



 COMMENTARY ECONOMICS

A Taxing System

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Last week, Hillary Clinton proposed a plan to provide a \$6,000 tax credit to family members caring for elderly parents, grandparents, and adults with disabilities. This announcement follows a number of other tax break proposals, which seem to be the campaign's answer to a variety of problems, from a \$2,500 credit to combat the cost of college tuition to a \$1,500 credit for businesses who train apprentices.

Clinton is not alone in her affinity for tax credits. Both President Barack Obama and Speaker Paul Ryan have called for the expansion of the Earned Income Tax Credit (EITC) to include younger workers. More recently, Marco Rubio proposed a partially refundable Child Tax Credit (CTC) of \$2,500 to help parents with the costs of raising children.

Delivering benefits through the tax code has become our country's default for accomplishing a range of social goals, including combating poverty (currently, the EITC and CTC combined are our biggest anti-poverty programs for children and the working poor). Tax credits allow policymakers to transfer money to low-income families, and because such credits steer clear of direct spending, they find more support across the political spectrum.

Unfortunately, when a silver bullet seems too good to be true, it usually is.

Tax analyst Joseph J. Thorndike has an insightful article that addresses some of the issues with tax credits. He states, "Almost always, tax incentives are a complicated, roundabout way of achieving social goals. Generally targeted at a narrow problem and a specific set of taxpayers, they often miss the mark on both counts." While tax credits have their benefits—for example, the EITC helps encourage employment, especially among single mothers—they simply cannot do it all.

Take poverty, for example. Children are the poorest demographic in the United States. Younger children and minority children are even poorer still (43 percent of black children under age 5 live in poverty). However, a tax credit may do little to help many of them. Black and Hispanic families typically have much less earned income than white families, especially at the bottom of the income distribution. For example, at the tenth percentile of white families, average earnings are \$12,000; meanwhile, the tenth percentile of Hispanic families has \$1,000 in earnings, and the tenth percentile of black families actually has zero income. Unfortunately, families with no income are ineligible for the EITC, and those making less than \$3,000 are ineligible for the CTC, meaning that those who would benefit most from the extra money are not receiving it.

The result, as Matt Bruenig over at Demos shows, is that our existing method of delivering benefits seems to help white children somewhat, but does much less when it comes to black and Hispanic children, who remain the poorest demographics, even when accounting for government benefits. Moreover, according to Kathy J. Edin and H. Luke Shaefer, currently 1.5 million households, including about 3 million children, are now living on a mere \$2 per person, per day.

When Is a Handout Not a Handout?

Not only do tax credits skip over much of the needy population, they also play into the notion that some forms of government assistance are not really assistance—especially when the method of delivery is less visible. TCF fellow Suzanne Mettler terms this phenomenon the submerged state. Her research shows that, when asked if they had used a government social program, 47 percent of people receiving the EITC answered no, compared to only 25 percent of those receiving food stamps.

The problem with a submerged state is that people who don't realize they are receiving government assistance can easily be persuaded to be opposed to social benefits altogether. Think the infamous statement “keep your government hands off my Medicare” made at a town hall meeting in 2009. As Thorndike notes, “Using tax incentives as a form of hidden spending merely serves to further erode support for more direct forms of government action. Small-bore tax breaks breed more small-bore tax breaks. But they don't foster any serious rethinking of the role of government.”

A Better Role for Public Assistance

So what is the role of government? If it is to cut poverty, we actually would be much better off with a universal spending program. For example, Nordic countries utilize child allowances, which transfers cash on a monthly or weekly basis directly to families for each child in their household. According to the OECD family database, in 2012, Denmark, Finland, and Norway had child poverty rates of 2.7, 2.9, and 5.9 percent respectively compared to 20.9 percent for the United States.

Policymakers shouldn't constrain themselves to using the tax code to distribute benefits. It's a clunky, cumbersome, and inaccurate tool. If one of the main goals of social policy is to reduce poverty, rather than following the course of least resistance, we should try to do it in the most efficient way possible: directly transferring money, so that even the poorest people in our country receive it. Bernie Sanders has put his weight behind many comparable proposals, such as expanding Social Security and enacting universal childcare—his next move should be to support child allowances.