



Reforming Tax Credits to Promote Child Opportunity and Aid Working Families

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Executive Summary

Recent policy proposals using tax credits to help families with children have been flawed in two important respects. First, while we should always want to reduce hardship, reducing short-term poverty through unconditional cash transfers can come at the expense of expanding opportunity if those transfers incentivize behaviors that will impede children's upward mobility. Second, the extent to which financial constraints limit families' ability to have children and balance work and family has been overstated.

This report proposes three reforms related to ongoing tax credit debates, intended to refocus the conversation toward expanding low-income children's opportunity and providing targeted support to working- and middle-class families. While the three reforms could be pursued individually, they are intended to complement each other.

First, the earned income tax credit (EITC) would be made more generous for married parents, especially for a married couple's first child. This expansion would not come at the expense of single parents but would significantly increase the payoff to delaying childbearing until after marriage.

Second, a compromise would be struck among the versions of the child tax credit (CTC) that existed before the Tax Cuts and Jobs Act (TCJA), between the enactment of that law and the American Rescue Plan Act (ARPA), and since the latter. The maximum CTC would be \$3,000 (greater than under the TCJA but smaller than the benefit for younger children under ARPA). The ARPA extension of the credit to 17-year-olds would be retained. The phase-in that was replaced by ARPA's full refundability for lower-income families would be reinstated. And the limiting of the credit to working- and middle-class families that existed before the TCJA would be reinstated. These reforms would create

a generous CTC that would be more targeted to working- and middle-class families than either the TCJA or ARPA versions are.

Third, while lower-income families made newly eligible for the full CTC under ARPA would again face the work requirement and phase-in from the TCJA, their children would receive annual federal contributions to a "success sequence savings account"—a baby bond—for \$3,000 less their CTC. Young adults who have graduated from high school initially could use the funds for postsecondary education or training or toward a wedding. They could use the funds for other wealth-building purposes after accumulating a history of employment and of avoiding nonmarital parenting. Adults who do not achieve the thresholds could pass along some of their funds to their own children's accounts. By coupling baby bonds to the success sequence, the proposal would encourage parents and children to work toward pro-mobility life plans, provide them resources to pursue those plans, and target those resources to asset-building purposes that would advance them.

These proposals would cost \$850 billion over 10 years relative to current law and would be fully paid for by eliminating the state and local tax deduction and the Federal Pell Grant Program. Relative to extending the TCJA and ARPA expansions of the CTC and EITC, the proposal would save \$650 billion. These estimates hinge on uncertain assumptions about the magnitude and timing of outlays for the baby bond program. The combined CTC and EITC reforms would cost \$570 billion relative to current law and would save \$930 billion relative to current policy. The baby bond program would constitute a true investment in American human capital that would pay off in the long run with greater tax revenue and reduced safety-net spending.

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The War on Poverty—especially poverty among children—should be never-ending. We should always want to reduce hardship below prevailing levels. However, there are better and worse ways to lower poverty. Policies that promote economic growth, raise wages, increase employment, and encourage marriage will tend to have more beneficial spillover effects than will simply transferring money from the US Treasury to families. Reducing short-term poverty through unconditional cash transfers can come at the expense of reducing what might be called “entrenched poverty”—long-term deficits of not only material resources but also opportunity and social capital, with those afflicted often geographically concentrated.¹

Recent policy debates around tax credits to help families with children have focused too shortsightedly on the near-term goal of moving more families’ incomes modestly above an arbitrary poverty line. In fact, the nation has made great progress, largely unrecognized, in reducing child poverty.² Policy debates have marginalized the more ambitious and important goals of expanding child opportunity and upward mobility. They have proceeded as if child poverty were simply a matter of spending enough and as if the way to expand opportunity is simply to reduce poverty.

If those premises are true, it is difficult to explain why intergenerational mobility out of poverty has

failed to increase over the past half century even as the child poverty rate is at an all-time low and has fallen from over 20 percent in the early 1960s to around 5 percent today.³ The answer, in part, is likely that while safety-net benefits reduce point-in-time hardship, they often may actually exacerbate intergenerational immobility.⁴ This could happen through perverse incentives that discourage work, marriage, saving, and human capital investment.⁵ The geographic concentration of poverty also concentrates these incentives, affecting children’s experiences and aspirations. Reforms to tax credits should promote choices that facilitate upward mobility and the building of social capital: employment, marriage, child investment, and life planning.

Other reforms to tax credits have focused on the need to help families afford to raise their desired number of children and support parents who want to care for their children at home rather than engage in paid work. Too often, however, these proposals fail to recognize the tension between helping one-worker, married-parent families and encouraging no-worker, single-parent families.

They also minimize these trade-offs by assuming that financial difficulties are more prevalent higher up the income scale than they are. The evidence indicates, for instance, that millennial women have been no less able to meet their fertility goals than were baby boomers.⁶ Fertility has declined over the long run,

but this has largely reflected preferences for fewer children. More recent fertility declines are primarily attributable to declines in unintended pregnancy.⁷ Work-family balance has become more difficult, but this is largely a function of increasing preference for work among women.⁸

While the problem of family affordability has been overstated, many families are constrained by their finances from having children, having more children, or working less to spend more time raising them. Tax credit reforms to support child-rearing should be better targeted to these working- and middle-class families.

Such targeting is especially crucial given the unprecedentedly negative fiscal outlook the federal government faces. The Congressional Budget Office projected, before passage of the American Rescue Plan Act (ARPA), that federal debt held by the public would hit an all-time high in 2031, reaching 107 percent of gross domestic product (GDP).⁹ By 2051, it will be 202 percent of GDP. ARPA is anticipated to add another \$1.9 trillion to federal deficits over the next 10 years.¹⁰

This fiscal reality limits our ability not only to provide financially comfortable families with help raising their children but also to reduce poverty through transfers. Both deficits and higher taxes run the risk of slowing economic growth, hurting everyone. New spending on children should, when possible, take the form of investments in human capital that will pay off down the road.

This report proposes three reforms to improve the way the earned income tax credit (EITC) and child tax credit (CTC) affect low-income, working-class, and middle-class families. It recommends that policymakers:

- Increase the generosity of the EITC for married parents, particularly for a married couple's first child;
- Phase in the CTC as income rises, in line with the Tax Cuts and Jobs Act (TCJA) reforms, but increase the maximum credit amount from the TCJA's \$2,000 to \$3,000 and extend

it to 17-year-olds while phasing the credit out in line with pre-TCJA policy; and

- Create new baby bond accounts, with annual federal contributions to lower-income families equal to the difference between \$3,000 and a child's CTC. The administration of the baby bond accounts and the eventual use of the funds would be tied to the philosophy of following the "success sequence"—graduating from high school, avoiding early single parenthood, and building a stable work history.

The EITC and CTC reforms would be at least as generous for single and married parents at all but the highest income levels as policy was before the ARPA expansions. The combined EITC and CTC benefit for a married couple with one child and earning \$40,000 would be higher by \$5,700, while the benefit would be \$520 higher for a single parent with one child and earning \$30,000. Adding the baby bond contribution, compared with pre-ARPA policy, the benefit would be \$1,000 higher for the single parent versus \$5,800 higher for the married couple.

Overall, the EITC and CTC reforms would provide the biggest boost to families with income between \$25,000 and \$60,000, especially those with married parents, while the baby bonds would significantly increase benefits for those below \$25,000, including single parents. The impact would be to add substantial marriage incentives to the work incentives embedded in the tax credits and increase those work incentives modestly.

Meanwhile, the baby bonds, which would accrue in "success sequence savings accounts" (SSSAs), would provide an unprecedentedly large nest egg for young adults from low-income families that adhere to success sequence benchmarks. These funds could be used for various wealth-building purposes or a wedding. The baby bonds would thereby provide incentives for low-income parents and children to work toward pro-mobility life plans. They would also produce budgetary benefits in the long run in the form of greater tax revenue and lower safety-net spending.

The policy reforms proposed here would cost more than current law, as the ARPA expansions of the credits expire after this year and the TCJA expansions expire after 2025. However, the proposals would be less expensive than simply extending the TCJA and ARPA expansions would be. The EITC schedules for childless workers would revert to pre-ARPA levels. Apart from the maximum credit value, CTC parameters would also mostly revert to pre-ARPA levels, except that the credit phaseout would revert to its less-expensive rate from before TCJA.

These reforms are estimated to cost \$850 billion over 10 years relative to current law. When using a baseline that assumes the TCJA provisions become permanent, the cost would be more like \$300 billion, and spending would be *lower* by \$650 billion when using a baseline that assumes the ARPA expansions also become permanent. The greater cost of these reforms relative to current law would be more than paid for by eliminating the state and local tax deduction and the Federal Pell Grant Program.

Reforming the Earned Income Tax Credit to Promote Marital Child-Rearing

The first proposal in this report would reform the EITC so that it encourages child-rearing in marriage—making the credit more generous, especially, to married couples parenting their first child—without reducing the generosity of the credit to single-parent families. This reform would be a first step toward addressing marriage disincentives in the thicket of means-tested benefit programs that comprise the federal safety net.

A Brief History of the EITC. To understand how the EITC and CTC have evolved and the role that concerns about behavioral incentives have played in this evolution, it is useful to consider their histories. The EITC emerged in the early 1970s as the more popular of two policy alternatives to cash welfare assistance aimed at helping low-income families while promoting work. President Lyndon Johnson's Great Society had prioritized poverty

reduction, but he was intent on achieving that goal through means that avoided the perverse incentives of welfare programs.

Concern about these incentives tended to focus on work rather than single parenthood, since few children lived in single-parent homes relative to today. In 1970, 85 percent of children lived with two parents, a figure that has stood near 70 percent for most of the past 30 years. Under 10 percent of births were to unmarried mothers in 1965, compared with around 40 percent today.¹¹

As early as 1964, policymakers in the Johnson administration were discussing how a negative income tax (NIT) could reduce poverty.¹² The NIT, an idea originated by Milton Friedman in 1962, involves setting a threshold above which income is taxed and then, when someone's income falls below the threshold, subsidizing a percentage of the difference between that amount and a person's income. (Alternatively, the NIT can be thought of as a guaranteed benefit that is taxed away at a constant rate as a person earns income until it reaches zero, at which point the earned income begins to be taxed.)

While his aides agreed with leading analysts of the day that the NIT should be the centerpiece of antipoverty policy, Johnson opposed his Office of Economic Opportunity's NIT proposal out of concern over work incentives.¹³ These fears would be vindicated later in policy experiments conducted during the late 1960s and 1970s. The NIT experiments found that the policies tested tended to discourage work more than the array of safety-net benefits already on offer.¹⁴

In 1969, President Richard Nixon proposed replacing the Aid to Families with Dependent Children (AFDC) program with an NIT that required beneficiaries to work or look for work. But the requirements were viewed as weak, and the proposal created work disincentives further up the income scale than did AFDC, exacerbating concerns about work disincentives lower down. (Those disincentives lower down sometimes also were worsened because of new cliffs created through interactions with other safety-net programs.)

Nixon's Family Assistance Plan, as it was called, died in the Senate, in no small measure due to concerns regarding work disincentives raised by the powerful Sen. Russell Long (D-LA). As an alternative, Long proposed a "work bonus" in 1972 that mimicked the EITC's current structure. It had a phase-in at low incomes so that nonworkers received no benefit, and the highest benefits went to those whose earnings exceeded a threshold. It featured a plateau over which the maximum benefit could be received, and it phased out at a slower rate than NIT plans typically proposed.

The work bonus was intended to promote employment and provide relief from the payroll taxes faced by low-income workers who paid no income tax. Congress enacted a version of the work bonus as a temporary "earned income credit" in 1975, part of a broader tax-cut package to provide stimulus during the recession. It was confined to workers with children, in part to focus on incentives for single mothers who received (or might receive) AFDC. It had a maximum benefit of \$1,560 in 2020 dollars, available to a worker with \$15,600 in earnings and reduced to \$0 for a worker earning \$30,200.

The EITC was extended in subsequent years and made permanent in 1978. It was expanded in 1986. Inflation had eroded its generosity in the meantime, so the maximum benefit after the expansion was just \$1,640 in 2020 dollars, and the phaseout ended at \$29,900. However, because the standard deduction and personal exemption were raised as part of tax reform, the number of families receiving the EITC expanded significantly. The various parameters were also indexed to inflation.

In 1990, separate schedules were created for families with one child and with two or more children, with maximum credits of \$1,850 and \$1,950, respectively (in 2020 dollars). The EITC was expanded greatly in 1993, when the maximum credit was \$3,470 for families with one child and \$5,740 for families with two or more children. The credit for childless workers also dates to 1993 (instituted to offset partially an increase in the gas tax).¹⁵

Separate schedules were created for single-parent and married-parent families in 2001, and they were

modified temporarily in 2009 (permanently in 2015). In 2009, a separate schedule was created for families with three or more children, also made permanent in 2015.¹⁶ ARPA, passed in early 2021, expanded the EITC for childless workers in various ways, making it more generous and extending eligibility to younger and older adults. The Joe Biden administration has proposed making these ARPA expansions permanent.¹⁷ As of 2021, the maximum EITC is \$3,618 for a family with one child, \$5,980 for a family with two children, and \$6,728 for a family with three or more children—only a bit higher than in 1993 in real terms, except for the largest families.

How the EITC Can Influence Work and Family.

Because the EITC so strongly targets low-earning parents, the built-in incentives and disincentives are especially important for poor and near-poor families, particularly those headed by a single parent. Before ARPA, 41 percent of EITC benefits went to families in the bottom fifth of Americans, and 85 percent went to families in the bottom two-fifths.¹⁸ With the enactment of ARPA, those figures are 45 percent and 86 percent.¹⁹ In contrast, just 7 percent of CTC benefits went to the bottom fifth before ARPA, and only 25 percent went to the bottom two-fifths.²⁰ ARPA increased these shares, but only to 15 percent and 37 percent.²¹

Most research finds that the EITC tends to increase employment.²² A more generous EITC makes working more attractive than not working. Further, a steeper credit phase-in as workers with low income increase their earnings can incentivize additional labor supply among those who choose to work. With additional earnings, the amount of credit they receive rises until they earn enough to receive the maximum EITC amount for which they are eligible. At the same time, if someone is satisfied with a given amount of income, then even along the phase-in range, the income from the EITC can cause them to work less than they would have absent the EITC.²³

In contrast to these ambiguous incentives, greater maximum EITC benefits and higher income thresholds for receiving these maximum benefits will lead some workers to put in fewer hours. If someone is

satisfied with their income and is in the income range to receive the maximum EITC, a more generous EITC will allow them to work less to maintain that income level.²⁴ Finally, the phaseout of EITC benefits from the maximum level will tend to reduce labor supply for workers in the income range over which benefits phase out, but flatter phaseouts will do so less than steeper ones will.²⁵ A flatter phaseout, however, will extend the EITC to higher-income families.

In addition to their effects on work, the details of EITC policy can affect marriage, cohabitation, family formation, fertility, and family structure.²⁶ For those who would work regardless, the EITC increases income and thereby makes it more affordable to have children (or additional children). This same income-increasing effect makes it more feasible to raise children without a partner present. Correspondingly, any change to EITC parameters that affects income can affect fertility, family formation, and family structure.

There are also separate EITC schedules—with differing phase-in rates, maximum credits, income thresholds for receiving the maximum, and phaseout rates—depending on marital status and the number of children in a family.²⁷ Differences in these schedules can also make it more or less appealing to be married, have children, or have additional children. In particular, marrying someone will tend to increase income. That can reduce the size of the EITC for which someone qualifies, depending on the differences between the schedules for single and married parents with a given number of children (and on how many children each partner has).

All these effects—on work, marriage, cohabitation, family formation, fertility, and family structure—interact in complicated ways with the corresponding effects of various safety-net policies. Many of these policies provide benefits to people regardless of whether they work, which counteracts the EITC's work-incentivizing effects. And because marriage tends to increase income, thereby reducing safety-net benefits, means-tested programs often disincentivize marriage, counteracting any pro-marriage effects that may be embedded in EITC policy details.

The merits of policy changes to the EITC that promote work or parenting in marriage must also be weighed against their costs. Making the EITC more generous to promote work will be more expensive, whether that takes the form of steeper phase-ins, larger maximum benefits, higher income thresholds for receiving maximum benefits, or flatter phaseouts. Changing the EITC to promote parenting in marriage also can be more expensive if benefits are made more generous for married couples. Alternatively, they can be less expensive if benefits become less generous for single parents, but at the cost of increasing hardship among them (at least in the short term).

Reforming the EITC. The reform proposed here would make the EITC more generous for married parents, especially those with one child. The EITC schedules for single parents would be unchanged from current policy. The schedules for childless adults would revert to those in effect before ARPA expanded them, and the pre-ARPA age restrictions to receive the childless credit would return.²⁸ (The ARPA expansion of the EITC for childless workers seems ill-advised, given that policy experiments indicate it will be unlikely to significantly increase work and given that it may exacerbate marriage disincentives.²⁹ A case could be made for eliminating the childless credit, though I would prefer changes to it alongside pro-work reforms to disability programs.)

Married parents would receive the EITC based on a single schedule regardless of their number of children. That schedule would have the same phase-in and maximum benefit as the current schedule for married parents with three or more children, but the income threshold for receiving the maximum benefit would be higher, and the phaseout rate from that maximum benefit would be steeper. In Figure 1, the blue, orange, and green dashed lines would move out to the red line.³⁰

Among married parents, this reform would have the smallest impact on families with three or more children. Even among this group, however, the benefits would be significant for many families. The maximum benefit (\$6,728 in 2021) would be available to married couples with incomes as high as \$37,370 in

Figure 1. Proposed Reform to the EITC (Families with Children)



Note: This policy proposal would shift the three “Current Policy” lines for married parents to the red “Reform” line. All amounts and parameters are for tax year 2021. The amounts assume all income is from earnings. See note 30 for all schedule parameters. Source: Current policy parameters are from Internal Revenue Service, Revenue Procedure 2020–45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

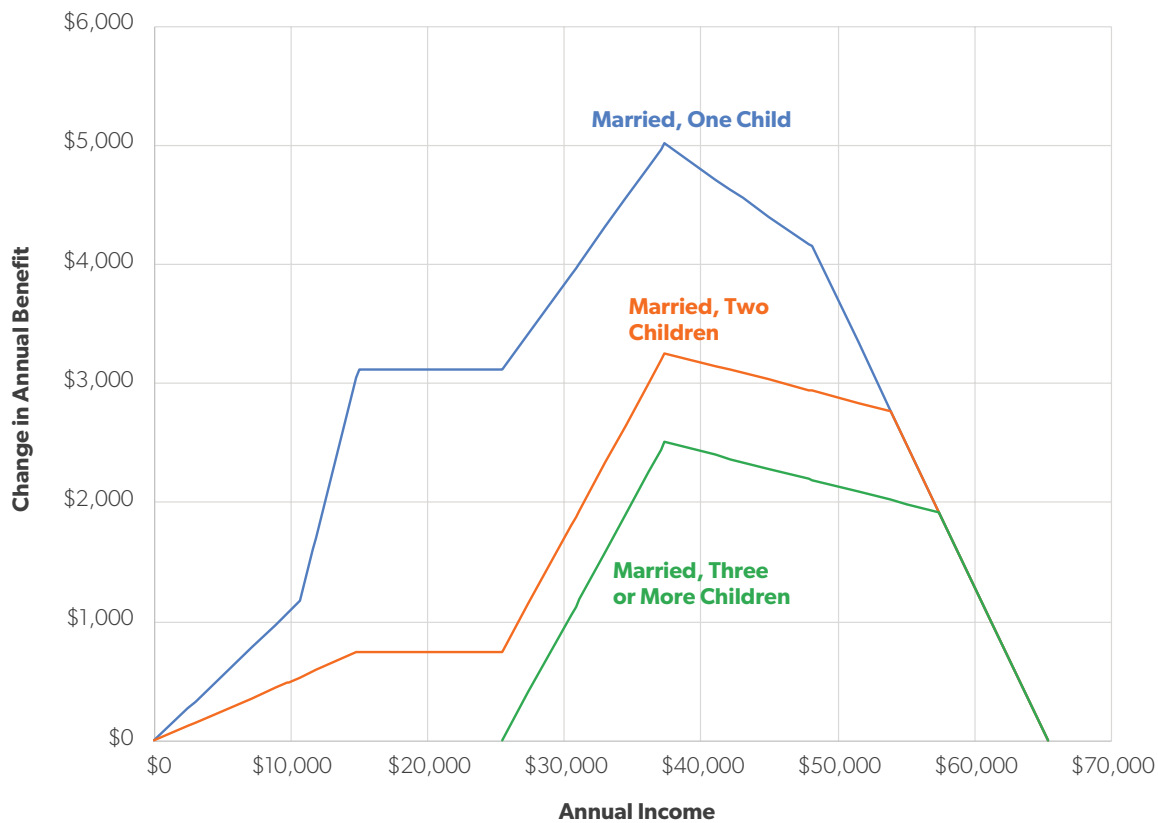
2021, rather than the current threshold of \$25,470.³¹ (See Figure 2.) And married parents would receive at least a small credit until their income reached \$65,403, whereas under current policy it phases out at \$57,414. For targeting and expense purposes, the phaseout rate would increase from 21.06 percent to 24 percent.

For married parents with two children, the impact of this reform would be larger. The phase-in rate for such families would increase from 40 percent to 45 percent, increasing the returns to work, albeit for a small number of married couples earning under \$15,000. The maximum EITC would increase from \$5,980 to \$6,728, and as with larger families, the phaseout would begin at a higher income.

The impact of the policy change on married parents with one child would be substantial. The

phase-in rate would increase from 34 to 45 percent, incentivizing work for married parents with income under about \$15,000 and increasing the size of the credit relative to current policy for everyone in this income range. More importantly, the maximum benefit would increase by 86 percent, from \$3,618 to \$6,728, and as with larger families, the upper income limit for receiving this maximum would increase by 47 percent. Even a married couple with one child making \$60,000 would get an EITC of about \$1,300, whereas today they receive nothing.

This reform would be expected to have various effects. One impact would be to incentivize childless married couples to have a child. For example, a married couple with \$30,000 in combined income would receive a credit of \$6,728 for their first child,

Figure 2. Increase in EITC Benefits from Proposed Reform (Married Families with Children)

Note: All amounts and parameters are for tax year 2021. The amounts assume all income is from earnings. Single parents would see no change in benefits relative to current policy. Childless workers would see no change relative to pre-ARPA benefits but reduced benefits relative to those under ARPA.

Source: Current policy parameters are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

nearly \$4,000 more than under current policy, which gives a \$2,894 credit. Over 18 years of childhood, that would amount to nearly \$70,000 over today's EITC.

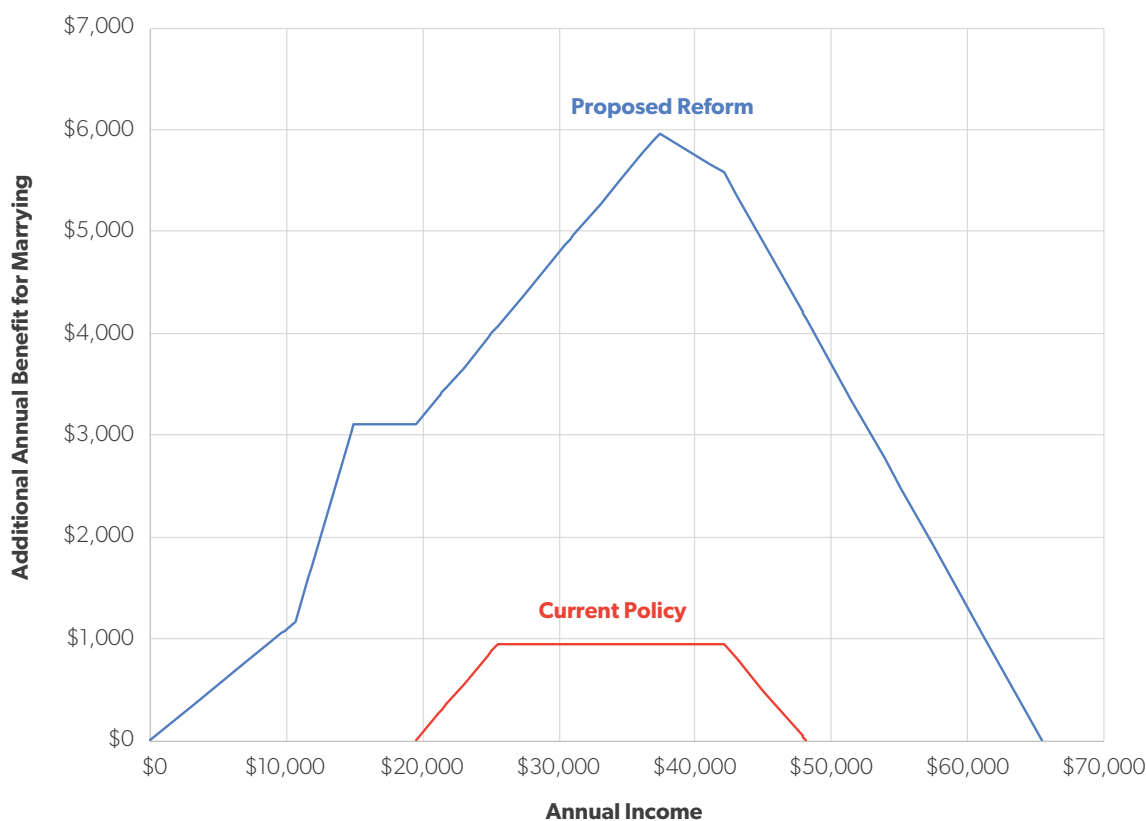
The reform would also incentivize unmarried couples to marry, to the extent that some people delay marriage out of concerns about being able to afford children. Under this reform, married couples would see no increase in the EITC when they have additional children beyond their first one, though they still would receive a credit at least as large as under current policy, and they would continue to see a higher CTC as they have more children. A married couple with three children and \$50,000 in income would receive over \$22,000 per child over 18 years,

an increase of nearly \$13,000 per child relative to current policy.

Most importantly, the reform would incentivize people to have and raise their first child in marriage rather than as single parents. For example, under current policy, a single custodial mother of one making \$15,000 with an EITC of \$3,618 would be slightly worse off on a per-adult basis by marrying a man earning \$20,000. (This conclusion is true even ignoring the potential loss of safety-net benefits, an issue to which I will return below.)³² The husband would also be worse off, and each would be worse off relative to living together unmarried.

After the reform proposed here, a single mother who marries would increase her per-adult income

Figure 3. Additional EITC Benefit for Marrying for Parents with One Child, Current Policy vs. Proposed Reform



Note: All amounts and parameters are for tax year 2021. The amounts assume all income is from earnings.

Source: Current policy parameters are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

by over \$1,500, or 9 percent, and her husband would increase his by \$1,100, or 6 percent. Marriage would also leave both better off than simply cohabiting. Over 18 years of a child's life, the reform proposed here would increase the returns to marriage for the single mother in this example by \$41,700 relative to current policy and by \$42,400 for her child's father. Notably, it would also help couples with a child to marry and keep one parent at home (or have one work fewer hours outside the home) if that is what they prefer.

By incentivizing people to have their first child in marriage (Figure 3), this reform could also increase the likelihood that subsequent children will be born in marriage. The reform is best thought of as an incentive for childbearing to begin after marriage.

Crucially, the strength of the incentive depends on the difference between what couples can make separately, with one parent receiving the EITC for a head of household, and what they can make together, receiving the EITC for a married couple filing jointly. The policy proposed here would not reduce the EITC benefits to single parents, and single parents would see their EITC rise if they have a second or third child, just as under current policy.

Unfortunately, the marriage-promoting effects of this reform would be limited by the marriage disincentives in most federal means-tested safety-net programs. A single mother making \$15,000 is eligible for various benefits. However, a married couple with one child making \$35,000 typically would be ineligible for subsidized housing or food stamp benefits

from the Supplemental Nutrition Assistance Program.³³ Their child would qualify for Medicaid, but the parents would not. Policymakers will need to address these programs to eliminate the marriage disincentives in our safety net. Until then, however, reforming the EITC along the lines described here would be an important first step.

The EITC reforms proposed here would cost \$136 billion over 10 years relative to a current law baseline (whereby the ARPA provisions for childless workers end with tax year 2021).³⁴ However, relative to a baseline that assumes ARPA provisions are made permanent, the reforms here would cost just \$15 billion over 10 years. Importantly, these cost estimates (and all those cited in this report) are based on conventional tax models that do not incorporate possible effects on work, marriage, and childbearing.

Reforming the Child Tax Credit to Promote Work and Target Family Tax Relief

The second set of reforms proposed in this report would modify the CTC to encourage work among lower-income families and better target tax relief to working- and middle-class families facing financial constraints to family formation and child-rearing. It thereby addresses both the antipoverty and family support features of the tax credit.

A Brief History of the CTC. While many countries adopted family allowances between the late 1930s and the mid-1950s, the United States went its own way, maintaining a distinction between tax relief for workers and welfare benefits for those without significant employment.³⁵ These distinctions were precisely the ones that thwarted NIT advocates in the 1960s and early 1970s and that produced the EITC. Family allowances were proposed from time to time over the years, but in the 1990s, support for CTCs gained momentum. Concern about work and marriage disincentives would continue to complicate policymaking and lead to the CTC's clear differentiation from a family or child allowance.

The year 1991 was a landmark for the CTC.³⁶ In April, Eugene Steuerle and Jason Juffras of the Urban Institute proposed a \$1,000 CTC, available regardless of whether a family had any earnings or tax liability.³⁷ Two months later, the National Commission on Children released its final report, advocating a fully refundable \$1,000 credit.³⁸ The commission, created by Congress in 1987, justified the credit by pointing to disappointing income trends, rising income and payroll tax liabilities, the diminished real value of the dependent exemption, and the pervasiveness of child allowances in other rich countries.³⁹

The credit had fragile bipartisan support insofar as it was both a tax cut for middle- and working-class families and available to the poorest families that had no income tax liability. The cost of the commission's proposal was also kept down by eliminating the personal exemption for dependent children.⁴⁰

But the credit's fate foundered on these points of tension. Conservatives balked at making it refundable beyond payroll tax liability.⁴¹ Extending it to nonworking families, they argued, would disincentivize work and marriage in the same way that AFDC did.⁴² In the 102nd Congress, legislators introduced 14 bills including a CTC, with most Democratic bills proposing a fully refundable CTC and all the Republican bills endorsing only nonrefundable credits.⁴³ The substantial cost of refundability turned off conservatives and moderates alike.⁴⁴ Eventually, a \$300 nonrefundable CTC was included in a 1992 tax bill passed by Congress but vetoed by President George H. W. Bush because of its tax increases on upper-income households.⁴⁵

Presidential candidate Bill Clinton advocated a CTC of up to \$800 on the trail in 1992, but once in office his middle-class tax cut was sacrificed to deficit reduction.⁴⁶ Meanwhile, the CTC continued to appeal to Republican tax cutters and social conservatives who wanted to help traditional breadwinner-homemaker families. The Republican "Contract with America," a campaign document proposed before the midterm election in 1994, proposed a \$500 CTC, refundable up to payroll tax liability.⁴⁷

The Republican Congress passed legislation including a nonrefundable \$500 CTC in 1995, but it

was vetoed by President Clinton, who objected to its spending cuts and tax reductions.⁴⁸ Clinton had proposed his own CTC that year, a nonrefundable credit of up to \$300 that phased out at lower incomes than the GOP proposal and was available only for children under age 13. While concerns over refundability continued to divide the parties, the CTC finally was enacted into law in 1997—\$500 per child (\$740 in today's dollars), refundable for families with three or more children up to the excess of payroll taxes over the EITC.⁴⁹

Tax legislation in 2001 gradually raised the maximum CTC to \$1,000, and it substantially expanded the previously miniscule refundable part of the credit. The refundable CTC (the “additional child tax credit”) was based on a proposal by Brookings Institution scholars Isabel Sawhill and Adam Thomas. Sawhill and Thomas designed it to promote work and offset the reduced safety-net and EITC benefits low-income families received as they worked more.⁵⁰ Tax bills passed in 2003 and 2004 accelerated the reforms. The refundable credit was eventually 15 percent of earned income above a threshold (initially \$10,000, thereafter adjusted for inflation), up to \$1,000 for all children.⁵¹ The American Recovery and Reinvestment Act of 2009 lowered the threshold for receiving the refundable credit to \$3,000.⁵² Legislation in 2010, 2011, and 2015 extended the CTC to 2017.

In 2017, the TCJA increased the maximum credit amount to \$2,000, raised the maximum refundable credit to \$1,400, lowered the threshold for receiving the refundable credit to \$2,500, extended the credit to more upper-income households, and created a \$500 “family credit” for dependents not eligible for the CTC (including children older than age 16).⁵³ These reforms are set to expire after 2025.

Finally, ARPA expanded the CTC in various ways for tax year 2021. It increased the maximum credit for most taxpayers to \$3,000 per child or, for children under age 6, \$3,600; made the credit fully refundable (regardless of earned income); extended the credit to 17-year-olds; and made it available monthly. These provisions will expire at the end of 2021, though the Biden administration has proposed extending

them through 2025 (and making the full refundability permanent).⁵⁴

How the CTC Can Influence Work and Family.

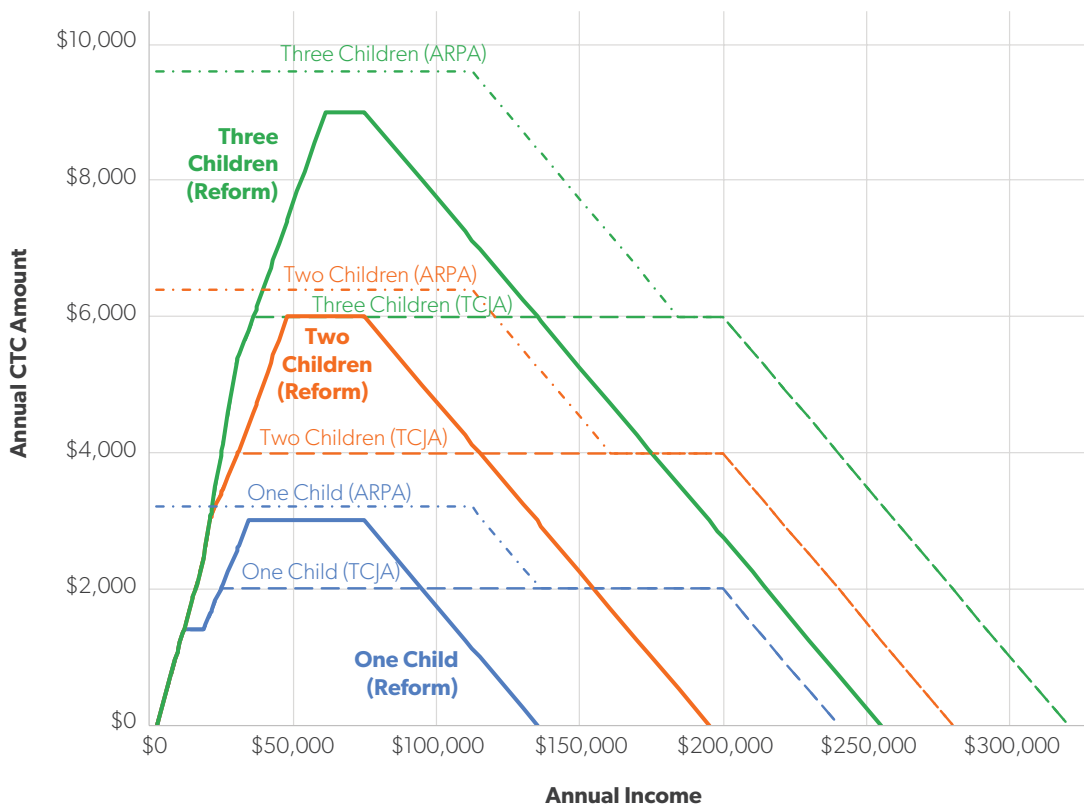
As noted above, the CTC today benefits families over a wide range of incomes. However, until the temporary expansion that passed as part of ARPA, it had important features that were especially relevant for antipoverty policy. First, it was unavailable to anyone who had less than \$2,500 in earned income over a tax year, incentivizing work. It then phased in, providing up to \$1,400 per child above income tax liability and then counting against tax liability thereafter up to \$2,000 per child. This phase-in also encouraged work.

The temporary expansion in ARPA made the CTC fully refundable, removing the earnings requirement and the phase-in and providing \$3,000 per child (or \$3,600 per child under age 6) for everyone until earned income reaches thresholds above \$100,000. Full refundability reduces work incentives relative to the pre-ARPA credit.

The new higher maximum CTC will also lead some parents to put in fewer work hours if they were satisfied with their income under the old \$2,000 maximum. In addition, ARPA creates a new phaseout that effectively taxes additional work over the income range in which the credit shrinks from the new \$3,000 or \$3,600 maximum to the old \$2,000 maximum. Beyond this phaseout, the CTC continues as before ARPA, flat at \$2,000 for a while before phasing out again high up the income scale. Over these incomes, the new CTC reduces work for some beneficiaries in the same way it did before 2021 (by providing more resources and reducing the cost of working less in the range of the phaseout).⁵⁵

One big distinction between the work-disincentivizing effects of the CTC lower down the income scale and the effects higher up is that the latter are often welcome and intended policy outcomes. Upper-income families are often self-reliant and comprised of married couples. CTC advocates have long sought to help families that would like to have more children and spend more time caring for them in the home. Thus, the CTC has historically had both antipoverty and pro-family-care rationales.

Figure 4. Proposed Reform to the CTC (Single-Parent Families)



Note: Policy proposal would shift the dashed lines (showing TCJA and ARPA benefits) to the solid lines. For simplicity, ARPA benefits are weighted averages of the amounts for younger (under age 6) and older (under age 18) children, weighted 2:1 toward older children, which makes the maximum credit \$3,200 per child rather than \$3,600 or \$3,000. Amounts for families with more than three children are not shown. All amounts and parameters are for tax year 2021 and for head-of-household filing status. The amounts assume no unearned income and that filers do not itemize. For all schedule parameters, see note 60.

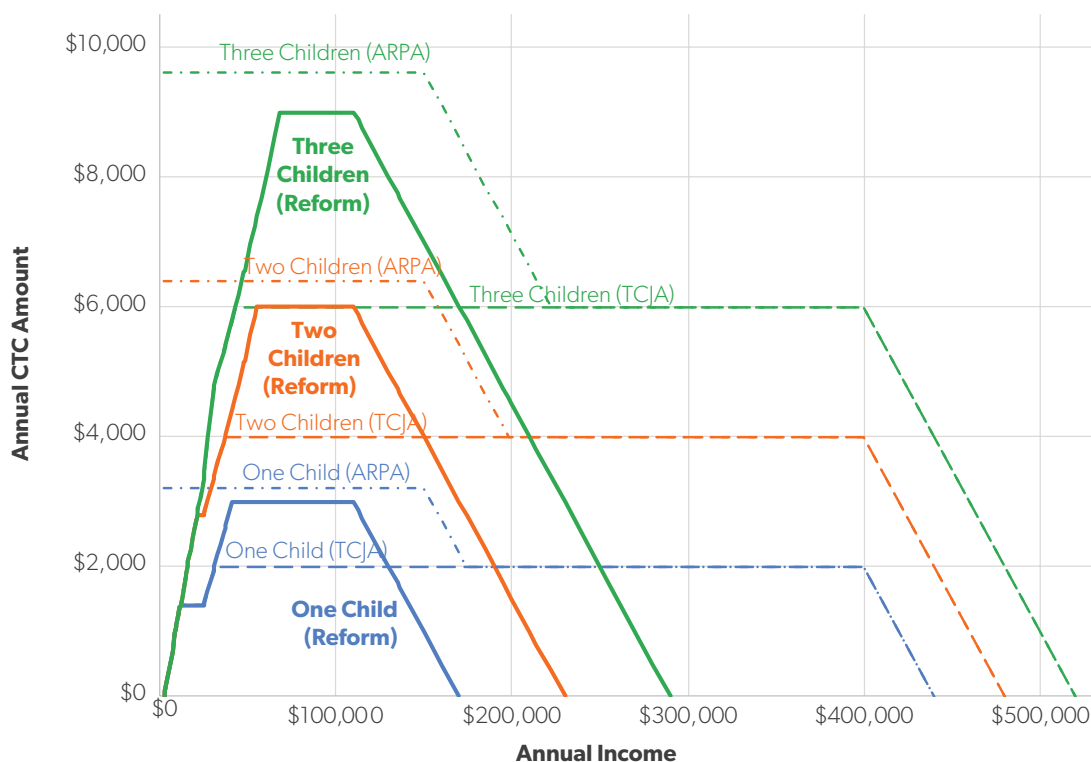
Source: Pre-TCJA and post-TCJA, pre-ARPA parameters are from Internal Revenue Service, “Publication 972: Child Tax Credit,” January 23, 2018, <https://www.irs.gov/pub/irs-prior/p972-2017.pdf>; and Internal Revenue Service, “Publication 972: Child Tax Credit and Credit for Other Dependents,” February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>. Post-ARPA parameters are from the “Publication 972: Child Tax Credit and Credit for Other Dependents” and from the language in H.R. 1319-American Rescue Plan Act of 2021 (2021). Tax year 2021 standard deductions, brackets, and rates are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

These two goals, however, are in tension. In the case of work, many people are eager to help two-worker, married families afford to shift their time from paid work outside the home to childcare in the home. But a CTC with no work requirement or phase-in will also make it easier for one-worker, single-parent families to retreat from work and rely more deeply on government transfers.⁵⁶ Even if that leaves a family better off in the short run, it may increase long-run poverty or intergenerational

mobility, distancing them from the world of work and reducing human capital investment.

The post-ARPA CTC also embodies a tension when it comes to effects on marriage, fertility, and living arrangements. The additional income the CTC provides helps working- and middle-class families afford to have more children and may thereby make it easier for couples to marry if the cost of child-rearing was getting in the way. But it also makes it easier for couples to have children without getting or staying married.

Figure 5. Proposed Reform to the CTC (Married-Parent Families)



Note: Policy proposal would shift the dashed lines (showing TCJA and ARPA benefits) to the solid lines. For simplicity, ARPA benefits are weighted averages of the amounts for younger (under age 6) and older (under age 18) children, weighted 2:1 toward older children, which makes the maximum credit \$3,200 per child rather than \$3,600 or \$3,000. Amounts for families with more than three children are not shown. All amounts and parameters are for tax year 2021 and for married couples filing jointly. The amounts assume no unearned income and that filers do not itemize. For all schedule parameters, see note 60.

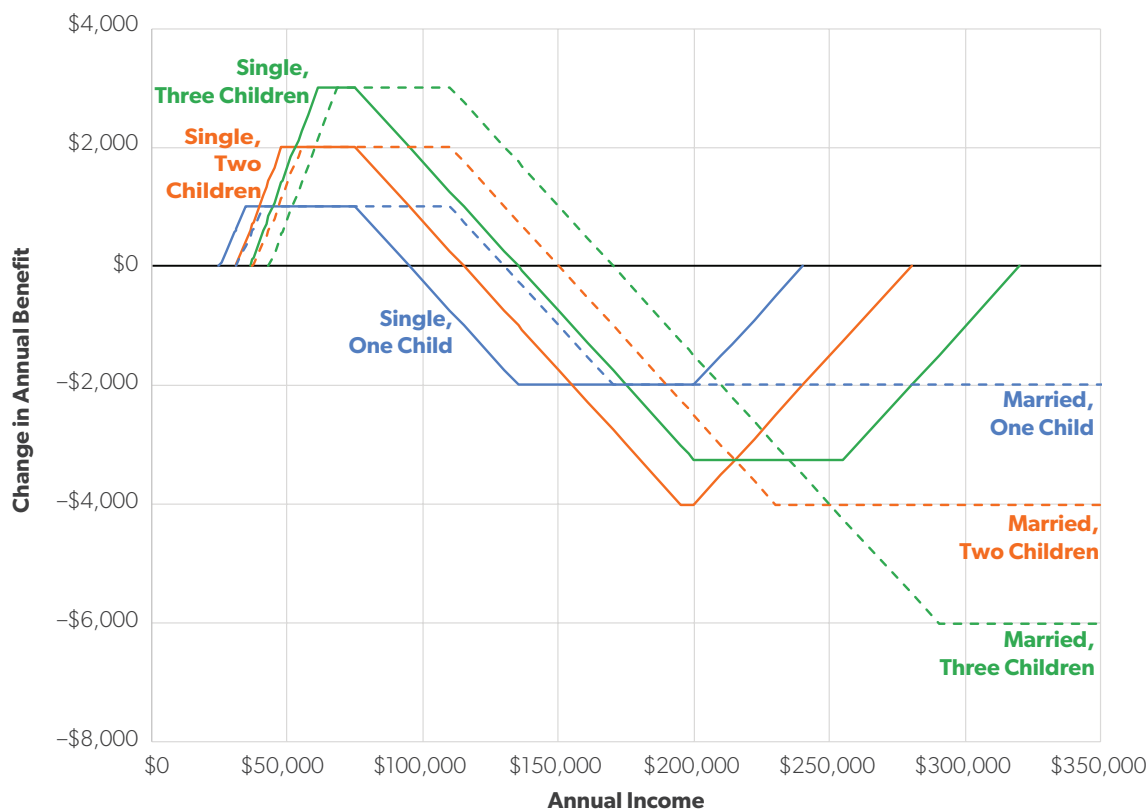
Source: Pre-TCJA and post-TCJA, pre-ARPA parameters are from Internal Revenue Service, “Publication 972: Child Tax Credit,” January 23, 2018, <https://www.irs.gov/pub/irs-prior/p972-2017.pdf>; and Internal Revenue Service, “Publication 972: Child Tax Credit and Credit for Other Dependents,” February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>. Post-ARPA parameters are from the “Publication 972: Child Tax Credit and Credit for Other Dependents” and from the language in H.R. 1319-American Rescue Plan Act of 2021 (2021). Tax year 2021 standard deductions, brackets, and rates are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

That could happen by easing either the custodial parent’s financial burden or the noncustodial parent’s guilt over being noncustodial. The incentives to live as a cohabiting couple rather than getting married may be especially strong among lower-income families if a parent is receiving safety-net benefits that they would lose were the couple to marry.

Finally, because families high up the income ladder receive the CTC, it also ends up helping many who are not terribly constrained by the costs of

raising children. In 2020, the CTC cost 70 percent more than the EITC, and about half the benefits went to households with over \$100,000 in income.⁵⁷ That year, the federal government lost \$19 billion in tax revenues in the form of CTC benefits to households with incomes over \$200,000. With budget deficits soaring, the TCJA and ARPA expansions of the CTC for upper-middle and upper-class families might be scaled back to better target families with more modest incomes.

Figure 6. Change in CTC Benefits from Proposed Reform, Relative to TCJA Policy



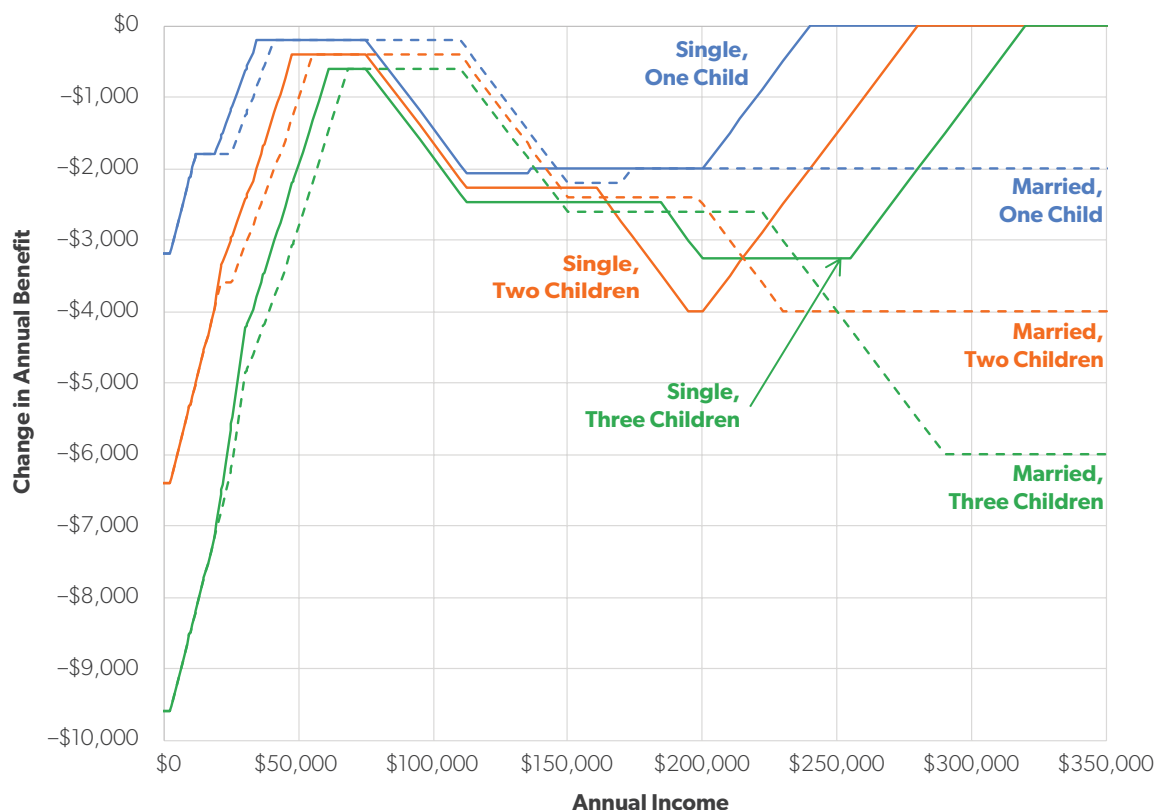
Note: All amounts and parameters are for tax year 2021 and single-parent tax units filing as heads of household or married-parent tax units filing jointly. The amounts assume no unearned income and that filers do not itemize. Amounts for families with more than three children are not shown. Income range over which the TCJA married-couple CTC phases out is not shown. Source: Pre-TCJA and post-TCJA, pre-ARPA parameters are from Internal Revenue Service, “Publication 972: Child Tax Credit,” January 23, 2018, <https://www.irs.gov/pub/irs-prior/p972-2017.pdf>; and Internal Revenue Service, “Publication 972: Child Tax Credit and Credit for Other Dependents,” February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>. Tax year 2021 standard deductions, brackets, and rates are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

Reforming the CTC. The reforms proposed here would restore the work-promoting features of the CTC among lower-income families and make the maximum credit more generous for working families than before the ARPA expansion, but better target it to the working- and middle-class families for whom financial constraints are barriers to child-rearing.⁵⁸ The pre-ARPA refundable treatment of the credit would be restored. The maximum credit would be \$3,000 per child, regardless of age—less generous than ARPA’s credit for young children but more generous than the credit before it. ARPA’s extension of the credit to 17-year-olds would be retained, and the

income thresholds where the phaseout of the credit starts would shift back to their pre-TCJA levels.⁵⁹

Figures 4 and 5 illustrate the reforms for, respectively, single-parent and married-parent families.⁶⁰ Under the proposed reforms, the dashed lines would shift to the bold solid lines.

As shown in Figure 6, relative to the TCJA version of the CTC, the reforms proposed here would provide significant benefits to single parents earning between around \$30,000 and \$100,000 and to married parents earning between \$30,000 and \$150,000. Roughly, these groups amount to about half of head-of-household filers and about half of married

Figure 7. Change in CTC Benefits from Proposed Reform, Relative to ARPA Policy

Note: All amounts and parameters are for tax year 2021 and single-parent tax units filing as heads of household or married-parent tax units filing jointly. The amounts assume no unearned income and that filers do not itemize. Amounts for families with more than three children are not shown. Income range over which the TCJA and ARPA married-couple CTC phases out is not shown. For simplicity, ARPA benefits are weighted averages of the amounts for younger (under age 6) and older (under age 18) children, weighted 2:1 toward older children, which makes the maximum credit \$3,200 per child rather than \$3,600 or \$3,000.

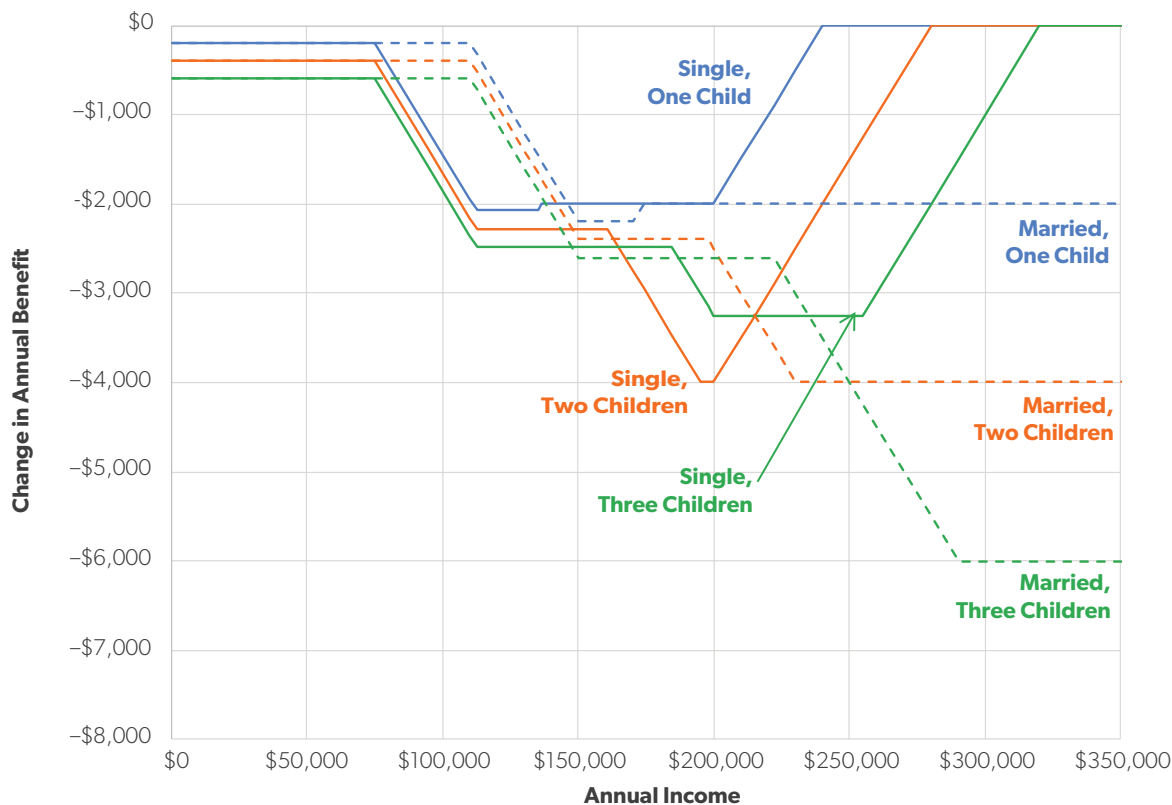
Source: ARPA parameters are from the language in H.R. 1319-American Rescue Plan Act of 2021 (2021) and from Internal Revenue Service, "Publication 972: Child Tax Credit and Credit for Other Dependents," February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>. Tax year 2021 standard deductions, brackets, and rates are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

couples filing jointly.⁶¹ The reforms, however, would reduce benefits higher up the income scale, targeting scarce resources to families lower down that are more clearly constrained by their economic situation when making child-rearing decisions.

Figure 7 instead compares the change in benefits to those under the ARPA expansion. Except for a small number of well-off, single parents, the CTC proposed here would be less generous across the income distribution than the ARPA expansion would be. The difference is small, however, for households between roughly \$50,000 and \$110,000.

The most notable difference is that the reforms proposed here would send much smaller amounts to households earning under \$30,000. This is a consequence of restoring the work-incentivizing provisions of the CTC lower down the income scale—the work requirement and phase-in of the credit and the limited refundability. From a short-term orientation that focuses exclusively on income support, the policy may seem unappealing, but from a longer-term perspective that keeps behavioral incentives in mind, returning to the pre-ARPA policy lower down may result in lower long-term poverty and greater upward mobility.

Figure 8. Change in Combined CTC and Baby Bond Benefits from Proposed Reform, Relative to ARPA Policy



Note: All amounts and parameters are for tax year 2021 and single-parent tax units filing as heads of household or married-parent tax units filing jointly. The amounts assume no unearned income and that filers do not itemize. Amounts for families with more than three children are not shown. Income range over which the TCJA and ARPA married-couple CTC phases out is not shown. For simplicity, ARPA benefits are weighted averages of the amounts for younger (under age 6) and older (under age 18) children, weighted 2:1 toward older children, which makes the maximum credit \$3,200 per child rather than \$3,600 or \$3,000. Baby bond amounts refer to spending on deposits into baby bond accounts; actual outlays will occur when children use the funds and depend on how many children qualify to use the funds and how much of the accumulated amount is used.

Source: ARPA parameters are from the language in H.R. 1319-American Rescue Plan Act of 2021 (2021) and from Internal Revenue Service, “Publication 972: Child Tax Credit and Credit for Other Dependents,” February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>. Tax year 2021 standard deductions, brackets, and rates are from Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

However, this report does not propose simply promoting upward mobility of children through work and marriage incentives that provide lower benefits to nonworking and single-parent families. As an additional way to promote long-term upward mobility rather than single-mindedly reduce short-term poverty, this report proposes diverting most of the reduced benefits among lower-income families into baby bonds designed to encourage parents to invest

in their children’s human capital (and to similarly encourage children themselves).

I describe this proposal in the next section, but Figure 8 displays how the distributional implications of the policy change when incorporating the baby bonds. The combined CTC and baby bond benefits are nearly as large under the proposed policy for those under \$100,000 in income as would be a permanent ARPA version of the CTC. However, they

would clearly prioritize incentivizing behaviors that promote upward mobility.

Setting aside the baby bond proposal for the moment, the CTC reforms proposed here would cost \$434 billion over 10 years relative to a current law baseline (whereby the ARPA expansions of the CTC end with tax year 2021 and the TCJA expansions end after 2025).⁶² Relative to spending under the TCJA through 2025, the proposed reforms are close to budget neutral, with the lower benefits for upper-income households balancing out the greater maximum credit for working- and middle-class households.

Relative to a policy baseline that assumes the TCJA and ARPA expansions of the CTC become permanent, the reforms here would save \$946 billion over 10 years. The reforms would be less generous than either policy for upper-income households, and they would be less generous than ARPA for lower-income households (ignoring the baby bonds).

Creating Success Sequence Savings Accounts to Promote Intergenerational Mobility

The third and final policy proposed in this report would create a new system of child savings accounts for low-income children as an alternative to fully refundable CTCs. These accounts would accumulate significant assets from federal contributions that would be inversely proportional to a family's CTC. In place of the unconditional cash represented by a fully refundable credit, the savings accounts would provide children with benefits deferred to adulthood, the use of which would be restricted to mobility-promoting investments and conditioned on adherence to the mobility-promoting behavior constituting the success sequence.

A Brief History of Child Savings Accounts. Child savings account programs cover various public and private policies designed to build assets over childhood. They typically include seeding by the sponsoring entity, deferred access to the funds

until adulthood, and limitations on the use of the funds. Over 100 small public, private, and public-private programs are operating in the US.⁶³ Child savings account policies, or baby bonds, have been tried in Canada, Singapore, South Korea, and the United Kingdom.⁶⁴

At the federal level, child savings accounts currently are associated with Sen. Cory Booker (D-NJ), who promoted the idea during his 2020 presidential run. Booker and Rep. Ayanna Pressley (D-MA) have sponsored the American Opportunity Accounts Act.⁶⁵ Their proposal would seed universal child savings accounts with an initial \$1,000 and then provide annual supplements ranging from \$2,000 (for those below the poverty line) to \$250 (for those with income just under five times the poverty line). The accounts would accrue interest pegged to that earned by 30-year Treasury securities. On turning 18, young adults could use the accumulated funds for qualified purposes, including education, purchasing a home, or other asset investment. On turning 59.5, they could be accessed for any purpose. The funds would not be countable as resources for assessing eligibility for financial aid. Families would receive annual statements with account balances and the projected value at age 18, and the bill calls for a financial literacy program for account holders.

Baby bond proposals have also attracted Republican support in the past, though primarily for retirement savings. An early “KidSave” proposal introduced in the Senate in 2000 included as original cosponsors future presidential contender Sen. Rick Santorum (R-PA) and Sen. Charles Grassley (R-IA).⁶⁶ In 2007, Sen. Jeff Sessions (R-AL), future attorney general of the United States, proposed “portable lifelong universal savings accounts,” which would have included child savings accounts seeded with \$1,000.⁶⁷ Former Speaker of the House and presidential candidate Rep. Newt Gingrich (R-GA) endorsed child savings accounts in 2009 as an eventual private-accounts-style replacement for Social Security.⁶⁸

Perhaps most notably, the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act was first introduced in 2004 by a

bipartisan coalition. The Senate version was introduced by Santorum and Sen. Jon Corzine (D-NJ). The bill was reintroduced the following year with future Heritage Foundation President and Sen. Jim DeMint (R-SC) on board. The ASPIRE Act would have contributed \$500 to every child's account at birth, provided up to \$500 annually thereafter for lower-income children, and provided up to \$500 annually to match private contributions to the accounts. Funds were to be used for higher education, purchase of a home, or retirement savings.⁶⁹ The ASPIRE Act was reintroduced as recently as 2019, though 2016 was the last time it included a Republican as an original cosponsor.⁷⁰

While most baby bond proposals have focused on encouraging savings, increasing financial education, and closing wealth gaps, the current proposal would leverage their ability to incentivize mobility-promoting behavior to unlock the use of mobility-promoting funds. It would encourage children, adolescents, and young adults to adhere to the success sequence and encourage parents to promote such behaviors in their kids.

A Brief History of the Success Sequence. In a 2006 report for the National Campaign to Prevent Teen and Unplanned Pregnancy, Barbara Dafoe Whitehead and Marline Pearson lamented that teenagers seemed not to appreciate

what might be called the “success” sequence: Finish high school, or better still, get a college degree; wait until your twenties to marry; and have children after you marry. Teens who follow this sequence are likely to avoid poverty and to do well economically. Those who depart from this sequence are at a much greater economic risk.⁷¹

Whitehead and Pearson cited an unpublished 2004 report by Nicholas Zill and Kevin O'Donnell for the evidence behind the success sequence.⁷² Subsequently, the success sequence was popularized by Brookings Institution's Ron Haskins and Sawhill. The two had made a point similar to Zill and O'Donnell's in a 2003 policy brief that found the

poverty rate would be dramatically lower if full-time work, two-parent families, high school graduation, and modest fertility were more common.⁷³

Then, in a 2009 analysis invoking the success sequence, Haskins and Sawhill looked at people in families headed by an able-bodied person of prime working age.⁷⁴ Their version of the success sequence incorporated full-time work (reducing the salience of sequencing) but was otherwise similar to the Whitehead-Pearson formulation.

Haskins and Sawhill also found that in 2007, just 2 percent of family members were poor if the family head had graduated from high school (or received a GED), if the head did not have children until they were age 21 and married, and if someone in the family worked full-time. In contrast, if family heads met none of these benchmarks, 76 percent of family members were poor.⁷⁵ Fortunately, nearly two-thirds of the population they considered were in families meeting all three benchmarks, compared with just 2 percent in families missing all three. Sawhill later revisited the analyses and found similar results for 2012.⁷⁶

More recently, Wendy Wang and W. Bradford Wilcox modified the success sequence definition again, requiring that a young adult be a high school graduate (or have a GED), be either married or childless, and be either working full-time, enrolled in college, or married and taking care of children. Over half (53 percent) of adults age 28–34 in 2013 or 2014 were in poverty if they missed all three benchmarks, while just 3–8 percent were poor if they hit all three marks.⁷⁷

Advocacy of the success sequence is inadequate as a solution to poverty or economic immobility.⁷⁸ That people who have followed the success sequence are almost never in poverty does not mean that poor people who have not followed the sequence would have avoided poverty if they had met the benchmarks. There is an element of selection involved. Most professional athletes or artists put in untold hours practicing over their childhoods, but that does not mean that anyone can “succeed” by simply putting in the hours. Some people will never make beautiful music, and some people will

find avoiding poverty difficult even if they “play by the rules.”⁷⁹ For example, graduating from a failing school may offer limited protection against poverty, and marrying the father of one’s child may not add meaningfully to household resources if the father is chronically unemployed.

Moreover, while playing by the rules might seem a simple matter, it is not so simple at all in certain contexts. Most obviously, finding full-time work is more difficult during economic downturns. But more than that, avoiding teenage or nonmarital pregnancy is more challenging in families, peer groups, and neighborhoods in which these things are common. Graduating from high school is more difficult when one has gone through failing schools from an early age.

The baby bonds proposed here would incentivize human capital investment, marital childbearing, and work.

Critics of the success sequence sometimes go beyond these points and accuse proponents of the sequence of absolving society or government of responsibility for unequal outcomes or even accuse them of blaming the victim. This is an unfair reading of their antagonists. Whitehead and Pearson emphasized that achieving the success sequence

is a high wire act. It takes sustained effort, skill, practice, discipline, deferred gratification, parental dedication and social support to complete the success sequence. It is unrealistic—if not irresponsible—to expect teens to try to walk this high wire alone. They need information, guidance, skill and

support to make it safely through a prolonged adolescence and into a flourishing adult life.⁸⁰

In their 2009 book, Haskins and Sawhill, far from preferring to leave people on their own, called for more preschool funding, national educational standards, more funding for K–12 teachers, reforms to the college financial aid system, expanded work supports, reduced unplanned pregnancies, and other proposals. They estimated the cost of their policy agenda at more than \$200 billion over a decade.

Further, while calling for adherence to the success sequence is not a sufficient solution to poverty and economic immobility, encouraging the behaviors highlighted by the sequence can be an important part of expanding opportunity.⁸¹ Part of the influences that affect the choices that children, teenagers, and young adults make are the messages to which they are exposed and the cost-benefit analyses associated with different choices. The current proposal would attempt to influence both factors.

Creating SSSAs. The baby bonds proposed here would expand opportunities for low-income children by providing them substantial assets available upon reaching adulthood, by restricting the use to which those assets may be put, and (most distinctively) by conditioning access to those assets on adherence to mobility-promoting behaviors. In contrast to fully refundable CTCs that are not conditioned on earnings and that disincentivize work and marriage, the baby bonds proposed here would incentivize human capital investment, marital childbearing, and work. Rather than provide unconditional cash transfers to parents, this proposal would provide funds to grown children for asset building. Those children who achieve elements of the success sequence similar to those in the Wang-Wilcox definition would be rewarded with a wealth transfer not contemplated in previous child savings account proposals.

My proposal would create SSSAs in the US Treasury for every child under age 18 in the United States, along the lines envisioned in the American Opportunity Accounts Act.⁸² Each year, a federal contribution would be made to each child’s account

equal to \$3,000 less the per-child CTC received by the child's family that year. For instance, a family with two children receiving a CTC of \$2,000 (less than the full \$6,000 envisioned under the CTC proposal above) would receive baby bond contributions of \$4,000, apportioned as \$2,000 to each child's account.⁸³

While the baby bonds would be means-tested in this way, families could also make their own private contributions, regardless of their income and whether they receive a federal contribution. A new kind of private, tax-advantaged individual savings account along the lines of 529 accounts and custodial individual retirement accounts would be created for this purpose, which would exist apart from any child's SSSA in the Treasury. Distributions from these private accounts would be allowable on turning 18, regardless of whether the behavioral requirements attached to accessing federal contributions have been met. However, annual contributions (federal and private combined) could not exceed \$3,000 per child per year.

Thus, the existence of federal contributions to an SSSA should not hurt the work or marriage decisions of parents on the margin by much. If a parent with one child who earns enough to receive a \$3,000 CTC reduced their work enough that the CTC dropped to \$2,000, they would receive \$1,000 more in income (from the federal SSSA contribution) than if this policy were not in place. But that additional \$1,000 could not be spent for immediate needs; it would be the child's to (eventually) spend, the use of the funds would be limited to certain purposes, and there would be some risk that the child would ultimately not be able to access the funds due to the behavioral requirements.

Similarly, a parent who is not currently working could take a job and receive a lower federal SSSA contribution for their child but a higher CTC. They would have the opportunity to use the greater CTC amount to either make a private SSSA contribution (making up for the loss of the federal contribution) or spend the dollars on other priorities. The private SSSA contribution would also not be subject to the federal contribution's behavioral requirements.

Families would receive annual statements of their federal SSSA accounts, which would summarize existing balances and projected balances at age 18. These statements would also include statistics describing how poverty rates, median incomes, and median wealth differ at age 30 depending on which success sequence milestones have been reached. These statements would incentivize teenagers and young adults to follow the success sequence and incentivize parents to encourage their children to do so. A federal commission would recommend ways to promote the success sequence through public service announcements and other campaigns.

Upon turning 18, young adults could use any funds in private SSSAs toward postsecondary education or training, wedding expenses, the purchase of a home, the purchase of a car (up to \$10,000), or private business formation or investment. Such funds could also be transferred to retirement savings accounts. A second federal commission would recommend ways to accredit and incentivize new forms of postsecondary education and training that may be eligible to receive SSSA funds.

Upon verification of high school graduation (or receipt of a GED), young adults could use the accrued *federal* SSSA amounts for either postsecondary education or training or a wedding. (Federal funds would not be countable as income for determining eligibility for financial aid.) Starting at age 24, adults could also use federal SSSA amounts for home buying, a car purchase (up to \$10,000), business formation or investment, or retirement savings, but only if they meet two conditions in addition to graduating high school.

First, they must have a minimum number of quarters during which they worked enough to qualify for Social Security coverage. The threshold would be 24 quarters since turning 18 (the equivalent of six years) less quarters enrolled in school or training and less quarters raising children.

Second, they must have a minimum number of quarters (24) since turning 18 during which they were either married or childless. A third federal commission would investigate improvements to the child support enforcement system, partly with the goal of

identifying noncustodial parents for SSSA distribution eligibility. Custodial parents would be encouraged to identify noncustodial biological parents through a claim to the noncustodial parent's federal SSSA funds for an intergenerational rollover, described below. No noncustodial parent could use federal SSSA funds if they owe child support payments.

If the three success sequence conditions are met at any age after 24, the federal SSSA funds become immediately available for the allowable uses described above, and the funds roll over into private SSSA accounts. Someone becoming a single parent before turning 24 would still be eligible to use federal SSSA funds for postsecondary education and training or a wedding, provided they graduated from high school. They could also become eligible to use federal funds for other allowable purposes if they subsequently become married and their combined time either childless or married reaches the 24-quarter threshold. This would disincentivize *early* single parenthood, since every quarter single parenthood is delayed reduces the time until federal SSSA funds may be used for any allowable purpose. It would also encourage marriage subsequent to becoming a single parent. Becoming a single parent after one's federal SSSA is converted to a private one would have no consequence for use of the private SSSA funds.

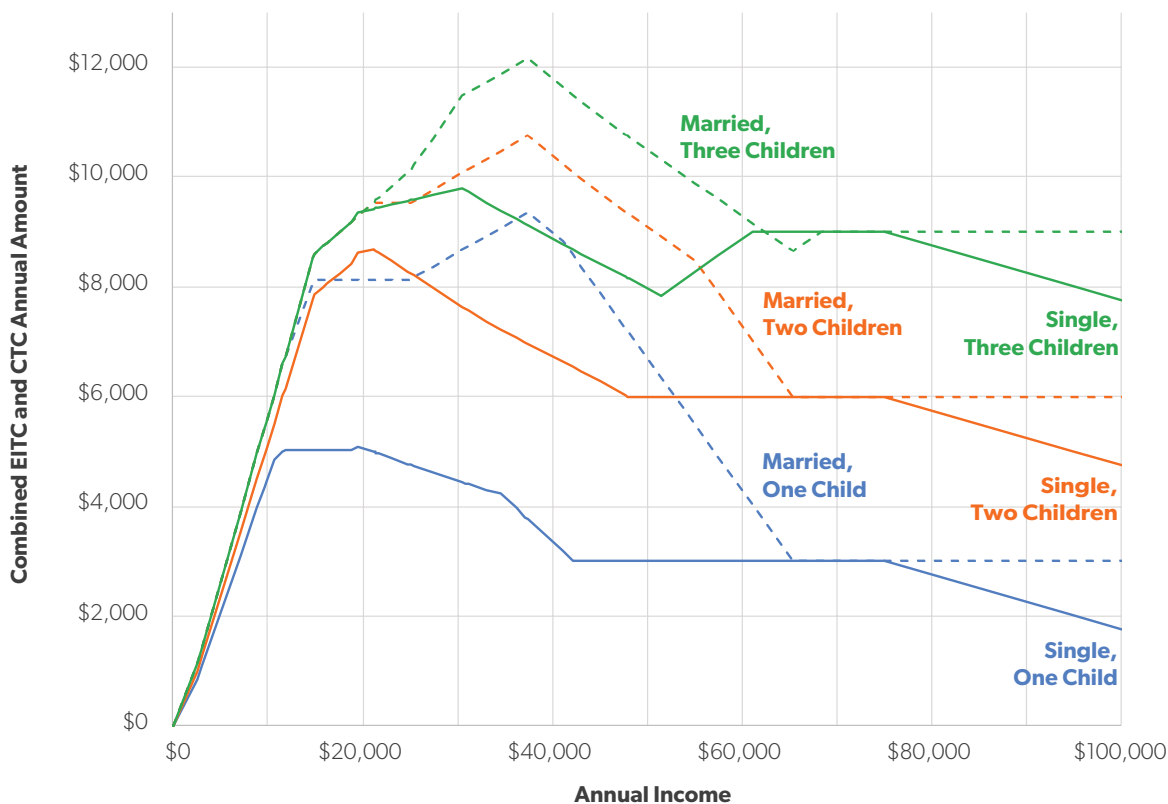
Any earnings from federal SSSA contributions in a federal SSSA account that accrue after age 24 go back to the Treasury. Federal SSSA funds (contributions and earnings) in a federal SSSA account are forfeited and recaptured by the Treasury if not used by age 35 (because the success sequence criteria were not met). If someone has a child, up to half of their forfeited funds may be transferred to the child's account as an intergenerational rollover, up to \$10,000, regardless of whether success sequence conditions have been met. Children may receive an amount from their noncustodial parent's federal SSSA equal to all child support obligations owed, plus half the remaining funds, upon the noncustodial father turning 35.

The amount of funds available to those who become eligible to use them would be substantial.

A child receiving \$3,000 in federal SSSA contributions over 18 years would have \$54,000. (The contributions would earn a modest amount of interest, pegged to 30-year Treasury securities.) Altogether, the SSSA system described here would likely contribute \$56 billion to federal accounts annually, but outlays would be small until the system phases in.⁸⁴ The first cohort of 18-year-olds would have just a single year of federal contributions available to them, which would amount to roughly \$3 billion in aggregate. Not all these recipients would be eligible to spend the funds, and some would choose to spend them later.

This baby bond proposal would be more expensive to the extent that more Americans from low-income backgrounds achieve the benchmarks of the success sequence. This means that the policy is much more plausibly characterized as an investment that will pay off in future benefits than is any cash transfer policy. It would promote upward mobility by targeting children from low-income families, encouraging parents and children to adopt pro-mobility attitudes and behaviors, and restricting funds to mobility-enhancing investments. If we assume that half of children with federal SSSA contributions ultimately become eligible for qualified distributions, perhaps an estimate of \$280 billion over 10 years is in the ballpark.⁸⁵ Over the long run, much of this would be recouped as higher taxes and lower anti-poverty spending.

This proposal is not costless, however, and policymakers must be concerned about unintended consequences and perverse incentives. Given the high stakes involved, we should worry about whether high schools will engage in grade inflation and social promotion (to a greater extent than is currently the case), how much of the funds will be captured by colleges in the form of higher tuition or by the wedding industry in the form of higher prices, the incentives for fraudulent postsecondary and training institutions to exploit people, and the possibility that women will feel more pressure to have abortions rather than become single mothers.⁸⁶ But all these costs must be weighed against the potential benefits that could come from expanding opportunities

Figure 9. Proposed Reforms to EITC and CTC, Distribution of Benefits (Families with Children)

Note: All amounts and parameters are for tax year 2021 and single-parent tax units filing as heads of household or married-parent tax units filing jointly. The amounts assume no unearned income and that filers do not itemize. Amounts for families with more than three children are not shown. Income range over which the married-couple CTC phases out is not shown.

Source: Internal Revenue Service, “Publication 972: Child Tax Credit,” January 23, 2018, <https://www.irs.gov/pub/irs-prior/p972-2017.pdf>; Internal Revenue Service, “Publication 972: Child Tax Credit and Credit for Other Dependents,” February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>; Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>; and H.R. 1319-American Rescue Plan Act of 2021 (2021).

for low-income children—and in a way that leverages their sense of agency and is likely to promote a multigenerational shift in outlooks and aspirations.

Putting It All Together

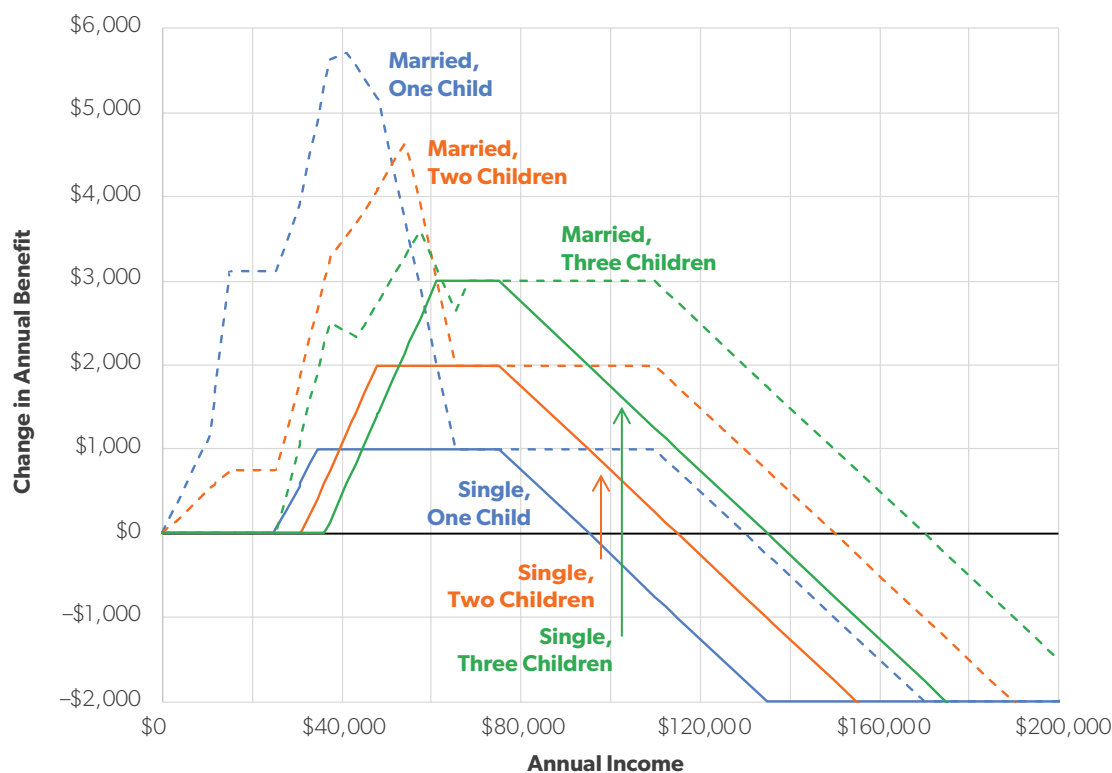
Together, the three reforms proposed here would increase combined EITC and CTC benefits for low-income families, especially married families with one child; increase CTC benefits for working- and middle-class families; and provide a generous new system of restricted-use baby bonds for children in the poorest families. Figure 9 displays the distribution

of combined EITC and CTC benefits under the proposal (ignoring the baby bond proposal).

For comparison, Figure 10 displays the change in combined benefits across income levels relative to EITC and CTC policy before ARPA. For the vast majority of single parents, combined benefits would be no lower than pre-ARPA policy, and starting between around \$25,000 and \$35,000 (depending on the number of children), it would be more generous due to the expanded CTC.

The higher CTC and the expanded EITC for married couples would increase benefits for married-couple families by a greater amount than it would for single-parent families below around \$65,000

Figure 10. Change in Combined EITC and CTC Benefits from Proposed Reform, Relative to TCJA Policy



Note: All amounts and parameters are for tax year 2021 and single-parent tax units filing as heads of household or married-parent tax units filing jointly. The amounts assume no unearned income and that filers do not itemize. Amounts for families with more than three children are not shown. Income range over which the married-couple CTC phases out is not shown.

Source: Internal Revenue Service, "Publication 972: Child Tax Credit," January 23, 2018, <https://www.irs.gov/pub/irs-prior/p972-2017.pdf>; Internal Revenue Service, "Publication 972: Child Tax Credit and Credit for Other Dependents," February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>; Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>; and H.R. 1319-American Rescue Plan Act of 2021 (2021).

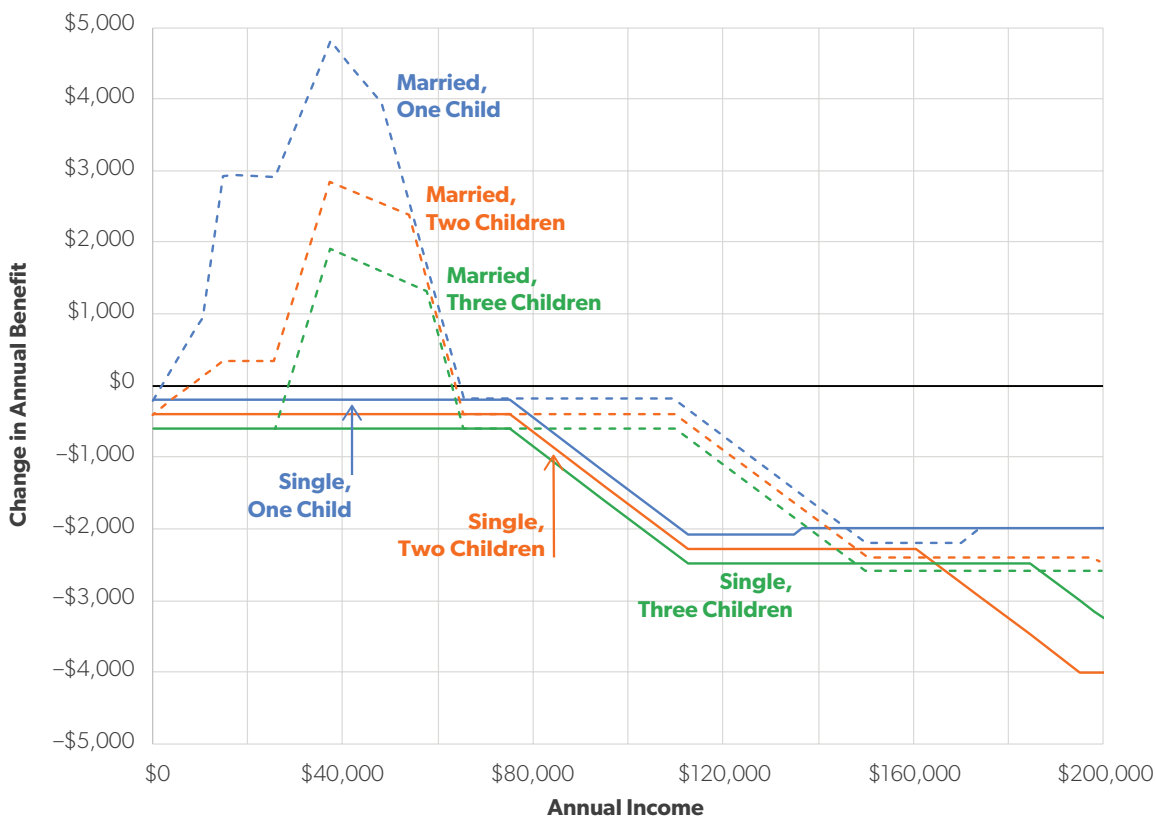
in income. The increased benefits for married parents with one child are especially large—\$5,700 higher for a family with \$41,000 in earnings and over \$2,000 higher for a family with \$60,000 in earnings. Upper-income families would see reduced benefits regardless of marital status. The tax benefits in this proposal are better targeted toward the working- and middle-class families for whom financial constraints are most likely to affect work-family decisions.

Figure 11 depicts the change in benefits over income levels compared with ARPA policy, this time including the federal SSSA contributions. For single parents with income below \$75,000, the only

difference (other than benefits taking the form of federal SSSA contributions) is that younger children currently receive more than the \$3,000 maximum CTC and SSSA benefit proposed here. (The figure sets the ARPA CTC at \$3,200, a weighted average of the younger- and older-child benefits.) The benefits for married-parent families are greater relative to ARPA policy for nearly all such families with under \$65,000 in income.

Relative to current law, the combined EITC and CTC reforms would cost \$570 billion over 10 years.⁸⁷ The expense is primarily due to the CTC expansion, since under current law, the maximum CTC falls back to \$2,000 in 2022 and \$1,000 per child

Figure 11. Change in Combined EITC, CTC, and SSSA Benefits from Proposed Reform, Relative to ARPA Policy



Note: All amounts and parameters are for tax year 2021 and single-parent tax units filing as heads of household or married-parent tax units filing jointly. The amounts assume no unearned income and that filers do not itemize. Amounts for families with more than three children are not shown. Income range over which the TCJA and ARPA married-couple CTC phases out is not shown. For simplicity, ARPA benefits are weighted averages of the amounts for younger (under age 6) and older (under age 18) children, weighted 2:1 toward older children, which makes the maximum credit \$3,200 per child rather than \$3,600 or \$3,000. Baby bond amounts refer to spending on deposits into baby bond accounts; actual outlays will occur when children use the funds and depend on how many children qualify to use the funds and how much of the accumulated amount is used.

Source: Internal Revenue Service, “Publication 972: Child Tax Credit,” January 23, 2018, <https://www.irs.gov/pub/irs-prior/p972-2017.pdf>; Internal Revenue Service, “Publication 972: Child Tax Credit and Credit for Other Dependents,” February 10, 2020, <https://www.irs.gov/pub/irs-prior/p972-2018.pdf>; Internal Revenue Service, Revenue Procedure 2020-45, October 26, 2020, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>; and H.R. 1319-American Rescue Plan Act of 2021 (2021).

after 2025. (The refundable CTC also becomes less generous over time.)

As discussed above, assessing the cost of the baby bond proposal is difficult. Here I assume a mature system in which children have been receiving contributions for 18 years and that half the federal contributions end up being distributed (because beneficiaries achieve the success sequence criteria and spend the funds for allowable purposes). In that case, the total cost of the three reforms in this report would come

to \$850 billion, not including the proposed federal commissions and the tax benefit from the private SSSA accounts.⁸⁸ Outlays will be phased in as more children become eligible to use more years’ contributions, so the cost over the initial 10-year window will be substantially lower.

Relative to current EITC and CTC policy, which takes those credits as they are in 2021 as the baseline, the combined EITC and CTC reforms here would save \$930 billion over 10 years. Spending would be

lower due to the smaller maximum CTC for younger children, the elimination of full refundability, the pre-TCJA phaseout for upper-income families, and the reversal of the ARPA childless EITC expansion. Adding in SSSA commitments, the 10-year savings would still amount to \$650 billion.⁸⁹

To pay for the additional cost relative to current law, this proposal would rely on two policy changes. First, the cost of the EITC and CTC reforms would be more than covered by eliminating the state and local tax deduction. This would generate \$700 billion in revenues over a decade.⁹⁰ In addition, policymakers should take steps to reduce the rate of improper payments in these programs (particularly the EITC).

Second, the cost of the baby bond proposal would be covered by eliminating Pell Grants, which would save around \$325 billion over 10 years.⁹¹ Federal SSSA funds for higher education would be available to more people than receive Pell Grants and involve larger amounts than typically received by Pell Grant recipients.⁹² The federal SSSA funds could also be used by young adults enrolled in postsecondary education and training outside of undergraduate programs. (And, of course, they could be used for other wealth-building purposes besides higher education or training.) Pell Grants would be eliminated gradually as spending on federal SSSA funds increases to not disrupt college affordability for would-be Pell recipients in the short run.

In redirecting tax credit policy toward opportunity and economic mobility, the proposals here address conservatives' and liberals' long-standing concerns. As indicated by the histories of the EITC and CTC, conservatives have always been focused on the unintended risks of a social policy that sends unconditional cash to lower-income Americans. The EITC emerged as an alternative to traditional means-tested benefits and the NIT, with its maximum benefits for nonworking adults. Support for the CTC has been rooted in its ability to help tax-paying families with children. Providing child benefits beyond tax burdens has been regarded as potentially discouraging work.

On the liberal side, from the start of the War on Poverty, Johnson took pains to distinguish poverty

alleviation from opportunity promotion. Referring to the poverty thresholds it had developed, Johnson's Council of Economic Advisers wrote in its annual report to Congress in 1964,

Conquest of poverty is well within our power. . . . The majority of the Nation could simply tax themselves enough to provide the necessary income supplements to their less fortunate citizens. The burden—one-fifth of the annual defense budget, less than 2 percent of GNP—would certainly not be intolerable. But this "solution" would leave untouched most of the roots of poverty.⁹³

In his State of the Union address to Congress that year, declaring the War on Poverty, Johnson advocated that rather than simply reduce hardship, successful antipoverty policy also should expand opportunity: "Our aim is not only to relieve the symptoms of poverty, but to cure it and, above all, to prevent it."⁹⁴ Later the same year, signing the Economic Opportunity Act, he affirmed that "we want to offer the forgotten fifth of our people opportunity and not doles."⁹⁵

By this yardstick, the War on Poverty has little to show for the trillions we have spent waging it. Although the safety net we have put in place over decades has reduced hardship, the biggest improvement occurred during the 1990s, when a bipartisan coalition reformed that safety net to promote independence.⁹⁶ In marked contrast, since the Johnson presidency, the US has made no progress whatsoever in reducing intergenerational poverty—the likelihood that the poorest children will also become the poorest adults.

The choice for those who care about low-income children is not between child allowances and the status quo. The status quo features a child poverty rate that has never been lower but economic mobility as low as we've ever measured it. It also features a middle class better able to afford children than ever before but federal budget deficits as far as the eye can see. By reforming the EITC and CTC to promote opportunity and provide targeted tax relief, we can improve policy while avoiding the

costs of otherwise appealing policies that have hidden downsides.

About the Author

Scott Winship is a senior fellow and the director of poverty studies at the American Enterprise Institute, where he researches social mobility and the causes and effects of poverty. He also focuses on economic insecurity and inequality, among other poverty issues.

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Many colleagues at the American Enterprise Institute provided feedback on early iterations of my proposals or otherwise discussed various topics in this report with me, including Pomerleau, Beth Akers,

John P. Bailey, Timothy P. Carney, Yuval Levin, Brent Orrell, Ramesh Ponnuru, Angela Rachidi, Ian Rowe, Naomi Schaefer Riley, Michael R. Strain, Ryan Streeter, Matt Weidinger, and W. Bradford Wilcox. Many of them disliked aspects of the proposal, but they made important points that improved my thinking.

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Finally, while it would be inappropriately excessive to have a dedication for a research report, I want to express my professional appreciation for several senior researchers whose work I kept coming across in researching the history of the policies discussed here. They offer models of how think tank researchers, at our best, can better policy and thereby improve others' lives. For your careful, creative, dispassionate, and engaging work, thank you to Gary Burtless, Ron Haskins, Belle Sawhill, and Gene Steuerle.

Notes

1. Scott Winship, *The Conservative Case Against Child Allowances*, American Enterprise Institute, March 5, 2021, <https://www.aei.org/research-products/report/the-conservative-case-against-child-allowances/>.

2. Richard V. Burkhauser et al., “Evaluating the Success of President Johnson’s War on Poverty: Revisiting the Historical Record Using an Absolute Full-Income Poverty Measure” (working paper, National Bureau of Economic Research, Cambridge, MA, December 2019), <https://www.nber.org/papers/w26532>; Bruce D. Meyer and James X. Sullivan, “Annual Report on U.S. Consumption Poverty: 2018,” University of Notre Dame, October 18, 2019, https://leo.nd.edu/assets/339909/2018_consumption_poverty_report_1_1.pdf; and Scott Winship, *Poverty After Welfare Reform*, Manhattan Institute, August 2016, <https://media4.manhattan-institute.org/sites/default/files/R-SW-o816.pdf>.

3. On intergenerational mobility, see Scott Winship, “Up: Expanding Opportunity in America,” in *Policy Options for Improving Economic Opportunity and Mobility*, Center on Budget and Policy Priorities and Manhattan Institute, June 2015, 31–57, https://www.pgpf.org/sites/default/files/grant_cbpp_manhattaninst_economic_mobility.pdf; Scott Winship, “Has Rising Income Inequality Worsened Inequality of Opportunity in the United States?,” *Social Philosophy & Policy* 31, no. 2 (June 2015): 28–47, <https://www.cambridge.org/core/journals/social-philosophy-and-policy/article/abs/has-rising-income-inequality-worsened-inequality-of-opportunity-in-the-united-states/43A9659A3959C2423A66EC908E643684>; Scott Winship, “Economic Mobility in America: A State-of-the-Art Primer, Part 3: Trends in Mobility,” Archbridge Institute, forthcoming; Jonathan Davis and Bhash Mazumder, “The Decline in Intergenerational Mobility After 1980” (working paper, Federal Reserve Bank of Chicago, Chicago, February 21, 2020), <https://www.chicagofed.org/publications/working-papers/2017/wp2017-05>; and Raj Chetty et al., “Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility,” *American Economic Review* 104, no. 5 (May 2014): 141–47, <https://www.aeaweb.org/articles?id=10.1257/aer.104.5.141>. From 1983 to 2014, the child poverty rate fell from 22 percent to 8 percent using a measure that included noncash benefits (including employer- and government-provided health benefits) in income, accounted for federal and state taxes, used an improved inflation measure to adjust the poverty line, and treated cohabiting couples as families. Based on the trend in the official poverty measure from 1963 to 1983 and from 2014 to 2019, if my estimates could be extended back to 1963 and forward to 2019, they would show an overall decline in poverty from over 20 percent to around 5 percent. Poverty estimates are based on Winship, “Poverty After Welfare Reform.”

4. Scott Winship, “Safety-Net Reforms to Protect the Vulnerable and Expand the Middle Class,” in *Room to Grow: Conservative Reforms for a Limited Government and a Thriving Middle Class* (Washington, DC: YG Network, 2014), <https://web.archive.org/web/20140610173205/http://ygnetwork.org/wp-content/uploads/2014/05/Room-To-Grow.pdf>.

5. Winship, *The Conservative Case Against Child Allowances*.

6. Scott Winship, “Is It Really Too Expensive to Raise a Family?,” *Dispatch*, April 30, 2021, <https://thedispatch.com/p/is-it-really-too-expensive-to-raise>. There is disagreement about what is ultimately a question we cannot answer until younger women are through their childbearing years: whether women who are younger than those I analyzed (born in the early 1980s) will achieve their fertility goals. For a review, see Scott Winship, “One More Response to Lyman on Fertility Trends,” *Medium*, May 11, 2021, <https://swinshi.medium.com/one-more-response-to-lyman-on-fertility-trends-359efb5c1705>. A point to emphasize regarding the analyses in this post is that fertility rates reflect both underachievement of fertility goals and overshooting of goals. If fertility falls more than earlier fertility goals would have predicted, that can be because more women underachieved or because fewer women overshot their goals. The paper cited in the next endnote suggests that the latter may be an overriding trend. See also the thread at Scott Winship (@swinshi), “Oh! This paper finds ~2/3 of fertility decline 2007-16 was due to falling unintended births. Which is a problem for those worried about whether Gen Z will be as able as past generations to achieve their fertility targets. https://www3.nd.edu/~kbuckles/BGS_june2020.pdf,” Twitter, June 30, 2021, 4:49 p.m., <https://twitter.com/swinshi/status/1410339739996143617?s=20>.

7. Kasey Buckles, Melanie Guldi, and Lucie Schmidt, “The Great Recession’s Baby-Less Recovery: The Role of Unintended Births” (working paper, University of Notre Dame, Notre Dame, IN, June 2020), https://www3.nd.edu/~kbuckles/BGS_june2020.pdf.

8. In polling by the Roper Organization from 1974 to 1999, the share of women saying they would “prefer to have a job outside the home” rather than “spend[ing] all of [their] time taking care of a home and family” rose from 37.5 percent to 52.2 percent. CBS News polls from 1982 to 2009 found that the share of women preferring “to have a job outside the home” rather than “to stay at home and take care of a house and family” was roughly unchanged (50.5 percent versus 49.0 percent). From 2005 to 2019, the share of women in Gallup polls saying they would “prefer to have a job outside the home” to “stay[ing] at home and tak[ing] care of the house and family” rose from 54.1 percent to 58.9 percent. Estimating a linear trend from 1974 to 2019 from these data points, while controlling for the survey organization, yields an increase of 11.6 percentage points over those 45 years. Estimates are from Buckles, Guldi, and Schmidt, “The Great Recession’s Baby-Less Recovery.” CBS News estimates are from Roper Center, Roper iPoll, <https://ropercenter.cornell.edu/ipoll/>. The shares I use are the shares among those expressing a preference between the two options.

9. Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021, <https://www.cbo.gov/system/files/2021-03/56977-LTBO-2021.pdf>.

10. Congressional Budget Office, “Estimated Budgetary Effects of H.R. 1319, American Rescue Plan Act of 2021,” https://www.cbo.gov/system/files/2021-03/Estimated_Budgetary_Effects_of_HR_1319_as_passed_o.pdf.

11. Scott Winship and Rachel Sheffield, *The Demise of the Happy Two-Parent Home*, US Joint Economic Committee, Social Capital Project, Office of Chairman Mike S. Lee, July 2020, https://www.jec.senate.gov/public/_cache/files/84d5b05b-1a58-4b3f-8c8d-2f94cfe4bb59/3-20-the-demise-of-the-happy-two-parent-home.pdf.

12. Dennis J. Ventry Jr., “The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969–99,” *National Tax Journal* 53, no. 4 (December 2000): 983–1026, <https://www.journals.uchicago.edu/doi/10.17310/ntj.2000.4S1.01>.

13. Milton Friedman favored the negative income tax (NIT) as a replacement for not only the existing means-tested safety net but the minimum wage. See Milton Friedman, “The Case for the Negative Income Tax: A View from the Right,” in *Proceedings of the National Symposium on Guaranteed Income*, ed. Robert Leeson and Charles G. Palm (Washington, DC: US Chamber of Commerce, 1966), 49–55, <https://miltonfriedman.hoover.org/internal/media/dispatcher/271085/full>. Lyndon Johnson’s Office of Economic Opportunity also envisioned the NIT replacing the safety net and the minimum wage in its proposal. See Office of Economic Opportunity, “Program Memorandum on Income Maintenance, FY 1968–72,” June 1966.

14. Gary Burtless, “The Work Response to a Guaranteed Income: A Survey of Experimental Evidence,” in *Lessons from the Income Maintenance Experiments: Proceedings of a Conference Held in September 1986*, ed. Alicia H. Munnell (Boston, MA: Federal Reserve Bank of Boston and Brookings Institution, January 1986), <https://ideas.repec.org/a/fip/fedbc/p22-59n30.html>.

15. The 1993 reforms also ended two supplemental credits enacted in 1990 that raised the phase-in and phaseout rates for families that had children under 1 year old or that paid for health insurance for their children.

16. Margot L. Crandall-Hollick, *The Earned Income Tax Credit (EITC): A Brief Legislative History*, Congressional Research Service, March 20, 2018, <https://crsreports.congress.gov/product/pdf/R/R44825/9>.

17. Erica York, “Biden Proposals Would Significantly Expand Benefits Administered Through the Tax Code,” Tax Foundation, June 3, 2021, <https://taxfoundation.org/biden-budget-biden-child-tax-credit/>.

18. Urban Institute and Brookings Institution, Tax Policy Center, “T21-0049—Tax Benefit of the Earned Income Tax Credit (EITC) Under Pre-American Rescue Plan Act Law, by Expanded Cash Income Percentile, 2021,” March 23, 2021, <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0049-tax-benefit-earned>.

19. Urban Institute and Brookings Institution, Tax Policy Center, “T21-0055—Tax Benefit of the Earned Income Tax Credit, by Expanded Cash Income Percentile, 2021,” March 23, 2021, <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0055-tax-benefit-earned>.

20. Urban Institute and Brookings Institution, Tax Policy Center, “T21-0043—Tax Benefit of the Child Tax Credit (CTC) Under Pre-American Rescue Plan Act Law, by Expanded Cash Income Percentile, 2021,” March 12, 2021, <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0043-tax-benefit-child-tax>.

21. Urban Institute and Brookings Institution, Tax Policy Center, “T21-0045—Tax Benefit of the Child Tax Credit, by Expanded Cash Income Percentile 2021,” March 12, 2021, <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0045-tax-benefit-child-tax>.

22. See Nada Eissa and Jeffrey B. Liebman, “Labor Supply Response to the Earned Income Tax Credit,” *Quarterly Journal of Economics* 111, no. 2 (May 1996): 605–37, <https://www.jstor.org/stable/pdf/2946689.pdf>; Michael Keane and Robert A. Moffitt, “A Structural Model of Multiple Welfare Program Participation and Labor Supply,” *International Economic Review* 39, no. 3 (1998): 553–89, <https://www.jstor.org/stable/pdf/2527390.pdf>; David T. Ellwood, “The Impact of the Earned Income Tax Credit and Social Policy Reforms on Work, Marriage, and Living Arrangements,” *National Tax Journal* 53, no. 4 (2000): 1063–105, <https://www.journals.uchicago.edu/doi/10.17310/ntj.2000.4S1.03>; Bruce D. Meyer and Dan T. Rosenbaum, “Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers,” *Quarterly Journal of Economics* 116, no. 3 (August 2001): 1063–114, <https://www.jstor.org/stable/pdf/2696426.pdf>; Jeffrey Grogger, “The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families,” *Review of Economics and Statistics* 85, no. 2 (2003): 394–408, <https://www.jstor.org/stable/pdf/3211588.pdf>; V. Joseph Hotz and John Karl Scholz, “Examining the Effect of the Earned Income Tax Credit on the Labor Market Participation of Families on Welfare” (working paper, National Bureau of Economic Research, Cambridge, MA, January 2006), https://www.nber.org/system/files/working_papers/w11968/w11968.pdf; Nada Eissa, Henrik J. Kelven, and Claus T. Kreiner, “Evaluation of Four Tax Reforms in the United States: Labor Supply and Welfare Effects for Single Mothers,” *Journal of Public Economics* 92, no. 3–4 (April 2008), https://www.nber.org/system/files/working_papers/w10935/w10935.pdf; Raj Chetty, John N. Friedman, and Emmanuel Saez, “Using Differences in Knowledge Across Neighborhoods to Uncover the Impact of the EITC on Earnings,” *American Economic Review* 103, no. 7 (December 2013): 2683–721, <https://www.jstor.org/stable/pdf/42920668.pdf>; Jacob Bastian, “The Rise of Working Mothers and the 1975 Earned Income Tax Credit,” *American Economic Journal: Economic Policy* 12, no. 3 (August 2020): 44–75, <https://www.aeaweb.org/articles?id=10.1257/pol.20180039>; Elira Kuka and Na’ama Shenhav, “Long-Run Effects of Incentivizing Work After Childbirth” (working paper, National Bureau of Economic Research, Cambridge, MA, June 2020), https://www.nber.org/system/files/working_papers/w27444/w27444.pdf; Jacob E. Bastian and Maggie R. Jones, “Do EITC Expansions Pay for Themselves? Effects on Tax Revenue and Public Assistance Spending,” *Journal of Public Economics* 196 (April 2021), <https://www.sciencedirect.com/science/article/abs/pii/S004727272030219X?via%3Dihub>; Diane Whitmore Schanzenbach and Michael R. Strain, “Employment Effects of the Earned Income Tax Credit: Taking the Long View” (working paper, National Bureau of Economic Research, Cambridge, MA, 2021), <https://www.journals.uchicago.edu/doi/pdf/10.1086/713494>; and Jacob Bastian and Lance Lochner, “The EITC and Maternal Time Use: More Time Working and Less Time with Kids?” (working paper, National Bureau of Economic Research, Cambridge, MA, 2021), https://www.nber.org/system/files/working_papers/w27717/w27717.pdf. Only Henrik Kleven finds contrary evidence, but his analyses have been challenged by Bastian and Jones and Schanzenbach and Strain. See Henrik Kleven, “The EITC and the Extensive Margin: A Reappraisal” (working paper, National Bureau of Economic Research, Cambridge, MA, October 2019), https://www.nber.org/system/files/working_papers/w26405/w26405.pdf. For thoughtful skeptical reviews of the evidence, see Lawrence Mead, “Overselling the Earned Income Tax Credit,” *National Affairs* (Fall 2014), <https://www.nationalaffairs.com/publications/detail/overselling-the-earned-income-tax-credit>; and Chris Edwards and Veronique de Rugy, “Earned Income Tax Credit: Small Benefits, Large Costs,” *Cato Institute Tax & Budget Bulletin* 73 (October 2015), <https://www.cato.org/tax-budget-bulletin/earned-income-tax-credit-small-benefits-large-costs?queryID=642745502a9e0c6ca9eb7c47bfd3e42>.

23. That is to say, the “substitution effect”—increasing returns to additional work will tend to increase work—and the “income effect”—more income will tend to lead workers to consume more leisure—work in opposite directions over the income range when the earned income tax credit (EITC) phases in.

24. There is only an income effect over the plateau of the EITC schedule; the return to working more or less does not change.

25. Here the substitution and income effects will tend to reduce work.

26. The research on these questions is limited. At least two studies find that the EITC’s structure tends to reduce marriage. See Chris M. Herbst, “The Impact of the Earned Income Tax Credit on Marriage and Divorce: Evidence from Flow Data,” *Population Research and Policy Review* 30 (2011): 101–28, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.688.5267&rep=rep1&type=pdf>; and Katherine Micheltore, “The Earned Income Tax Credit and Union Formation: The Impact of Expected Spouse Earnings,” *Review of Economics of the Household* 16 (2018): 377–406, <https://link.springer.com/article/10.1007/s11150-016-9348-7>. Two studies found the EITC increases marriage or reduces cohabitation. See Nada Eissa and Hilary Williamson Hoynes, “Good News for Low-Income Families? Tax-Transfer Schemes, and Marriage” (working paper, University of California, Berkeley, Berkeley, CA, March 2003),

https://faculty.georgetown.edu/noe/gnews_.pdf; and Jacob Bastian, “Unintended Consequences? More Marriage, More Children, and the EITC,” *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association* 110 (2017): 1–56, https://ntanet.org/wp-content/uploads/2018/03/Bastian_kidsandmarriageEITC_fulldraft-1.pdf. Four studies find the EITC increases fertility. One finds that the EITC increased first births among non-White married women. See Reagan Baughman and Stacy Dickert-Conlin, “Did Expanding the EITC Promote Motherhood?,” *American Economic Review* 93, no. 2 (May 2003): 247–51, <https://www.jstor.org/stable/pdf/3132233.pdf>. Another study found the EITC reduced birth spacing among single mothers. See Katherine Meckel, “Does the EITC Reduce Birth Spacing? A New Look at the Effects of Wage Subsidies on Fertility” (working paper, Columbia University, New York, March 2015), http://www.columbia.edu/~khm2110/draft_41015.pdf. A third found an increase in fertility among the lowest-educated women. See Bastian, “Unintended Consequences?” And another found that the EITC increased second births among married White women and unmarried, non-White women. See Noelia Duchovny, “The Earned Income Tax Credit and Fertility” (PhD diss., University of Maryland College Park, December 2000), <http://www2.aueb.gr/conferences/espe2001/pdf/Duchovny%20N.PDF>. In contrast, one study found reductions in higher-order fertility among White women. See Reagan Baughman and Stacy Dickert-Conlin, “The Earned Income Tax Credit and Fertility,” *Journal of Population Economics* 22, no. 3 (2009): 537–63, <https://www.jstor.org/stable/40344745>. Another study found a decline in pregnancies. See Chris M. Herbst, “The Earned Income Tax Credit and Abortion,” *Social Science Research* 40, no. 6 (2011): 1638–51.

27. The Economic Growth and Tax Relief Reconciliation Act of 2001 sought to reduce marriage penalties in the EITC by creating separate (more generous) schedules for married parents, increasing the maximum income amount eligible for the maximum EITC for married couples. The American Recovery and Reinvestment Act of 2009 further extended the threshold for which married couples were eligible for the maximum EITC. These changes sought to address the marriage penalties in the EITC.

28. The American Rescue Plan Act (ARPA) increased the phase-in and phaseout rates for childless tax units from 7.65 percent to 15.3 percent. It raised the maximum credit from \$543 to \$1,502, increasing the income at which the maximum credit may be received to \$9,820 (from \$7,100). The upper threshold at which the maximum credit can be received rose from \$8,880 to \$11,610 for single filers and from \$14,820 to \$17,560 for married filers. ARPA also extended eligibility for the childless EITC to homeless adults and former foster children between age 18 and 25, 24-year-old students enrolled at least half time, other adults age 19 to 25, and all adults age 65 or older.

29. Robert Rector, Jamie Bryan Hall, and Noah Peterson, “The Earned Income Tax Credit for Childless Workers Largely Fails to Increase Employment or Earnings: Better Alternatives Needed,” Heritage Foundation, December 3, 2020, https://www.heritage.org/sites/default/files/2020-12/BG3558_1.pdf.

30. Phase-in rates are 34 percent for single filers with one child, 40 percent for single filers with two children, and 45 percent for single filers with three or more children and for married filers with children. Maximum credit amounts are \$3,618 for single filers with one child, \$5,980 for single filers with two children, and \$6,728 for single filers with three or more children and for married filers with children. The maximum credit is available between incomes of \$10,640 and \$19,520 for single filers with one child, \$14,950 and \$19,520 for single filers with two children and single filers with three or more children, and \$14,950 and \$37,370 for married filers with children. Phaseout rates are 15.98 percent for single filers with one child, 21.06 percent for single filers with two children and single filers with three or more children, and 24 percent for married filers with children. Current policy schedules for married filers with children have upper income thresholds for the maximum credit of \$25,470. The other parameters are the same as for single filers with children.

31. The upper threshold to receive the maximum credit would equal the threshold under current policy for a single parent with three or more children—\$19,520 in 2021—plus three times the difference between the threshold for married parents with three or more children and the threshold for a single parent with three or more children under current policy (\$25,470 less \$19,520, or \$5,950). Multiplying \$5,950 by three and adding to \$19,520, the threshold is \$37,370.

32. I do apply the relevant marginal income tax rates and Federal Insurance Contributions Act tax rates to the calculations here.

33. See Jerry Regier, W. Bradford Wilcox, and Chris Gersten, *Marriage Penalties in Means-Tested Tax and Transfer Programs: Issues and Options*, US Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, October 2019, 14, Table 1, https://www.acf.hhs.gov/sites/default/files/documents/ofa/hmrf_marriagepenalties_paper_final50812_6_19.pdf.

34. Cost estimates in this report were generously prepared by Kyle Pomerleau using Tax-Calculator release 3.1.0. See Policy Simu-

lation Library, “Tax-Calculator,” <https://PSLmodels.github.io/Tax-Calculator>.

35. Joya Misra, “The Emergence of Family Allowances: A Gendered Comparative-Historical Analysis of the Welfare State” (PhD diss., Emory University, 1994), Table 1, <https://www.proquest.com/openview/a14d58f0129b71a8ad620d8f4a957c02/1?pq-origsite=gscholar&cbl=18750&diss=y>; and Joshua T. McCabe, *The Fiscalization of Social Policy: How Taxpayers Trumped Children in the Fight Against Child Poverty* (Oxford, UK: Oxford University Press, 2018).

36. This discussion draws from Joshua T. McCabe and Elizabeth Popp Berman, “American Exceptionalism Revisited: Tax Relief, Poverty Reduction, and the Politics of Child Tax Credits,” *Sociological Science* 3 (July 2016): 540–67, https://sociologicalscience.com/download/vol-3/july/SocSci_v3_540to567.pdf.

37. C. Eugene Steuerle and Jason Juffras, “A \$1,000 Tax Credit for Every Child: A Base of Reform for the Nation’s Tax, Welfare, and Health System,” Urban Institute, April 1991.

38. National Commission on Children, *Beyond Rhetoric: A New American Agenda for Children and Families*, 1991, <https://files.eric.ed.gov/fulltext/ED336201.pdf>.

39. It also endorsed a more generous EITC for families with three or more children, which would later become law.

40. With the existing tax brackets of 15, 28, and 31 percent, the exemption—\$2,150 in 1991, or nearly \$3,800 in today’s dollars—reduced income taxes for those with liability by up to \$565, \$1,055, or \$1,170 in 2020 dollars. The proposed CTC, in comparison, would have amounted to \$1,750 in today’s dollars.

41. At a congressional hearing that month at which Eugene Steuerle testified, a Republican witness, Gary Bauer, touted a proposal for a partially refundable child tax credit that his organization, the Family Research Council, had developed with Heritage Foundation staff. See Report on the Activities for the Year 1991 of the Select Committee on Children, Youth, and Families, H. Rept. ISBN-0-16-037560-6, 102nd Cong., 1st sess., 1992, 9–14, <https://files.eric.ed.gov/fulltext/ED343710.pdf>.

42. The commission argued that the CTC “could provide a bridge for families striving to enter the economic mainstream” because “it would not be lost when parents enter the work force, as welfare benefits are.” See National Commission on Children, *Beyond Rhetoric*, 95. It also noted the credit “would not discourage the formation of two-parent families or of single-earner families in which one parent chooses to stay at home and care for the children.” These passages seem carefully worded to avoid mentioning the possibility that the additional income from a tax credit might reduce labor supply or increase single parenthood by making it easier to get by without working or without having a spouse. At a hearing that same month, Juffras offered the more accurate assessment that “child tax credits provide support to those looking to become self-sufficient and reduce these penalties on work and marriage if the credits replace other forms of public assistance.” See *Caught in the Squeeze: Economic Pressures on Working Families*, 102nd Cong. 66 (1991) (statement of Jason Juffras, research associate at the Urban Institute), https://www.google.com/books/edition/Caught_in_the_Squeeze/yRpQyFxt_wC?hl=en&gbpv=0. And William Mattox criticized the commission’s proposal, saying it “would actually offer greater net benefits to a nonworking unmarried mother of one who would net the full \$1,000 than to a taxpaying intact family of three earning as little as \$15,000 a year.” See *Caught in the Squeeze: Economic Pressures on Working Families*, 102nd Cong. 66 (1991) (statement of William Mattox, Family Research Council), https://www.google.com/books/edition/Caught_in_the_Squeeze/yRpQyFxt_wC?hl=en&gbpv=0.

43. McCabe and Berman, “American Exceptionalism Revisited.”

44. Adam Clymer, “Senate Democrats’ Tax Proposal Is Less Generous Than House Bill,” *New York Times*, February 29, 1992, <https://www.nytimes.com/1992/02/29/business/senate-democrats-tax-proposal-is-less-generous-than-house-bill.html>.

45. Adam Clymer, “Tax Bill Is Passed by the Democrats and Bush Vetoes It,” *New York Times*, March 21, 1992.

46. Bob Woodward, *The Agenda: Inside the Clinton White House* (New York: Simon & Schuster, 1994).

47. This discussion draws on Margot L. Crandall-Hollick, *The Child Tax Credit: Legislative History*, Congressional Research Service, March 1, 2018, <https://crsreports.congress.gov/product/pdf/R/R45124/5>.

48. Todd S. Purdum, “As Long Promised, President Vetoes the G.O.P. Budget,” *New York Times*, December 7, 1995, <https://www.nytimes.com/1995/12/07/us/as-long-promised-president-vetoes-the-gop-budget.html>.

49. The credit was \$400 in 1998. Republicans wanted CTC eligibility to be determined only after the EITC had reduced income tax liability, which would leave fewer families eligible (because they would have no tax liability). Democrats wanted CTC eligibility to be

determined before eligibility for the EITC. This would allow more families to receive a CTC (because they would have tax liability) before then also receiving the fully refundable EITC. Democrats won this battle. See McCabe and Burnham, “American Exceptionalism Revisited”; and Crandall-Hollick, *The Child Tax Credit*.

50. They proposed that the minimum threshold for receiving the refundable credit be set at a level roughly corresponding to earnings at the minimum wage, working 30 hours a week for 50 weeks. See Isabel V. Sawhill and Adam Thomas, “A Tax Proposal for Working Families with Children,” Brookings Institution, January 2001, <https://www.brookings.edu/wp-content/uploads/2016/06/pb03.pdf>. Sawhill and Thomas also proposed extending, for married couples, the income over which the maximum EITC could be received, which also was enacted into law that year (though the proposal was not original to them).

51. Crandall-Hollick, *The Child Tax Credit*. Policymakers chose the 15 percent rate since it was roughly equivalent to the combined employee- and employer-side payroll tax rate. See David Brooks Harris, “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” (PhD diss., Columbia University, 2012), <https://academiccommons.columbia.edu/doi/10.7916/D8V40S9Q>. The “alternative formula,” whereby larger families can calculate their credit based on the difference between payroll taxes and the EITC, remains on the books.

52. A few months earlier it had been temporarily reduced to \$8,500. There was also a one-time \$300-per-child rebate pegged to the CTC in 2008 (the “recovery rebate credit”).

53. The Tax Cuts and Jobs Act (TCJA) also eliminated dependent exemptions while making the standard deduction more generous, a swap that made the tax code relatively more generous to households with fewer children.

54. Only half the credit amount would be paid out monthly after 2021. See Erica York, “Biden Proposals Would Significantly Expand Benefits Administered Through the Tax Code.”

55. Two studies indicate that the child tax credit increases work. See Kye Lippold, “The Effects of the Child Tax Credit on Labor Supply” (working paper, University of California, San Diego, San Diego, CA, November 11, 2019), https://acsweb.ucsd.edu/~klippold/pdfs/Lippold_CTC_Paper.pdf; and Wei Zheng, “Child Tax Credit and Maternal Labor Supply,” September 2020, https://b6ad33f0-5c8f-4cae-8827-e0b202e9df5d.filesusr.com/ugd/727ad2_ebc7d866770149868145d8ad583cc10d.pdf.

56. Winship, “The Conservative Case Against a Child Allowance.”

57. US Congress, Joint Committee on Taxation, “Estimates of Federal Tax Expenditures for Fiscal Years 2020–2024,” November 5, 2020, <https://www.jct.gov/publications/2020/jcx-23-20/>; and Urban Institute and Brookings Institution, Tax Policy Center, “T21-0043—Tax Benefit of the Child Tax Credit (CTC) Under Pre-American Rescue Plan Act Law, by Expanded Cash Income Percentile, 2021,” March 12, 2021, <https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0043-tax-benefit-child-tax>.

58. Another reform to the CTC that would address family affordability issues would be to allow parents to receive advance CTC benefits for their children, receiving anticipated future benefits as a lump sum when children are younger. See Katharine B. Stevens and Matt Weidinger, “Improving Early Childhood Development by Allowing Advanced Child Tax Credits,” *Tax Notes Federal* 170 (February 1, 2021), <https://www.aei.org/wp-content/uploads/2021/03/Stevens-and-Weidinger-On-the-Margin-Feb-1-2021.pdf?x91208>.

59. The proposal would also do away with the alternative method of calculating the CTC for families with three or more children that offsets payroll tax liability starting with the first dollar.

60. The figures omit benefit amounts for families with more than three children, but unlike the EITC, larger families continue to receive additional benefits. The phase-ins are the same for the proposed reform and the TCJA: The refundable credit starts at \$2,500 and then initially phases in at a rate of 15 percent. Once a tax unit’s income exceeds the standard deduction, the credit begins to offset taxes at the rate for the lowest bracket (10 percent) and eventually (for tax units with three children) at the rate for the next lowest bracket (12 percent). The refundable credit adds to this until it maxes out at \$1,400 (below the 12 percent bracket). Therefore, the phase-in rates can be as low as 10 percent and as high as 25 percent (15 percent plus 10 percent) over different income ranges for families with different numbers of children. There is no phase-in of the ARP-expanded CTC, nor any earnings requirement. Maximum credit amounts are \$3,000 per child for the proposed reform, \$2,000 per child for the TCJA, and either \$3,600 (child under age 6) or \$3,000 for the ARP. For simplicity, the figure puts the maximum ARPA benefit at \$3,200 per child, which is a weighted average of the amounts for older and younger children, with the former weighted twice as heavily as the latter (since twice as many ages are covered).

For single parents filing as head of household (Figure 4), the maximum credit is available in the proposed reform starting at an income of \$34,500 (single child), \$47,833 (two children), or \$61,167 (three children). It begins to phase out above \$75,000. The TCJA maximum credit is available starting at an income of \$24,800 (single child), \$30,800 (two children), or \$36,167 (three children). It begins to phase out above \$200,000. The ARPA maximum credit is available at \$0 and begins to phase out at \$112,500 for families of all sizes. The phase-out rate under all the policies is 5 percent, with the ARPA credit phasing out at that rate until it reaches the TCJA maximum of \$2,000 (\$136,500 for single child, \$160,500 for two children, \$184,500 for three children). Once income reaches \$200,000, it phases out again at a 5 percent rate. Under the proposed reform, the credit reaches \$0 at incomes of \$135,000 (single child), \$195,000 (two children), or \$255,000 (three children). Under TCJA and ARPA, those levels are \$240,000, \$280,000, and \$320,000. For married parents filing jointly (Figure 5), the maximum credit is available in the proposed reform starting at an income of \$41,100 (single child), \$55,083 (two children), or \$68,417 (three children). It begins to phase out above \$110,000. The TCJA maximum credit is available starting at an income of \$31,100 (single child), \$37,100 (two children), or \$43,100 (three children). It begins to phase out above \$400,000. The ARPA maximum credit is available at \$0 and begins to phase out at \$150,000 for families of all sizes. The phaseout rate under all the policies is 5 percent, with the ARPA credit phasing out at that rate until it reaches the TCJA maximum of \$2,000 (\$174,000 for single child, \$198,000 for two children, or \$222,000 for three children). Once income reaches \$400,000, it phases out again at a 5 percent rate. Under the proposed reform, the credit reaches \$0 at incomes of \$170,000 (single child), \$230,000 (two children), or \$290,000 (three children). Under TCJA and ARPA, those levels are \$440,000, \$480,000, and \$520,000.

61. Compare Figure 6 to the estimates in Urban Institute and Brookings Institution, Tax Policy Center, “T20-0016—Baseline Distribution of Income and Federal Taxes, All Tax Units, by Expanded Cash Income Level, 2020,” February 26, 2020, <https://www.taxpolicycenter.org/model-estimates/baseline-distribution-income-and-federal-taxes-february-2020/t20-0016-baseline>.

62. Cost estimates in this report were generously prepared by Pomerleau using Tax-Calculator release 3.1.0. See Policy Simulation Library, “Tax-Calculator.”

63. Prosperity Now, Campaign for Every Kid’s Future, “Sustaining the Movement: The State of the Children’s Savings Field 2020,” 2020, https://prosperitynow.org/sites/default/files/resources/CSA-SOTF-2020-Sustaining-the-Movement_V3.pdf.

64. Barbara A. Butrica, “A Review of Children’s Savings Accounts,” Urban Institute, March 2015, <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000157-A-Review-of-Childrens-Savings-Accounts.pdf>; and Youngmi Kim et al., “Asset-Based Policy in South Korea,” Washington University, George Warren Brown School of Social Work, Center for Social Development, December 2015, https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1686&context=csd_research.

65. American Opportunity Accounts Act, S. 2231, 116th Cong., <https://www.congress.gov/bill/116th-congress/senate-bill/2231?q=%7B%22search%22%3A%5B%22american+opportunity+accounts%22%5D%7D&s=2&r=2>.

66. All children would have received a \$2,000 loan, to be repaid with interest in adulthood (by which time the buildup in the account would have been considerable), with funds accessible upon retirement. See David John, “Congress Should Revive KidSave as an Innovative Step Toward Better Retirement Security,” Heritage Foundation, September 17, 2003, <https://www.heritage.org/social-security/report/congress-should-revive-kidsave-innovative-step-toward-better-retirement>.

67. Jeff Sessions, “A Bipartisan Fix for Retirees,” *Washington Post*, December 26, 2006, <https://www.washingtonpost.com/wp-dyn/content/article/2006/12/25/AR2006122500465.html>.

68. Newt Gingrich, “Personal Liberation with Lifetime Savings Accounts,” *Washington Examiner*, July 16, 2009, <https://www.washingtonexaminer.com/newt-gingrich-personal-liberation-with-lifetime-savings-accounts>.

69. See Rick Santorum et al., “Summary of America Savings for Personal Investment, Retirement, and Education (ASPIRE) Act,” July 22, 2004, https://www.eric.org/forms/uploadFiles/319F0000014.filename.America_Savings_for_Personal_Investment_Summary_.pdf.

70. See Congress.gov, “Aspire Act,” <https://www.congress.gov/search?q=%7B%22source%22%3A%22legislation%22%2C%22search%22%3A%22%5C%22aspire%20act%5C%22%22%7D>.

71. Barbara Dafoe Whitehead and Marline Pearson, *Making a Love Connection: Teen Relationships, Pregnancy, and Marriage*, National Campaign to Prevent Teen and Unplanned Pregnancy, 2006, 17, http://www.healthymarriageinfo.org/wp-content/uploads/2018/05/MALC_FINAL.pdf.

72. Nicholas Zill and Kevin O’Donnell, “Child Poverty Rates by Maternal Risk Factors: An Update,” Westat, 2004.

73. Ron Haskins and Isabel V. Sawhill, “Work and Marriage: The Way to End Poverty and Welfare,” Brookings Institution, September 2003, <https://www.brookings.edu/wp-content/uploads/2016/06/pb28.pdf>.

74. Ron Haskins and Isabel V. Sawhill, *Creating an Opportunity Society* (Washington, DC: Brookings Institution Press, 2009), <https://www.brookings.edu/wp-content/uploads/2016/07/CreatinganOpportunitySociety1.pdf>.

75. Due to data limitations, their estimates counted a family head as having waited to have children until age 21 and married if the head was at least 21 years older than the oldest child still in the household and if the head was married or widowed when observed. They counted a family head as having worked full-time if someone in the family worked 40 or more weeks in the previous year and typically worked at least 35 hours per week. See Isabel Sawhill and Edward Rodrigue, “The Three Norms Analysis: Technical Background,” Brookings Institution, March 2018, <https://www.brookings.edu/wp-content/uploads/2015/11/sawhill-2018-revision-to-appendix.pdf>.

76. Isabel V. Sawhill, “Creating Opportunity for the Forgotten Americans,” in *Brookings: Big Ideas for America*, ed. Michael E. O’Hanlon (Washington, DC: Brookings Institution Press, 2017).

77. Wendy Wang and W. Bradford Wilcox, *The Millennial Success Sequence: Marriage, Kids, and the “Success Sequence” Among Young Adults*, American Enterprise Institute, June 14, 2017, <https://www.aei.org/research-products/working-paper/millennials-and-the-success-sequence-how-do-education-work-and-marriage-affect-poverty-and-financial-success-among-millennials/>.

78. For thoughtful critiques of the success sequence, see Brent Orrell, “Success Is Not a Sequence,” American Enterprise Institute, January 8, 2019, <https://www.aei.org/education/k-12-schooling/success-is-not-a-sequence/>; Michael D. Tanner, “The Success Sequence—and What It Leaves Out,” *Cato Unbound*, May 9, 2018, <https://www.cato-unbound.org/2018/05/09/michael-d-tanner/success-sequence-what-it-leaves-out>; and Eve Tushnet, “What’s Wrong with the ‘Success Sequence?’,” Institute for Family Studies, April 16, 2018, <https://ifstudies.org/blog/whats-wrong-with-the-success-sequence>. Matt Bruenig has pointed out that the success sequence need not be intrinsically associated with income, but being a socialist, he minimizes the likelihood that designing our institutions to ignore individual choices will encourage choices that destabilize the system and its ability to reduce poverty. See Matt Bruenig, “The Success Sequence Is About Cultural Beefs Not Poverty,” *Matt Bruenig Dot Com*, July 31, 2017, <https://mattbruenig.com/2017/07/31/the-success-sequence-is-about-cultural-beefs-not-poverty/>. However, his claim that “work does all the work” (that poverty is low regardless of the other benchmarks if someone works full-time) is stated too strongly. See Matt Bruenig, “Economic Institutions Should Keep Americans out of Poverty, Not Norms,” *Demos*, August 5, 2015, <https://web.archive.org/web/20150825172256/https://www.demos.org/blog/8/5/15/economic-institutions-should-keep-americans-out-poverty-not-norms>. Failing to graduate high school and becoming a single parent are themselves barriers to full-time work.

79. For example, African Americans have higher poverty rates than Whites do, whether or not they meet the three Haskins-Sawhill benchmarks. See Richard V. Reeves, Edward Rodrigue, and Alex Gold, “Following the Success Sequence? Success Is More Likely If You’re White,” Brookings Institution, August 6, 2015, <https://www.brookings.edu/research/following-the-success-sequence-success-is-more-likely-if-youre-white/>.

80. Whitehead and Pearson, *Making a Love Connection*, 18.

81. Ian Rowe, a senior fellow at the American Enterprise Institute, has argued forcefully that “we have a moral imperative to encourage young people of all races to adopt a new cultural norm around education, work, and responsible parenthood: the success sequence.” In his past role as CEO of the public charter school network PublicPrep, Rowe insisted on incorporating the success sequence into the values of the institution, declaring, “We won’t let the fear of offending people or the fear of being accused of blaming the victim deprive the very young people who would benefit from this kind of information. We have to have the courage to share that.” See Ian Rowe, “Incentivize Individual Agency to Achieve Upward Mobility,” American Enterprise Institute, September 1, 2020, <https://www.aei.org/research-products/report/incentivize-individual-agency-to-achieve-upward-mobility/>; and American Enterprise Institute, “Early Education and the Success Sequence—Interview with Ian Rowe | Viewpoint,” YouTube, June 15, 2018, <https://www.youtube.com/watch?v=7LLCXzqQPPE>.

82. Alternatively, the accounts could be set up as privately owned and managed individual accounts, along the lines of 529 accounts, Roth individual retirement accounts, or universal savings accounts. But in that case, mechanisms would need to be developed for not only qualifying distributions but recovering federal contributions when “owners” do not adhere to the requirements for using funds. That might take the form of 100 percent tax rates for distributions when requirements have not been met, though in practice, such a

tax policy would seem difficult to enforce given the amounts involved. The problem is that the federal contributions would not really be privately owned until the behavioral requirements have been met.

83. Families with earnings too high to qualify for the maximum CTC that are in the phaseout range of the credit would not receive a baby bond contribution.

84. Cost estimates in this report were generously prepared by Pomerleau using Tax-Calculator release 3.1.0. See Policy Simulation Library, “Tax-Calculator.” The estimate I cite is my own, based on multiplying by 18 Pomerleau’s estimate of \$3.1 billion for 2022 (modeled such that outlays would be spent on a single cohort, assuming all youth in the cohort are eligible to use the funds and choose to do so). The estimates I requested from Pomerleau did not include the private tax-advantaged success sequence savings accounts (SSSAs) or their cost to the Treasury. Nor do they include the costs of the federal commissions proposed.

85. This just divides in half the \$56 billion per year estimate cited in the previous paragraph and multiplies it by 10 years.

86. The risk of greater abortions is mitigated in several ways, however. First, even if a woman becomes a single mother, so long as she graduates high school, she may use the federal SSSA funds for postsecondary education or training or a wedding. Second, as discussed in the report, a woman who becomes a single mother can eventually become eligible to use federal SSSA contributions for other qualified purposes if she subsequently marries and builds up 24 quarters either childless or married before age 35. Third, if she does not build up 24 quarters before turning 35, she may transfer up to half (up to \$10,000) of her federal SSSA funds, to her own child. If she identifies the father of her child, the child is entitled to some of the father’s federal SSSA funds, too, as described in the report.

87. Cost estimates in this report were generously prepared by Pomerleau using Tax-Calculator release 3.1.0. See Policy Simulation Library, “Tax-Calculator.”

88. This adds to the amount Pomerleau estimated for the EITC and CTC reforms my \$280 billion estimate for the cost of baby bonds in a mature system.

89. Again, this adds to Pomerleau’s EITC and CTC cost estimate my extrapolated \$280 billion cost for the baby bonds.

90. The revenue loss from the deduction is assumed to be \$25 billion for fiscal years 2022, 2023, 2024, and 2025, based on the estimates in Grant A. Driessen and Joseph F. Hughes, *The SALT Cap: Overview and Analysis*, Congressional Research Service, March 6, 2020, Table 1, <https://crsreports.congress.gov/product/pdf/R/R46246/2>. The loss is assumed to be \$100 billion for fiscal years 2026 through 2031, the period after which many TCJA provisions expire. This may be justified in two different ways. Table 1 in Driessen and Hughes reports that in fiscal year 2017, the last before the TCJA capped the deduction, the revenue loss was \$100.9 billion. And the Joint Committee on Taxation estimated that dropping the cap post-TCJA would have reduced revenues by \$77.4 billion in fiscal year 2019. See US Congress, Joint Committee on Taxation, *Background on the Itemized Deduction for State and Local Taxes*, June 24, 2019, Table 4, <https://www.jct.gov/publications/2019/jcx-35-19/>. If about \$20 billion in revenue loss is added to that to account for the revenue loss with the cap in place, the total is approximately \$100 billion. My estimate seems conservative in that pre-TCJA, the Congressional Budget Office estimated that repealing the state and local tax deduction starting in 2015 would raise \$142 billion by 2024. See Congressional Budget Office, “Eliminate the Deduction for State and Local Taxes,” November 20, 2014, <https://www.cbo.gov/budget-options/2014/49578>.

91. See the estimates at the end of Congressional Budget Office, “Pell Grant Program—CBO’s January 2020 Baseline,” February 20, 2020, <https://www.cbo.gov/system/files/2020-01/51304-2020-01-pellgrant.pdf>. I sum the projected outlays for 2021–30.

92. Roughly 27 million children under age 17 are in families that were not eligible for the full CTC before the ARPA expansion. See Robert Greenstein et al., *Improving the Child Tax Credit for Very Low-Income Families*, US Partnership on Mobility from Poverty, April 2018, <https://www.mobilitypartnership.org/improving-child-tax-credit-very-low-income-families>. In addition to this sum, a substantial number of families that would have received the maximum credit of \$2,000 before ARPA and are not included in the 27 million estimate would receive SSSA contributions under my proposal (if their credit is less than \$3,000). Ignoring them and dividing 27 by 17 indicates that in each birth cohort, 1.6 million children would receive federal SSSA contributions. In comparison, around one million 19-year-olds receive Pell Grants, the age with the largest number of recipients. See Federal Pell Grant Program, “2017–2018 End of Year Report,” Table 11, <https://www2.ed.gov/finaid/prof/resources/data/2017-2018pelloyereports.zip>. The median Pell Grant in 2017–18 was \$3,900 (Table 3).

93. US President and Council of Economic Advisers, *Economic Report of the President*, January 1964, <https://fraser.stlouisfed.org/title/economic-report-president-45/1964-8135>.
94. Lyndon B. Johnson, “Annual Message to the Congress on the State of the Union,” University of California, Santa Barbara, American Presidency Project, January 8, 1964, <https://www.presidency.ucsb.edu/documents/annual-message-the-congress-the-state-the-union-25>.
95. Lyndon B. Johnson, “Remarks upon Signing the Economic Opportunity Act,” University of California, Santa Barbara, American Presidency Project, August 20, 1964, <https://www.presidency.ucsb.edu/documents/remarks-upon-signing-the-economic-opportunity-act>.
96. Winship, “Poverty After Welfare Reform.”

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