Investing in Infants The Lasting Effects of Cash Transfers to New Families

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We provide new evidence that cash transfers following the birth of a first child can have large and long-lasting effects on that child’s outcomes. We take advantage of the January 1 birthdate cutoff for U.S. child-related tax benefits, which results in families of otherwise similar children receiving substantially different refunds during the first year of life. For the average low-income single-child family in our sample this difference amounts to roughly $1,300, or 10 percent of income. Using the universe of administrative federal tax data in selected years, we show that this transfer in infancy increases young adult earnings by at least 1 to 2 percent, with larger effects for males. These effects show up at earlier ages in terms of improved math and reading test scores and a higher likelihood of high school graduation. The observed effects on shorter-run parental outcomes suggest that additional liquidity during the critical window following the birth of a first child leads to persistent increases in family income that likely contribute to the downstream effects on children’s outcomes. The longer-term effects on child earnings alone are large enough that the transfer pays for itself through subsequent increases in federal income tax revenue.