29 April 2021

(C.) "Subsidizing New Parents and Children"

Another supplement to Peter H. Lindert,
Making Social Spending Work (MSSW), Cambridge University Press 2021.

The final passage of *Making Social Spending Work,* which went to press in late 2020, wondered when the United States would catch up with other developed countries in giving tax-based help to the work-life balance for new parents:

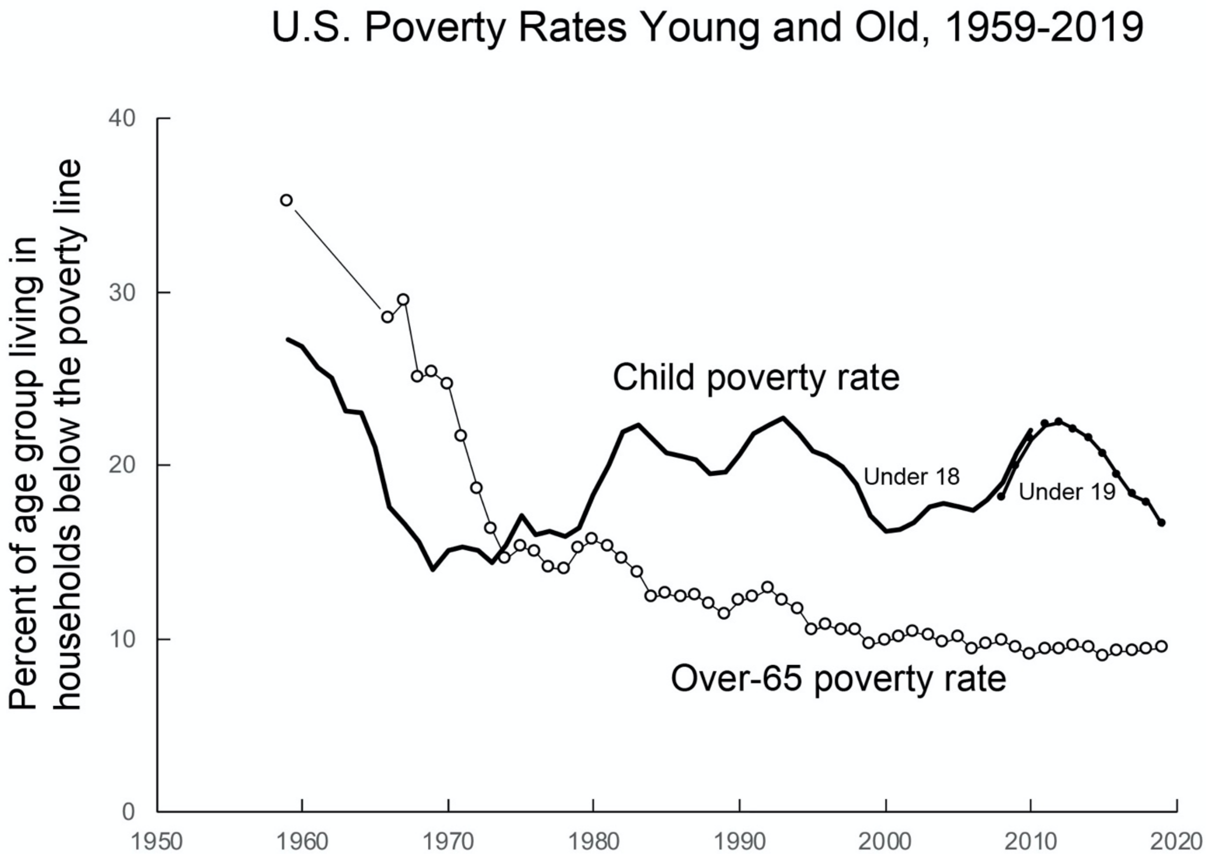
> Why is the early-childhood roof still not fixed after so many years of both rain and sun? Given the obvious merits, and the massive job losses for mothers in the coronavirus slump of 2020, hopefully only a nudge will be needed to mobilize Washington at long last. (MSSW, Page 355).

Washington's roof repairs began in March 2021, prompted by both an economic shock and a political nudge. The economic shock was delivered by the corona virus. Suddenly parents lost their jobs and had to home-school their children, throwing both work and home out of balance. The political nudge, or slight tipping of the scales, came from the national election of 8 November 2020 and the Georgia races for U.S. Senate seats on 5 January 2021. The Democrats just barely gained control over the legislative and executive branches of government. They seized the opportunity on 11 March 2021 with the signing of the massive American Rescue Plan. A centerpiece of this plan was the new child credit, paying parents $3,600 for each child 0-5 years old and $3,000 for each child 6-17 years old, versus the old credit of only $2,000 per child in the taxpaying unit. Parents could now count on the kind of "welfare" support that was taken away by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the infamous "end of welfare as we know it."[1]

[1] Strictly speaking, the new law of March 2021 extended the higher child credit only for one year. However, it will presumably be difficult for Republicans to block the extension of the same benefits to 2022 and beyond.

The emphasis of Washington's greater child credit departs from the emphasis on job protection in other OECD countries. As summarized in Chapter 9 of MSSW (pp. 190-195), other countries' governments have paid for work leave, with mandates guaranteeing a return to the parent's (usually mother's) previous job. Their focus has been on the pro-growth nurturing of human earning power, both in the mother's career and in developing the newborn child. By contrast, the Biden administration's American Rescue Plan enacted in March 2021 emphasizes cutting child poverty. Granted, it covers much more of the child population than just those in poor households. It may cover as much as 90 percent of American children up to their 18th birthday. Nonetheless, it leaves out the richest and is billed in the media as a grant that will cut the poverty rate among American children by nearly half of its 2020 level. Sharpening its attack on poverty is the fact that the new child grant, unlike the past tax credits, now reaches the children of unemployed parents, not just working parents and those with positive taxable incomes.

Washington's new emphasis on cutting child poverty is overdue by at least forty years. As the following diagram shows, ever since about 1981 America's social policies have ignored child poverty while attacking poverty among the elderly. The old fears of leaving the elderly on "fixed incomes" impoverished by inflation and soaring medical costs have been addressed. Their Social Security pensions are protected generously by indexing them to the cost of living and to wage rates, while Medicare insures them against most increases in medical costs. Children in poor households had not received as much protection, as the poverty-rate trends make clear.



How would the extra generosity of federal support for an extra child affect mother's labor supply? The answers will differ by the set of parents being considered.

The literature on paid *parental leaves* in the OECD countries asks only about parents (hereafter, mothers) who were *employed at the time of pregnancy*: Would a paid parental leave make them more likely to resume their careers, and how would it affect the child's development? The counterfactual is "no government aid," positing that the child arrives with or without the aid. That literature suggests small, and sometimes significant, positive effects of paid parental leave on mothers' employment when the leave period is over (MSSW, pp. 193-194). The small encouragement to mothers' rejoining the labor force vanishes, however, if the leave extends for a full year or longer. The studies were unable to test directly for the long-run effects of paid parental leave on child development.

The other common kind of aid to new parents is the *child grant*, like the federal child credit that was increased in the United States in 2021. This grant is given to *all parents* of minors, not just to those who held jobs at the time of the pregnancy. And as written in the American Rescue Plan of 2021, the grant continues as long as the child is in the household, even if all parents or other guardians return to work.

We lack (or I am unaware of) any clear test of whether the child grant reduces mothers' incentives to return to work, using American experience up to 2021.

How something like child grants affect mothers' later earnings has now been tested in the case of Austria's motherhood grant since 1961, which was made more generous in reforms of 1990, 1996, 2000, and 2008 (Kleven et al. 2020). Let us first confront the authors' main conclusion, and then discuss how it may have been shaped by the Austrian cultural and policy context. Their main conclusion is a null one: Neither a parental leave subsidy nor subsidies to institutional day care affects mothers' career earnings after the return to work. There is the distinct possibility that American experience will look the same: the child grant may help alleviate the household's poverty, yet still have no effect on parents' later earnings.

Yet the authors' null result may have been shaped by the Austrian context. The "family leave policy" is intermediate in its relationship to parental job-holding. On the one hand, the subsidies do not depend on whether the mother (or other guardian) was employed before the birth of the child. There need not be any prior job waiting for her to return to. For this reason, their null result may hide a possible positive effect on career resumption by mothers, hiding it by mixing it in with the lower career attachment of the majority of Austrian mothers. Yet on the other hand, the Austrian job-leave payments, unlike the American child credits, terminate when the mother returns to work. This feature may dampen the incentive to return to work in a way that the Americans avoid by tying the grant only to the presence of the under-18 child in the household, not to parental unemployment.

The Austrian study may, however, be missing an aggregate job creation tilted toward females. By digging deeply into the responses of new parents in a large micro-data set, Kleven et al. seem to have missed the macro creation of day-care and early-education jobs for women, apart from the parental status of these outside care givers.

So the Austrian results and American practice leave us with four outcomes that may co-exist:

(1) For the subset of mothers who worked before the child arrived, the subsidy for parental leave combined with rights of return to the prior job may encourage both childbearing and career retention, as suggested by the earlier OECD literature cited in MSSW.

(2) For mothers given a grant per child based only on the age of the child, as in the United States, the effect on maternal job-holding could be quite neutral.

(3) For the subset of mothers who were already unemployed before the arrival of the child, tying the grant to her remaining unemployed, as in Austria, might have a negative effect on the incentive to find a job later.

(4) At the macro level, for any given response or non-response of individual new parents to the employment incentives from having the child, the mere existence of a child-care-giving industry may employ others, mainly females.

The conjectured neutral effect from the American approach of tying child grants only to the presence and age of the child, and not to the employment history of the parents, receives empirical support from Canada. Michael Baker, Derek Messacar, and Mark Stabile (2021) have econometrically estimated the effects of Canada's shifting child benefit policies on poverty and on work. They find that a shift to more generous child benefits in recent years has clearly reduced poverty, yet has had no discernible effect of whether parents work or their usual weekly hours of paid work. Since Canada's approach is like that of the United States, tying aid to the child's presence and age but not to the parents' work (except at upper income levels, due to means testing), the lack of a work effect supports the conjecture that a more generous U.S. grant per child has no clear effect on labor supply.

Baker, Michael, Derek Messacar, and Mark Stabile. 2021. "The Effects of Child Tax Benefits on Poverty and Labor Supply: Evidence from the Canada Child Benefit and Universal Child Care Benefit." NBER Working Paper 28556 (March).

Kleven, Henrik, Camille Landais, Johanna Posch, Andreas Steinhauer and Josef Zweimüller. 2020. "Do Family Policies Reduce Gender Inequality? Evidence from 60 Years of Policy Experimentation." NBER Working Paper 28082 (November).