



The Child Allowance Scam/Virginia's Trump Card

A new study says that Democratic plans to expand the child allowance could drive more than a million workers from the labor force. Plus, Terry McAuliffe ties his opponent to Trump in the Virginia governor's race.

William McGurn

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Speaker 1: From the opinion pages of the Wall Street Journal, this is Potomac Watch.

William McGurn: A new study says that Democratic plans to expand the child allowance could drive more than one million workers from the labor force while Terry McAuliffe is busy tying his opponent to Trump in the Virginia governor's race in hopes of victory. Welcome to Potomac Watch from the Wall Street Journal. I'm Bill McGurn and I'm joined today by my editorial page colleagues, Kim Strassel and Kate Bachelder. Kate, let's start with you. Walk us through what the Democrats are proposing to do with the child allowance and the tax credits and why this is significant.

Kate Bachelder: Yeah, Bill. Thanks for having me. Listen, what Democrats are trying to do here is extend through 2025 provisions that were passed earlier this year in a COVID bill. The child tax credit this year is \$3600 for kiddos under six and \$3000 for those that are older. It's fully refundable now, meaning it's paid out as cash to folks who don't earn enough to owe any income tax. As millions of families are aware, this year it's being paid out in monthly installments, \$300 per kid. Basically what Democrats want to do is extend this through 2025. Bill, I think we should talk about this more because it is not merely inflating a tax benefit. It really takes what is currently, what has traditionally been a tax benefit and converse it into a universal basic income and it's available to everyone who has children regardless of whether they work. So that is-

William McGurn: That's the refundable aspect of it, right? Explain to people what that means.

Kate Bachelder: Sure. Of course, Bill. Something is refundable, meaning it is available to those who don't earn enough money to pay income tax and they can still receive the credit in a check. Now traditionally, Bill, before these temporary COVID changes, the credit was worth about \$2000, but only up to \$1400 of it was refundable, meaning paid out in a check, and you had to

have some earned income. You had to have \$2500 a year of earned income to start to be able to claim this credit. Now, if that all sounds wonky, what it means is that you had to have some connection with work and it would get richer as you worked more so that it wouldn't punish parents for working. It was just a much smaller check. The refundable, it was just \$1400 and now it's \$3600 for children under six.

William McGurn: Yeah. Kim, a lot of ... Maybe I shouldn't say a lot, but at least some conservatives, some pro-family conservatives think that this is the answer for the Republican Party, policies like this that they give money to families. Why is this a bad idea even for these families?

Kim Strassel: Well you can talk about that both from an ideological perspective, but also from an economic perspective. Ideologically, conservatives have long believed that you should have a very simple, straightforward tax system and government shouldn't necessarily be using that tax system to encourage or discourage certain behavior. It should get out of the way. Now, Republicans have adopted this notion of a child tax credit because they want to be seen as pro-family, but what they don't want to talk about is that this nonetheless is an income transfer just like any other sort of income transfer and therefore, not the kind that they ought to be in favor of. I mean essentially what they're doing is taking a lot of money from perhaps childless families or people whose children are grown up and transferring it over to younger families. They wouldn't necessarily promote such income transfers in any other field and they shouldn't be doing it here, but from an employment perspective, this is an outright discouragement for people to go to work. It's coming at a terrible time given the pandemic and given how many people exited from the workforce as a result of that and are now being paid, in essence, with this monthly tax credit to not return. There's been a lot of talk, for instance, why the end of the federal enhanced unemployment provision that we were handing out which ended in September, why we haven't seen a vast uptick in employment again. One of the reasons is it's slowly dawning on people that the amount of things that are still pouring out to Americans because of these rescue plans and a primary one being this child tax credit is a major discouragement for anybody to go back to work. We were in an editorial pointing out that, especially because this credit goes to people even who are affluent and who earn good money. We gave the example that if you had a family of four with two kids under the age of six and two above earning \$150,000 a year, they could still qualify for more than \$13,000 a year for this child tax credit. For women who are often the second earners in a home or they bring in a lot less, they do it more to get out of the house for a while sometimes, why would you go do that when such a huge chunk of money is flowing back in?

William McGurn: Yeah, Kate. It just sounds nuts to me, the two aspects. One is that the money would go to even wealthy families, right? I mean if you're going to give families that need relief some aid, you would seem to really want to means test it pretty low and so forth. Then second, at the bottom level, one of the things I think research has demonstrated is that for a lot of families, the worst thing that happens is that no one in the house is connected to the private economy. Right? No one's working. They're existing on some benefits. So this would seem to threaten, for example, single moms and so forth in their house and just kind of condemn them. It just seems nuts and it's not just sort of libertarians at the CATO Institute that have a problem with it. Joe

Manchin, I think, has balked at some of the disincentives for work in this too because he understands where it's going.

Kate Bachelder: Right. I mean I do think we can expect single-earner households to be the most negatively influenced here. I mean one thing I think we should really think about is that those who are concerned about child poverty and vulnerable children should be very skeptical of sending unconditional cash payments. The current system, state welfare programs, et cetera that help families find transportation, childcare, it involves a case worker and someone having insight into what's going on in the house. This is really important for identifying child abuse or case workers help get child support from an absent parent. The risk here as we quoted Robert Door in our editorial today who ran New York City's welfare program and he really, I thought, put it quite succinctly in saying the result of these unconditional payments could be more houses with the shades drawn. I don't think that anybody who cares about vulnerable children should think that that's going to improve their circumstances.

William McGurn: Right. For the middle classes and so forth, it does nothing to stem one of the real problems which is overspending in Washington and overregulation that could ease a lot of the burdens on ordinary citizens. Right? We never attack that end of the problem.

Kate Bachelder: Right, Bill. So right now, the current credit, the enhanced credit, so the \$3600, it (inaudible) back to \$2000 where it used to be for a married couple earning \$150,000, but that is still quite a bit of money and then it holds at \$2000 until people earn \$400K. So this is a substantial chunk of money and it's a poorly designed program on both ends of the scale is what the problem is. It subsidizes people who don't need it and then creates this terrible poverty trap at the bottom of the income scale.

William McGurn: Yeah. Kim, do you think ... A lot of, again, the conservative critique of this is about dependency and a lot of times the Democrats seem to want to expand their programs to not target the poor, to target the middle class. Some of us think this is a way of promoting middle-class dependency on the government. Do you agree with that?

Kim Strassel: Absolutely and this is one of the great scams of the entire Biden Build Back Better agenda, which is the reality is a lot of very low-income Americans are already reliant on some form of government aid whether that be a food stamp program or whether that be general welfare, whatever it might be. Middle-income Americans have long been part of this dynamic that Kate was describing of a kind of trade-off or basic bargain in our society that you work. This is a way of targeting them, getting them hooked on government in a way that replicates Europe's kind of broad welfare type state. Look, the other thing too is this is about politics. If you talk about what's gone out in the voting public, we've seen these vast shifts and this has become part of a discussion, although interestingly no one wants to talk about it now in the context of this Biden plan, but increasingly the Republican Party has become the party that represents a lot of lower-income Americans, white working-class Americans, generally the working-class America, often many of them lower income. Democrats have become the party of the suburbs, right? These are the guys that they are turning to increasingly to get them elected across the country. So you look through this entire Build Back Better plan or I prefer to just call it the \$3.5 trillion spending blowout, but another example, this childcare provision where they

want to give everybody money to take care of childcare costs, one of the big fights that happened at the committee level in the House is that, originally, there was going to be a cap to stop it to go to wealthier voters. Progressives, progressives, the people that supposedly are supposed to care about the most vulnerable in society, they fought to the mat to basically have that cap eliminated so that it could go to everyone because these folks, again, they're getting elected in suburbs and they want their middle-class voters to get some sort of big handout as well too.

William McGurn: Yeah. My own view is also they know when they expand the programs to the middle class, there's less likelihood that these programs ever go away. It just becomes much more politically difficult to defeat. Stay with us. You're listening to Potomac Watch from the Wall Street Journal.

Speaker 1: From the opinion pages of the Wall Street Journal, this is Potomac Watch.

William McGurn: Welcome back. This is Bill McGurn. I've been talking with my colleagues, Kim Strassel and Kate Bachelder, about child tax credits. I want to switch to a topic that was the topic of your column, Kim, the Virginia governor's race. What's going on? It seems like a tighter race than we thought just a few months ago.

Kim Strassel: Yeah. What's going on is Democrats are terrified and it's been very interesting to watch this, Bill, because if you'd have gone back a year ago, they had already dismissed Virginia not going to be competitive. Obviously Democrats are going to win. It says something that they were so confident because traditionally in the past, Virginia has been a kind of bellwether or backlash state. Often when Democrats are elected or Republicans, the state in its following off-year election will choose a person of a different party to run the state governor and other positions because worth knowing that Virginia has four-year ... Their governors are limited to one four-year term. So every four years, they change governors. But in this case, Donald Trump was very unpopular during his time in Virginia. The state went five points for Hillary Clinton and 10 points for Joe Biden and it led a lot of people to say, "No, it's just solidly blue," but in fact, so you have this race which features Democrat Terry McAuliffe, he's a former governor there, Republican Glenn Youngkin who was a total unknown business executive, and the latest Emerson poll out this week actually has the race in a dead heat. It looks as though one of the reasons that this is happening, part of it is of course that Joe Biden and Democrats are becoming increasingly unpopular and that is obviously affecting Virginia voters too. But the other thing is you've got a Republican candidate who is not rolling over for this classic Democratic campaign of just trying to tie him to Trump. That is what Terry McAuliffe has been doing since the beginning of this race, just suggesting that if you elect Glenn Youngkin, you're just getting another Donald Trump. This is what Democrats are clearly hoping is going to be their main campaign theme next year too, but it's not working in part because Youngkin is very much running on the issues and trying to talk to Virginia voters about the things that keep them up at night.

William McGurn: Yeah. Kate, now Virginia is not quite as blue a state as California is where Democrats really outnumber Republicans and so forth, but the governor there, Gavin Newsom, was in a lot of trouble, a lot less popular I think than Terry McAuliffe for a variety of things especially during COVID and so forth. He successfully used the Trump card against Larry Elder,

his Republican opponent, and the race ended up not being as close. What do you see in Virginia that maybe explains that difference? Maybe it's just that Virginia is just not as blue as California is, but it seems to me that the Republican candidate, Glenn Youngkin, is having more traction than Larry Elder ever got and certainly Elder focused on some of the big problems in California, crime and so forth.

Kate Bachelder: Well, Bill, I do think in the particular case of tying Youngkin to Trump, I think voters can make distinctions and I think you don't have to watch Youngkin very long to get the impression that he is much different from Trump just in his tone and the issues that he emphasizes. So he's been running, I just think he's been running a pretty focused campaign. One particular issue I've been watching is he's running on some cost-of-living issues. Virginia is one of only 13 states according to a count in 2020 that imposes a sales tax on groceries. It's 2.5% levy and these taxes are extremely aggressive because the poor spend a bigger share of their budget on food. So Youngkin has been making a big issue of eliminating this sales tax, and this is a pretty salient issue now that inflation is hitting shoppers with higher prices on meat and produce. So he has been running a pretty disciplined campaign on some things with some pretty broad appeal. I think that is one reason he is doing pretty well.

William McGurn: Yeah. Kim, you mentioned that in your column, talking about the bread-and-butter issues. I want to ask you about one issue. In one of the debates, Terry McAuliffe said, "I don't think parents should have any say in what the schools teach." It might not have taken off as much, but it comes in the context of these very contentious school board meetings not just in Virginia, but across the country where parents feel very, very frustrated. How much do you think that is contributing to his woes on this issue? Because a lot of these parents, although the caricature is that they're all sort of redneck Trump supporters, a lot of them are actually liberal parents who just don't like some of the stuff going on in the schools and they're discovering the schools are not that interested in hearing from them.

Kim Strassel: Right. I would argue that if Terry McAuliffe ends up losing this race, people will go back to that extraordinary statement in that debate, "I don't think parents should be telling schools what they should teach," because what a silly thing to say and a very dumb place to say it as well. As people know, Virginia has been one of the ground zeros for these revolts against school boards, especially in a couple of these very crucial Northern Virginia suburbs that always matter in Virginia electoral races. This fury has been building over the past 18 months since the beginning of COVID with excessive lockdowns, failing standards, increasing discussions over critical race theory, competitive admissions to some of these schools, and school choice. Virginia, by the way, is a terrible place for school choice. It's a big laggard in the country. All you have to do is look at some of these videos to know that this is a hotpot right now. So Mr. Youngkin was already really trying to use this issue. His argument is that he does want to invest in schools, but that he is going to demand a lot better outcomes. He has promised 20 new charter schools on day one if he gets in there, and he's promised that he's not going to allow critical race theory to be taught. The reason this matters, as you said again, if you look at Virginia, one of the reasons Trump did poorly in 2016, but even worse in 2020 is that he lost suburbanites and he lost a lot of these people that are now out in force at these school meetings. These are folks that they may not have liked Donald Trump, they might not have liked his personality, it might have been off-putting, but they are not progressives or socialists. They are often your classic swing voters

and some of these issues are really driving them back into the Republican arms. Just one last thing I would note to you. You mentioned Larry Elder in California. One thing I do think is a little different is Youngkin is a political outsider unlike Elder who had a long history of being a political pundit, a lot of words and things that Newsom was able to use against him. Youngkin, up until last year, was in private business. He was in private equity. So he kind of doesn't have all that and also he is running a race, to his credit, very much geared toward a purple state, one in which he's not allowing himself to get dragged into some of these culture wars.

William McGurn: Yeah. Kate, on the Donald Trump issue, I mean for a lot of candidates, a lot of Republican candidates, the fear is that if Donald Trump demands some kind of statement of loyalty whether it's about the 2020 election or something else, you would certainly get some Trump supporters, but you would lose some people that voted against Trump, especially maybe Republicans that voted against Trump or suburbanites. So you're kind of a damned if you do, damned if you don't situation there. Do you think if he wins, will the Republican in Virginia has lessons for other Republicans how to navigate those shoals?

Kate Bachelder: I think absolutely because Youngkin has not been eager to isolate Trump's voters even as he has been, like I was describing, adapting a different tone and disposition. I think this will be very fascinating race to watch on election night. There are ... A lot of the attention will be on Northern Virginia, but I'm going to be watching the second and seventh congressional districts which respectively are Virginia Beach and suburban Richmond. These are two seats that Democrats flipped in 2018 and where Trump really underperformed. So we're going to get some indication here of how appealing Youngkin was to some of these suburban voters who really did not prefer Trump.

William McGurn: Okay. We're going to have to leave it there because of time. Thank you, Kim. Thank you, Kate. Thank you all for listening. We'll be back next week with another addition of Potomac Watch.