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May 11, 2022

Three Reasons Why Providing Cash to Families With Children Is a Sound Policy Investment

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Studies demonstrate, over and over again, that poverty harms children's development and that providing families with low incomes with financial resources can improve children's development, including through increased birth weight,[2] improved school achievement,[3] reductions in juvenile crime and psychiatric disorders,[4] and increased earnings and lower risk of heart attacks and strokes in adulthood.[5] Indeed, each additional year of eligibility for public programs such as SNAP (food

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[2] Douglas Almond, Hilary W. Hoynes, and Diane Whitmore Schanzenbach, "Inside the War on Poverty: The Impact of Food Stamps on Birth Outcomes," *Review of Economics and Statistics,* Vol. 93, No. 2, May 2011, https://direct.mit.edu/rest/article/93/2/387/58599/Inside-the-War-on-Poverty-The-Impact-of-Food.

[3] Gordon B. Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," *American Economic Review,* Vol. 102, No. 5, August 2012, https://www.aeaweb.org/articles?id=10.1257/aer.102.5.1927; Gordon B. Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit: Reply," *American Economic Review*, Vol. 107, No. 2, February 2017, https://www.aeaweb.org/articles?id=10.1257/aer.20161329; Greg J. Duncan, Pamela A. Morris, and Chris Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments," *Developmental Psychology,* Vol. 47, No. 5, September 2011, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3208322/.

[4] Randall K.Q. Akee *et al.,* "Parents' Incomes and Children's Outcomes: A Quasi-Experiment Using Transfer Payments from Casino Profits," *American Economic Journal: Applied Economics,* Vol. 2, No. 1, January 2010, https://www.aeaweb.org/articles?id=10.1257/app.2.1.86; John Anders, Andrew Barr, and Alexander A. Smith, "The Effect of Early Childhood Education on Adult Criminality: Evidence from the 1960s through 1990s," *American Economic Journal: Economic Policy* (forthcoming), accessed February 14, 2022, https://www.aeaweb.org/articles?id=10.1257/pol.20200660&from=f; Andrew Barr and Alexander A. Smith, "Fighting Crime in the Cradle: The Effects of Early Childhood Access to Nutritional Assistance," *Journal of Human Resources*, published online before print, April 13, 2021, https://doi.org/10.3368/jhr.58.3.0619-10276R2.

[5] Anna Aizer *et al.,* "The Long-Run Impact of Cash Transfers to Poor Families," *American Economic Review,* Vol. 106, No. 4, April 2016, https://www.aeaweb.org/articles?id=10.1257/aer.20140529; Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," *American Economic Review,* Vol. 106, No. 4, April 2016, https://www.aeaweb.org/articles?id=10.1257/aer.20150572; Hilary Hoynes, Diane Whitmore Schanzenbach, and

stamps) during early childhood is estimated to produce positive returns on subsequent health.[6] While child poverty imposes high costs on society, cash support to families can yield large future benefits, ameliorating the impact of poverty on individuals' productivity and health as well as reducing crime, child maltreatment, and homelessness.

The fact that children flourish when their material needs are met and they have nurturing and stimulating relationships with consistent caregivers has fueled public investments in early education, public schools, and parenting programs to ensure children experience quality caregiving. It has also been a rationale for policies that help families with low incomes meet material needs (such as food, health insurance, and housing). While beneficial, these policies and programs to fill specific needs arising from poverty are companions, not substitutes, for cash income. Cash plays a unique role in enabling parents to support children's healthy development.

Direct investments in adults (such as jobs training programs) and in communities (such as reliable public transportation) are also important complements to providing cash directly to families, particularly given volatility and uncertainty in the labor market and political landscape. Cash can enhance the returns of direct child and adult supports and services, and do so in ways that harness the family's primary roles and responsibilities.

This paper provides three reasons why giving cash to families with low incomes is a sound policy investment for families and children. (It focuses on why cash is important, not which policy option is the optimal mechanism for distributing cash to families.)

- **Cash enables parents to provide the material goods and caregiving that support children's healthy development, especially during their earliest years of development.** Parents working in jobs that pay low wages or who are unable to work consistently are juggling multiple work and caregiving demands to meet their children's material needs, such as sufficient food and proper medical care, and to provide nurturing care that is so important to children's development. Cash offers more financial resources to cover the high cost of raising children and can free up attention and energy to devote to parenting for parents with low income— especially while children are young.
- **Cash can protect families with children from unexpected expenditures or income losses.** The U.S. safety net is highly effective in meeting many needs of children and families, such as food (through SNAP) and medical care (through Medicaid). But the current U.S. safety net alone is insufficient to ensure parents have the full range of economic resources to raise healthy children. By themselves, current safety net programs do not free up enough net household income to supplement shortfalls in earned income or other sources of income, especially when jobs pay little or have unpredictable hours, and are not designed to be immediately responsive to financial emergencies. Providing cash income to families with low incomes can complement the safety net by providing a floor of predictable income.

Douglas Almond, "Long-Run Impacts of Childhood Access to the Safety Net," *American Economic Review,* Vol. 106, No. 4, April 2016, https://www.aeaweb.org/articles?id=10.1257/aer.20130375.

[6] Chloe East, "The Effect of Food Stamps on Children's Health: Evidence from Immigrants' Changing Eligibility," *Journal of Human Resources*, Vol. 55, No. 2, 2018, pp. 387-427.

- **Cash enables parents to act and spend in their children's best interest.** Cash avoids the paternalistic nature of some public benefit programs by empowering parents to invest in their children as they see fit. Cash builds on parents' existing strengths, resilience, and capacities to meet their and their children's needs. Cash alone cannot dismantle structural racism and other exclusionary policies, or ensure equitable purchasing power, but by signaling respect for parents' decision making, it can help build trust between families and the state, with potential gains in civic engagement and public responsibility.

Cash Enables Parents to Provide the Goods and Caregiving That Children Need, Especially During Their Early Development

Children need many things to be healthy, including a safe home environment and play spaces that are free from pollution and toxins, as well as regular medical care, good nutrition, and predictable routines. Perhaps most important, children thrive when surrounded by caregivers who are attuned to and responsive to their needs. In the U.S., parents are largely on their own to provide these things. For low-income families, piecing together the needed resources is an ongoing, often exhausting challenge that takes a toll on family well-being. Cash supports can be an important part of the solution by helping parents provide children with both material goods and nurturing caregiving.

Young children spend more time in their homes with their caregivers than in any other setting, so parents influence nearly all aspects of a child's environment. Interactions between children and their caregivers and early environments are strong predictors of many aspects of children's early skills, including language, emotion regulation, executive function skills, and early academic skills.[7] In the early years of life, children gain new skills, knowledge, and capacities with seemingly blinding speed; parents' ability to support their children's learning with cognitively stimulating interactions and sensitive and responsive emotional support contributes to their healthy development.[8]

Because parents are so important for child development, it is critical that public investments provide parents with the resources they need to nurture their children. Parents with few economic resources must constantly make difficult choices about their spending. Children are expensive — during a child's first year of life alone, the costs pile up from buying formula, diapers, clothes, cribs, strollers, and car seats. Because few parents with low incomes have savings or access to cash assistance to cover the cost of these items, many parents of very young children end up returning to work relatively soon after giving birth even if it may not be best for their child or for them.

Caring for children does not stop in early childhood. Adolescence, as an example of another developmental milestone, carries yet a different set of costs for parents. Adolescents thrive when supportive communities are coupled with supportive physical environments that meet their medical, housing, nutritional, and psychological needs. Adolescents spend less time at home but require just as much supervision, stable and safe environments, and material supports like food and housing.

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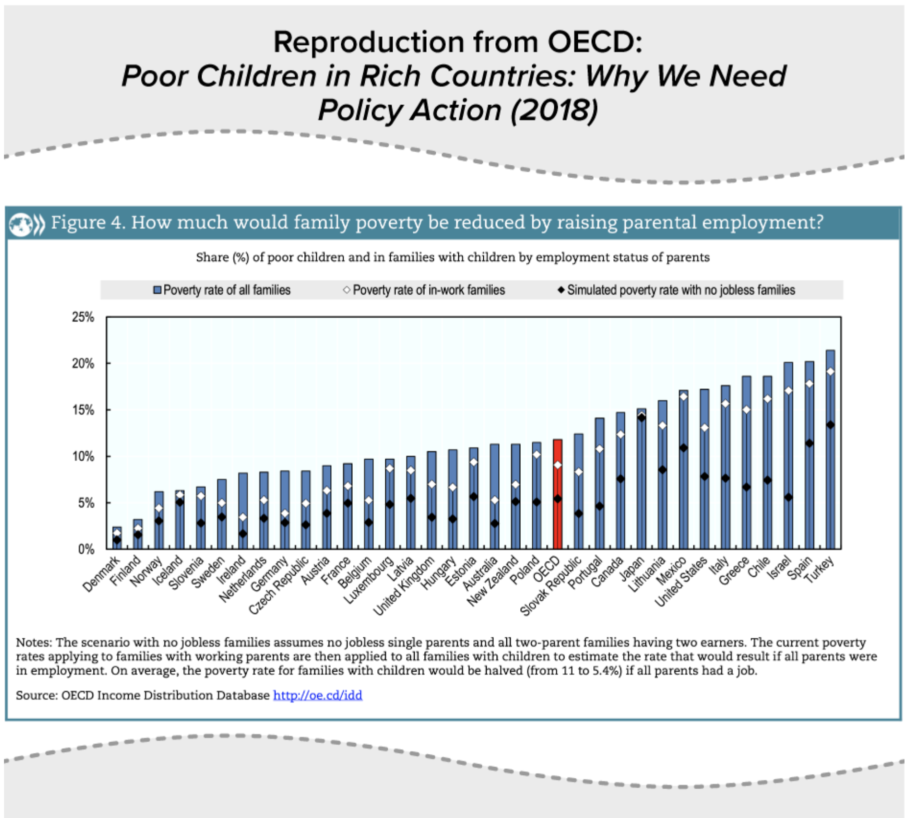
[7] National Academies of Sciences, Engineering, and Medicine, "Consequences of Child Poverty," *A Roadmap to Reducing Child Poverty*, National Academies Press, 2019, https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty.

[8] National Academies of Sciences, Engineering, and Medicine, *op. cit.*; Jack P. Shonkoff and Philip A. Fisher, "Rethinking evidence-based practice and two-generation programs to create the future of early childhood policy," *Development and psychopathology*, Vol. 25, No. 4 (pt. 2), 2013, https://doi.org/10.1017/S0954579413000813.

Providing for children's care and needs is extremely challenging when employment does not pay enough. Indeed, unlike many peer nations, work alone is not enough in the U.S. to eradicate poverty among families with children, even in the context of full-time employment.[9] (See Figure 1.) The existing safety net (including tax credits for working families) still leaves a significant number of families with children with incomes below the poverty line, and few programs offer targeted economic support during key points of children's development.[10] (Two notable exceptions are the Special Supplemental Nutrition Program for Women, Infants, and Children and the school-based breakfast and lunch programs.) Balancing work and family responsibilities is especially difficult for parents whose low-wage jobs are characterized by non-standard work hours or just-in-time scheduling.[11]

FIGURE 1



Parents with low incomes deploy a variety of economic survival strategies to meet basic needs, such as engaging in informal work, borrowing from family and friends, making use of public

[9] Organisation for Economic Co-operation and Development, "Poor children in rich countries: why we need policy action," Policy Brief on Child Well-Being, OECD Publishing, 2018.

[10] Figure 14 in Hilary Hoynes, Marianne Bitler, and Diane Schanzenbach, "The Social Safety Net in the Wake of COVID19," Brookings Papers on Economic Activity, BPEA Conference Drafts, June 25, 2020, https://www.brookings.edu/wp-content/uploads/2020/06/Bitler-et-al-conference-draft.pdf.

[11] Susan J. Lambert, Julia R. Henly, and Jaeseung Kim, "Precarious Work Schedules as a Source of Economic Insecurity and Institutional Distrust" *RSF: The Russell Sage Foundation Journal of The Social Sciences*, Vol. 5, No. 4, September 2019, pp. 218-257.

assistance programs, visiting food banks, shopping at bargain stores, and forgoing purchases.[12] While available to all who qualify, these types of assistance are not free of costs. They often require significant time and effort, which can take a toll on parents' physical or mental health. They also take time away from parenting and can compromise parents' ability to provide sensitive and nurturing care to their children.

Providing a predictable minimum amount of cash income is an investment that supports parents and children. It enables parents to pay for the many costs associated with raising children, especially young children, and reduces often debilitating financial stress, giving parents more time and energy to support their goals for their children's future.

Cash Can Protect Families With Children From Unexpected Expenditures or Income Losses

Even before the COVID-19 pandemic, income instability was becoming more common among the lowest-income households with children.[13] Fluctuations in income month to month have always been more widespread among low-income families with children compared to those with higher incomes. Some of this instability reflects the types of jobs and labor practices in the low-wage labor market, especially just-in-time scheduling. But some is due to disruptions in public benefit receipt, as eligibility and generosity of benefits can vary with a household's income.[14] Income instability alone can be problematic, but it is exacerbated by unexpected expenses and low levels of assets and savings.[15] Families with low incomes regularly face a variety of unplanned costs such as car repairs and medical bills. Most families with low incomes report that they would not be able to pay an unexpected $400 bill so would need to borrow from family or friends or defer paying other bills to take care of it.[16] Families with low incomes typically have limited options when they need fast, short-term infusions of cash to cover a short-term decrease in income or unexpected and necessary cost.

Because government benefits are generally distributed monthly, several safety net programs help promote financial stability; SNAP benefits, for example, stabilize total monthly food budgets. However, safety net programs are not a sure bet. For many families, especially Hispanic families with

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[12] Katherine Abraham and Susan Houseman, "The Importance of Informal Work in Supplementing Household Income," WE Upjohn Institute for Employment Research, Upjohn Institute Policy Research Brief, November 6, 2019; Jonathan Morduch and Rachel Schneider, *The Financial Diaries: How American Families Cope in a World of Uncertainty*, Princeton University Press, 2017, https://press.princeton.edu/books/hardcover/9780691172989/the-financial-diaries.

[13] Bradley Hardy and James P. Ziliak, "Decomposing Trends in Income Volatility: The 'Wild Ride' at the Top and Bottom," *Economic Inquiry,* Vol. 52, No. 1, January 2014, http://www.bradleyhardy.com/wp-content/uploads/2016/09/Hardy-Ziliak-2014-Final-EI.pdf; Sharon Wolf *et al.,* "Patterns of income instability among low- and middle-income families with children," *Family Relations,* Vol. 63, No. 3, pp. 397-410, doi:10.1111/fare.12067; Anna Gassman-Pines and Lisa A. Gennetian, "COVID-19 job and income loss jeopardize child well-being: Income support policies can help," Society for Research in Child Development, Child Evidence Brief No. 9, December 2020.

[14] Morduch and Schneider, *op. cit.*

[15] Christina Gibson-Davis, Lisa A. Keister, and Lisa A. Gennetian, "Net Worth Poverty in Child Households by Race and Ethnicity, 1989–2019," *Journal of Marriage and Family,* Vol. 83, No. 3, June 2021, https://nyuscholars.nyu.edu/en/publications/net-worth-poverty-in-child-households-by-race-and-ethnicity-19892.

[16] Federal Reserve Board of Governors, "Report on the Economic Well-Being of U.S. Households in 2018 - May 2019," https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-dealing-with-unexpected-expenses.htm.

children, safety net program participation has been and remains low. Hispanic families are less likely than other racial and ethnic groups to apply for these benefits in part because of the chilling effects of anti-immigrant sentiment and restrictions.[17]

The combination of very low income and economic instability makes it particularly difficult for children to thrive, not only because their needs may go unmet, but also because of the impact of low income and income instability on their parents.[18] Large or frequent fluctuations in income increase family stress, drain parents' mental bandwidth, redirect parent time and attention away from parenting and toward the demands of juggling day-to-day basic needs, and disrupt family routines.[19] These challenges are all more taxing for families in poverty. One-time, unexpected income shocks such as a parental job loss can strain parents' relationship and increase family conflict, with cascading negative impacts on parents' ability to provide warm and sensitive care for their children.

As a result, income instability has long-term negative impacts on children.[20] It reduces school engagement and attendance, is associated with increased school suspensions and expulsions,[21] and reduces long-term educational attainment.[22] Even short-term income fluctuations are associated with lower reading and math test scores for children.[23]

Cash income can play a critical role in stabilizing family income, as the pandemic made clear. For the many parents who experienced work disruptions, federal stimulus payments provided needed income when other programs were unable to do so. Analyses of simulated poverty rates through the pandemic demonstrated stark reductions in monthly child poverty in response to the distribution of cash benefits. (See Figure 2.) Analyses of the American Rescue Plan's expansion of the Child Tax

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[17] Marianne Bitler *et al.,* "Safety-Net Programs Underused by Eligible Hispanic Families" Center for Poverty and Inequality Research Policy Brief, Vol. 10, No. 7, April 2022, https://poverty.ucdavis.edu/sites/main/files/file-attachments/bitler_hispanic_safety_net_brief.pdf?1649014263.

[18] Bradley Hardy, Heather Hill, and Jennifer Romich, "Strengthening Social Programs to Promote Economic Stability During Childhood," Society for Research in Child Development, *Social Policy Report*, Vol. 32, No. 2, August 2019, https://doi.org/10.1002/sop2.4.

[19] Lisa A. Gennetian and Eldar Shafir, "The Persistence of Poverty in the Context of Financial Instability: A Behavioral Perspective." *Journal of Policy Analysis and Management*, Vol. 34, No. 4, Fall 2015, https://onlinelibrary.wiley.com/toc/15206688/2015/34/4; Sendhil Mullainathan and Eldar Shafir. *Scarcity: Why Having Too Little Means So Much,* Picador, 2013, https://behavioralscientist.org/scarcity-excerpt-mullainathan-shafir/.

[20] Jennie E. Brand, "The far-reaching impact of job loss and unemployment," *Annual Review of Sociology,* Vol. 41, pp. 359-375; Anika Schenck-Fontaine and Anna Gassman-Pines, "Income inequality and child maltreatment risk during economic recession," *Children and Youth Services Review*, Vol. 112, May 2020; Anika Schenck-Fontaine *et al.,* "Local Job Losses and Child Maltreatment: The Importance of Community Context," *Social Service Review,* Vol. 91, No. 2, June 2017.

[21] Gennetian and Shafir, *op. cit.*; Lisa A. Gennetian *et al.*, "Stability of income and school attendance among NYC students of low-income families," *Economics of Education Review,* Vol. 63, April 2018, doi:10.1016/j.econedurev.2018.01.003; Lisa A. Gennetian *et al.,* "Supplemental Nutrition Assistance Program (SNAP) benefit cycles and student disciplinary infractions," *Social Services Review,* Vol. 90, No. 3, September 2016, pp. 403-33.

[22] Gennetian and Shafir, *op. cit.;* Gennetian *et al.* (2018), *op. cit.;* Hardy and Ziliak, *op. cit.*

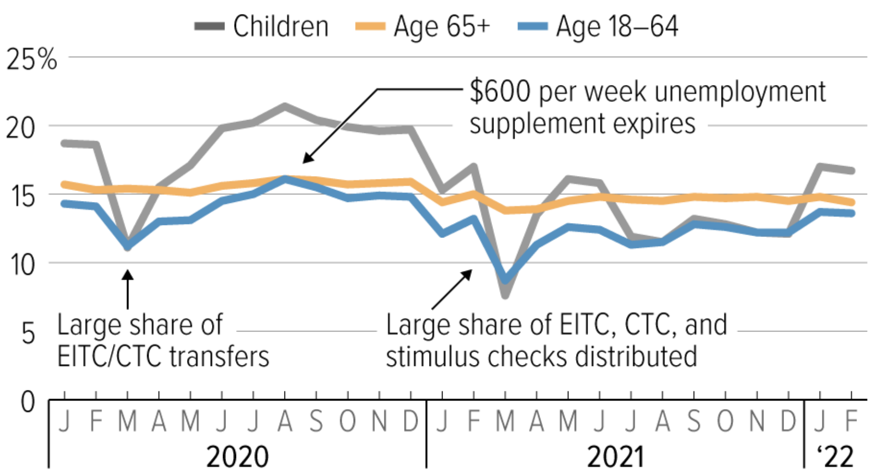
[23] Anna Gassman-Pines and Laura Bellows, "Food Instability and Academic Achievement: A Quasi-Experiment Using SNAP Benefit Timing," *American Educational Research Journal,* Vol. 55, No. 5, https://doi.org/10.3102%2F0002831218761337.

Credit further show that it lifted 1 in 4 children out of poverty and reduced food insecurity, or inability to afford sufficient food.[24]

FIGURE 2

Distribution of Cash Benefits Reduced Monthly Child Poverty in Pandemic

Monthly poverty rates by age group (all taxes/transfers included)



Based on methodology introduced in Parolin, Curran, Matsudaira, Waldfogel, and Wimer (2020).

Source: Estimates from Center on Poverty & Social Policy at Columbia University

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Cash Enables Parents to Act and Spend in Their Children's Best Interest

Family life can be complicated and each family's circumstances differ. Parents must make complex decisions about where to live, how to balance employment and caregiving needs, as well as how to accommodate health conditions and support family goals. By empowering parents to invest in their children and their environment as they see fit — and thus showing trust in their parenting and related investment decisions — cash can be a mechanism to improve family life.[25]

Parents make many small and large decisions and regularly evaluate tradeoffs about how to spend limited time and money. They are in the best position to know how to use additional resources to support their families. Some may buy a car to reduce long commuting times on public transit, while

[24] Megan A. Curran, "Research Roundup of the Expanded Child Tax Credit: The First 6 Months," *Poverty & Social Policy Report,* Vol. 5, No. 5, December 22, 2021, https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/61f946b1cb0bb75fd2ca03ad/1643726515657/Child-Tax-Credit-Research-Roundup-CPSP-2021.pdf; Kris Cox *et al.,* "If Congress Fails to Act, Monthly Child Tax Credit Payments Will Stop, Child Poverty Reductions Will Be Lost," CBPP, updated December 3, 2021, https://www.cbpp.org/research/federal-tax/if-congress-fails-to-act-monthly-child-tax-credit-payments-will-stop-child.

[25] Lisa A Gennetian *et al.,* "Behavioral Insights into Cash Transfers to Families with Children," *Behavioral Science and Policy Journal,* Vol. 7, No. 1, 2021, 10.1353/BSP.2021.0003.

others may rent a more expensive apartment in order to be closer to grandparents who care for their children. In short, parents are in the best position to know how to support their children's healthy development, and cash, by supporting parents' competency and autonomy, enables them to do so.

A key challenge with many public benefit programs, in contrast, is their stigmatizing and paternalistic nature. Research suggests that benefit recipients often find the process of applying for benefits to be intrusive and dehumanizing. Providing cash — with the freedom to choose how to spend it — also signals respect for parents' decision making and may help build trust between families and the state, with potential gains in civic engagement and public responsibility.[26]

In dozens of qualitative studies, parents with low incomes have articulated the care they put into how they spend their money.[27] Concerns from some scholars and policymakers that families might misspend cash are not borne out by the evidence.[28] As Figure 3 shows, households with children with incomes under 200 percent of the poverty line allocate the bulk of their incomes to rent, food, utilities, health care, and cellular service and transportation, with very little going to luxury goods or unhealthy items like cigarettes.

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[26] Randall Akee *et al.,* "Family income and the intergenerational transmission of voting behavior: evidence from an income intervention," National Bureau of Economic Research Working Paper 24770, June 2018, https://www.nber.org/papers/w24770.

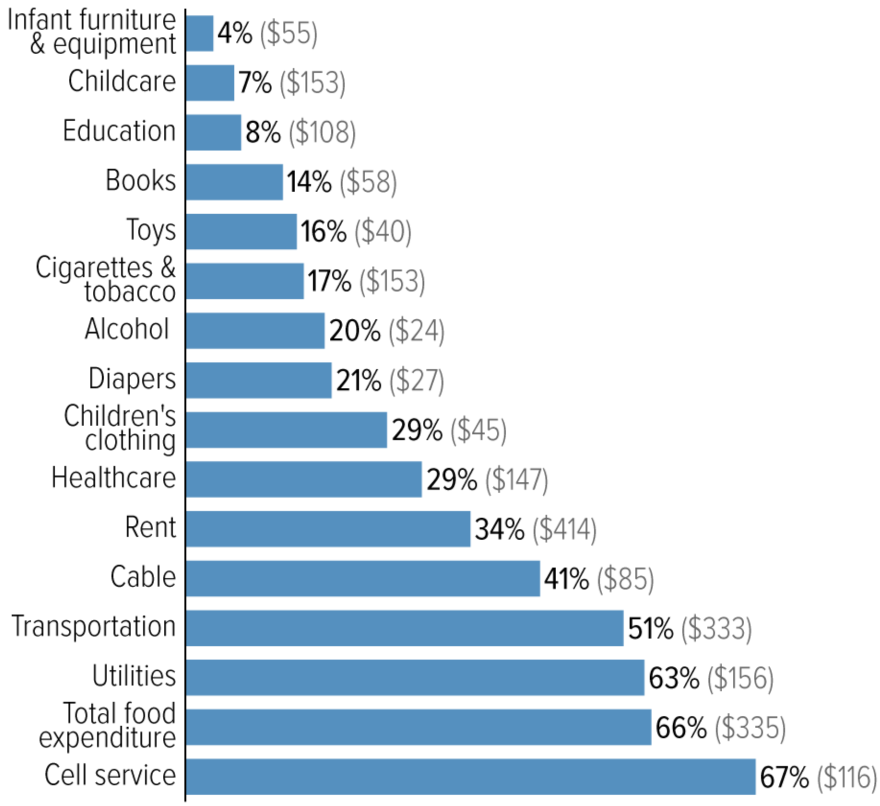
[27] Sarah Halpern-Meekin *et al., It's Not Like I'm Poor: How Working Families Make Ends Meet in a Post-Welfare World,* University of California Press, 2015, https://www.ucpress.edu/book/9780520275355/its-not-like-im-poor; Morduch and Schneider, *op. cit.*

[28] David K. Evans and Anna Popova, "Cash Transfers and Temptation Goods," *Economic Development and Cultural Change,* Vol. 65, No. 2, January 2017, https://www.journals.uchicago.edu/doi/full/10.1086/689575.

FIGURE 3

Share of Households Reporting Any Spending in Each Category

Among households at less than 200% of the federal poverty line and with at least one child, 2015-19



Note: Dollar amounts are average monthly expenditures among these households

Source: Source: Gennetian, Conwell, and Daniels, "How Do Low-Income Families Spend Their Money?" Econofact

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Conclusion: Cash *and* Care

Despite widespread agreement that poverty undermines children's development, disagreements about the roles of the family versus the government in child rearing have stalled progress in enacting many policies that we know are beneficial to families and children, including paid parental leave and affordable, reliable, and high-quality child care. Unfortunately, many people mistakenly attribute poverty to lack of work effort and related "bad choices," without fully understanding the role of systemic factors, including discrimination in the labor market and racist and exclusionary policies, as well as the complexities of parenting.

Cash is not a replacement for supports and services, and not a tool that alone can dismantle exclusionary policies; however, it is one feasible approach among many that can combat poverty in families with children. Cash should be seen as *care* for families, which respects parents' primary role in child rearing while enabling them to invest in children's environments inside and outside the home. Public programs that provide services such as health care, housing, early literacy training, or mental health counseling are still important; cash cannot substitute for these or other important community investments. But cash can act as a stabilizing and protective force for families and can do so equitably in ways that can also increase returns on other public investments.