

AMERICAN  
COMPASS  
**POLICY**

**The Family Income Supplemental Credit**  
*Expanding the social compact for working families*

*Oren Cass & Wells King*

*February 2021*

**EXECUTIVE SUMMARY . . . . . 1**

**PROPOSAL OVERVIEW . . . . . 2**

**INTRODUCTION . . . . . 3**

**I. WHY WE SUPPORT A NEW SOCIAL COMPACT . . . . . 4**

**II. WHY WE DO NOT SUPPORT A UNIVERSAL CHILD ALLOWANCE . . . . . 5**

**III. THE FAMILY INCOME SUPPLEMENTAL CREDIT . . . . . 8**

**IV. ADDRESSING CONSERVATIVE CONCERNS. . . . . 11**

*From the American Compass collection—*



**PUBLIC POLICY FOR THE AMERICAN FAMILY**

## EXECUTIVE SUMMARY

This paper presents the case for a per-child family benefit called the Family Income Supplemental Credit. We argue that such a policy should be understood not as a “child allowance,” but rather as a form of reciprocal social insurance paid only to working families. Those struggling to make ends meet as the pressures of raising young children simultaneously curtail their income and raise their expenses deserve the nation’s unqualified support. If and when they attain economic comfort themselves, they should repay the investment, contributing to the support of those facing the squeeze. An aggressive expansion of the nation’s social compact, backed by a major financial commitment, holds the potential to shore up the economic and cultural foundations on which people build their lives.

**By contrast, we reject other rationales that argue for a universal child allowance paid to families on behalf of their children regardless of whether the families have earnings of their own:**

- **Ending Poverty.** Cash payments are the wrong way to help households disconnected from the workforce, who require concrete interventions to move from poverty toward self-sufficiency.
- **The “Parenting Wage.”** While parenting is surely work, it is not the kind of market labor performed outside the home for which the public should provide compensation.
- **The “Natalist Subsidy.”** Having children is not an economic, utility-maximizing decision for parents, and the state should not target them with subsidies to induce particular choices.

**We propose a supplemental credit paid to families per child but capped at the household’s earnings the prior year:**

- **Supplement.** \$800 per month to pregnant women beginning in fifth month of pregnancy, \$400 per month from birth until the child’s 6th birthday, and then \$250 per month until the child’s 18th birthday.
- **Work requirement.** Annual household payments capped at level of total income earned in prior year; TANF preserved and expanded for families ineligible to receive the supplement.
- **Phase-out.** Annual supplement value declines by \$100 per \$1,000 of income beginning at \$100K (single), \$200K (joint).
- **Marriage bonus.** Married parents receive a 20% boost in their supplement.
- **Administration.** Spending program through SSA, not tax credit through IRS.
- **Funding.** Two-thirds of funding from existing programs; one-third from tax increase.

**We show that this structure effectively addresses common conservative concerns with proposals for a universal child allowance:**

1. By requiring earnings for eligibility, it neither discourages work nor encourages dependence.
2. By preserving TANF for non-working households, it maintains vital safety-net programs.
3. By designing the program as a social compact, it avoids commodifying the job of parenting.
4. By distinguishing from anti-poverty policy, it leaves state and local prerogatives intact.
5. By directing resources to working families, it supports child-rearing and encourages growth.

Conservatives face a test: Will we support a major government program if it is pro-marriage, pro-family, pro-life, pro-work, reinforces solidarity and a sense of mutual obligation within the nation, and meets head on what the American people identify as one of their most pressing needs? Our hope is that the answer is yes.



## PROPOSAL OVERVIEW

The Family Income Supplemental Credit, or Fisc, is a monthly supplement paid to working families.

### 1. Supplement Value: Monthly payment to parent or guardian of child under age 18:

- \$800 per month for pregnant women beginning in the fifth month of pregnancy;
- \$400 per month from birth until the child's 6th birthday; and then
- \$250 per month until the child's 18th birthday.

Payments are made per child, regardless of how many children the family has.

### 2. Work Requirement: Household payments are capped each year at the level of total income earned in the prior year. Total monthly payments to a household cannot exceed one-twelfth of the prior year's total earnings.

- Working families meet the requirement at very low income levels—a single earner working less than 30 hours per week at minimum wage retains full eligibility for two children.
- TANF and related programs for expectant mothers ineligible to receive the supplement are expanded: funding for [Medicaid enrollment](#), standard inclusion of [home visits](#) in TANF, and creation of a "[baby box](#)" program.

**3. Phase-Out: Supplement declines for single/joint filers with prior-year incomes above \$100K/\$200K. Annual value declines by \$100 for every \$1,000 of income above the threshold.**

**4. Marriage Bonus: Supplement value increases by 20% for married parents.**

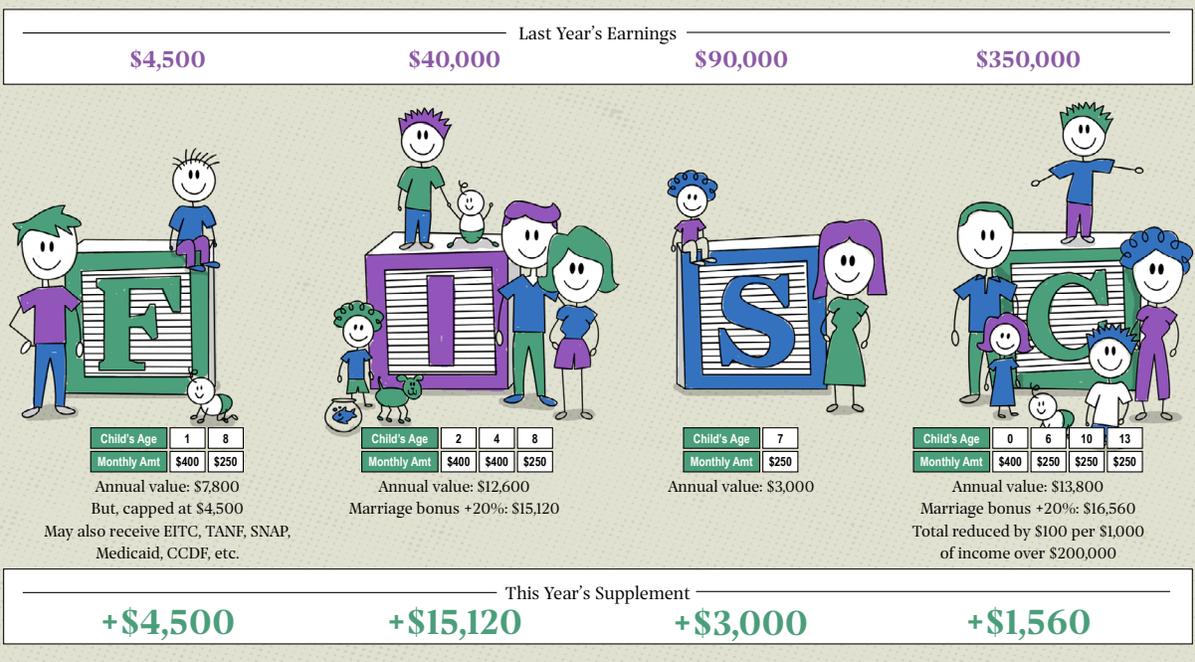
### 5. Administration: Spending program administered by the Social Security Administration.

- Bureau of Family Statistics is created to support SSA in gathering data, administering program, and combining other data to report regularly on state of American family.
- Robust audit mechanism; intentional fraud penalized with disqualification from future payments.

**6. Funding: Total annual cost is approximately \$200 billion, funded two-thirds from repurposing existing spending and one-third from new revenue.**

- \$120 billion repurposed from elimination of existing CTC.
- \$20 billion repurposed from elimination of head-of-household filing status and CDCTC.
- \$60 billion from increase in marginal tax rate for top four personal income brackets.
- No cuts to TANF.
- No cuts to EITC; program converted to wage subsidy independent of household status.

## CALCULATING THE FAMILY INCOME SUPPLEMENTAL CREDIT



## INTRODUCTION

American Compass’s recent [Home Building Survey](#) had both good and bad news for American families. The good news: 63% of people aged 18–50 say they are “living the American Dream.” The bad news: it’s true only for those who are married and have household income above \$150,000. Among everyone else, just 23% feel that way, as compared to 21% who say they are “struggling and worried for the future.” Most are “getting by, but don’t have the life [they] want.”

A similar pattern emerges when it comes to raising children. Putting aside people who say their families are still growing, fully half of Americans have fewer children than they consider ideal. Ask those who are married why they have not had more children, and a large plurality cite affordability. This shortfall represents a tragedy not only for the individual families failing to achieve their aspirations, but for the nation as a whole. As [Helen Andrews notes](#), only 5% of women say they do not want children, but the Millennial generation is on pace for roughly 25% of women to end up childless. Even if we turn the corner now, the fallout from America’s plunging fertility rate, which has meant [5.8 million fewer babies born](#) in the last decade alone, will be with us for decades to come.

A central aim of American Compass’s Home Building collection is to foster debate about the myriad ways that public policy affects family formation and stability, both directly and through its influence on the broader economy and culture. Among the most ambitious ideas under discussion today is a generous per-child family benefit. Cross currents from many different points on the political spectrum are channeling policymakers in this direction. Progressives eager to send more resources to struggling families find common cause with social conservatives looking for ways to buttress the institution of marriage and the raising of children. Populists focused on the left-behind working class are intrigued by a standard cash benefit, as are libertarians who consider it far simpler and more market-friendly than the mess of programs on offer today.

But framing matters, and is much more than a “messaging” exercise. How policymakers define the problem and justify their action guides not only development of the policy’s specifics, but also the public understanding of its function, which together determine how it operates in practice. A program will succeed only if it can launch with and sustain broad-based support, which requires that it draw upon both liberal and conservative principles and reinforce American values and traditions.

Here, we argue that a successful family benefit must be understood as a form of reciprocal social insurance. Families struggling to make ends meet as the pressures of raising young children simultaneously curtail their income and raise their expenses deserve the nation’s unqualified support. If and when they attain economic comfort themselves, they should repay the investment, contributing to the support of those facing the squeeze. An aggressive expansion of the nation’s social compact, backed by a major financial commitment, holds the potential to shore up the economic and cultural foundations on which people build their lives.

This framework has important design implications: The benefit should be available only to working families, while the safety net should remain intact for families unable to take the leading role in contributing to their own support. The cost should be covered in part by higher tax rates on high-income households— if and when they have children themselves, they will benefit to the extent they need support; even if they do not have children, they retain the obligation to contribute on behalf of those who are doing the work of raising the next generation.

Beginning from these premises leaves room for analysis, negotiation, and innovation on many points and offers the prospect of a program that people coming from many different perspectives could proudly support. In our own proposal, we attempt to both highlight the design decisions necessary and then in each case to explain why we have chosen a particular starting point, while acknowledging the many open questions and alternatives that deserve consideration as well.

**“An aggressive expansion of the nation’s social compact, backed by a major financial commitment, holds the potential to shore up the economic and cultural foundations on which people build their lives.”**



## I. WHY WE SUPPORT A NEW SOCIAL COMPACT

It is an unfortunate and unavoidable reality of the modern human condition that the years during which parents are most likely to be raising children are also among those when parents can least afford it. Shortly after setting out on their own, having had little time to accumulate savings, they must embark on a course that can [constrain their earnings](#) and [raise their expenses](#) all at once. The greatest income losses and cost increases come earliest, sometimes before the first child is even born. These are not the consequences of doing something wrong or making unwise decisions. To the contrary: they are the consequences precisely of doing everything right.

The challenge was less pressing historically, when a single breadwinner's wages were [sufficient to support a growing household](#), and when larger and more close-knit extended families [played a more active role](#) in supporting the nuclear family. Those are both desirable features of a healthy society and we should strive to achieve them once more. Other contributors to this collection offer thoughtful reforms that might help. But America is far from those circumstances today.

The economic data support our survey findings about the challenges facing American families. Wages growth has stalled over the past forty years: [Average earnings for production and nonsupervisory workers](#) were no higher in 2019 than in 1979 after [adjusting for inflation](#), at roughly \$40,000 per year. [Average household income in the middle fifth](#) of the national distribution grew only from \$54,000 to \$69,000, while the middle fifth's share of national income [fell more than 15%](#). Had that share merely held constant, those households would have more than \$13,000 in additional income each year. Essential costs like housing, health care, and education, meanwhile, have skyrocketed. While a male worker with median income could have covered those costs plus a car for a family of four with 30 weeks of wages in 1985, by 2018 he would have needed to [work 53 weeks](#) of the 52-week year.

Despite all this, most Americans could afford the cost of raising the families they want if they had a lifetime to save for the effort. But no lender will extend them hundreds of thousands of dollars in credit, unsecured by any asset, against the hope but not guarantee that they can repay in subsequent decades. None, that is, except the nation.

If ever there were a case for a program of [social insurance](#), mobilizing the national capacity to act collectively through public policy on behalf of shared priorities and the common good, this is it. Indeed, the case is stronger than for Social Security's promise of retirement income, which working Americans at least have decades to prepare for themselves. Here, supporting families as they raise children allows them to spend now and save later, eventually repaying their "debt" through higher tax rates as they climb the economic ladder, assuming that they are blessed with economic success themselves. Parents hold up their end of the bargain by fulfilling obligations of their own, contributing productively to the society and investing in their and their children's futures.

**"If ever there were a case for a program of social insurance, mobilizing the national capacity to act collectively through public policy on behalf of shared priorities and the common good, this is it."**

Many efforts in recent years have focused on creating programs to address specific pressures that households might face, like [expanding paid leave](#) and [subsidizing paid childcare](#). These initiatives are surely well-meaning, but it's important to recognize the degree to which they reflect the priorities and preferences of a narrow, well-educated segment of the population and not of those most in need of support.

In [our survey's second part](#), focused on policy preferences, parenting-age Americans agreed that "the federal government should provide more support to families with children" by a three-to-one margin. Large majorities were in favor, regardless of class and family status. Ask people in favor of more support what *kind* of benefit government should provide, though, and a striking divergence appears. Among women with at least a four-year college degree, the most popular choice is free or discounted childcare and second most popular is paid family leave. Among all other groups, direct cash support is most popular. This comports with the family structures and work arrangements that most Americans seem to prefer.



Among married women with children, more than half say they would prefer to have one parent work full-time while the other provides childcare at home when children are young, compared to just 14% who would prefer that both parents work full-time while relying upon paid childcare. This is also what families do: among respondents with less than a four-year degree, 60% of two-parent households with a child under five had a stay-at-home parent. Only among holders of post-graduate degrees is two full-time workers the norm.

Providing support in cash most directly helps households to fill the family-created holes in their budgets and insulates their child-rearing decisions from market pressures. It should arrive not at year's end as a tax refund, but as a monthly payment, which is the preference by a five-to-one margin of parenting-age Americans who favor a cash benefit. A mother taking a short leave and returning quickly to work will have the added income to cover the former as well as help in paying for childcare to facilitate the latter. A family that might prefer to have a parent stay home with young children can more likely afford to do so. And if the result is to allow more families to have the children they want, the nation as a whole will also benefit from higher fertility rates and a generation raised in households under less financial stress.

## II. WHY WE DO NOT SUPPORT A UNIVERSAL CHILD ALLOWANCE

Family benefits are a standard feature of most Western democracies, though their structures and sizes vary widely. The United States has the Child Tax Credit (CTC), which makes families eligible for [up to \\$2,000 per child](#), but delivery through the tax code hinders efforts to reach the right people at the right time. Payments are available only in a lump-sum at tax-filing time, not in monthly increments throughout the year. Moreover, in its current form, the credit can only be received as a refund against taxes paid (including payroll taxes). A low-income household with little tax liability can receive little benefit.

While the CTC has worked fairly well at its current scale, its challenge for American policymakers becomes much more pronounced with efforts to expand it further. A family with two children could

receive the full \$2,000-per-child credit with as little as \$25,000 of earned income. But what happens if the credit doubles? [Canada's family benefit](#), for instance, starts at a value of roughly \$5,000 per child. An American family with two or three children would not have sufficient tax liability to benefit fully from a credit of that size until their income reached well above \$50,000. Thus, American proposals that contemplate substantially larger benefits have to reconsider the delivery mechanism as well.

Recent proposals from [Senators Sherrod Brown and Michael Bennet](#), [Senator Mitt Romney](#), and [President Joe Biden](#) all envision per-child benefits on the order of \$4,000. While they vary in their specifics, all abandon the idea that the benefit is a refund of taxes owed, shifting instead to a universal model in which all families with children can receive the full benefit (at least until they reach very high levels of income).

This goes too far. Working families with low incomes should be able to enjoy the benefit's full value, and reforms to advance that objective are needed. But while allowing the pendulum to swing all the way to a universal benefit may appeal in its simplicity, severing all connection to productive economic contribution violates the basic principle of reciprocity at the heart of a durable social compact. Even Social Security, after all, goes only to those who have paid in.

Whether cash payments to non-working households are a feature or bug of universal proposals depends upon the purpose ascribed to the family benefit. Payments to non-working households are incompatible with the vision for a new social compact described above, which states its purpose as supporting families already striving to support themselves but under pressure from the demands of child-rearing. To be clear, the non-working poor require support as well, and the safety net should be further strengthened to assist them. But these are different tasks, and we should not presume the same policy approach is best suited to both.

Three other objectives are frequently advanced, which might justify universality. Insofar as these might be the proper objectives, proponents are correct that a universal benefit might be the proper structure. In our view, however, they do not provide the basis for a new program of cash payments, and so they do not justify extending eligibility to the non-working poor.



## “Ending Poverty”

Perhaps the most popular argument for a generous program of family support is that [it will reduce child poverty](#). Certainly, this goal is a vital one. And in one sense, cash payments achieve it: sending families more money than the poverty thresholds for families of their size would, by a mathematical identity, reduce the poverty rate. The argument is a corollary of the one made by Universal Basic Income (UBI) proponents that sending everyone enough money to exceed all poverty thresholds would “[end poverty](#),” [full stop](#).

This idea that government can and should address poverty by giving money to those in poverty is well-meaning but misguided. Sufficiently generous checks might reduce the federal government’s official calculation of the poverty rate to zero, but that measure is an abstract data point, which uses household income as a proxy for identifying the population living in conditions of poverty. Giving money eliminates only some of those conditions and the ones it addresses most effectively—immediate material needs like food and shelter—tend to be the ones that safety-net programs already target. By contrast, money *per se* does little to address many of the root causes of poverty, and ones that produce some of its most distressing consequences: addiction and abuse; unmanaged chronic- and mental-health conditions; family instability; poor planning and resource allocation; inability to find, hold, or succeed in a job; and so forth.

Meanwhile, a cash-based strategy disconnected from work poses both economic and cultural risks. Conservatives have long, and rightly, emphasized the importance of work to people’s lives, as a source of purpose and the *sine qua non* of upward mobility, and for the structure and social interaction it provides and its connection to family formation and stability. Communities in which labor-force dropout is widespread and widely accepted are not happy ones; a policy that sustains people in joblessness is not ultimately anti-poverty.

Much [debate](#) over family-benefit proposals has focused on the question of whether providing cash support would discourage members of low-income households from working—not because they would fear losing the benefit (here, they could keep it even as they earn more), but simply because having the money would reduce the imperative to earn more. The issue is not low-income workers who might in theory reduce their hours but still retaining their vital connection to the workforce and all the advantages that come with

it. Rather, the salient concern is that a guaranteed cash benefit increases the viability of not working at all. A child allowance of \$650 for a parent and two children may seem plainly insufficient to support a household, but combine it with \$400 in [food stamps](#) and a \$1,000 [housing voucher](#) and the case is less clear cut. Include roughly \$750 per month in [Medicaid coverage](#), and total annual support to the household would exceed \$33,000—including almost \$8,000 in cash.

Beyond the direct economic implications lie equally if not more important cultural ones. America has established a firm commitment to providing a safety net that meets the basic needs of those who cannot provide for themselves, but it tries to attach that support to programs that might help people make progress in their lives. And it demarcates such in-kind assistance from the income associated with making productive economic contributions to the society. The rewards of work arrive not only monetarily in the paycheck, but also in the dignity and respect that accompany the indispensable role of providing. If we allow the package of benefits afforded the non-worker to approach what workers labor to provide, we deprive those workers of their intangible rewards—no one, it would turn out, is relying on them—and instead confer upon the state the ultimate responsibility for the family’s welfare.

Advocates attempt to sidestep these issues for the non-working poor by framing their policy around children. The real target, they say, is *child* poverty. “It’s a recognition that it’s not your child’s fault if you’re not working,” as the Urban Institute’s Elaine Maag [says](#), “and your child is most definitely the one who suffers if you don’t have income.” Conservatives should reject this definition. The policy may be a “child” benefit insofar as it is calculated based on the number of children a family has. But it is paid to a parent and spent as the parent sees fit. The poverty threshold at issue is the household’s—one might just as accurately describe the goal as ending parent poverty, which tugs less effectively at the heartstrings. Children’s dependence on their families is a fundamental feature of the human condition and one that argues for strengthening families and helping them to succeed; not deconstructing them and relieving parents of their role and obligation.

Some advocates of cash benefits to the non-working poor also justify their proposals on grounds that parents deserve payment, either because raising children is hard work (the “parenting wage”) or because it has social value (the “natalist subsidy”). We still find these cases lacking.



## *The “Parenting Wage”*

The *New York Times* celebrated Mother’s Day last year with an essay by Kim Brooks entitled, [Forget Pancakes, Pay Mothers](#). “If garbage collectors and grocery store workers and hedge fund managers expect to be paid for their labor,” she asked, “why not those who create and sustain the human race? Why can’t we imagine some form of universal basic caretakers income to support the work mothers (or fathers or other extended kin) do at home?” This idea that parents work hard and thus deserve income is almost as pervasive in cases for the child allowance as the idea that it would end child poverty, and equally misguided.

Labor performed within the home on behalf of the family is unpaid because the family is both its producer and consumer. Granting the premise that child-rearing is work and that by definition work should be paid, the question would remain: Paid by whom? Presumably by whomever bears the primary and original obligation of care—that is, the parents. If parents wish to charge themselves for their work, they can do so, but they will be none the richer for the exercise. A less politically fraught topic makes the situation clear. Instead of childcare, consider crops. A hard-working farmer who feeds his family with his harvest cannot complain his work has gone “unpaid.” If he wishes to be paid by others, he needs to do work for them.

Conceptually, if the question, “why must I care for this child?” is answered not from mutual obligation within the family (“because he is your child”) but rather from transaction with the state (“you needn’t; this is a negotiation with the government”), then by implication it is the state that has the default responsibility and, with it, the default control. Lest one think “negotiation” is a crass overstatement, Brooks suggested that, “women have to say, collectively, ‘From now on, they have to pay us, because as women we do not guarantee anything any longer.’” This model of the family, free of “guarantees,” echoed the contemporaneous [controversy](#) over Harvard Law School professor Elizabeth Bartholet’s assault on home-schooling and the comment made by William & Mary professor James Dwyer, co-organizer of a planned Harvard conference on the issue, that “the reason parent-child relationships exist is that the state confers legal parenthood.”

Taken to its logical conclusion, the idea that parents providing for their children deserve compensation

yields its strangest result in the labor market. Consider the father who makes a good living and provides comfortably for his family. He consumes relatively little of the paycheck himself, sharing most of it with his spouse, buying food for his children, and paying the rent or mortgage on a house sufficient to shelter them all. No one would consider his hours at work spent generating income used by other members of the family to be “unpaid,” entitling him to recompense from the state. But the middle ground in which wage earners of course labor on behalf of their families while homemakers go unfairly unpaid is sustainable only as a political fiction; there is no economic or moral logic to it. Trying to analyze the home as a dormitory for independent economic actors, each of whom may or may not do socially valuable work meriting compensation by the state, is a dead-end, both practically and philosophically.

## *The “Natalist Subsidy”*

Beyond being hard work, raising children also has enormous social value. In the present, with birthrates falling below replacement rate and parents consistently emphasizing unaffordability as the obstacle to having more kids, subsidizing fertility would appear to make some sense and, if all life is of equal value, then all children should warrant equal subsidy.

The economic analysis that supports the idea of subsidies in the presence of “positive externalities” is inapposite in the context of fertility—and many other activities of great social value. The decision is not one that families make with an eye toward maximizing economic utility, nor should policymakers want to encourage thinking in those terms. The aspiration to have children is not like the aspiration to drive an electric car, and the idea that the state should use its financial power to induce families to have children they would not otherwise have is, for lack of a better word, creepy.

Fortunately, the interests of parents and the interests of the nation [align in this instance](#). The role for public policy is in smoothing income and expenses over a family’s lifetime in a way that helps them fulfill their own fertility goals, and creating a society into which they are eager to bring more children. This is the rationale upon which conservatives should build their approach to family support.



### III. THE FAMILY INCOME SUPPLEMENTAL CREDIT

We propose here a family benefit that we believe has the potential to advance conservative priorities, garner wide bipartisan support, and significantly improve the lives of American families. We eschew the term “child allowance,” which smacks of condescension and conjures the image of a benevolent government-as-father-figure deigning to sponsor its troublesome dependents. The proper subject is the family, not the child, and the benefit is expressly an addition to income earned. Thus, we refer to the program as the Family Income Supplemental Credit, or Fisc, and to the payments as supplements.

Within our general framework, we suggest specific design elements and also highlight areas where further debate and research might yield improvements.

#### *1. Supplement Value*

The Fisc is a monthly payment made to the parent or guardian of a child under the age of 18. It includes:

- \$800 per month for pregnant women beginning in the fifth month of pregnancy;
- \$400 per month from birth until the child’s 6th birthday; and then
- \$250 per month until the child’s 18th birthday.

These payments are made per-child, regardless of how many children the family has.

Many variations on these payment levels have been proposed and are worthy of consideration—indeed, the question of how to set a level is itself an important one. We worked from two useful reference points in particular:

- The Earned Income Tax Credit (whose [maximum benefit](#) with two children is \$5,980 in 2021) provides a lower bound for the scale of support that we would aim to deliver to middle-income households.
- The \$13,200 in “missing earnings” for middle-income households, as compared to a world where the middle quintile’s share of national income had remained constant in recent decades, provides a scale for the shortfall that public policy might look to address.

#### Areas for further discussion:

- What are the appropriate absolute levels and, if any, age-based breakpoints?
- Should there be a limit on total annual payments?

Are payments prior to birth administratively feasible and how should they handle difficult situations including miscarriage and premature birth?

#### *2. Work Requirement*

The Fisc’s payments to a household are capped each year at the level of total income reported by the household in the prior year. Total monthly payments to a household cannot exceed one-twelfth of the prior year’s total earnings.

The requirement ensures that families are connected to the workforce and requires essentially that, consistent with the program’s operation as social insurance, a household pay into the society before the society returns a benefit. It differs from the more complex work requirements traditionally used in safety-net programs, which are intended to connect people to work and therefore focus on the work-related activities that the recipient is engaged in at any moment in time, impose time limits on periods of non-work, and so on. Working families will meet the requirement even at very low income levels and in precarious conditions—a single earner working less than 30 hours per week at minimum wage would retain full eligibility for two children.

This approach has several important benefits:

First, it retains a clear distinction between a supplement for working families and the safety net for those who cannot contribute to their own support. Opponents of work requirements will note, rightly, that this framework excludes many of the neediest households. That is entirely true, and follows directly from its purpose. Likewise, opponents will surely identify various edge cases in which someone in need would find himself poorly served. Again, it is not a program designed to catch anyone who might fall through the cracks. America already operates an enormous safety net designed for such circumstances, and we are eager for discussion about how to improve its operation. But we believe that discussion is best had apart from one about support for working families, and that it should not include programs of cash payment.



**“It retains a clear distinction between a supplement for working families and the safety net for those who cannot contribute to their own support.”**

Second, it strikes a balance between simplicity and integrity. While the imposition of conditions necessarily interferes with the elegance of universality, policymakers must not let an appealing form override the need for effective function. Programs should be “[understandable](#)” in the sense that the public can make sense of their details. They should also be understandable in the sense that they comport with and reinforce cultural norms and expectations to which the nation is committed. The Fisc’s design is as complicated as it needs to be—participation should be connected to work—and then implements its framework as simply as possible.

Third, it offers a valuable income-smoothing function. Programs designed to incentivize work directly, for instance the Earned Income Tax Credit or a direct wage subsidy, phase in and out with each dollar earned. Someone losing a job would see that loss compounded by a reduced benefit. The Fisc is intentionally different, changing only once per year and in a foreseeable way. Someone who loses a job mid-year retains the full supplement for the year’s remainder and, if enough earnings were already booked in the year, may retain it for the following year as well. Exiting the workforce in the months leading up to or after birth of a child does not affect eligibility. Only after at least a full year of no work for anyone in the household would the supplement end entirely.

Fourth, it creates an implicit marriage bonus. A worker’s earnings contribute toward qualifying for the Fisc only if that worker is part of the same tax unit as the parent or guardian receiving payment. Where parents are married and filing jointly, then, the earnings of both can provide the supplement’s basis. Where parents are unmarried, this is not possible. For instance, a single mother with no earnings is ineligible for the Fisc and will instead receive support via traditional safety-net programs, even if the child’s father had \$10,000 in earnings the prior year. If the parents are married, the household can receive a supplement of up to \$10,000.

We also propose strengthening the safety net for expecting mothers who are ineligible for the supplement. The stage in pregnancy at which

women might first become eligible offers an ideal point of contact for the safety net to engage with those disconnected from work. We recommend expanding funding for [Medicaid enrollment](#), standard inclusion of [home visits](#) in TANF, and creation of a “[baby box](#)” program.

Area for further discussion:

- Whose earnings and what kind of earnings would qualify, and do existing administrative processes provide adequate reporting?

### ***3. Phase-Out***

The Fisc’s supplement begins to decline for single filers and joint filers at incomes from the prior year of \$100,000 and \$200,000, respectively. The supplement’s annual value declines by \$100 for every \$1,000 of income above the threshold. For example, a family with children aged 2 and 7 would see the supplement’s annual value decline from \$7,800 at an income of \$200,000 to \$0 at \$278,000.

Good arguments exist both for and against reducing or eliminating the supplement for high-income households. On one hand, the basic case in favor of a phase-out is straightforward: sending the supplement to households that do not need it is ill-advised, as a matter of politics, equity, and fiscal prudence. Especially in a context where means-testing of existing entitlement programs may hold an important key to their long-term sustainability, introducing a new and non-means-tested program goes precisely the wrong direction.

On the other hand, a supplement phase-out has several conceptual and administrative disadvantages:

First, if the Fisc’s premise is that of a social compact, people should not be excluded from it because they have earned too much. Treating the supplement as taxable would already lead to higher-income households returning much of the benefit. Further, as discussed below, the Fisc should be funded in part through higher tax rates for high-income households. Generally speaking, then, higher-income households



with children would see both a gain in supplement and loss in higher tax liability. These will not offset perfectly in every (or any) case but, directionally, the reforms would leave high-income families with children relatively less affected while transferring resources from higher-income households without children to lower-income households with them. With a phase-out, high-income families with children will see only the tax increase and not the benefit.

Second, a phase-out reverses some of the supplement's desirable income-smoothing effects. Assuming calculation based on prior year's earnings, as with the work requirement, a household experiencing a significant drop in its earnings (say, one of two earners leaving the workforce) could find itself ineligible the next year for a supplement designed precisely with such choices in mind. Attempting a phase-out on the basis of current-year earnings avoids this problem in theory but, in practice, creates an additional layer of administrative complexity for monthly payments and requires families to forecast their earnings in advance.

Third, because the supplement is quite large by the typical standard of government benefits, a phase-out substantially increases the implicit marginal tax rate for households in the relevant income window—a window in which they may already face higher marginal tax rates to fund the Fisc.

While we propose a phase-out here, this area is one where we consider assessment of administrative feasibility and budgetary implications especially important and the prospect for political compromise especially promising.

Area for further discussion:

- Should there be a phase-out at all and, if so, at what threshold and what rate?

#### **4. Marriage Bonus**

The Fisc's supplement value increases by 20% for married parents.

The overwhelming weight of research indicates that [married, two-parent households](#) provide the best environment for children. While the idea of tying safety-net payments to marriage has long been controversial, especially because unmarried parents are often in greatest need of the safety net's support,

the Fisc's case is different. As a program designed to reinforce the social compact and support families that make responsible decisions, we believe the case is especially strong for directing greater support to married parents.

Areas for further discussion:

- Should the Fisc include a marriage bonus and, if so, how large should it be?
- Does a marriage bonus introduce unintended consequences or administrative complexity?

#### **5. Administration**

The Fisc is a spending program administrated by the Social Security Administration (SSA), not a tax credit issued by the Internal Revenue Service.

As one of us has [argued previously](#), conservatives must abandon their unhealthy tendency to frame all legislation as tax policy and then shoehorn it into the tax code. The SSA [already addresses most of the administrative challenges](#) that the Fisc would raise, including an expansive measurement of earnings (for purposes of Social Security eligibility), calculation of benefits on the basis of prior earnings and with respect to relationships among spouses and dependents, and processing of monthly payments, including situations where dependents are reassigned midyear. The basic operation of the program would be as follows:

- At any point after the start of pregnancy, a woman can register to receive payments beginning in the fifth month of pregnancy.
- At birth, each child would be assigned by Social Security Number (SSN) to the mother's SSN, designating the mother as supplement recipient.
- By an administrative process, the child could be reassigned to a different recipient by SSN. While this seems cumbersome and one can imagine many fraught scenarios, it is an inevitable element of per-child payments regardless of structure.
- Supplement eligibility would be calculated on the basis of prior-year earnings as recorded for the recipient's SSN along with earnings attached to a second SSN if the recipient's tax-filing status is married-filing-jointly.



One effect of the work requirement and this administrative model is that recipients will need to have SSNs and be legally authorized to work in the United States. Another effect is the more timely and accurate gathering of nationwide data on family structure. We recommend the creation of a Bureau of Family Statistics that would support the SSA in gathering these data, using it in program administration, and combining it with other data sources to report regularly on the state of the American family.

Programs that disburse large benefits raise reasonable concerns about improper payments and fraud. The SSA's infrastructure has proven remarkably robust for tracking earnings and disbursing payments larger than the Fisc's across longer periods of time using more complex formulas, beginning even before computerized recordkeeping. We are confident it can succeed here. We would, however, favor a robust audit mechanism and disqualification from future payments as penalty for intentional fraud.

Areas for further discussion:

- What differences exist between existing Social Security and Disability programs and the Fisc that would require novel administrative processes or standards?
- How should intentional fraud be penalized? Is disqualification permanent, and would it apply to all household members and to eligibility for all current and future children?

## **6. Funding**

The Fisc would cost on the order of \$200 billion annually. Roughly \$120 billion would be funded by repurposing spending that already flows to families through the existing Child Tax Credit (CTC). An additional \$20 billion could be saved by eliminating head-of-household filing status and the Child & Dependent Care Tax Credit (CDCTC). Consistent with the Fisc's role as a form of social insurance, for which households receive support earlier in life and provide support later, we propose funding the remaining \$60 billion through the necessary increases in the top four individual income tax rates (affecting joint filers with household income above \$165,000).

These figures are subject to more detailed scoring and would vary based on the particular program

parameters chosen. [Estimates](#) from the Congressional Budget Office imply the required tax increase would be approximately two percentage points across each of the top four brackets. This would increase [total personal income taxes receipts](#) from 8.2% of GDP in 2020 to approximately 8.5%.

This proposal does not cut or eliminate programs like TANF. Again, this is consistent with the idea of the Fisc as a support for working families intended to operate independent of the safety net. It also leaves intact the full funding for EITC, but envisions that credit converted to a wage subsidy without reference to household status.

Areas for further discussion:

- Should the supplement be taxable and should it count against eligibility for safety-net benefits?
- How should the EITC operate alongside the supplement and what are the distributional effects of converting it to a wage subsidy?
- Are there other programs that would be redundant with the Fisc and should be cut or eliminated?

## **IV. ADDRESSING CONSERVATIVE CONCERNS**

The Fisc offers a useful litmus test for how right-of-center policymakers define conservatism. Those interested primarily in cutting taxes, raising efficiency, and drowning government in a bathtub will find little to like. But for those eager to apply conservative principles to contemporary problems, an expanded social compact supported by a pillar like the Fisc deserves careful consideration. Indeed, Canada's program—perhaps the world's most generous—[began as an initiative of Prime Minister Stephen Harper's conservative government](#), seeking to support families in a way that respected their own preferences rather than pushing all toward paid childcare.

As compared to expansive childcare and paid-leave programs that presume everyone will soon return to work, cash-based support allows parents to choose whether they would rather pay to outsource care of their children or forego some market wages but



provide that care themselves. As compared to the safety net of in-kind benefits that come attached to requirements and decline quickly for working households, a broad and simple program meets immediate needs and goes nowhere when earnings rise. If fertility has fallen below replacement level, easing the path to child-rearing is perhaps the nation's most vital task.

Analysts have raised a number of objections to other, typically universal “child allowance” proposals, and here we conclude by showing why we believe the Fisc addresses each one.

### ***1. Discouraging Work and Encouraging Dependence***

A core concern animating opposition to many family-benefit proposals is the potential for cash payments to non-working families to undermine work incentives and cultural norms. One worry is that households finding themselves with more money would then choose to work less, in some cases preventing prospective workers from taking initial steps onto or up the economic ladder. Another worry is that people will become dependent on the payments and see the state as having the responsibility to provide for their families, devaluing the breadwinner's role in supporting the household and crowding out other sources of support like the extended family, the neighborhood, and the church.

The Fisc's work requirement addresses these concerns directly, drawing a clear distinction between working and non-working families and using the existing safety net to address the needs of the latter. The proposed structure does have the potential to reduce work effort for families that might choose to spend fewer hours in the labor force—whether the middle-income household that decides it can now make do without a second earner, or the single mother who finds it possible to go part-time and spend more afternoons with her kids. We see this as a benefit—the importance of work is in the role it assigns people as productive contributors, the habits and social interaction it promotes, and the opportunity for upward mobility it provides. This does not mean that more work is always better or that the two full-time earners or the single mother working double shifts is the desirable outcomes for public policy to promote.

**“The importance of work is in the role it assigns people as productive contributors, the habits and social interaction it promotes, and the opportunity for upward mobility it provides. This does not mean that more work is always better or that the two full-time earners or the single mother working double shifts is the desirable outcomes for public policy to promote.”**

### ***2. Undermining Effective Anti-Poverty Programs***

The American safety net is not just a provider of last resort. It also [operates programs](#) to address root causes of dysfunction like addiction, develop real-world employment and parenting skills, and provide wraparound support to people trying to get back on their feet. These are not things people can easily buy with cash, and in many cases the conditioning of support on participation is a vital tool to move people away from dependence.

The Fisc does not reduce or eliminate existing anti-poverty programs; to the contrary, by creating an important contact point midway through pregnancy it provides a new opportunity for engagement. Further, by increasing the rewards to workforce participation—get and keep any job and become eligible for a large supplement—it reinforces the efforts of anti-poverty programs to move people toward self-sufficiency.

### ***3. Commodifying Family***

People rightly worry that society may come to see a family benefit as a “parenting wage,” which some indeed argue it should be, converting family relationships of obligation into economically tinged transactions under public oversight.



Whether a family benefit will be understood as a “parenting wage” is a matter of perception as well as design and implementation. Insisting upon work as a prerequisite for receipt makes clear that the work of being a parent is not what entitles one to the benefit. Framing the program as a social compact and emphasizing its role as a supplement to family income rather than a “child allowance” can help as well.

#### **4. Federalizing Policy**

Policymakers often default to federal solutions, which in many cases are the wrong ones. Varied local conditions, the importance of robust sub-federal institutions, and principles of federalism and subsidiarity all argue for deferring to state and local governments where feasible.

The safety net is a quintessential area for local policy, and we would support reforms that further localize its operation. By contrast, the federal government’s unique fiscal capacity and the conceptual benefits of defining the social compact broadly (particularly given people’s mobility within the country) argue for defining the Fisc as a national program. This is yet another reason for keeping separate the safety net and family benefit.

#### **5. Slowing Growth**

According to supply-side economics, the deficit-spending or tax increases required to fund an expensive new program may slow economic growth, depriving families of income rather than boosting it and ultimately leaving everyone worse off.

The Fisc’s design does not differ from other family benefit proposals with respect to cost, and its social compact recommends raising top marginal tax rates. Still, the generic complaint that any new program will slow growth is overbroad and fits poorly in this context. Whether government spending will have that effect depends on how revenue is raised and what the program does. Here, transferring spending power from older, higher-income households to younger, kid-filled ones is hardly a recipe for stagnation even in the short run—the Canadian experience, for instance, suggests that the effect was [highly stimulative](#). Further, few things would be better for long-run growth and dynamism than families having more children. “Growth” as a goal also requires modification—growth in recent decades has

not been broadly shared by American families, which helps explain the need for the Fisc to begin with. A policy that leads to lower aggregate growth, at least in the short-run, will still benefit the nation if it better positions working families to raise children.

#### **6. Expanding Government**

Beyond all these practical worries, and sometimes motivating them, is the principled concern that government has no business favoring some life choices—say, having children—over others, and that redistributing money in this fashion is beyond its proper purview.

The Fisc expansion of the social compact does broaden government’s role and asserts a very clear, substantive preference for families and child-rearing. Libertarians uncomfortable with such things may not be persuadable on the point. It is worth noting, however, that insofar as the government already commits enormous resources across countless programs to these same ends, providing a straightforward cash benefit that empowers families to make their own choices might be the best that Milton Friedman could hope for.

Conservatives, meanwhile, face a very real test: Will we support a major government program if it is pro-marriage, pro-family, pro-life, pro-work, reinforces solidarity and a sense of mutual obligation within the nation, and meets head on what the American people identify as one of their most pressing needs? Our hope is that the answer is yes.

\* \* \*

We are grateful to the many policy analysts who have influenced our own thinking on these questions in private conversations and public proposals. Obviously, the Family Income Supplemental Credit will not be the last word—to the contrary, we look forward to further discussion on the many questions raised and to seeing yet more proposals and improvements to this one. Our sense is that a broad coalition across the political spectrum agrees on the basic premises that families need and deserve greater support and that those who have been successful should help those striving to make their way down the same path. We are optimistic that from such a starting point, a strong new pillar for America’s social compact can be built. ■





AMERICAN  
COMPASS

---

POLICY