | 8,760          | 8,286           | 7,080                                                                 | 0                                                                      | 7,160                                                                      | 6,566                                                                       |
| <b>Gross Income</b>     | <b>8,820</b>   | <b>10,752</b>   | <b>16,348</b>  | <b>19,922</b>   | <b>23,731</b>                                                         | <b>28,547</b>                                                          | <b>23,469</b>                                                              | <b>28,074</b>                                                               |
| <b>Net Income</b>       | <b>8,820</b>   | <b>10,752</b>   | <b>15,148</b>  | <b>18,246</b>   | <b>19,647</b>                                                         | <b>16,363</b>                                                          | <b>19,345</b>                                                              | <b>22,596</b>                                                               |
| <i>Net Difference</i>   |                | <i>1,932</i>    |                | <i>3,098</i>    |                                                                       | <i>-3,284</i>                                                          |                                                                            | <i>3,251</i>                                                                |

**Table 3: Simulation of Proposed Policies for Two-Parent Families with Two Children, by Income and Parental Employment Status**

|                                      | <i>Current</i> | <i>Proposed</i> | <i>Current</i> | <i>Proposed</i> | <i>Current</i> | <i>Proposed</i> |
|--------------------------------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
| <b>Both Partners in Labor Market</b> |                |                 |                |                 |                |                 |
| <b>Earnings</b>                      | <b>30,000</b>  | <b>28,800</b>   | <b>50,000</b>  | <b>49,200</b>   | <b>100,000</b> | <b>100,000</b>  |
| Child Allowance                      | ...            | 6,000           | ...            | 6,000           | ...            | 0               |
| TANF                                 | 0              | 0               | 0              | 0               | 0              | 0               |
| Food Stamps                          | 0              | 0               | 0              | 0               | 0              | 0               |
| EIC                                  | 441            | 694             | 0              | 0               | 0              | 0               |
| Child Care Tax Credit                | 960            | ...             | 960            | ...             | 960            | ...             |
| Child Tax (Refundable)               | 2,000          | ...             | 2,000          | ...             | 2,000          | ...             |
| Income Tax                           | -1,624         | -2,344          | -4,624         | -5,404          | -17,696        | -17,696         |
| Payroll Tax                          | -1,800         | -1,728          | -3,000         | -2,952          | -6,000         | -6,000          |
| Child Care Expenditures              | -9,360         | -9,360          | -9,360         | -9,360          | -9,360         | -9,360          |
| Child Care Subsidies                 | 0              | 0               | 0              | 0               | 0              | 0               |
| Gross Income                         | 33,401         | 35,494          | 52,960         | 55,200          | 102,960        | 100,000         |
| Net Income                           | 20,617         | 22,062          | 35,976         | 37,484          | 69,904         | 66,944          |
| <i>Net Difference</i>                |                | <i>1,445</i>    |                | <i>1,508</i>    |                | <i>-2,960</i>   |

**Table 3 Continued: Simulation of Proposed Policies for Two-Parent Families with Two Children, by Income and Parental Employment Status**

|                                   | <i>Current</i> | <i>Proposed</i> | <i>Current</i> | <i>Proposed</i> | <i>Current</i> | <i>Proposed</i> |
|-----------------------------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
| <b>One Parent in Labor Market</b> |                |                 |                |                 |                |                 |
| <b>Earnings</b>                   | <b>30,000</b>  | <b>29,400</b>   | <b>50,000</b>  | <b>48,800</b>   | <b>100,000</b> | <b>100,000</b>  |
| Child Allowance                   | ...            | 6,000           | ...            | 6,000           | ...            | 0               |
| TANF                              | 0              | 0               | 0              | 0               | 0              | 0               |
| Food Stamps                       | 0              | 0               | 0              | 0               | 0              | 0               |
| EIC                               | 441            | 568             | 0              | 0               | 0              | 0               |
| Child Care Tax Credit             | 0              | ...             | 0              | ...             | 0              | ...             |
| Child Tax (Refundable)            | 2,000          | ...             | 2,000          | ...             | 2,000          | ...             |
| Income Tax                        | -1,624         | -2,434          | -4,624         | -5,044          | -17,696        | -17,696         |
| Payroll Tax                       | -1,800         | -1,764          | -3,000         | -2,928          | -6,000         | -6,000          |
| Child Care Expenditures           | 0              | 0               | 0              | 0               | 0              | 0               |
| Child Care Subsidies              | 0              | 0               | 0              | 0               | 0              | 0               |
| Gross Income                      | 32,441         | 35,968          | 52,000         | 54,800          | 102,000        | 100,000         |
| Net Income                        | 29,017         | 31,770          | 44,376         | 46,828          | 78,304         | 76,304          |
| <i>Net Difference</i>             |                | <i>2,753</i>    |                | <i>2,452</i>    |                | <i>-2,000</i>   |