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OPINION | COMMENTARY

Biden's Child-Poverty Progress Isn't Real

Inflation ate up much of the income gains, which came with greater dependency.

By Tomas J. Philipson

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A man and his son look for cereal in the pantry at the Heritage Word of Life Church in Mitchellville, Iowa, Sept. 16, 2020.

PHOTO: JACK KURTZ/ZUMA PRESS

Among the Biden administration's favorite claims is that it has cut child poverty in half. True, the $1.9 trillion American Rescue Plan increased the amount of the child tax credit and made advance payments to those who qualify, putting money into the hands of many poorer Americans. But the size of a government check doesn't matter so much as what you can buy with it. Doubling your income is worthless if everything you have to buy is suddenly twice as expensive.

The advance payments to alleviate child poverty were partly or fully eroded by the higher prices caused by President Biden's policy trifecta of increased demand, crimped supply and an accommodative monetary policy. This year's resulting 6.8% rise in the consumer-price index isn't likely to slow down, particularly since 40% of core CPI is shelter, composed of rent and owners' equivalent rent. This measure lags behind housing prices, which are booming. The 9.6% gain in producer prices will also eventually will be pushed on to consumers.

For most people, the rise in prices has swallowed up the extra income from the expanded child tax credit. The expanded child tax credit raised income almost 7% for the average two-child family at the $28,000 poverty line assumed by the study supporting Mr. Biden's claims. A few families with young children experienced larger gains. The increase was matched by price increases of the same order of magnitude, so that real income gains have been anywhere from nonexistent to modest for families near the poverty line. Approximately 10% of children in families too poor to qualify for the pre-Biden child tax credit received larger credits, but many were too far below the poverty line to be lifted out of poverty, thus not changing the poverty rate.

The White House claim that it cut child poverty in half was actually based on a forecast by Columbia University sociologists, who ignored well-known and standard effects of poverty programs on work incentives. University of Chicago economists predicted about 1.5 million parents would exit the labor force because of the increase in welfare programs and thus that child-poverty reduction would be much muted.

The advance payments of the expanded child tax credit started in July 2021, so evidence exists for evaluating what actually happened. Using actual income and child-tax-credit data the Chicago team found that child poverty hasn't fallen at all, even before considering the declines in real incomes due to accelerated inflation since July. The Columbia team clings to the claims made by its simulation analysis even though actual income data are available.

You don't cut poverty by increasing reliance on government. You do it by making them self-reliant. This is exactly what happened under President Trump before Covid hit, when both poverty and welfare rolls were in decline. The Trump administration's strategy wasn't to offer people government handouts but to get government out of the way. Reducing regulation and cutting taxes allowed a business-friendly environment to develop, which induced a surge in labor demand.

A growing economy increases the demand for workers, raising both jobs and pay. Under Mr. Trump, three-quarters of new hires were people coming off the sidelines of the labor market, and the lowest wage earners saw the fastest real wage growth of any income group. Poverty rates across the board, including for African-Americans and Hispanics, reached historic lows. This resulted in lower inequality both in terms of income and wealth, an achievement that would have been celebrated by progressives had it not occurred on Mr. Trump's watch.

Contrary to the Biden vision, under Mr. Trump poverty fell as dependence on government fell. The number of people claiming unemployment insurance as a share of the population was the lowest on record in 2019. Similarly, Medicaid rolls decreased—because of income gains, not eligibility restrictions. In addition, more than six million Americans left the food-stamp program as their ability to provide for themselves grew.

The best way to reduce poverty is to create a business-friendly environment that raises labor demand. Companies will then bid up wages and take on more workers. It is a welfare program that creates value to both consumers and producers as opposed to government transfers that destroy value through taxation. If he really wants to help those Americans who need it most, Mr. Biden should end his explicit war on capital, as it's always an implicit war on workers.

Mr. Philipson is an economist at the University of Chicago. He was a member of the president's Council of Economic Advisers, 2017-20, and its acting chairman, 2019-20.