Child Poverty Can Be Reduced

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Abstract

Child poverty can be reduced by policies that help families earn more and supplement earned income with other sources of cash. A comprehensive antipoverty strategy could use a combination of these approaches. This article reviews recent U.S. experience with these broad approaches to reducing child poverty and discusses lessons from abroad for U.S. policymakers. The evidence reviewed suggests that, although policies to increase earned incomes among low-wage workers can help, these earnings gains will not be sufficient to reduce child poverty substantially. Government income support programs, tax policy, and child support payments from absent parents can be used to supplement earned incomes of poor families with children. Until recently, Aid to Families with Dependent Children (AFDC) was the main government assistance program for low-income families with children. Temporary Assistance for Needy Families (TANF) has recently replaced AFDC. This article explains why TANF benefits are likely to be less than AFDC benefits. The article also examines the effects of Social Security and Supplemental Security Income on child poverty. The most encouraging recent development in antipoverty policy has been the decline in the federal tax burden on poor families, primarily as a result of the expansion of the Earned Income Tax Credit (EITC), now the largest cash assistance program for families with children. In 1995, government transfer programs (including the value of cash, food, housing, medical care, and taxes) decreased child poverty by 38% (from 24.2% to 14.2% of children under 18). Child poverty may also be reduced by policies that increase contributions from absent single parents to support their children. Overall, evidence from the United States and other developed countries suggests that a variety of approaches to reducing child poverty are feasible. Implementation of effective programs will depend, however, on the nation’s political willingness to devote more resources to this end.

Policies to fight child poverty may be divided into two broad approaches. The first tries to prevent poverty by helping families earn more. The second reduces the level of poverty generated by the market economy by supplementing low market incomes with other sources of cash. Supplements to a family’s market (or pretransfer) income either bring its total after-tax, after-transfer income above the poverty line or reduce the gap between its income and the poverty line. These approaches can complement each other.

Another broad antipoverty strategy seeks to mitigate the adverse effects of poverty by providing food, health care, housing, supplemental educational...
Increasing Market Incomes to Prevent Pretransfer Poverty

Pretransfer poverty among children rose from 20.0% in 1979 to 24.2% in 1995. The principal cause of this increase is that real earnings and wage rates among fathers with 12 or fewer years of schooling fell in absolute terms over the past two decades, while they have at best been stagnant for similarly educated mothers. Even many workers with some postsecondary schooling have had problems earning more than the poverty line in recent years. (See the articles by Corcoran and Chaudry in this issue and by Burtless in the spring 1997 issue of this journal.)

The sagging fortunes of less skilled workers result from a combination of slow economic growth and increased earnings inequality since the mid-1970s. Though a full understanding of the causes of the losses at the bottom of the earnings distribution eludes researchers, major factors include technological change and increasing international competition, both of which have reduced the demand for less skilled workers, and immigration flows that increased the domestic supply of unskilled workers. These market forces placed downward pressure on the wages of less skilled workers. Erosion of the real value of the minimum wage and the decline since 1975 in trade unionization also played a role in depressing the wages of less skilled workers. In addition, increasing percentages of less skilled men are working part time or have dropped out of the labor force entirely. Together, all of these developments have produced substantial declines in real earnings.

Public policies to improve the earnings of parents of poor children are a subset of broader policies to improve the earnings of all low-wage workers. Such policies are swimming against powerful economic forces that have eroded job opportunities for the less skilled. As a result, expectations for the success of labor market interventions should be restrained.

Increasing Demand for Low-Wage Workers

Increasing demand for low-wage workers and, hence, their employment and earnings can, in principle, be achieved by subsidizing firms that hire them. The 1993 federal enterprise zone program, which offers tax benefits to firms that locate in and hire a certain percentage of their workers from economically distressed neighborhoods, takes this approach. So does the Work Opportunity Tax Credit, which provides tax savings to...
firms that hire low-wage workers from certain disadvantaged groups, as did its precursor, the Targeted Jobs Tax Credit (TJTC), which operated in most years from 1979 to 1995.

In practice, the TJTC had only modest positive employment effects for disadvantaged youths. Many firms eligible for the credit did not claim it, and most credits went to firms that would have hired the targeted workers even without the TJTC. Perhaps more troubling was that being explicitly identified as members of a targeted, needy category appeared to stigmatize intended beneficiaries in the eyes of employers, who then regarded them as less qualified than other applicants. The enterprise zone program has not yet been evaluated. Experience with analogous state level programs suggests, at best, limited impact.

A better alternative to the TJTC may be an expanded version of the New Jobs Tax Credit (NJTC), which was tried only in 1977–78 and created jobs for less skilled workers. If reenacted, a program like this could provide, for example, a tax credit of 50% of the first $10,000 paid to each worker hired beyond 102% of the firm’s previous year’s employment level. Because the subsidy is a larger proportion of total wages for the less skilled, it tilts incentives toward hiring such workers without stigmatizing them by requiring membership in a targeted group. The subsidy rate, earnings limit, and incremental threshold can be varied depending on how enticing a program one wants.

Public service employment directly raises demand for disadvantaged workers. Two variants proposed recently are guaranteed minimum wage jobs for persons who have reached their time limit on welfare and subminimum wage public sector jobs for any applicant, starting with a small effort and expanding it if successful. Such programs can provide persons with employment experience that may help them get private sector jobs. Combined with earnings supplements like the Earned Income Tax Credit (EITC) (discussed below), public service jobs can raise full-time workers close to the poverty line.

Large public sector jobs programs must contend with criticisms that they provide poor jobs that largely substitute for jobs that otherwise would exist, may displace traditional public employers, and cost too much to create. They also face political resistance grounded in the real and perceived failures of the public sector jobs component of the 1973 Comprehensive Employment and Training Act (CETA) and in American skepticism about “big government” efforts.

The access-to-enterprise-zone (AEZ) proposal calls for a concentrated effort to help young parents in the most economically distressed urban neighborhoods. There would be a federally funded tax credit similar to the TJTC, with the designated group being AEZ residents. Because of the limitations of such tax credits, they would be supplemented with federally funded guaranteed public sector jobs and local initiatives to improve the social climate in each AEZ. This approach might generate synergism and lead to economic gains, but it may instead turn out that policies that separately showed meager results and political vulnerabilities will continue to do so when combined.

Overall, noncategorical jobs tax credits and wage subsidies may be the most promising of the demand side options. They appear to be modestly successful at creating jobs and, in combination with job search assistance and skills training programs (discussed below), help raise earnings of low-skill adults. Unlike direct job creation efforts, their implementation has not been strongly criticized.

Improving Job Readiness and Occupational Skills of Low-Wage Workers

Improving job readiness and occupational skills of low-wage workers to help them enter the labor market and get better-paying jobs remains the mainstay of federal efforts to reduce pretransfer poverty. Though outlays

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for such activities are a small fraction of spending on income supplements, the primacy that Americans accord to work and self-reliance and their endorsement of efforts to help persons become self-supporting ensure continued attention to such policies. (See the article by Heclo in this journal issue.)

Adult low-wage earners can benefit in two ways from effective programs to upgrade skills. Those who gain better skills would compete more effectively for higher-wage jobs. And by reducing the number of low-skill workers, the programs would reduce downward pressure on the wages of those who do not receive program services.

This approach includes welfare-to-work programs as well as a variety of programs for other groups facing serious labor market disadvantages. Most poor children live in households that can benefit from these programs.

Federal guidelines under the Work Incentive Program (1967), then the Family Support Act (1988), and, now, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, allow states broad latitude in designing welfare-to-work programs. While the programs differ in many specifics, they have had common features. Adult welfare recipients are initially assessed to determine if they are ready for work. If so, they must participate in some work-related activity; failure to do so may result in benefit reductions. These adult welfare recipients receive counseling to improve their job search skills and, in some states, skills training or remedial schooling, and then help in finding work. Some programs subsidize participants’ wages to encourage firms to hire them. Subsidized child care, help with transportation expenses, and, if a participant leaves welfare, temporary continuation of child care assistance and Medicaid usually are offered to facilitate participants’ training, search, and work efforts.

Young (16- to 21-year-old) single mothers on welfare and their children face especially high risks of long-term poverty and welfare dependence. The Teenage Parent Demonstration (TPD) and Ohio’s Learning, Earning, and Parenting (LEAP) program are examples of mandatory welfare-to-work programs aimed at helping these women. TPD requires teens to enroll in education, job search, or training programs, or to work. LEAP focuses on increasing class attendance and high school completion or, for dropouts, on returning to high school or seeking a General Educational Development (GED) certificate.

Careful evaluations of welfare-to-work programs find that they usually increase work and earnings, lead to small declines in welfare use, and produce savings to public agencies that exceed the costs of operation. Programs focused on rapid job placement appear to have better results than those emphasizing classroom education. TPD and LEAP also increased schooling, work, and earnings, and reduced welfare use. For a more detailed discussion of these programs, see the spring 1997 issue of this journal.

The disappointing news is that the favorable effects of such programs, while statistically significant, are very small in practical terms. For example, in four major welfare-to-work programs operated in the early 1980s, the largest increase in earnings averaged $415 per year. After netting out reductions in cash welfare benefits, the largest increase in net income was $263, or about 3% of the poverty line for a three-person family. Likewise, while TPD participants earned 20% more than similar teens who did not receive the services, the absolute increase was merely $300 (1994 dollars). These findings underscore the challenges facing welfare-to-work programs if they are to achieve reductions in both welfare use and poverty.

Other programs allow welfare recipients to enroll voluntarily in job training and placement activities. The Supported Work Demonstration provided long-term welfare users with about a year of subsidized employment and extensive support services. The Home Health Aide Demonstration also
offered placement in a year-long job, less intensive support, and some classroom training in job skills. Both of these experimental programs produced annual initial earnings increases in the $1,500 to $2,000 range (1994 dollars). The gains were sustained at lower levels for eight years after exit from Supported Work and for five years after exit from the health aide program. Welfare recipients also experienced earnings gains in the same range from the Job Training Partnership Act’s (JTPA) less intensive on-the-job training program, which offers private employers temporary subsidies to hire and provide job training to disadvantaged persons. However, three other voluntary training programs generally failed to increase work or earnings.

Despite the successes of voluntary programs, their net effects on poverty were small. As in the welfare-to-work programs, welfare benefits fell as earnings rose and clients had very low earnings to start with, so the increase in net income left most participants well below the poverty line.

The JTPA of 1982 serves disadvantaged adults in general. JTPA replaced the much-criticized CETA. In 1993, JTPA enrolled approximately 220,000 disadvantaged adults not on AFDC. Participants receive a combination of classroom instruction, job search assistance, and subsidized on-the-job training. A rigorous evaluation of JTPA reports significant earnings increases of about $1,000 per year for both men and women, an amount that will not reduce poverty by very much.

Another set of human capital programs serves disadvantaged teenagers not yet on welfare who face high risks of becoming impoverished parents. Successful vocational training programs for such teens have either been intensive and expensive (Job Corps) or very skillfully implemented (the Center for Employment Training program in San Jose, California). But the intensive Supported Work Demonstration had no long-term benefits for teens, in contrast to its positive impact on welfare users. Short-term training and job search services provided by JTPA and other interventions also have generally been ineffective.

Many human capital programs, particularly those that combine job search assistance and skills training with temporary wage subsidies, do improve disadvantaged parents’ abilities to compete in the labor market. However, given that most programs help high school dropouts earn a GED certificate or provide modest additional training to high school graduates, and given the decline in demand for less skilled workers, it is not surprising that the programs fail to reduce poverty dramatically among the persons they assist. Also, because these programs reach only a small percentage of poor adults each year, their aggregate impact on poverty is necessarily low. Improving the labor market prospects of low-skill, disadvantaged parents is a slow, costly process. Larger gains will require commensurately larger public investments to reach more poor parents and deliver a bigger boost to their earnings ability. Yet funds authorized for work-oriented programs for welfare recipients by PRWORA fall $12 billion short of what is likely to be needed.

**Increasing the Minimum Wage**

Increasing the minimum wage is a popular proposal for reducing poverty. The federal minimum recently rose in two steps to $5.15. Though this is 90 cents higher than its level from 1991 through 1996, its real purchasing power is still 14% below its 1979 level. Automatically adjusting the minimum for inflation would protect against future declines in its real value, but Congress has never taken this step. Because of the recent increase, a full-time minimum wage worker earns $1,800 more per year and receives as much as $720 in additional earned income tax credits (discussed below), for a total income gain of about 16% of the poverty line for a four-person family. Workers earning slightly above $5.15 may also gain as employers restore part of wage differentials eroded by the higher minimum.

Concern that a higher minimum wage discourages new-job creation and leads to layoffs or fewer work hours among low-wage workers carries little weight if the focus is on...
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poor adults with children. Job losses among adults due to increases in the minimum wage have been negligible.\textsuperscript{18} Even if some jobs or work hours are lost, the higher wage offsets such losses and substantially increases total earnings among parents affected by a rise in the minimum.

Unfortunately, relatively few poor households actually benefit directly from an increased minimum wage. The wage rates of more than 80% of workers in poor households already exceed the minimum. Their poverty primarily results from working too few hours because of either the difficulty of finding full-time work or family responsibilities. Nor will a higher minimum wage help children with self-employed parents or in families where no one is working. Counterintuitive though it may seem, most minimum wage workers live in families with incomes more than double the poverty line because they are teens living at home or adults living with other workers. Less than 20% of the earnings gain generated by raising the minimum goes to workers in poor families, and another 20% goes to workers in families with incomes between 100% and 150% of the poverty line.\textsuperscript{19}

Other Employment-Related Policies

Other employment-related policies can make it easier for poor families to increase their earnings. Policies to improve the accessibility, affordability, and quality of child care can facilitate entry into the labor force by the principal caregivers in poor families with young children.\textsuperscript{20} Assuring continued coverage by Medicaid (or by some other source of health insurance) for all members of families who leave welfare will make work more attractive to welfare recipients.\textsuperscript{21} Improved routing of public transportation systems, changes in the location of low-income and subsidized housing, and more rigorous enforcement of fair housing laws can help inner-city parents gain better access to job opportunities and break down spatial barriers to employment created by housing segregation.\textsuperscript{22} Last, stronger enforcement of policies to prevent labor market discrimination can improve earnings for poor minority parents.\textsuperscript{23} The effect on child poverty of these kinds of interventions will depend on their size and specific design.

The success of programs to increase earnings depends on having a healthy economy with strong employment opportunities. Programs will be largely ineffective in a slack economy because employers will be reluctant to expand hiring or training even with tax incentives to do so while low-wage workers who have upgraded their skills will find it harder to realize a return on their human capital investments as job openings and promotion opportunities disappear.

Economic downturns are inevitable. Powerful long-term forces depress the labor market for low-skill workers. And there is no evidence that human capital programs and the other interventions previously
discussed can produce large increases in earnings leading to a substantial decline in pretransfer poverty. It then follows that efforts to prevent pretransfer poverty must be accompanied by policies that supplement market earnings to reduce poverty among families with children.

Supplementing Market Incomes
The United States uses three approaches to supplement the private incomes of poor families with children: government income support programs, tax policy, and child support payments from the absent parent to the custodial parent. This section describes the main elements of each approach and the extent to which they reduce child poverty.

Income Support Programs for Children
Approximately 20% of government spending on cash transfers goes to families with children and, therefore, raises those children’s standards of living.24 (Most of the balance flows to the elderly.) The major programs that focus on maintaining or improving the economic status of dependent children are Temporary Assistance for Needy Families (TANF), the Social Security program through its provisions for dependents’ benefits, and Supplemental Security Income’s (SSI) provisions for disabled children.25

In January 1996, a family of three with no earnings, which received maximum food stamp and AFDC benefits, was still poor in every state.

AFDC was an entitlement—all families who satisfied the eligibility rules were assisted. The PRWORA of 1996 ended AFDC and replaced it and the welfare-to-work programs authorized by the Family Support Act of 1988 with the TANF block grant. TANF ends entitlement to welfare and leaves whether to aid all qualifying families to each state. The PRWORA also forbids receipt of TANF benefits by any family with a member who has received aid as an adult for five years (a state can exempt up to 20% of its cases from this limit), requires recipients to work after two years, requires unmarried parents under age 18 to live with an adult and stay in school to be eligible for benefits, gives states much greater control over eligibility and administrative rules (including permission to deny aid to two-parent families), makes most poor legal immigrants ineligible for most forms of income assistance, and makes other major changes in cash and noncash programs. Legislation in 1997 is expected to restore eligibility for some immigrants. The wide variety of state-level welfare reforms approved in recent years under the federal “waiver” process will be permitted to continue and need not conform with all the new aspects of PRWORA if the waivers already address those aspects.27

Under AFDC, benefit levels varied widely across states. In January 1996, the maximum monthly benefit for a family of three ranged from $120 in Mississippi to $923 in Alaska. The median was $389. Between 1970 and 1996, the median real benefit fell 51%.28

Most AFDC recipients qualified for federally funded food stamps, as do most TANF recipients. However, in January 1996, a family of three with no earnings, which received maximum food stamp and AFDC benefits, was still poor in every state. In the median state, combined AFDC and food stamp benefits ($699 for a family of three with no earnings) equaled 65% of the federal poverty

required all states to have an AFDC-UP (Unemployed Parent) program, which provided benefits to needy two-parent families because of the unemployment of the principal wage earner. Though historically most participants were in single-parent families, recently about 10% received aid from the UP program. In 1995, AFDC federal and state benefit payments totaled $22.0 billion.26
threshold. AFDC families also qualified for Medicaid, which covers many health care expenses and improves the overall “package” of welfare benefits. Covered services vary among the states. Medicaid spent an average of $1,001 dollars per child and $1,699 per adult for AFDC recipients in 1994. Under PRWORA, families that would have qualified for AFDC as of July 1996 remain eligible for Medicaid even if they do not qualify for cash aid with state rules enacted under TANF, lose aid because of the five-year limit or other restrictions, or are qualified but do not get TANF benefits because of the loss-of-entitlement provision.

Benefits are likely to be lower under TANF than they were under AFDC for three reasons. First, under AFDC, the federal government paid from 50% to 78% of the state’s benefit level. If a state lowered benefits, most savings went to the federal treasury; if it raised them, most of the cost was borne federally. Because TANF is a block grant, if the state lowers benefits it accrues all the savings, and if it raises them, it pays all the costs. This change in fiscal incentives, as well as other provisions that allow states to divert funds from income support and welfare-to-work programs, will encourage states to cut benefits. Second, TANF funds will probably grow more slowly than what prior law would have provided, especially when a recession hits, so states will have fewer federal dollars to support welfare spending. Third, PRWORA, which created TANF, also reduced food stamp benefits. This will directly lower combined cash and food benefits even if states do not cut cash benefits. The end of cost sharing is also likely to increase disparities among states, as the net cost of benefits will rise most sharply in lower-income states, which previously enjoyed the highest federal cost-sharing rates and already tend to have lower benefits.

Because AFDC benefits were reduced at a relatively rapid rate as family earnings increased, critics argued that it created major work disincentives. Under TANF states are free to set whatever benefit reduction rates they desire. It is too early to know how states will use this freedom to alter the work incentives of family assistance.

Social Security provides benefits to a disabled or retired worker and his or her dependents, and to survivors of a deceased worker. The benefits are intended to shield a family against a drastic drop in its standard of living produced by the worker’s loss of earnings. Benefits are financed by a payroll tax and increase at the rate of inflation.

Children under age 18 are assisted directly by their own benefits and indirectly by benefits to other family members. About 8% of all children live in families that receive Social Security payments, which provide 21% of these families’ total cash income. Social Security provides much higher payments to children than does welfare. Monthly Social Security benefits in 1990 to families receiving benefits averaged $595, or 53% higher than the average AFDC family payment in the same year. Among children in these families, 22.1% were poor in 1990. However, if the benefits are subtracted from total family income, 39.4% of those children would have lived in poor families.

Supplemental Security Income (SSI) provides monthly cash payments to needy aged, blind, and disabled persons, including children under age 18. Unlike AFDC or TANF, the federal government establishes eligibility rules for this program and provides a uniform minimum benefit across all states, which increases annually at the rate of inflation. Children under age 18 are eligible if they have a medically proven physical or mental condition that results in severe functional limitations. States may supplement federal payments. Children also benefit indirectly if another family member receives SSI. Prior to 1990, eligibility was based on whether a child had one of a list of severe medical impairments. In 1990, the Supreme Court ruled that eligibility must be determined via an assessment of a child’s “functional limitations.” As a result, the number of child SSI recipients rose from 332,000 in 1990 to 974,000 by December 1995. The PRWORA has done away with the functional limitation assessment and restricted eligibility in other ways. The Congressional Budget Office estimates that by 2002 about 315,000 children who would have qualified under past law will be denied SSI.17

In 1990 about 3% of all children lived in families that received SSI payments, which provided 16% of these families’ total cash
Among children in these families, 46% were poor in 1990. The program does reduce poverty because, if the benefits are subtracted from total family income, 63% of those children would have been poor. The increase in the number of child recipients between 1990 and 1995 made SSI a stronger antipoverty weapon for children, a trend that the 1996 legislation will reverse.

**Tax Policies and Poor Children**

One of the more encouraging developments in antipoverty policy since the mid-1980s has been the sharp decline in the federal tax burden on poor families. In 1984, a two-parent family of four with earnings equal to the poverty level paid 10.1% of its gross income in federal income and payroll taxes. The combined tax rate on the same family fell to 2.1% in 1988 and only 0.3% in 1992. Major expansion of the EITC (see below) in 1993 lowered the combined tax rate to minus 8.6%, which in 1996 provided the family with a tax refund of about $1,400. The tax burden on single-parent families declined in similar fashion over this period.

The steady expansion of the EITC, enacted in 1975, is the major reason for the decline in tax burdens. Families with children and low earnings receive credits against their federal income tax. If they owe no income tax, they get a cash refund. In 1996 a family with one child (two children) received a credit of 34% (40%) of its first $6,330 ($8,890) of earnings. The maximum credit was $2,152 ($3,556). Families with incomes between $6,330 and $11,610 ($8,890 and $11,610) received the maximum credit. For each dollar of income above $11,610, the credit declined by 16 (21) cents, until it vanished at an income of $25,078 ($28,495). For persons not working or earning very little, the EITC encourages work by raising its net returns. The phaseout rule ensures that benefits go to poor and near-poor families.

In 1996, the EITC provided an estimated $25 billion of assistance to 18.7 million low-income families. It has become the largest cash assistance program for families with children.

In 1996, the EITC provided an estimated $25 billion of assistance to 18.7 million low-income families. It has become the largest cash assistance program for families with children. Four states have similar refundable earned income credits, and three have non-refundable ones. These programs lower the burden of state income taxes on low-income families. Their more widespread use could produce greater poverty relief.

Changes in the federal tax treatment of child care expenses could complement the work incentives of the EITC for low-wage parents. Because the current dependent care tax credit is nonrefundable, it provides no benefits to poor families, who owe no federal income tax. It neither encourages adults in such families to use child care to work nor raises their income net of work expenses. Making the credit refundable would do both.

**Transfers, Taxes, and Poverty Reduction**

Table 1 summarizes how well existing income support and tax policies reduce poverty among children. The top row shows the percentage of children in families with market (pretransfer) incomes below the official poverty line. The second row shows the child poverty rate after all cash transfer benefits are included in family incomes. This is the official measure of child poverty. The fourth row shows the child poverty rate after all cash transfer benefits and the net effect of taxes and tax credits are also included in family incomes. The table assumes, for simplicity, that pretransfer incomes are not affected by the behavioral incentives of transfers and taxes. Because such policies reduce work and may lead to other behaviors that increase the extent of pretransfer poverty, the table overstates the antipoverty impact of government programs. However, the trend in antipoverty impact is probably captured reasonably accurately. The incentive issue is discussed in more depth later.

In 1979 government cash transfers lifted 18.4% of pretransfer poor children over the poverty line. Counting noncash benefits, taxes, and tax credits, the antipoverty impact increased to 40.3%. Six years later, after severe cuts in means-tested cash and non-cash benefits and inflation-induced "bracket..."
creep" that created income tax liabilities for poor families, public benefits pulled only 25.3% of pretransfer poor children out of poverty. By 1990, the antipoverty impact had modestly rebounded to 29.8% due to restoration of some program cuts and, more important, tax reform. By 1995, as the 1993 legislation that expanded the EITC began to take effect, the antipoverty impact rose sharply to 38.0% but still had not quite returned to the 1979 level. Note especially that the antipoverty impact of cash transfers was still well below its 1979 level.

The complete phase-in of the more generous provisions of the 1993 EITC reform in 1996 has improved the antipoverty impact of government programs.

### Behavioral Side Effects of Transfers and Taxes

While government programs do reduce child poverty, there is widespread concern that they encourage socially undesirable behaviors. Because AFDC provided income if the parent did not work and, if there were earnings, offset them with benefit cuts, it tended to discourage work and, thereby, to increase pretransfer poverty. AFDC also created incentives to become an unmarried mother, divorce, delay remarriage, and make other lifestyle choices that may have increased the number of poor single-parent families. Similarly, the EITC embodies a complex set of incentives that may affect work and marriage decisions, of which some would help reduce pretransfer poverty and others would increase it. There is less concern about work disincentives from Social Security received by survivors or disabled workers and their dependents or from SSI received by children because few of these recipients are able or expected to work.

The policy implications of these adverse incentives depend on how strongly individuals

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**Table 1**

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react to them. If a transfer program has small effects on earnings, most money transferred will raise standards of living. On the other hand, if a transfer program leads to large reductions in earnings that offset much of the income it provides, then its net antipoverty impact would be small. Similarly, if transfers have little effect on family structure, they accomplish their intended purpose, but if they have large ones, they may actually increase poverty.

While people have different opinions about when undesired behavioral side effects of transfers outweigh their beneficial impacts on poverty, the bigger the adverse responses, the stronger the case for reforms to improve the tradeoff. At the same time, a preoccupation with minimizing side effects by narrowing eligibility criteria and trimming benefits risks serious compromise of the basic missions of income support programs for children: providing a minimally decent standard of living, cushioning unexpected income losses, and helping families obtain essentials such as food, housing, and medical care.

The empirical evidence suggests that, for every dollar transferred to single mothers via AFDC, about 37 cents was offset by reduced earnings. With AFDC-UP the offset was rather high—60 to 80 cents less earnings for every dollar transferred. Noncash income assistance programs that often accompanied AFDC—such as food stamps, Medicaid, and housing benefits—also tended to reduce work. The EITC, in contrast, has either a neutral or small positive effect on work effort.

Higher AFDC benefits for single parents have been associated with small increases in the rates of female household headship and divorce, small reductions in the rates of remarriage, and a greater likelihood that a single mother will live independently rather than with her parents. The AFDC-UP program, which provided incentives to maintain two-parent families, does not appear to have affected family structure. The evidence on the relationship between welfare and nonmarital childbearing suggests that higher welfare benefits are associated with small increases in the likelihood of becoming an unwed mother, but only among whites. Among blacks there is no relationship. There is no evidence that welfare affects subsequent childbearing by women who already are mothers. There is yet no evidence on whether the EITC affects marriage and other lifestyle choices.

Research on welfare’s impact on family structure uses a wide range of methods and data sets, contains conflicting findings, and needs further improvement. Hence caution in drawing strong conclusions and policy implications is essential. The weight of the evidence implies that demographic responses to welfare account for only a small portion of the increases in female headship and nonmarital childbearing since the 1960s. The main reasons for the increases lie outside the welfare system and probably reflect the growing social acceptability of single-parenthood, the declining stigma of unwed motherhood, improvements in women’s earnings power, and declines in men’s earnings prospects. It follows that welfare reforms aimed at reducing female headship and nonmarital childbearing (for example, “family caps,” which deny higher benefits to welfare recipients if they have more children) are unlikely to have large effects on behavior, although benefit cuts will reduce families’ standards of living.

Child Support Policy
More than 60% of poor children live in single-parent households. The difficulty of increasing earnings of poor single mothers, dissatisfaction with welfare, and the limited antipoverty impact of income support programs and the EITC have focused attention on increasing contributions from absent parents to support their children.

Congress has taken four major legislative actions since 1975 to help custodial parents secure and enforce child support awards: the Child Support Enforcement Act of 1975, the Child Support Enforcement Amendments of 1984, and specific provisions in the
Family Support Act of 1988 and the PRWORA Act of 1996. The laws mandate that states operate programs to locate absent parents and cooperate to track them across state lines, establish paternity for children born out of wedlock, standardize child support awards across families by adopting uniform guidelines (except with written justifications for exceptional cases), and review individual awards every three years and the guidelines every four years. States must also automatically withhold child support from the paychecks of absent parents, instead of doing so only for those who are in arrears. Other penalties on absent parents who do not pay support have steadily expanded as well.26

In 1987, states established paternity for 29% of out-of-wedlock births; in 1993, for 45%. Total support collections rose 146% in real terms between 1986 and 1995. Thus, the reforms appear to have brought some progress. However, only about half of all custodial parents have child support agreements, and of those entitled to payments, 51% received full payment, 24% received partial payment, and 25% received nothing. This payment pattern has not changed appreciably since 1978.26 About 6% of pretransfer poor mother-only families were lifted over the poverty line by child support in 1993, an impact not changed much since 1978.39 Practical problems, such as the difficulty of tracking absent parents and their earnings and the reluctance of some mothers to cooperate with enforcement authorities for fear of alienating the fathers, have hampered enforcement.

An important reform, the assured child support benefit proposed by Irwin Garfinkel,40 would have the government guarantee custodial parents a minimum amount of child support per year, for example, $2,000 per child. If an absent parent’s payment was less than the minimum, the state would make up the difference. By guaranteeing custodial parents a stable source of income, an assured benefit could reduce financial instability and its accompanying stress. Because the benefit would not be means tested, it would create fewer work disincentives than welfare, might win public support by not being restricted to poor families, and might eliminate the stigma associated with welfare. An assured benefit, however, establishes a new, possibly costly, entitlement program, increases incentives for potential custodial parents to leave their spouses, and reduces incentives for a poor absent parent to contribute because his payment would only reduce the assured benefit rather than increase income available for the child.

Simulations suggest that if all legislated child support reforms were fully implemented and enforced and an assured benefit were enacted, single-parent families would have much greater child support income and one-fourth to one-third of their poverty gap would be eliminated.41 Child support reforms are a key to reducing poverty among single-parent families, but will not eliminate the need for other interventions.42

**Fighting Short-Term Versus Long-Term Poverty**

The broad antipoverty approaches discussed here—improving earnings and supplementing incomes—can combat both short-term and long-term child poverty. For families with meager work prospects mired in long spells of poverty, increased public transfers and improved child support collection could provide enough nonwork income to escape poverty. However, though the nation is committed to this approach for most of the elderly and disabled, as discussed in the article by Heclo in this journal issue, there is no political support for such an approach for children living with able-bodied parents. Alternatively, improvements in such parents’ earnings ability, particularly if coupled with better child support enforcement and work-oriented income supplements such as the EITC, could end their poverty spells or markedly reduce their severity.

Short-term poverty often results from job loss, illness, or other circumstances that temporarily impoverish families that typically have incomes above the poverty line. For such families, income supplementation from an improved unemployment insurance
program and other sources makes most sense. For families that experience short spells of poverty because their income fluctuates around the poverty line, programs that improve their long-run earnings prospects would reduce the number and severity of short-term poverty spells. Also, improved child support can help reduce short-term poverty.

Lessons from Abroad

How does the extent of child poverty in the United States compare with that in other industrialized societies? A study of 18 developed nations reports that the U.S. child poverty rate of 21.5% was by far the highest. Australia had the second-highest rate, 14.0%. Three others were between 11% and 14%. The other 13 countries all had child poverty rates under 10%; eight had rates under 5%.

On a pretransfer basis, two countries had more child poverty than the U.S. level of 25.9%. Three others also had rates exceeding 20%; and nine had rates between 11% and 20%. It appears that common social and economic factors lead to significant rates of pretransfer poverty among children in these industrialized nations.

What distinguishes the United States from the other nations is their more generous transfer and tax policies. American policies took only 17% of pretransfer poor children out of poverty. This tied Italy for the smallest reduction. Four nations eliminated between 25% and 50% of the child poverty generated by markets, six eliminated between 50% and 75%, and five others eliminated 75% or more.

Several features of U.S. policy explain its relatively high rate of pretransfer poverty and the low antipoverty impact of its taxes and transfers. The United States devotes a smaller portion of its economic output to government social welfare spending than other Western societies. While high value is placed on earning one’s way out of poverty, public commitment is tepid for government spending to foster more work and earnings, such as adult education, job training and other public employment services, job creation subsidies, subsidized child care, and paid parental leaves. The EITC, unique to this country, is an important exception.

There is also much less public income support in America for low-income families with both working and nonworking parents. Welfare and unemployment insurance benefits are low. Of the 17 societies studied, the United States is the only one without a child allowance, a cash grant available to all families with children, regardless of income, that guarantees modest support for all children. Nor, in contrast to several European nations, does the United States guarantee child support for families with absent parents.

The combined package of American employment and income support policies does less to reduce pretransfer poverty and to supplement pretransfer incomes, and so results in a higher level of child poverty than in the other affluent countries. Their records demonstrate that more effective antipoverty policy mixes than that found in the United States are feasible.

At the same time, in the 1990s other nations have begun to cut back their social safety nets in response to concerns about burgeoning costs, high taxes needed to finance them, and the negative economic consequences, such as declining labor flexibility and slow job growth, which may result from generous safety net programs. If such developments continue, the antipoverty effectiveness of other nations’ policies will erode.

Prospects for Preventing and Reducing Child Poverty

The evidence reviewed here suggests that a lack of proven policy options is not the main obstacle to preventing and reducing child poverty in the United States. Policies to raise employment and earnings do work, but at their current size and intensity the increased earnings they produce have only a small impact on child poverty. If their scope and
intensity were expanded aggressively, further earnings increases might result. Such efforts may need to be accompanied with expanded public outlays on child care for single-parent families to realize their highest potential.\textsuperscript{20} Large-scale public jobs programs are another alternative that could significantly reduce pretransfer poverty if a variety of obstacles to effective implementation can be overcome.\textsuperscript{45} Efforts along this line will probably be essential to prevent destitution among families that exceed the new five-year limit for receipt of cash welfare under PRWORA and still cannot find steady work.

Similarly, there are attractive options for improved income support. The assured child support benefit would increase economic security for children living apart from a parent. A refundable child tax credit in place of the dependent exemption in the federal and state income taxes would channel more income to the many families whose incomes are so low that they owe no income tax.\textsuperscript{40} Both options would increase government outlays, but would probably have very small behavioral side effects.

The decision to combat child poverty aggressively cannot turn on whether there will be some undesired side effects and unexpected outcomes, for these are inevitable in most social interventions. Instead, it should turn on whether the redistributive gains and long-run improvements in child well-being resulting from less poverty outweigh these negatives and are more worthy than other uses of the funds. It rests on the nation’s political will to devote more resources to this end rather than on any hard economic or budgetary limits and will require a long-run commitment to sustain efforts and consider new approaches.\textsuperscript{46}

\textit{The author thanks Amy Silbert for research assistance.}

1. Because many poor children live in families on welfare, policies to increase earnings of adult welfare recipients are major components of this approach. For articles on this topic, see Larner, M., ed. Welfare to Work. \textit{The Future of Children} (Spring 1997) 7,1:4–144.

2. These approaches take the number of children at risk of poverty as a given and focus on raising family incomes. Another way to lower child poverty—reducing unwanted childbearing among women who face high risks of being poor, such as teenagers—is beyond the scope of this article.


5. See note no. 4, Danziger and Gottschalk, Chapter 7.

6. See note no. 4, Blank, pp. 52–55.


8. See note no. 7, Lehman, p. 234.


14. See note no. 11, Burtless and Friedlander.

15. Leigh, D.E. Can a voluntary workfare program change the behavior of welfare recipients? New evidence from Washington State’s Family Independence Program (FIP). _Journal of Policy Analysis and Management_ (Fall 1995) 14,4:567–89; see also, note no. 12, U.S. Department of Labor, pp. 24, 34–35. Most of these evaluations used a random experimental design that provides good estimates of the impact of voluntary programs. Because they are derived from self-selected samples, their impacts are not necessarily indicative of the effect of a similar mandatory program.


25. Unemployment insurance and workers compensation also help families with children.


27. At this writing, there is considerable uncertainty about the interpretation, implementation, and implications of PRWORA. For initial explanation and discussion, see note no. 17, Super, Parrott, Steinmetz, and Mann; and note no. 26, U.S. House of Representatives, Appendix L.


36. Since the EITC subsidizes earnings until they hit a specified limit, it provides incentives to start working and increase earnings up to the limit. For persons who would earn above the limit in the absence of the EITC, the income from the EITC and the phaseout of benefits, which implicitly taxes earnings, both exert work disincentives. The EITC can also create financial rewards or penalties for marriage versus living apart or cohabiting, depending on the earnings of the two partners.


42. Recent, unpublished research suggests that the effects of aggressive child support enforcement programs on child poverty may be less if these programs reduce the likelihood of marriage among noncustodial parents. Bloom, D.E., Conrad, C., and Miller, C. *Child support and fathers remarriage and fertility*. Working Paper No. 5781. Cambridge, MA: National Bureau of Economic Research, October 1996.

43. Statistics in this section are from Rainwater, L., and Smeeding, T. *Doing poorly: The real income of American children in a comparative perspective*. Luxembourg Income Study Working Paper No. 127. Syracuse, NY: Maxwell School of Citizenship and Public Affairs, Syracuse University, August 1995. The study sets each nation’s poverty line at 50% of its median household income. Because this “relative” approach differs from the procedure for determining the official U.S. poverty line, U.S. poverty statistics in this section cannot be compared directly to those in the rest of the article.

44. However, while the posttransfer, posttax poverty rate was 21.5% for the United States, it was only 9.6% for Italy.

45. See note no. 4, Danziger and Gottschalk, pp. 168–74.