

A Step in the Right Direction: The Expanded Child Tax Credit Would Move the United States' High Child Poverty Rate Closer to Peer Nations

Sophie Collyer,^a Megan Curran,^a Irwin Garfinkel,^a David Harris,^{a,b,c} Dominic Richardson,^c
& Christopher Wimer^a

a. Columbia University, Center on Poverty and Social Policy

b. Children's Research and Education Institute

c. The UNICEF Innocenti–Global Office of Research and Foresight

Introduction

With the passage of the [American Rescue Plan \(ARP\)](#)¹ in March 2021, the United States created a quasi-universal child allowance for the first time in the form of a fully refundable, advanceable monthly Child Tax Credit. Starting in July 2021, all families with children who had Social Security numbers, except for those with very high incomes, were eligible to receive monthly tax credits of up to \$300 per young child and \$250 per older child. These payments were made to families from July to December 2021, with families due to receive a lump sum of six months worth of payments at tax time in 2022. The Child Tax Credit expansion also contributed to a historically low rate of child poverty in the United States for 2021: 5.2% when measured using the Supplemental Poverty Measure.² The U.S. Census found that in 2021, the Child Tax Credit kept 2.9 million children above the poverty line.³

The champions of the policy, including U.S. President Biden and congressional leaders, have called for making the Child Tax Credit expansion permanent and have cited reducing child poverty⁴ as central to the purpose.

Key Findings

- When ranking child income poverty rates across 34 OECD nations from lowest to highest, the United States, with one of the highest rates of child poverty, ranks 31st.
- The American Rescue Plan of March 2021 expanded eligibility for the Child Tax Credit and the value of the credit. Such an expansion, if continued, could also bring the child poverty rate in the United States significantly closer to that of other wealthy democracies such as Germany and France.
- In terms of rankings, the expanded Child Tax Credit would move the United States closer to the mainstream: from 31st to 24th among the 34 advanced democracies with comparable data.

¹ For details see: <https://www.congress.gov/bill/117th-congress/house-bill/1319/text>

² Poverty in the United States: 2021 (census.gov)

³ Note that this is the estimate of the total effect of the Child Tax Credit, not just the ARP expansion. In addition, this estimate is determined against a baseline that accounts for other forms of pandemic-related assistance, such as stimulus checks and expanded Unemployment Insurance, and is thus not comparable to the “pre-Child Tax Credit” poverty rate in a year where these other forms of assistance were not available.

⁴ Note that when we use the term “child poverty,” we are referring to income poverty among children.

While that focus on child poverty reduction has been primarily in the domestic context, leaders have occasionally noted that the United States is a laggard internationally when it comes to policies that reduce child poverty, and relative to its peer nations, the United States has a much higher rate of child poverty. Making the ARP Child Tax Credit expansion permanent would impact where the United States⁵ stands internationally in terms of child poverty rates, and this brief seeks to provide an estimate to how far the United States would move in its child poverty ranking relative to other wealthy nations with such a policy change.

Evaluating how the United States fares internationally in terms of child poverty rates requires a common measure used across nations. While most national analyses of the impacts of an expanded Child Tax Credit rely on the Supplemental Poverty Measure (SPM),⁶ we cannot use this measure for cross-national comparisons due to data availability. For cross-national comparisons, the OECD classifies individuals as poor if they fall below a specified point in their country's income distribution. In line with the OECD method, we classify individuals as poor if their household income is below 50% of their national median household income (equivalized for household size).⁷ We then use this data to evaluate how the expanded Child Tax Credit in the United States could affect where the country stands relative to others in terms of child poverty.⁸

Making the Child Tax Credit expansions permanent would be a marked shift in U.S. social policy. While the United States was a leader in the provision of mass public education throughout the 20th century, it lagged in the rich world in the development of cash benefits.⁹ Cash benefits for children are especially meager. The United States ranked second from the bottom in expenditures on cash benefits for children as a percent of GDP among Organisation for Economic Co-operation and Development (OECD) member countries that report the data (just ahead of Costa Rica) and third from the bottom of a wider list of wealthy countries.¹⁰ Our results, however, show that increasing government spending on cash benefits would result in significant reductions in child poverty and substantially narrow the gap in poverty rates between the United States and peer nations.

⁵ Richardson, Dominic, David Harris, Shea McClanahan, and Ian Orton. "Child benefits in the US – For children here, there, and everywhere." Developmental Pathways. March 11, 2021.

⁶ For additional information on the SPM, see: Fox, Liana and Kaylee Burns. 2021. The Supplemental Poverty Measure: 2020 Current Population Reports. U.S. Census Bureau. <https://www.census.gov/content/dam/Census/library/publications/2021/demo/p60-275.pdf>

⁷ For a discussion of the different poverty measures used domestically and internationally, see: Wimer, Christopher and Timothy M. Smeeding. 2017. USA child poverty: the impact of the Great Recession. *Children of Austerity: Impact of the Great Recession on Child Poverty in Rich Countries*, 297.

⁸ Note that relative poverty measures such as the OECD's reflect not just material deprivation but levels of inequality in a society. Countries with higher median incomes may also have higher poverty rates using such measures, even when their absolute levels of living standards are higher in comparative context.

⁹ Garfinkel, Irwin, Lee Rainwater, and Timothy Smeeding. 2010. *Wealth and welfare states: Is America a laggard or leader?* Oxford University Press.

¹⁰ See the OECD Income and Wealth Distribution Databases for additional information: <https://www.oecd.org/social/income-distribution-database.htm>.

Approach

To identify the possible effects of an expanded Child Tax Credit on the U.S. child poverty rate relative to other nations, we first need to determine its effect on child poverty using the OECD method. Such an exercise also requires that we turn to earlier years from which we have data on other countries and estimate the effect of a Child Tax Credit expansion on family income and child poverty in those years using a microsimulation model (see Appendix A: Methodology for details). The Child Tax Credit expansion we model largely matches that of the American Rescue Plan: it increases the maximum credit to \$3,000 for children aged 6 to 17 and \$3,600 for children under age 6 (in \$2021) and decouples the credit from earnings, making children in households with moderate, low, or no earnings eligible for the full credit.¹¹ Specifically, we use data from 2016 to 2018 and calculate average relative child poverty rates, based on 50% of national median income, for each country across these years,¹² as well as the average relative poverty rate and the average SPM child poverty rate in the United States both with and without the expanded Child Tax Credit.¹³ By focusing on 2016 to 2018, these results also allow us to evaluate the potential effects of the Child Tax Credit on the child poverty rate in more standard economic conditions. Note that the ARP established credit levels of \$3,000 and \$3,600 per child were in \$2021. To examine the effects of the real value of these credits in earlier years of data, we deflate these credit levels to the \$2016, \$2017, and \$2018, respectively, using the Consumer Price Index for all Urban Consumers (CPI-U).¹⁴

Results

When ranking 34 OECD nations from lowest to highest child poverty rates in 2018, the United States ranked 31, falling just behind Bulgaria. And the child poverty rate in the United States was nearly double the rate of Germany and France. Put differently, when making international comparisons, the United States has one of the highest child poverty rates of all OECD nations. By providing income directly to families with children, expansions to the Child Tax Credit like that put in place temporarily by the American Rescue Plan could move the nation's position in this ranking.

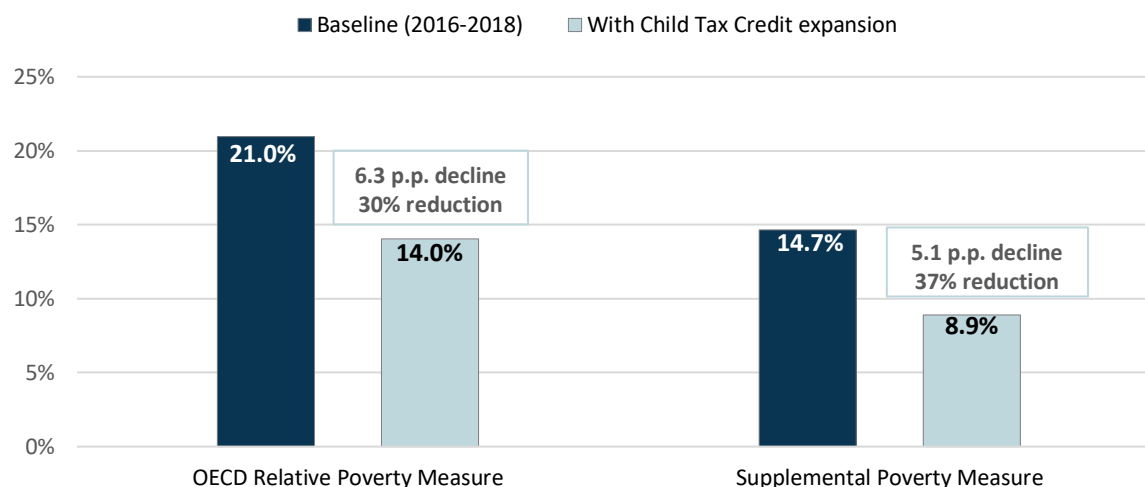
¹¹ The one exception is that we include children with ITINs in the pool of children eligible for the credit.

¹² Data on countries other than the United States retrieved from the OECD. Access the OECD poverty data at: <https://data.oecd.org/inequality/poverty-rate.htm>.

¹³ Note, in data representative of 2016 and 2017, we also re-calculate tax liabilities according to the Tax Cuts and Jobs Act so that we are comparing the Child Tax Credit expansion in those years relative to the Child Tax Credit parameters established in TCJA.

¹⁴ We inflation adjust the credit levels for older children (\$3,000 in \$2021) to \$2,657 in 2016, \$2,713 in 2017, and \$2,780 in 2018. We inflation adjust credit levels for younger children (\$3,600 in \$2021) to \$3,189 in 2016, \$3,257 in 2017, and \$3,336 in 2018. All adjustments made using the annual Consumer Price Index for All Urban Consumers (CPI-U); available at: <https://fred.stlouisfed.org/series/CPIAUCSL>. Note that this estimate of the reduction in the poverty rate associated with the expanded Child Tax Credit differs from earlier estimates released by CPSP because we have deflated the value of the credit from \$2021 and use three years of data (2017 to 2019 CPS-ASEC) to estimate the effect.

Figure 1. Child poverty rates before and after accounting for potential Child Tax Credit expansion in United States, OECD Measure and Supplemental Poverty Measure (2016 – 2018)



Note: Produced using the 2019 CPS-ASEC, retrieved from *IPUMS-CPS, University of Minnesota, Flood et al., 2021*.¹⁵

Figure 1 shows the estimated effect of the United States' Child Tax Credit expansion on the child poverty rate measured both by the OECD method and the SPM. The first striking result in Figure 1 concerns the baseline poverty estimates. The child poverty rate under the OECD measure is significantly higher than under the SPM (21.0% vs. 14.7%). This difference is due, in part, to the higher poverty thresholds derived from the OECD's relative poverty measure and the United States' relatively high median household income. For example, for a two-adult, two-child family in 2018, the OECD threshold for the United States was \$38,680¹⁶ while the SPM threshold was \$24,855.

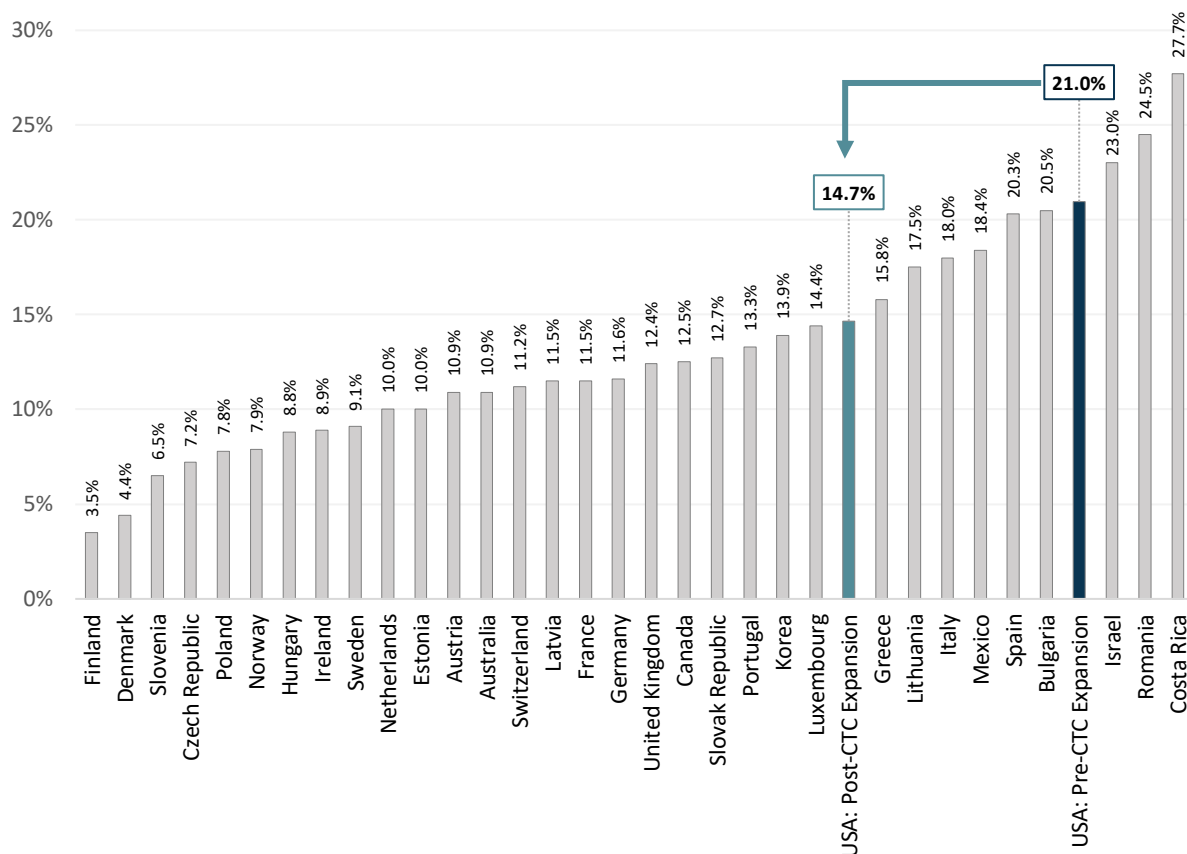
Turning to the effects of the Child Tax Credit reform, we see that with the OECD method, the poverty rate falls by 6.3 percentage points after accounting for new income from the expanded Child Tax Credit, while under the SPM, it falls by roughly 5.1 percentage points. However, the relative reduction in the poverty rate is greater when evaluated with the SPM (roughly 37% vs. 30%), largely due to the fact that the baseline poverty rate is substantially higher with the OECD's measure. We also see that after accounting for the expanded Child Tax Credit, the poverty rate remains considerably higher under the OECD measure than the SPM (14.0% vs. 8.9%), which again relates to the higher poverty threshold under the OECD methodology.

Where would such a reform place the United States relative to other nations when comparing child poverty rates?

¹⁵ Flood, Sarah, Miriam King, Renae Rodgers, Steven Ruggles, J. Robert Warren, and Michael Westberry. 2021. Integrated Public Use Microdata Series, Current Population Survey: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2021. <https://doi.org/10.18128/DO30.V9.0>

¹⁶ This is calculated by multiplying the equivalized threshold by the square root of family size.

Figure 2. International child poverty rates before and after accounting for potential Child Tax Credit expansion in United States, 2018



Note: Estimates for the United States produced using the 2019 CPS-ASEC, retrieved from *IPUMS-CPS, University of Minnesota, Flood et al., 2021*. Poverty rates for all other countries retrieved from the OECD. Access the OECD poverty data at: <https://data.oecd.org/inequality/poverty-rate.htm>.

In Figure 2, we show the average child poverty rate for all OECD nations between 2016 and 2018 for all countries on which we have data, measured using the OECD method. We also show the position of the United States both before and after accounting for income from an expanded Child Tax Credit. Note that the United States would still have a relatively high child poverty rate compared to other nations, but it would be much closer to that of European nations with large economies, such as Germany and France. For example, the results show the child poverty rates moving from being roughly 9 percentage points higher than that of Germany to roughly 3 percentage points higher.

Discussion

These results underscore how an expanded Child Tax Credit could move a significant number of children in the United States out of poverty, as measured both under the SPM and using the OECD method. Internationally, the country would also move from having one of the highest child poverty rates to a position much closer to that of European nations with large economies. That said, moving from the 31st highest child poverty rate to 24th may be a smaller shift than some might have expected given the substantial expansion of the Child Tax Credit. The shift is somewhat moderate because the U.S. child poverty rate under the OECD measure is substantially higher than the poverty rate

under the SPM (21.0% vs. 14.7%). This elevated poverty rate is a product of the higher poverty threshold under the OECD measure driven by relatively high median income in the United States,¹⁷ as well as greater income inequality in the United States.¹⁸

Together, this means that it just takes more income in the United States to move above the relative poverty threshold—and a larger proportion of American families are far from this threshold given the high rates of income inequality in the United States. The results point to the need for additional policies that complement the antipoverty effects of the expanded Child Tax Credit and bolster the economic security of American families. **Overall, however, we find that the expanded Child Tax Credit would result in a notable and meaningful shift in the country's position in terms of child poverty and how government resources are used to address it.**

¹⁷ Of the 36 OECD nations for which we have 2018 data available, median disposable income in the United States ranks 4th highest. See the OECD Income and Wealth Distribution Databases for additional information: <https://www.oecd.org/social/income-distribution-database.htm>.

¹⁸ Comparing Gini coefficient internationally can provide us with a sense of how income inequality in the United States compares to other nations. When ranking Gini coefficients from lowest to highest for the 36 OECD nations for which 2018 data is available; the United States ranks 32nd. OECD (2022), Income inequality (indicator). <https://doi.org/10.1787/459aa7fi-en>

Appendix A: Methodology

To produce the results presented in this brief, we first needed to measure child poverty in the U.S. using the International Poverty Measure, and then to evaluate the effect of the Child Tax Credit income on this poverty rate. Below, we detail the steps taken to arrive at these estimates using data from the 2019 Annual Social and Economic Supplement to the Current Population Survey (CPS-ASEC), retrieved from *IPUMS-CPS*, University of Minnesota, www.ipums.org.

Step 1: Evaluating pre-Child Tax Credit expansion poverty using the International Poverty Measure

1a) Aggregate subset of SPM resources at household level

While the SPM poverty measure is calculated based on resource shared among the SPM unit, the International Poverty Measures evaluates resources at the household level. Thus, our first task was to aggregate resource of all household members.

OECD documentation¹⁹ shows that the resource measure used in the International Poverty Measure includes all that are counted in the SPM resource measure except for housing subsidies. The international measure also does not subtract medical, childcare, or work-related expenses from total resources. Thus, to calculate total resources at the household level, we first backed out housing subsidies from the SPM resource measure and added expenses back to resources. Next, we pro-rated this adjusted resource measure based on the number of individuals in the SPM unit, and then totaled the pro-rated SPM resources for each individual in the household to the household level.

1b) Equivalize the household resources

Next, we equivalized household income by dividing household resources by the square root of household size.

1c) Get the relative threshold

To identify the relative threshold, we identified the median of equivalized household resources across the population and then took 50% of that median. This amounted to \$19,340. This gave us a threshold based on equivalized income, thus when determining poverty status (next step), we compare equivalized income to this equivalized threshold.

1d) Get the relative poverty rate

To determine if a household was in poverty under the relative threshold, we compared their equivalized resources (from step 1b) to the relative threshold.

Step 2: Add new income from the Child Tax Credit to household resources and determine the poverty rate

2a) Determine the new income from the Child Tax Credit at the household level

To complete this step, we estimated the Child Tax Credit amount that children would receive under the Child Tax Credit expansion, and then determined the net credit per child using the amount received under previous law. We then totaled per-child net credit amount to the household level.

2b) Identify the new poverty rates

To determine the new relative threshold, we determined equivalized household resources with the Child Tax Credit and then followed the procedure in steps 1c and 1d to determine the poverty rate.

¹⁹ See the OECD Income and Wealth Distribution Databases for additional information: <https://www.oecd.org/social/income-distribution-database.htm>.

Acknowledgements

This work at the Center on Poverty and Social Policy is made possible with the support of [The JPB Foundation](#), [the Annie E. Casey Foundation](#), and [Charles and Lynn Schusterman Family Philanthropies](#).

The UNICEF Innocenti–Global Office of Research and Foresight receives financial support from the Government of Italy, while funding for specific projects is also provided by other governments, international institutions and private sources, including UNICEF National Committees. *The findings, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the views of UNICEF.*

Suggested Citation

Collyer, Sophie, Megan Curran, Irwin Garfinkel, David Harris, Dominic Richardson, and Christopher Wimer. 2022. “A step in the right direction: the expanded Child Tax Credit would move the United States’ high child poverty rate closer to peer nations.” Columbia University, Center on Poverty and Social Policy and UNICEF Innocenti, Global Office of Research and Foresight. Access at: <https://www.povertycenter.columbia.edu/publication/2022/child-tax-credit-and-relative-poverty>

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