

KIDS COUNT Indicator Brief

Reducing the Child Poverty Rate

The Annie E. Casey Foundation

July 2003

KIDS COUNT Indicator Brief

Reducing the Child Poverty Rate

Nearly one in five American children lives in poverty-and many more lack a decent standard of living because their families hover near the poverty line or move in and out of official poverty.

Today, as the next round of the national debate about public policies affecting low-income families is getting underway, it is especially important to expand the most effective approaches to reducing the child poverty rate. This *KIDS COUNT Indicator Brief* describes five strategies that we believe have the best chance of lifting many families and children out of poverty, and helping them move toward greater economic security:

- **Build Political Will to Reduce Child Poverty**
- **Make Wages Work**
- **Strengthen the Safety Net**
- **Help Low-Income Families Keep More of What They Earn**
- **Help Low-Income Families Amass Savings and Assets.**

1. Build Political Will to Reduce Child Poverty

A key lesson of recent decades is that policy counts. The deliberations and decisions of policy-makers at every level of government can powerfully affect families' standard of living and children's life chances. And advocacy efforts matter, because without public support, many of the policies and programs that can help to reduce child poverty cannot succeed. Any strategy to reduce the child poverty rate must confront three widely shared myths that have impeded progress.

- **Dispel the myth that the problem of child poverty is intractable.** The problem of child poverty has been so persistent-in good *and* bad economic times-that many Americans believe it is inevitable. But we can do better. History shows that well considered, sustained policy efforts can buffer many children from the worst effects of poverty. We have seen other Western industrialized country make significant strides in cutting their child poverty rates. And in our own country, public policy initiatives have succeeded in shrinking poverty rates for other groups, notably the elderly.
- **Dispel the myth that poverty is limited to children whose parents do not or cannot work.** In fact, most poor young children have at least one employed parent. More than half (56 percent) of American children with incomes below the poverty threshold live in households where someone works full-time.
- **Dispel the myth that only a small percentage of American children face daily hardship.** While the child poverty rate dropped under 20 percent, in fact, nearly 40 percent of America's live in poverty or near poverty, with families who cannot afford the basics. Currently, a family of four is considered to live in poverty if its annual income is under \$17,050 per year. But economists say that in most locales across the nation, it takes about twice that amount to pay for necessities-with none of the frills most Americans take for granted like movie tickets or restaurant meals. Efforts to gauge the real cost of living, based on real families' basic budgets, can build support for policies and laws that reduce the child poverty rate.

2. Make Wages Work

To be sure, a key to reducing child poverty is increasing the number of children who have working parents. (See insert on "Increasing the number of children with working parents.") But we can't stop there because jobs do not reduce poverty; **good** jobs reduce poverty. The challenge is not only to expand the number of job slots, but also to improve the quality of jobs.

- **Support efforts to raise the minimum wage**

Efforts to raise the minimum wage are crucial, considering the number of Americans who cannot escape poverty despite full-time work. In a recent study of Americans who had made the transition from welfare to work, the average wage was above the minimum wage, but more than two-thirds of respondents said that they were barely making ends meet. Economists estimate that if the minimum wage were increased to \$6.15 per hour, nearly nine percent of the workforce (more than ten million workers) would benefit. Most of those who would benefit are female, and nearly half work full-time. And because employers often want to maintain traditional pay differentials, raising the minimum wage can also help low-income working families whose earnings exceed the minimum wage.

Increasing the minimum wage is a strategy that has wide-and growing--public appeal. According to a 1999 ABC poll, 83 percent of adults surveyed supported an increased minimum wage, up from 76 percent the previous year.

Given the high cost of living in many parts of the country, merely increasing the minimum wage will not help many families avoid economic hardship. Many cities and counties across the nation have therefore passed living-wage ordinances, requiring those companies that benefit from public tax dollars (in the form of large service contracts or economic development subsidies) to pay their workers a living wage calculated on the basis of local costs of living. Many living-wage ordinances require firms that do not provide health benefits to pay a higher wage. A national living-wage campaign calls for firms holding federal service contracts worth at least \$10,000 to pay all employees working on the contract at least \$8.20 an hour, the wage that a full-time worker would need to lift a family of four above the poverty line.

- **Expand job benefits for low-wage workers**

Both the public and private sectors have roles to play in increasing family incomes contributing to a benefits package that includes health insurance for workers and their dependents. Low-wage workers also need access to sick days, personal days, and time off to tend to family matters.

Low-wage earners can rarely take time off from work to meet their children's health and educational needs. Even those who work full-time are less likely than higher-wage earners to have paid leave, and most cannot afford to take unpaid leave (Heymann, Toomey & Furstenberg, 1999). Balancing family and work responsibilities can be impossible when children get sick. In one-quarter of families, children's illnesses require parental (or back-up) care for three or more weeks each year (Heymann & Earle, 2000). This can be difficult for all parents, but those with low incomes tend to have less flexibility than other employees.

- **Break the cycle of hardship by strengthening education and job training**

Higher wages and better benefits are crucial-but by themselves cannot solve the problem of child poverty. While increasing the minimum wage can raise the earnings of those low-wage workers who already hold jobs, it may make it more difficult for other low-skill job seekers to find employment. In recent years, many service-sector industries have shown low (or even negative) rates of productivity growth. Without education and marketable job skills, low-wage earners are rarely productive enough to allow employers to justify significant wage increases. Today, two-thirds of full-time workers receive no training on the job. To reduce child poverty, our nation must come to terms with the need to improve education and expand job training opportunities.

Moreover, to lift more families out of poverty, a higher minimum wage must be combined with other policies aimed at making wages work, such as expanding the Earned Income Tax Credit and strengthening the unemployment insurance program.

3. Strengthen the Safety Net

Many children are not receiving benefits to which they are entitled, including food stamps, health insurance coverage, and child care subsidies. Many families believe, mistakenly, that when they leave the welfare rolls they no longer qualify for these non-cash benefits. This is not the case. Barriers to enrollment include not only misinformation (both by families and those who can assist them), but also complex, confusing eligibility rules and enrollment procedures, and a lack of materials in a native language. States that have streamlined the enrollment process, including Indiana, Massachusetts, and Oklahoma, have boosted participation rates.

Key benefits available to children in poor and near-poor families

Income:

Temporary Aid to Needy Families (TANF)

Health:

Medicaid

State Children's Insurance Program

Nutrition:

WIC

Food Stamps

School-based feeding programs

Early care and education:

Child care subsidies

Head Start and Early Head Start

Housing:

Housing subsidies

Housing mobility programs

It is also important to change attitude--those of parents, enrollment office staff, and the public at large. Research suggests that many parents do not enroll eligible families because they fear they will be badly treated in enrollment offices, or because they want to avoid the stigma that they believe are associated with such programs. Public information efforts, stressing the role that benefits like Medicaid and Food Stamps play in the lives of millions of families (including working families) may be helpful. Rethinking outreach and training in state offices may also be necessary: many agencies that administer benefits to low-income families now refer to the people they serve as "customers," but have not yet transformed their organizational cultures accordingly. Few actively pursue new customers (Meyers, 2000).

- **Ensure that all eligible children receive food stamps**

According to the U.S. Department of Agriculture, in 1998 an estimated 10.5 million American

households experienced some degree of food insecurity. That is, they lacked reliable, socially acceptable ways to get food that is nutritionally adequate and healthy. Of the more than 30 million people who lived in these households, nearly 40 percent were children. Food stamps therefore plays a crucial role in any plan to address child poverty.

Federal food assistance for low-income families goes back to the Great Depression. The modern version of the Food Stamp Program has functioned for more than three decades. Program participation rose steadily over the years, reaching a high of nearly 28 million participants (per month) in 1994. But since that time, participation has dropped by more than 30 percent. To be sure, a robust economy and changes in eligibility account for some of this decline-but not all.

Experts believe that many families who need and qualify for food stamp benefits may not be receiving them. In particular, many families who have left the welfare rolls no longer participate, despite the fact that they continue to live in poverty and continue to qualify for food stamps. The challenge is not only to make sure that food stamp recipients continue to receive benefits for as long as they are eligible, but also to reach out to families that qualify for food stamps but have never received them.

- **Ensure that all eligible children are enrolled in health insurance programs**

Both Medicaid and State Child Health Insurance Programs provide excellent coverage for preventive and primary health care. The challenge is to extend outreach and public education, and to make both plans more accessible and effective.

- **Improve child support enforcement and assurance**

A sharp rise in births to unmarried women until the mid-1990s has impeded progress in reducing child poverty. Children who do not live with both parents are much more likely to live in poverty than other children. If combined with a single parent's earnings, regular child support from the non-custodial parent (usually the father) can help move families out of poverty.

When fathers have the means to pay, more rigorous child support enforcement can make a difference for children. The good news is that in recent years, changes in enforcement have significantly improved collection efforts (Sorensen & Halpern, Urban Institute, 1999). According to the U.S. Census Bureau, the percentage of custodial parents receiving all the child support

payments they were due rose from 34 percent in 1993 to 41 percent in 1997 (Grall, 2000). Child support payments offer some protection against poverty, reducing the number of poor children by a half million (Sorenson & Zibman, 2000). The bad news is that many more children continue to rely on one parent for economic support. In 1996, about 70 percent of poor children eligible for child support did not receive it (Sorenson & Zibman, 2000).

When fathers lack the means to pay, efforts are needed to help them find employment, work with the child support system, and take more financial (and emotional) responsibility for their children (Primus & Daugirdas, 2000). Many states and localities have launched programs that pursue these aims.

Efforts to ensure that noncustodial parents pay child support enjoy wide public support. Many partnerships have developed at the federal and state level to help in this effort. For example, the federal Office of Child Support Enforcement and the national Head Start Association formed an alliance to ensure that all local Head Start programs and child support offices work together so that children have all the parental resources to which they are entitled.

- **Improve unemployment insurance**

Since welfare reform was introduced in 1996, employment rates have increased for most former (and many current) participants in public assistance. The nation has enjoyed the lowest unemployment rates nationally in three decades. However, some analysts are concerned about what will happen if a downturn in the economy swells the ranks of the unemployed.

Historically, the major "safety net" program for unemployed workers has been the Unemployment Insurance (UI) system. However, in the next recession, several factors will limit eligibility for UI among former welfare recipients. Some may lack adequate work experience; others will not qualify because they quit their jobs or were fired; still others may not be available for full-time work due to family responsibilities or family problems. At the same time, many individuals and their families will be ineligible to participate in public assistance if they have reached their lifetime limits.

Policymakers could help protect vulnerable children and their families during a recession with two kinds of responses. First, they could introduce changes in UI that would improve eligibility

among low-wage workers. For example, they could change the base periods for earnings calculations so that the most recent quarter of earnings is not disqualified; setting minimum levels of hours and/or earnings for eligibility nationwide; and allowing to qualify for UI if they have worked part-time or have quit jobs due to specified family difficulties. And second, they could introduce changes in public assistance programs that would make it easier for unemployed workers and their families to gain income during a recession. For example, they could allow temporary suspensions of federal time limits on recipients and credit more educational and training activities to count toward work requirements. Progress toward time limits could be suspended for participants in public assistance who are working (Holzer, 2000).

4. Help low-income families keep more of what they earn

For low-income earners-especially those with incomes at or near the official poverty line--tax policy can make a significant difference in their ability to provide for their children. The Earned Income Tax Credit (EITC) is a very popular strategy because it rewards effort. Proponents of the EITC cite research showing that it has indeed spurred employment among single mothers (Meyer and Rosenbaum, 1999; and Acs et al., 1998). And this trend has, in turn, helped to reduce child poverty. According to the Council of Economic Advisers (1998), more than half the decline in child poverty between 1993 and 1997 is attributable to changes in taxes, primarily EITC.

- **Strengthen the federal Earned Income Tax Credit (EITC)**

While cash assistance for the poor is usually provided to people who are unemployed, the EITC is specifically designed to help jobholders keep more of their earnings. The federal EITC provides tax credits to low-income workers, and is payable even to those who owe no federal income taxes. In tax year 2000, it was worth nearly \$3,900 a year to low-income workers with children (Friedman, 2000). Those who qualify to claim the credit in advance (by virtue of having at least one qualifying child) can increase family take-home pay by up to \$115 per month.

Many eligible workers, including many who have children, do not participate in the EITC. According to the Internal Revenue Service, nearly 6 million people who qualify to claim the advance credit do not. Some do not know they qualify, or don't realize that the amount of the

benefit can be substantial. Others are reluctant to file a tax return because they are immigrants, have not filed taxes in some time, or owe child support. And still others move from job to job, making it difficult to keep required tax forms on file with employers.

States can encourage residents to take advantage of the federal EITC through public awareness campaigns. The Center on Budget and Policy Priorities has prepared a kit that agencies and organizations can use in designing an outreach strategy. The Volunteer Income Tax Assistance (VITA) program, a free IRS-sponsored effort to help low-income workers fill out their tax return, is another source of assistance.

Policymakers also need to address disincentives built into current policy. As things stand, the EITC is phased out abruptly as workers' incomes begin to rise. They also need to make sure that taxpayers who claim the EITC are not disproportionately subjected to audits.

- **Expand state EITCs**

A state EITC can further reduce the tax burden on low-income workers. The federal EITC offsets only federal taxes; but many low-income workers pay a disproportionate share of their income in state and local taxes. States that implement an EITC must decide whether to make it refundable or non-refundable. Most of the states that have implemented EITCs have refundable credits, similar to the federal EITC. This means that a family receives a refund if the amount of its EITC exceeds its tax bill. An expansion of the EITC (especially in the form of a refundable tax credit) and its extension to additional states could make a significant dent in the child poverty rate.

- **Increase state tax thresholds**

Our tax system strives to make people contribute their "fair share" of public revenues. In theory, those who get the most from the economy pay the most, while workers at or below the poverty level should pay the least (Eisner, 2000). However, millions of working families have difficulty making ends meet despite earnings that place them above the poverty line. In many parts of the country, it takes twice the income associated with official poverty to cover basic family budgets (that is, basic household necessities, without any "frills" such as restaurant meals, movies, or vacations) (Bernstein et al, 2000). Many of these families would benefit if state tax thresholds were increased, expanding the number of struggling families who have no tax liability.

5. Helping low-income families amass savings and assets.

To reduce child poverty over the long term, it is important to narrow not only the income gap, but also the wealth gap which contributes significantly to inequalities in education, work, and even family structure (Conley, 1999). One-third of American families have no savings at all-or are in the red (have more debt than assets); another third have saved less than \$2,500 (PaineWebber Group, Inc. and the National Commission on Retirement Policy, 2000).

- **Expand Individual Development Accounts.**

One effective mechanism is the Individual Development Account (IDA)--a special savings account designed to help low-income people accumulate savings and assets. In particular, they can help increase the savings and investments of the working poor, welfare recipients and those who do not have enough income to fully participate in Individual Retirement Accounts (IRAs). Similar in structure to IRAs, they typically are used for purchasing a first home, paying education or job training expenses, or capitalizing a small business. About half of the states already have some version of an IDA up and running.

When an individual makes a deposit into an IDA, the deposit is matched by a sponsoring organization at a set ratio. Managed by the sponsoring organization, the accounts are held at a local financial institution and can bear interest. They are set up in the name of an individual, with emergency withdrawals approved by the managing organization. Participants generally receive information and training on how to budget, save, and the basics of investment. According to the 1996 welfare law, money saved in an IDA is disregarded when determining eligibility for government assistance.

- **Expand low-wage earners' access to credit**

This can be accomplished by creating alternative community development financial institutions such as Community Development Credit Unions (CDUs), Community Banks, Microenterprise Loan Funds, and Community Development Loan Funds.

References

Aber, J. Lawrence; Shirk, Martha; and Bennett, Neil G. (1999). *Lives on the line: American families and the struggle to make ends meet*. Boulder, CO: Westview Press.

Acs, G. & Gallagher, M. (January 2000). *Income inequality among America's children*. Washington, D.C.: The Urban Institute.

Annie E. Casey Foundation. (1999). *Kids Count data book: State profiles of child well-being*. Baltimore, MD: Author.

Bernstein, J. (1997). *Low wage labor market indicators by city and state: The constraints facing welfare reform*. Working Paper No. 118. Washington, D.C.: Economic Policy Institute.

Bernstein, J., Brocht, C. & Spade-Aguilar, M. (DRAFT: September 1999). *How much is enough? Basic family budgets for working families*. Washington, DC: Economic Policy Institute.

Brooks-Gunn, J.; Klebanov, P.; Liaw, F.; & Duncan, G. (1995). *Toward an understanding of the effects of poverty upon children*. In Fitzgerald, H. E.; Lester, B. M.; & Zuckerman, B. (Eds.). *Children of poverty: Research, health, and policy issues*. New York, NY: Garland Publishing, Inc.

Cauthen, N. K. and Knitzer, J. (1999). *Beyond work: Strategies to promote the well-being of children and families in the context of welfare reform*. New York, NY: National Center for Children in Poverty.

Center on Budget and Policy Priorities. (1998). *1998 earned income credit kit: Child and dependent care credit*. Washington, D.C.: Available at: <http://www.cbpp.org/eitc98-j.htm>

- Cohen, Marie & Greenberg, Mark (2000). *Tapping TANF for youth: When and how welfare funds can support youth development, education, and employment initiatives*. Washington, DC: Center for Law and Social Policy, Washington, D.C.
- Citro, C.F. & Michael, R.T., eds. (1996). *Measuring poverty: A new approach*. Washington, D.C.: National Academy Press.
- Conley, D. (1999). *Being Black, Living in the red: race, wealth, and social policy in America*. Berkeley, CA: University of California Press.
- Danziger, S.; Smeeding, T.; & Rainwater, L. (1995). *The Western welfare state in the 1990s: Toward a new model of anti-poverty policy for families with children* (Luxembourg Income Study (LIS) Working Paper No. 128). Syracuse, NY: Syracuse University, Maxwell School of Citizenship and Public Affairs.
- Eisner, R. (2000). "Budgets and taxes." In R. Marshall, ed. *Back to shared prosperity: The growing inequality of wealth and income in America*. New York, NY: Russell Sage Foundation.
- Food Security Institute. (April 1999). *Summary of existing food security survey studies*. Center on Hunger & Poverty, School of Nutrition Science & Policy, Tufts University.
- Grall, T. (2000). *Child support for custodial mothers and fathers, 1997*. Washington, DC: U.S. Census Bureau.
- Heymann, S.J. and Earle, A. (1998). The work-family balance: What hurdles are parents leaving welfare likely to confront? *Insights*. Association for Public Policy Analysis and Management.

- Heymann, S.J., Toomey, S. and Furstenberg, F. (1999). Working parents: What factors are involved in their ability to take time off from work when their children are sick? *Archives of Pediatric & Adolescent Medicine* 153:870-874.
- Holzer, H.J. (December 2000). Unemployment insurance and welfare recipients: What happens when the recession comes? Washington, DC: The Urban Institute.
- PaineWebber Group, Inc. and the National Commission on Retirement Policy. Cited in Marron, D.B. (2000). "Not Privatizing Social Security Is the Biggest Risk of All," *Wall Street Journal*, May 18, 2000.
- Meyers, M.K. *et al.* *Public policies that support families with small children: Variation across the U.S. states*: Paper prepared for the Luxembourg Income Study (LIS) conference on "Child Well-being in Rich and Transition Countries," Luxembourg, Sept. 30-Oct. 1, 1999. Columbia University School of Social Work, National Center for Children in Poverty, 1999.
- Loprest, P. (August 1999). *How families that left welfare are doing: A national picture*. Series B, No. B-1. Washington, D.C.: The Urban Institute.
- Meyers, M.K. (2000). "How welfare offices undermine welfare reform." *The American prospect* 11(15), June 19-July 3.
- National Center for Children in Poverty (1999). *Young children in poverty fact sheet*. New York, NY: author.
- Pavetti, L. (1997). *Against the odds: Steady employment among low-skilled women*. Report to the Annie E. Casey Foundation. The Urban Institute.
- Plotnick, Robert D. (1997). *Child poverty can be reduced*. In *The Future of children* 7(2).

- Porter, K. & W. Primus. (1999). *Recent changes in the impact of the safety net on child poverty*. Washington, D.C.: Center on Budget and Policy Priorities. Available at <http://www.cbpp.org/12-23-99wel-es.htm>
- Rosenbaum, S. & Johnson, K. (2000). *Making Medicaid and SCHIP work for families and children*. New York, NY: Carnegie Corporation of New York.
- Sherraden, M. & N. Gilbert. (1991). *Assets and the poor: A new American welfare policy*.
- U.S. Bureau of the Census (1999). *New census data show that child poverty rate continues to lag behind other key economic indicators*. Washington, D.C.: author.
- U.S. Bureau of Labor Statistics, *March current population survey*, Washington, D.C.
- Wertheimer, R. (February 1999). *Working poor families with children*. Washington, D.C.: Child Trends.
- Wilson, W. (1996). *When work disappears: The world of the new urban poor*. New York: Knopf.
- Wilson, W.J. (2000). "Jobless ghettos: The social implications of the disappearance of work in segregated neighborhoods." In R. Marshall, ed. *Back to shared prosperity: The growing inequality of wealth and income in America*. New York, NY: Russell Sage Foundation.

For more information:

National Center for Children in Poverty

The Joseph L. Mailman School of Public Health, Columbia University

154 Haven Avenue New York, NY 10032

PH: 212-304-7100, FAX: 212-544-4200 OR 212-544-4201

<http://cpmcnet.columbia.edu/dept/nccp/>

Center on Budget and Policy Priorities

820 First Street, NE, Suite 510

Washington, DC 20002

Ph: (202) 408-1080

Fax: (202) 408-1056

www.cbpp.org/sud98.htm

The Center for Law and Social Policy

1616 P Street, NW

Suite 150

Washington, DC 20036

(202) 328-5140 / FAX: (202) 328-5195

www.clasp.org