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Understanding Recent Changes in Child Poverty

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Economic conditions, together with parental education and work, are the dominant factors behind recent changes in child poverty.

Over the past 10 years, U.S. child poverty rates took two sharp turns: a major reduction from 1993 to 2000 followed by a slight hike from 2000 to 2004. Both shifts have been even more dramatic for black and Hispanic children. Such abrupt shifts offer an unusual opportunity to tease out what factors contribute to changes in child poverty. Exploring the driving forces behind trends in child poverty offers insights on policy, as well as on the well-being of children, since child poverty is associated with many negative outcomes in later life—low earnings, reduced educational attainment, teenage childbearing, and physical and mental health problems.[1]

Prior research identifies three groups of factors, all of which may be influenced by public policy, that account for fluctuations in child poverty: (1) changes in federal and state economies; (2) changes in family characteristics, such as size and composition; and (3) changes in the behavior of parents, such as their work effort. For example, Blank and Blinder (1986) find that, historically, changes in such economic factors as unemployment rates can explain changes in the overall poverty rate well. Lerman (1996) finds that the increased share of families headed by single parents can explain changes in the child poverty rate between 1971 and 1989. Hoynes, Page, and Stevens (2006) find that increases in female labor supply and female-headed households had offsetting effects on the overall poverty rate.

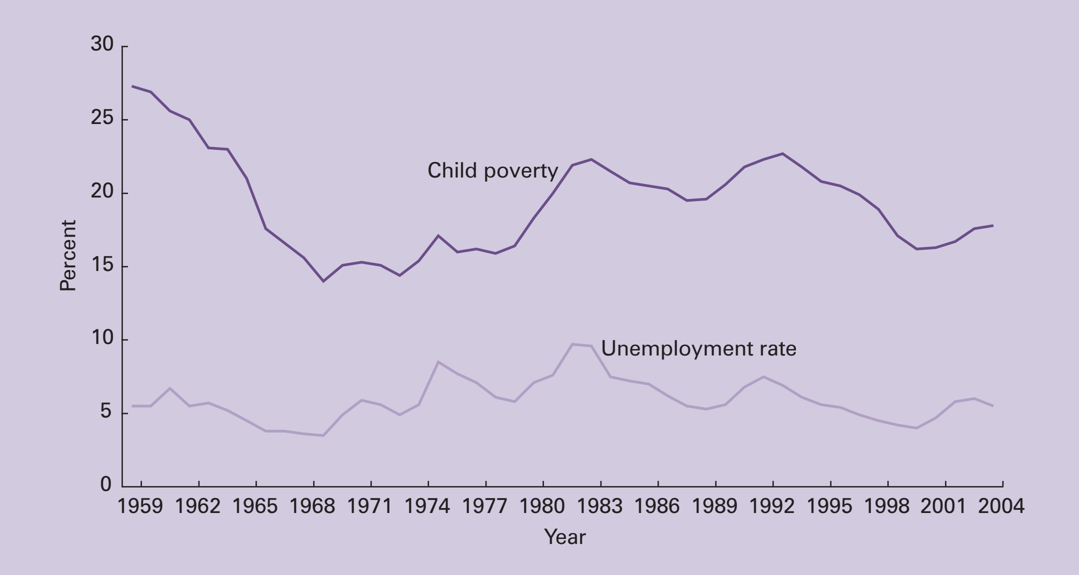
This brief shows that economic conditions, together with parental education and work, are the dominant factors behind recent changes in child poverty. Changes in the share of families headed by single parents seem to have played almost no role in the recent changes in child poverty. According to the analysis, the 1993 to 2000 drop in child poverty is largely due to improvements in the job market, especially for less-educated workers. The economic downturn beginning in 2000 hit all families, even those with more education, but the families of black children were hit hardest.

Factors Affecting Poverty

Many factors affect child poverty, and it is natural to suppose that child poverty rates change as the factors change. But the relationships between the factors and child poverty rates may change over time. For example, as more families have an adult with some college education, it is natural to suppose that child poverty would fall, but the ability of college to lift a family out of poverty might diminish at the same time. To ascertain which factors are responsible for changes in child poverty rates, this brief identifies factors associated with child poverty and examines what has happened to them in recent years. Then it assesses how child poverty rates would have changed if the relationships between the factors and child poverty rates had stayed the same and attributes a portion of the change to each factor. This indicates which changes in factors are most responsible for the recent changes in child poverty rates.

A simple look at trends in child poverty and unemployment rates over the past four and a half decades suggests a strong relationship between child poverty and unemployment (figure 1), and it is true that families with a full-time worker are much less likely to be poor (table 1).

FIGURE 1. Child Poverty and Unemployment Rates, 1959–2004



Sources: BLS and Census published estimates (http://www.bls.gov/cps/prev_yrs.htm; DeNavas-Walt, Proctor, and Lee 2005) and author's calculations.

Work is affected by economic conditions, of course, and by such policies as the Earned Income Tax Credit (EITC) and welfare reform. The EITC expansion in 1993 was responsible for much of the increase in labor force participation rates among single mothers in the 1990s, though welfare reform and other policy changes played a role (Meyer and Rosenbaum 2001). The EITC encouraged more labor force partic-

TABLE 1. Child Poverty Rates in 2004 for Subgroups, by Work and Family Structure

	Size of Subgroup (Percent of All Children)			Poverty Rate (Percent)		
	White	Black	Hispanic	White	Black	Hispanic
Any Adult Full Time	**50.23**	**9.85**	**15.26**	**3.80****	**13.34****	**17.54****
Both Parents Present	41.78	4.72	11.35	2.98**	7.34**	15.80**
Any adult more than HS	34.14	3.43	5.06	1.79**	4.09**	6.09**
All adults HS or less	7.64	1.29	6.29	8.29**	15.95**	23.61**
One Parent	7.65	4.47	3.42	8.20**	20.36	22.92**
Any adult more than HS	4.70	2.42	1.32	4.32**	10.52	12.16**
All adults HS or less	2.95	2.05	2.10	14.39**	32.00	29.69**
No Adult Full Time	**8.28**	**4.87**	**4.02**	**49.17****	**73.79**	**71.14****
Both Parents Present	3.09	0.53	1.35	34.50**	57.83	57.93**
Any adult more than HS	2.12	0.31	0.40	26.55**	56.20**	34.30*
All adults HS or less	0.96	0.22	0.95	52.00	60.09	67.88**
One Parent	4.80	3.72	2.43	59.22**	77.15	78.38**
Any adult more than HS	2.36	1.28	0.60	47.03**	63.48	58.84**
All adults HS or less	2.44	2.44	1.83	71.01**	84.32	84.74**

Source: Author's calculations from CPS data.

HS = high school

Notes: Sizes of subgroups sum to approximately 90 percent, and the excluded group is children of other racial and ethnic groups not tabulated. Tests of significance are for equality of proportions across white and black in white column, black and Hispanic in black column, and Hispanic and white in Hispanic column.

*proportions differ at the 5% level; **proportions differ at the 1% level.

ipation by allowing workers to keep more of their wages. The share of children in families with a full-time worker increased between 1993 and 2000, and has since fallen. Since the EITC did not disappear in 2000, this tax credit cannot explain both the increase in work in the 1990s and the decrease in work over the past four years. Accordingly, we should not attribute too much credit for the increase in work in the 1990s to the EITC.

Educational attainment has increased over time, which may improve both wages and the work attachment of parents who are able to find better jobs. More work and higher pay mean lower child poverty.

Poverty is also affected by family structure, which has changed dramatically over the past few decades. The share of children living with only their mothers increased for all children while the share of children living with both parents decreased from 1980 to the early 1990s, but both trends have since leveled off. Family size has decreased, and age of parents has increased.

Looking at 2004 data, the most recent available, parents' work effort and education are important determinants of child poverty, as are race and family structure.[2] Children in families with at least one full-time worker are substantially less likely to be poor (7.6 percent are poor) than those without one (61 percent), and children in families with at least one adult who has more than a high-school degree are much less likely to be poor than those without any (8.5 versus 35 percent). Children with one parent present are more likely to be poor than those with both (36 versus 8.7 percent).

Race and Other Factors

Another important characteristic correlated with child poverty is race. In 2004, black and Hispanic children were more likely to be poor (33 and 29 percent, respectively) than white children (10 percent). Over the past 20 years, black and Hispanic children were much more likely to be poor than white children in every year. Race can also interact with other factors such as work and family structure in important ways; for example, the impact of living in a family without a full-time worker may differ for black and white children.

Over the past 20 years, black children have been more likely than white children to live in families without a full-time worker. In the period 1993 to 2000, however, the difference shrank as black children's families worked more. The pattern of improvement in educational attainment of children's families has been similar across races over the past 20 years. The patterns over time in the share of children living with only their mothers are also similar for white and black children, though changes are more pronounced for black children.

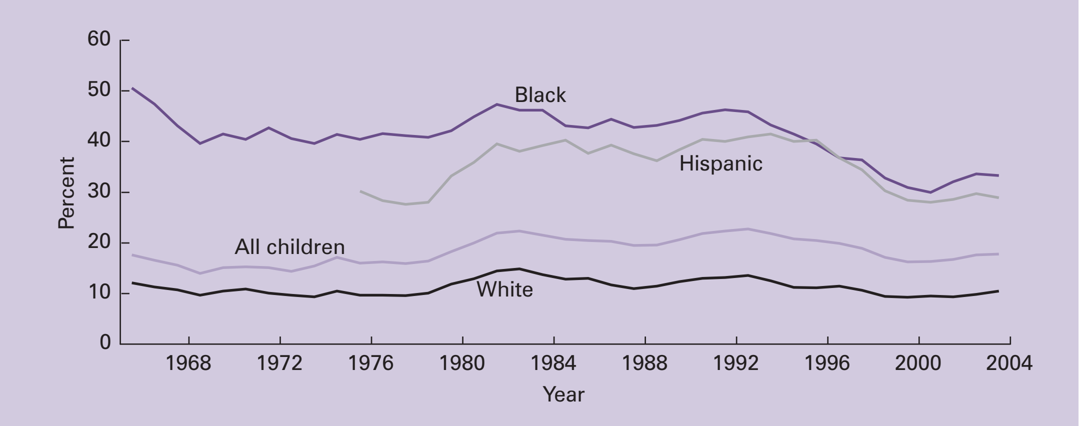
Table 1 shows that the racial gap persists when we examine the combined effect of family characteristics. Among children in families with at least one full-time worker and both parents present, the poverty rate is more than twice as high for black children as for white children (7.34 compared with 2.98 percent). Hispanic children have even higher poverty rates, five times that of white children (15.8 compared with 2.98 percent). Among children in families with at least one full-time worker and only one parent present, the poverty rates of black and Hispanic children are two and a half times the rate for white children.

Among the more disadvantaged children whose families do not have a full-time worker, the ratios of poverty rates differ less by race, in proportional terms, but the differences in raw percentage points are often much larger. Among white children in families with no full-time workers, the poverty rate is about 49 percent, but black and Hispanic children have poverty rates above 70 percent.

Race is a powerful predictor of child poverty status, and its importance is not diminished after controlling for parents' work and education, or economic conditions. In addition, the relationships between child poverty and these other factors differ for children of different races. Looking at the variations in child poverty rates by race (figure 2) demonstrates that while all racial groups have similar patterns over time (likely responding to macroeconomic factors, as seen in figure 1), black and Hispanic child poverty rates respond much more to economic conditions.

Race is a powerful predictor of child poverty status.

FIGURE 2. Child Poverty Rates by Race, 1966–2004



Sources: DeNavas-Walt et al. (2005) and author's calculations.

Economic upswings seem to be felt more strongly by black and Hispanic children than other children. This is especially true for black children. When child poverty has fallen, black child poverty has fallen faster. Yet, weaker economic conditions lead to nearly equivalent increases in poverty for black children and all children (a 7-point increase from 1973 to 1982, and a 3-point increase from 1988 to 1993). This apparent asymmetrical exposure to broad economic shifts has gradually narrowed the gap between the black child poverty rate and the rate for all children, though black children remain at the highest risk of poverty.[3]

A black child is more than three times as likely to be poor as a white child, 33 percent versus 10 percent, over the past five years. A black child is often twice as likely to be poor as a white child accounting for differences in work, family structure, and education (table 2). But as bad as that sounds, it still represents an improvement: a black child was four times as likely to be poor as a white child in the late 1980s, before the big decline in child poverty during the 1990s. At the beginning of the civil rights era, the mid-'60s, the majority of black children were poor. Throughout, the white child poverty rate has stayed relatively steady, in the 10 to 15 percent range.

Despite all the strides being made, black children are still substantially worse off than children on average. Different characteristics can explain some of this. The schools and neighborhoods of black children are lower quality, on average, by many measures. An important part of the difference is due to labor market discrimination, though this factor is notoriously hard to measure. Black workers may earn less, but they may also have a harder time finding jobs. This fact can discourage people from seeking jobs and even seeking the education to get the jobs, triggering a vicious cycle.

Recent Changes in Child Poverty

But how do we explain the dramatic drop in black child poverty in the 1990s? Two key periods are highlighted here: 1993 and 2000, the years straddling the decline in child poverty in the 1990s; and 2000 and 2004, the years straddling the recent rise in child poverty. What would child poverty rates have been if the relationship between explanatory factors and child poverty had not changed over time? This method tells us, roughly speaking, what part of the change in child poverty is due to changes in various characteristics of children or their environment, such as the share of children who live with both parents.[4] This is one of a few ways to identify what caused the large drop and subsequent rise in child poverty, and the only way to do it with these data.

The model predicts that the changing characteristics of white children would lead to a 6.6 percentage-point drop in poverty, though poverty actually declined 4.3 percentage points from 1993 through 2000

TABLE 2. *Percent of Changes in Child Poverty Rates Due to Changes in Characteristics, by Race*

	1993–2000		2000–2004	
	White	**Black**	**White**	**Black**
Education and Economy	63.1	50.0	76.7	65.8
Unemployment rate	17.6	6.6	57.6	65.0
Real minimum wage	–1.3	12.0	13.2	–1.4
HS or less education	36.5	–11.3	–13.5	–18.0
HS or less × unemployment rate	36.1	29.3	3.8	–7.1
HS or less × minimum wage	–25.8	13.4	15.6	27.3
Work	36.8	44.1	20.4	29.3
Low work	17.4	20.8	8.6	15.2
Anyone full-time work	19.4	23.3	11.8	14.2
Family	0.1	5.8	2.9	4.8
Mother only	0.7	3.1	1.7	2.5
Father only	–0.1	0.3	0.0	0.0
Neither parent	–0.1	–0.1	–0.6	–0.7
Both parents	–0.4	2.5	1.8	3.1
Predicted change	–6.6	–19.0	4.2	7.5
Observed change	–4.3	–15.5	1.7	3.2

Source: Authors' calculations from CPS data.

HS = high school

Note: Percentages shown are the percent of predicted change in child poverty traced to a change in the level(s) of the given family characteristic(s). See Nichols (2006) for details.

(table 2). During this period, the model predicts a 19 percentage-point drop in black child poverty compared with an actual drop of 15.5 percentage points.[5] The relative importance of the predictors of poverty examined—education and the economy, work, family structure, and race—helps to explain the sources of the change in poverty during this period. For example, the education and economic factors explain 63.1 percent of the predicted decline in white child poverty and 50 percent of the predicted decline among black children.

The relative importance of the education and economic characteristics points out the role of a decline in state unemployment rates, which is much larger among families with low education levels. The variable measuring the differential impact of state unemployment rates among less-educated families explains roughly a third of the predicted change in child poverty (36.1 percent for white children and 29.3 percent for black children). The work status of children's families was equally important for white children (changes in work status explain 36.8 percent of the change in child poverty) and more important for black children (explaining 44.1 percent).

A different pattern appears when we look at the subsequent rise in child poverty, comparing 2004 to 2000 in columns 3 and 4 of table 2. The contribution to the predicted change of each variable in the broad categories of "Education and the Economy" or "Work" is quite different in the 2000–2004 period than in 1993–2000. The family variables, however, make a similarly small contribution, which is somewhat surprising, given the enormous importance of family structure in cross-sectional comparisons and for similar comparisons across time for previous decades (in, for example, Lerman 1996).

Over the 2000–2004 period, state unemployment rates rose, and the real value of the minimum wage fell, in most states. Between 2000 and 2004, the work status of children's families seems to have mattered less than the prevailing unemployment rate. The change in state unemployment rates explains 61.4 percent of the predicted increase in white child poverty (combining

57.6 percent for the unemployment rate plus 3.8 percent for the interaction of unemployment and education) and nearly 58 percent of the predicted increase in black child poverty (65.8 percent for the main effect less 7.1 percent for the interaction). Changes in the real value of the minimum wage by state account for about 25 percent of the predicted change in child poverty for both black (27.3 less 1.4 percent) and white (15.6 plus 13.2 percent) children. Thus, changes in state unemployment rates and real minimum wages together account for more than three-quarters of the predicted change.

The decrease in the share of families where no adult has more than a high school education has worked against the increase in child poverty, counteracting 13.5 percent of the predicted increase for white children and 18 percent of the increase for black children. But the education status of families mattered less between 2000 and 2004 than between 1993 and 2000, for both white and black children. The combined effect of being in a family where no one has more than a high school degree (HS or less education) explains only about 5 percent (3.8 plus 15.6 less 13.5 percent) of the predicted change in child poverty for white children, and about 2 percent (27.3 less 18 less 7.1 percent) of the predicted change in child poverty for black children.

Changing work status is important, but it does not play as large a role in the recent rise as it did in the fall of child poverty rates in the 1990s. It is possible that the importance of changes in state unemployment rates relative to changes in the distribution of work status reflects other economic forces correlated with state unemployment rates. The size of these estimates indicates that economic forces dwarfed other developments in the recent downturn, including the work status of individuals in children's families.

The unexplained portion of changes in child poverty in both cases operates in the opposite direction to the change in child poverty (hence predicted changes are larger than actual changes in child poverty), indicating that child poverty is slightly less responsive to changing conditions than we would expect from looking only at cross-sectional data. This is to be expected, since individuals who are poor at a point in time are likely less equipped to escape poverty given improvements in economic conditions than the nonpoor would be, and individuals who are not poor at a point in time are likely better equipped to escape falling into poverty during an economic downturn than the average poor person would be, given identical observable characteristics.

Still, a simple model predicting large changes in the poverty rate is not far off in these data, and the capacity of individuals to adapt to changing economic circumstances is not unlimited. If it were, child poverty would be unresponsive to economic shocks, as individuals smoothed their income with a combination of saving and insurance (both social insurance and private insurance, possibly through kin networks).

Conclusions

Child poverty dropped dramatically in the 1990s, especially for black children. Family characteristics, such as the presence of both parents or a full-time worker, and economic conditions are important factors in explaining child poverty rates at a point in time. The recent dramatic changes in child poverty, however, appear to be mostly due to job market fluctuations.

The 1993 to 2000 drop in child poverty seems to be largely due to improvements in the job market, especially for less-educated workers. This helps explain the dramatic drop in black child poverty, partly because black children are more likely to have less-educated parents. The economic downturn beginning in 2000 hit all families, even those with more education, but the families of black children were hit hardest. Increases in state unemployment rates are associated with increased child poverty even conditioning on the work status of families, possibly through lower real wages as a result of reduced demand for labor.

In the downturn, the safety net did not catch many who were near the poverty threshold, and many who lost jobs fell into poverty. For example, unemployment insurance helped single-parent families much less than two-parent households, even though the single-parent families needed benefits the most (Acs, Holzer, and Nichols 2005). In part, the design of social insurance has shifted away from helping the destitute and toward helping those who can help themselves, with a shift away from cash assistance (e.g., AFDC/TANF) for families out of the labor market and toward tax incentives favoring full-time workers. Presumably this shift improves the incentives of poor families, and it may lead to long-run improvements, but the short-run effect is to exacerbate an economic downturn for workers who face disadvantages in the labor market.

All the estimates stress parents' work as the most important factor in preventing child poverty, and larger economic conditions are clearly major determinants of parents' work status. A strong economic tide in the 1990s seems to have lifted all boats, and the boats of black children most of all. Unfortunately, some of these gains have been lost since 2000, and black children have lost ground relative to white children at a faster rate than in years following past recessions. The work status of families seems to have played less of a role in the increase of child poverty since 2000 than it did in the decrease of child poverty during the 1990s, while the minimum wage (especially for less-educated families) and local unemployment rates have been more important.

Notes

1. As documented by Duncan et al. (1998).
2. See Nichols (2006) for details.
3. Hispanic children have had poverty rates about three times as high as white children for much of the past 30 years, while the ratio of black to white child poverty rates has dropped. The relative stability of Hispanic child poverty is somewhat surprising, given that the characteristics of the Hispanic population have changed dramatically over the past 25 years, as pointed out by Borjas (2005) and others. Relative to historical trends, Hispanic children did not experience as large a drop in poverty over the 1990s as did black children, and the comparison of poverty rates for Hispanic children over time is greatly complicated by the dramatic shifts in that population. For these reasons, this brief focuses on black and white child poverty.
4. Due to Yun (2004). See Nichols (2006) for details.
5. The difference between predicted and actual changes is the so-called "unexplained" component, due in part to changes in the correlations of factors with child poverty.

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