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#### COMMENT BY

**GORDON B. DAHL**<sup>1</sup> Hilary Hoynes and Diane Schanzenbach's paper serves as a valuable resource for both researchers and policymakers. It makes two contributions. First, it synthesizes the recent literature on the effects of early investments in children, with a particular focus on safety net spending directed toward children. Not so many years ago, there was scant evidence on long-term outcomes, and arguments for government transfer spending on children relied more on humanitarian and social insurance grounds. But as Hoynes and Schanzenbach document, there is now substantial evidence that spending on children has benefits for a variety of later-in-life outcomes. Some of these gains accrue privately, but others have positive spillovers to society due to increased tax revenue and lower government transfers in the future.

The second contribution is an analysis of how spending on children via the safety net has changed over time. The findings are both striking and relevant for policymaking. Total spending has remained fairly flat over time, but its composition has changed. Relative to 20 years ago, more spending reaches families near or above the poverty line, while less is spent on the poorest of the poor. There has also been a large movement away from unconditional transfers and toward benefits linked to work. Other studies have looked at how the child safety net has evolved, but this is the first based primarily on administrative data. This is an important contribution, given that survey data suffer from several issues—including sizable undercounting, a problem that is becoming more severe over time.

Although the long-term benefits of safety net spending on children documented by Hoynes and Schanzenbach are compelling and broad-based, I found it refreshing that the authors remained true to what the data can and cannot say in terms of policy recommendations. The authors rightly conclude that the fiscal benefits are unlikely to make increased expenditures on child safety net programs self-funding. Instead, the investment

1. I am grateful to my colleagues Jeff Clemens, Julie Cullen, and Roger Gordon for helpful discussions and suggestions.

rationale still needs to be combined with humanitarian and social insurance motivations. Moreover, the authors recognize that the literature is not yet developed enough to estimate rates of return or provide guidance on how to optimally allocate funding across programs. This type of humility is admirable, but it should not detract from the authors' main policy conclusion that there is "a substantial investment component [to safety net spending], and because there have been positive returns from expansions in spending, the evidence suggests that we may be spending too little on the safety net for the young." At a more granular level, there is a solid case that returns to increased spending on children are especially large for the most disadvantaged, and that reallocating spending from later in life to earlier in life is likely to enhance efficiency.

Hoynes and Schanzenbach are experts on this topic. Their summary of the literature is comprehensive and up-to-date, and their analysis of spending trends is well executed. This is a great paper, with little to quibble over, so I instead focus my comments on three broadly related issues: program interactions, work requirements, and intergenerational issues.

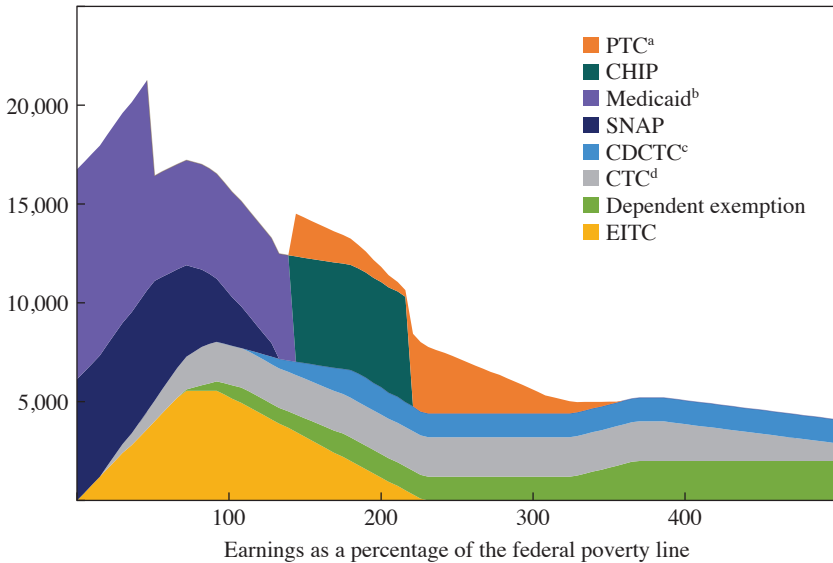
**PROGRAM INTERACTIONS** The authors' analysis focuses on the tax and transfer benefits for seven of the largest programs affecting children. In the authors' figure 9, they summarize changes in universally available cash and near-cash programs between 1992 and 2015. The figure plots benefits for a single adult with two children in Colorado, and serves to highlight the shift over time toward programs tied to work.

An augmented version of the authors' figure 9 can also be used to illustrate program interactions, and the unintended incentives that can arise. In my figure 1, I have added three universally available noncash programs to the 2015 panel: Medicaid, the Children's Health Insurance Program (CHIP), and the Premium Tax Credit (PTC), which subsidizes health insurance under the Affordable Care Act (ACA). These three programs provide a patchwork of health insurance coverage for low-income families.

As background, all but two states cover children's health insurance up to at least 200 percent of the federal poverty level (FPL) via Medicaid coverage and CHIP. In addition, most states cover pregnant women past the federal minimum of 138 percent of the FPL via Medicaid and CHIP. In contrast, health insurance coverage for other parents varies widely across states. Thirty-two states currently cover parents up to 138 percent of the FPL, because these states have adopted the ACA Medicaid expansions. But 19 states have not expanded Medicaid, and among these nonexpansion states, the median eligibility limit is only 44 percent of the FPL. Premium assistance credits kick in after 138 percent of the FPL has been reached for

**Figure 1.** Tax and Transfer Benefits for Universally Available Cash, Near-Cash, and Noncash Programs for a Single Adult with Two Children in North Carolina, 2015

2015 dollars



Sources: Hoynes and Schanzenbach, top panel of figure 9; HealthCare.gov; Kaiser Family Foundation; author's calculations.

a. The PTC area above CHIP includes parents only. The PTC area to the right of CHIP includes parents and children.

b. Medicaid includes parents and children.

c. CDCTC stands for the Child and Dependent Care Tax Credit.

d. CTC stands for the Child Tax Credit.

all parents, and after CHIP eligibility ends for all children (Garfield and Damico 2017).

In my figure 1, I graph the case for a single adult with two children in North Carolina (as opposed to Colorado, in the authors' figure 9).<sup>2</sup> North Carolina was chosen because it illustrates the potential for perverse work incentives when the three health insurance programs are not well coordinated. North Carolina chose not to adopt the Medicaid expansions. Between 0 and 44 percent of the FPL, a parent in North Carolina qualifies for Medicaid; between 44 and 138 percent, a parent receives no coverage or subsidy; and between 138 and roughly 350 percent, a parent is eligible

2. Thanks to Hoynes and Schanzenbach for sharing their figure 9 with me. Program parameters for the Medicaid, CHIP, and PTC programs come from HealthCare.gov and the Kaiser Family Foundation.

for marketplace subsidies through the PTC. This creates a gap in coverage for the parent, as shown in my figure 1.

To illustrate the type of work disincentives created by the canyon-shaped gap in coverage, consider a single parent in North Carolina with two children who earns the minimum wage of \$7.25 per hour. If this parent works between 0 and 25 hours per week (\$0 and \$8,985 in yearly earnings), they would be covered by Medicaid. But they would have no coverage if they worked between 25 and 78 hours per week, as marketplace subsidies do not start until \$28,180 per year. This example makes clear the disincentive for full-time employment, as it entails a loss of Medicaid. Even for a single parent making twice the minimum wage (\$14.50 per hour), there would be no assistance between 12 and 39 hours per week.

Does the ACA mandate that employers offer full-time workers health insurance coverage help fill in the gap? The answer is: only imperfectly. One challenge is that such a mandate creates an employer-based disincentive for hiring full-time workers. Moreover, 42 percent of working adult Medicaid enrollees work in a firm with fewer than 50 employees, and these firms are exempt from the mandate (Garfield, Rudowitz, and Damico 2018).

As shown in my figure 1, health insurance assistance for children does not have a similar gap. Even so, a parent's coverage can have spillovers to their children. The first reason is that when a parent does not have access to health care, they are more likely to become sick and less able to effectively care for their children. An additional spillover is that roughly 160,000 uninsured children have a parent in the coverage gap. This is potentially a problem, because parental coverage in public programs is associated with higher enrollment of eligible children (Sommers 2006).

Similar notches in the Temporary Assistance to Needy Families (TANF) program and Section 8 housing vouchers make the work disincentive problem even worse for some families. Other programs—such as the Special Supplemental Nutrition Program for Women, Infants, and Children and the National School Lunch Program—are also tied to the FPL, and therefore they affect a family's budget constraint. One caveat in the analysis of noncash programs is that individuals may not value them at the cost of provision.<sup>3</sup> If individuals value in-kind transfers such as health insurance or housing vouchers at less than their cost, this would make the canyon-shaped gaps in the budget constraint less pronounced. But the basic point

3. For example, Finkelstein, Hendren, and Luttmer (2015) find individuals value Medicaid benefits between \$0.20 and \$0.40 per \$1 of government spending, perhaps in part because the counterfactual is often not a complete lack of medical care but care from other sources, such as emergency rooms.

remains that program interactions can have unintended incentive effects, especially when they create nonlinearities and dominate segments in the budget constraint.

As a side note, from an evaluation perspective, program interactions make it more difficult to estimate the effect of safety net programs. Programs can have offsetting incentive effects on an individual's budget constraint. For example, the phase-out portion of the Earned Income Tax Credit (EITC) coincides with the introduction of health insurance subsidies in my figure 1. Program interactions also pose a challenge for certain estimation approaches. Suppose a researcher was interested in utilizing the kinks in the EITC schedule to estimate labor supply elasticities. One approach would be to use a bunching estimator, looking for excess mass to the left of the first kink in the EITC schedule, for example. But my figure 1 makes clear that in this setting a bunching estimator will have issues, as the notch in Medicaid will limit the number of individuals with earnings in a neighborhood near the first EITC kink.

**WORK REQUIREMENTS** One of Hoynes and Schanzenbach's central findings is that there has been a shift toward requiring work for benefit eligibility, largely as a result of more reliance on programs like the EITC and less on cash transfers like the now-defunct Aid to Families with Dependent Children program. The authors recognize the importance of assistance programs that supplement low earnings during normal economic times, especially given wage stagnation in the lower end of the wage distribution. They argue that "it is crucial to preserve these programs' work incentives, which are currently quite strong."

Preserving work incentives is important, but the shift toward work requirements can have the wrong incentives if implementation is not well thought out. Consider recent proposals to link Medicaid to employment. Starting in January 2018, states were allowed to seek a waiver and impose work requirements for Medicaid eligibility. Kentucky was the first state to get approval, and other states are following (Goldstein 2018). For Medicaid nonexpansion states seeking waivers, like Kansas and Mississippi, meeting Medicaid work requirements through 20 hours of work at the minimum wage would actually lead to a loss of Medicaid eligibility, as income would be too high. One solution is to expand Medicaid coverage at the same time as imposing a work requirement, a proposal that was recently put forward as a political compromise in North Carolina.<sup>4</sup>

4. Although work requirements are generally waived for caregivers of young children, a work requirement would still affect a couple's work incentives.

Moreover, it is important to recognize that not all social assistance programs are designed with a positive work incentive. Consider one of the largest social insurance programs in most countries, disability insurance (DI). In the United States, DI is administered through two programs, Supplemental Security Income and Social Security Disability Insurance. To qualify for DI in the United States, the primary requirement is that the individual is deemed *not* able to work, with individuals being disqualified if they earn more than a minimal amount.<sup>5</sup> DI is often considered a social insurance program, but it also has incentive effects and is a key part of the safety net. DI participation has been shown to generally rise during periods of high unemployment, even though it is unlikely that the latent amount of disability in the population has increased (Autor and Duggan 2003).

In the United States, an individual is either on or off DI, whereas in many European countries partial disability is allowed. For example, in the Netherlands roughly 40 percent of individuals are currently on partial disability benefits. One possible reform to the U.S. system would be to allow for partial disability, so that individuals with some ability to work could be gainfully employed. Research finds that many DI participants have substantial work capacity, both in the United States and Europe (French and Song 2014; Maestas, Mullen, and Strand 2013; Kostøl and Mogstad 2014). The possibility of partial DI has the potential for cost savings that can be redirected elsewhere.

A detailed discussion of policy reforms to encourage part-time work for disabled individuals is beyond the scope of this comment. But other researchers have thoughtfully considered what types of reforms might work. Some of the more innovative proposals promote work through a mixture of firm incentives and individual accommodations to allow those with partial work limitations to remain employed or return to work (Autor and Duggan 2010; Burkhauser and Daly 2012).

How do DI programs interact with the rest of the social safety net provided to families? The first thing to note is that health insurance coverage is automatic if an individual is on DI in the United States. Combined with a replacement rate of 40 to 50 percent, this makes DI one of the more generous social assistance programs in the United States.

5. There are some existing incentives for participants to exit DI and return to work. For example, participants can earn more money during a “trial work period” for Social Security Disability Insurance, but not Supplemental Security Income. Moreover, programs like the Social Security Ticket to Work program provide resources such as vocational training.

Recent research has also documented substantial social support substitution across programs. Lex Borghans, Anne Gielen, and Erzo Luttmer (2014) examine a reform in the Netherlands that tightened DI eligibility for existing claimants. Using a regression discontinuity design, they find that about 4 percent of DI participants exited DI due to the more stringent rules and that annual benefits fell by about €1,000, or roughly 10 percent. Treated individuals exposed to the reform replaced over 60 percent of lost DI benefits with increased earnings in the labor market. Equally relevant, the drop in DI income was partly offset as individuals shifted to other government programs. The authors find that for each €1 of lost DI benefits, treated individuals collected €0.30 from other social assistance programs in the short run (primarily unemployment insurance). This echoes the point made above that considering program interactions is crucial when evaluating the social safety net.

**INTERGENERATIONAL ISSUES** Hoynes and Schanzenbach's review of the recent literature documents compelling evidence for the positive effects of social safety net spending on children's outcomes. There are both immediate and medium-term benefits, as well as long-term improvements in a variety of health, human capital, and economic outcomes. When thinking about long-term effects, one additional consideration is whether a parent's participation in a program has an effect on their child's participation.

Parental participation in a social assistance program—such as TANF, SNAP, or DI—could influence a child's participation through a variety of channels. Parents could serve as role models, provide information about how to apply, demonstrate what it is like to be on a program, or even invest differentially in child development due to changing resource constraints. All these channels suggest a causal effect, where a parent's participation influences a child's outcomes in the long run. Conversely, the use of public assistance could primarily be due to environmental factors. Poverty, bad health, and reduced opportunities could persist across generations, in which case intergenerational links could simply reflect unobserved heterogeneity and not a behavioral response.

Until recently, it has been difficult to differentiate between correlation and causation. But a series of recent quasi-experimental papers suggests that children do learn from their parents. For example, using an instrumental variables approach, Robert Hartley, Carlos Lamarche, and James Ziliak (2017) find that a mother's use of welfare increases the chances that her daughter will participate as well. Using a random judge design, Dahl, Andreas Kostøl, and Magne Mogstad (2014) find that children whose

parents enter DI on appeal are more likely to themselves participate as young adults. And using a regression discontinuity design, Dahl and Gielen (2018) find that children whose parents are kicked off DI or have their benefits reduced are less likely to themselves participate 21 years later. Monique de Hann and Ragnhild Schreiner (2017) bound average treatment effects and find substantially smaller estimates compared with the local average treatment effects identified in the other papers, suggesting caution about extrapolating the large responses found to the entire population.

Taken together, these recent studies suggest that children do learn from and copy their parents. But the spillovers extend beyond program participation. Dahl and Gielen (2018) show that children whose parents are pushed out of DI or have their benefits reduced not only reduce their own participation in DI but also earn more in the labor market as adults. The increased taxes due to increased earnings by children exceed the cost savings from their reduced DI usage. Consistent with an anticipated future with less reliance on DI, the children of affected parents on average complete an extra 0.12 year of schooling. Although several interpretations of these intergenerational effects are possible, a consistent explanation is that children learn from their parents about the relative costs, benefits, and stigma associated with work versus government assistance. From a fiscal perspective, these intergenerational links matter. Ignoring parent-to-child spillovers understates the long-run cost savings of the Dutch reform by between 21 and 40 percent in present discounted value terms.

**FINAL THOUGHTS** Hoynes and Schanzenbach provide an excellent summary of the existing literature and a careful analysis of safety net investments in children. Their paper is a useful reference for academic researchers and policymakers alike. Though my comment has disproportionately focused on various aspects of incentives related to work, this should not be interpreted as an endorsement of policies to reduce or eliminate unconditional cash transfers. As the authors point out, “building a safety net around work leaves families with little protection during times of high unemployment.” Creating effective incentives for work is important, but it is crucial to recognize that the social safety net also needs to take care of children with nonworking parents. Children whose parents are out of work are among the poorest of the poor, and the United States currently does not have a comprehensive safety net to cover them. Investments in these disadvantaged children have high returns, but policy recommendations about how to best structure programs to help children in these nonworking families are beyond the scope of this comment.



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**GENERAL DISCUSSION** Robert Moffitt complimented the authors for bringing to bear new data on expenditures on children. He had two comments. First, he noted that the paper has two distinct parts: The first documents new evidence on the effects of transfers on children, and the second explores how the distribution of transfers has changed over time. He asked what the second part implies about the first—that is, given that transfers have benefited children, what does the change in the distribution of transfers imply about which programs should be expanded? For example, should we try to redesign programs to focus on the lowest-income families instead of those with slightly higher incomes? Second, he referred to work by Janet Currie showing that cash transfers do not have the same impact as transfers targeted specifically at children.<sup>1</sup> He wondered if it would be best to focus on programs like preschool education and the School Breakfast Program, which are more specific to children than cash transfers to families.

Katharine Abraham noted that certain programs not mentioned in the authors’ literature review also have been shown to have an impact on outcomes for children. In particular, a recent paper by Fredrik Andersson and colleagues examines the long-term effects of growing up in public housing or receiving a housing voucher.<sup>2</sup> Abraham also drew attention to the present paper’s findings on divergent trends in spending on children and the elderly, noting that, although there are strong political economy reasons to have universal assistance programs for the elderly, it would be interesting to know more about the incomes of elderly households receiving assistance.

Jeffrey Campbell asked about the complementarity of parental ability and public assistance. If more effective parents are able to put public

1. Janet Currie, “Welfare and the Well-Being of Children: The Relative Effectiveness of Cash and In-Kind Transfers,” *Tax Policy and the Economy* 8 (1994): 1–44; Janet M. Currie, *The Invisible Safety Net: Protecting the Nation’s Poor Children and Families* (Princeton University Press, 2008).

2. Fredrik Andersson, John C. Haltiwanger, Mark J. Kutzbach, Giordano E. Palloni, Henry O. Pollakowski, and Daniel H. Weinberg, “Childhood Housing and Adult Earnings: A Between-Siblings Analysis of Housing Vouchers and Public Housing,” Working Paper no. 22721 (Cambridge, Mass.: National Bureau of Economic Research, 2016).