

Discussion Papers

Understanding Changes in Child Poverty Over the Past Decade

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Assessing
the New
Federalism

*An Urban Institute
Program to Assess
Changing Social
Policies*

Assessing the New Federalism is a multiyear Urban Institute project designed to analyze the devolution of responsibility for social programs from the federal government to the states, focusing primarily on health care, income security, employment and training programs, and social services. Researchers monitor program changes and fiscal developments. Olivia Golden is the project director. In collaboration with Child Trends, the project studies changes in family well-being. The project aims to provide timely, nonpartisan information to inform public debate and to help state and local decisionmakers carry out their new responsibilities more effectively.

Key components of the project include a household survey and studies of policies in 13 states, available at the Urban Institute's web site, <http://www.urban.org>. This paper is one in a series of discussion papers analyzing information from these and other sources.

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Over the past ten years, there have been two sharply different trends in child poverty in the United States: a major reduction from 1993 to 2000 and an increase from 2000 to 2004. Both trends have been even more marked for black children. This period of ten years with two sharp changes in child poverty offers an unusual opportunity to tease out the reasons for trends in child poverty. Exploring these reasons in turn is of potentially great importance to policy, as well as to the well-being of children. Among the very different reasons that have been suggested for these changes are changes in federal and state policy, changes in federal and state macroeconomic conditions, and changes in family characteristics and behavior, such as family structure and education.

In order to explore the question of why child poverty rates have changed dramatically twice in ten years, the paper looks at three related questions first. First, to lay the groundwork for understanding the differences among groups of children (in particular, between black and white children) and to check the basic framework for explaining child poverty, the paper looks at differences in poverty rates among subgroups at a single point in time. These differences are likely an upper bound on the explanatory power of these factors,¹ and it would be implausible if factors identified as sources of changes in child poverty were not also associated with child poverty at a point in time. Second, drawing on the understanding of relevant variables gained from the cross-sectional analysis, the paper looks at the trends in these variables over time. Which of them have the potential to explain the sharp turns in the poverty rate, for example, because they changed in the appropriate direction at about the right time? Third, the paper looks

¹ The cross-sectional difference is like an upper bound because observable characteristics of families, such as work status, are likely correlated with important unobservable characteristics. For example, if 10 percent of children in high-work families are poor, and 60 percent of other children are poor, then an increase of 10 percentage points in the proportion of children in high-work families will likely *not* reduce child poverty by as much as 5 percentage points. In this case, the families *joining* the high-work group would likely have been poor in smaller proportion than other non-high-work families.

at long-term explanations for changes in child poverty. And finally, it zeroes in on the past ten years and the two sharp changes in the child poverty rate, to see what accounts for those specific movements.

Background

The poverty line is intended as an absolute standard of a minimal income required by a family to meet its basic needs, as a function of the number of adults and children in the family. Children who live in families with incomes below this minimal standard can suffer long-term negative consequences. Child poverty is associated with a variety of negative outcomes in later life, such as lower earnings, reduced educational attainment, teenage childbearing, and worse physical and mental health (Duncan et al. 1998).

Children live in poverty because adults in their families produce less income, largely due to lower labor earnings as a result of low wages or less than full-time work. Work effort is not always a matter of choice, of course. Acs, Ross Phillips, and McKenzie (2000) document that the poor have substantial job-market disadvantages compared with their higher-income counterparts, and that even if every poor family had a full-time worker,² only about one in six would be lifted out of poverty.

Low wages are often traced to low educational attainment,³ and parents' education is therefore an important explanation of child poverty. Ultimately, labor market prospects and the return to education influence the educational attainment of parents. That is, the choices of individuals and larger economic shifts over time together determine individuals' education and

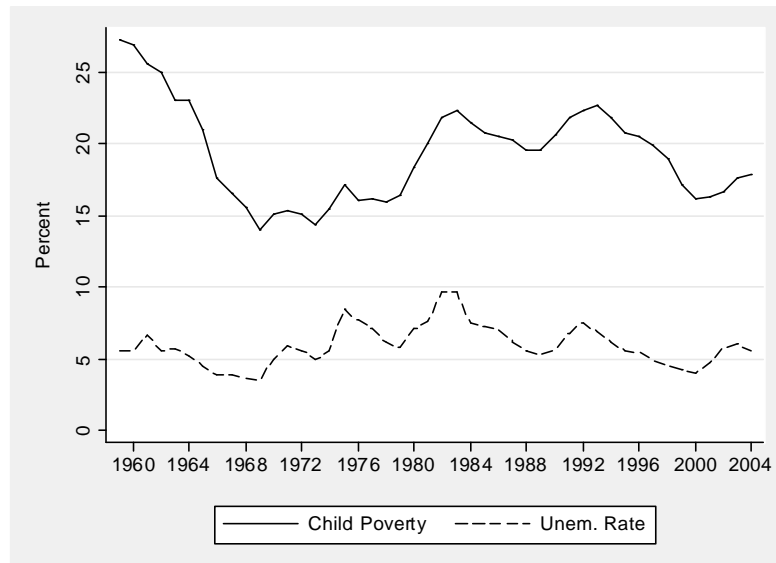
² The authors assume nonworkers would earn the minimum wage, and individuals working less than half-time would earn their current wage.

³ There is a more-than-extensive literature on this subject, some of which is reviewed by Card (1999) and Card (2001).

labor market outcomes. At any given point in time, however, the educational attainment of their parents is likely to be an important determinant of children's poverty status.

The overall condition of the U.S. economy is also a prime determinant of adults' incomes and the child poverty rate, although research differs about the strength of this relationship over time. Blank and Blinder (1986) find that changes in macroeconomic conditions (particularly unemployment rates) explained changes in the overall poverty rate well, but Blank (1997) shows that this relationship did not persist in the years from 1983 to 1993. Lee (1999) indicates that some of the change in poverty can be traced to decreases in the real value of the minimum wage. A simple look at child poverty and unemployment rates over the past four decades (figure 1) suggests a strong relationship between child poverty and macroeconomic conditions.

Figure 1. Child Poverty and Unemployment Rates



Trends in child poverty are also influenced by how we measure poverty. The official definition of poverty, originally developed by Orshansky (1963, 1965) and revised in 1980 does

not account for family resources such as food stamps and tax credits.⁴ If only the composition of family income changed, so that families received more excluded income (such as tax credits) relative to included income (such as cash welfare payments), family income would appear to decline for the purposes of measuring poverty, even if net income available for consumption were unchanged. As a result, the shift in U.S. welfare policy in recent years, toward more generous tax credits for working families and less cash welfare, may explain some changes in child poverty.

A family that received Aid to Families with Dependent Children (AFDC) in 1990 and the earned income tax credit (EITC) in 2000, holding all else constant, could be poor in 2000 but not in 1990 with the same real after-tax income in both years. Of course, this is a hypothetical, since cash welfare payments did not often lift families above poverty even in 1990. Nonetheless, it is important to remember that shifts toward receipt of noncash income will not be picked up in this analysis, which focuses on the official poverty rate. The direct effect of the shift from transfers to tax credits on poverty rates is likely very small.

The broad expansion of the EITC in the early 1990s may also have an important indirect effect on family incomes, however, that will be picked up in this analysis. One of the main effects of the EITC was to increase work, and Meyer and Rosenbaum (2001) show that the EITC expansion was responsible for more of the increase in labor force participation rates in the 1990s than were welfare reform and other policy changes. Any labor supply effects of changes in the tax and transfer programs affecting poor families is likely to swamp the changes in poverty due solely to changing composition of income.

⁴ Citro and Michael (1995) recommend a new definition of poverty using a measure of net income that takes account of taxes, certain expenses, and in-kind transfers such as food stamps. Iceland and colleagues (2001) find that both the child and adult poverty rates are lower using this experimental measure, though the trends over time are similar.

There also is substantial evidence that changes in family composition are associated with changes in the poverty rate, and the child poverty rate in particular. Lerman (1996) finds that all the change in the child poverty rate between 1971 and 1989 can be explained by the increased share of families headed by single parents. Bane and Ellwood (1986) show that changes in household structure are particularly important when looking at the dynamics of poverty—how people become poor, or escape poverty. McKernan and Ratcliffe (2002) find that changes in household composition (notably the birth of a child or the switch from a two-adult household to a female-headed household), employment, and disability status are the most important determinants of changes in poverty.

Data and Methods

I use the same data used in the construction of the official poverty rates by the Census Bureau, the Current Population Survey (CPS) March supplement, from survey years 1981 to 2005, for the analyses. The March supplement asks about family income in the prior calendar year. However, one major survey change occurred in 1994, so series including only calendar years 1993 to the present are more internally consistent than the full series. I have conducted several sensitivity tests⁵ that indicate that revisions to the CPS produce negligible changes to my estimates.

I look across many years, and run logit regressions using all the data (where individual children are the unit of analysis and poverty is the outcome variable), to estimate the broad associations between child poverty and various explanatory factors, such as single parenthood, low educational attainment, less than full-time work, and macroeconomic conditions. Fixed effects for states control for differences across states that do not change over time, and fixed

⁵ Including the use of two sets of alternate weights available for the March 2001 CPS survey (one based on the 1990 Census and one based on the 2000 Census) and the use of alternative race classifications after the introduction of multiple race codes.

effects for years control for national shocks not reflected in state-level measures of economic conditions. Standard errors are clustered at the state level to allow for arbitrary intrastate correlation of errors.

To assess the likely role played in the drop in poverty between 1993 and 2000 and the rise between 2000 and 2004 by changes in factors such as single parenthood, low education, work, and macroeconomic conditions, I look at these two pairs of years in isolation. I decompose the change in child poverty between two points in time into components due to changes in explanatory variables, using a method due to Yun (2004). In the context of explaining changes in relative wages, this kind of method is usually called a Blinder-Oaxaca decomposition and requires that the outcome variable be interval-ratio, not categorical. For a qualitative outcome variable such as poverty status, the outcome Y is modeled as a nonlinear function of explanatory variables, i.e., $E(Y)=F(Xb)$, where $F(x)$ is $e^x/(1+e^x)$ for the logit model. The difference in poverty rates between years A and B can be written as (where the bar over a quantity indicates a sample average)

$$\bar{Y}_A - \bar{Y}_B = \left[\overline{F(X_A \mathbf{b}_A)} - \overline{F(X_B \mathbf{b}_A)} \right] + \left[\overline{F(X_B \mathbf{b}_A)} - \overline{F(X_B \mathbf{b}_B)} \right]$$

for aggregate changes in characteristics (the first term in square brackets), which I will call the “explained” portion of the change, and “changes in coefficients” (the second term in square brackets), which I will call the “unexplained” portion of the change, following standard practice. The component of the explained portion due to each variable X_i in the matrix of explanatory variables X can be calculated using the formula from Yun (2005):

$$W_{\Delta X}^i = \frac{\left(\bar{X}_A^i - \bar{X}_B^i \right) \mathbf{b}_A^i}{\left(\bar{X}_A - \bar{X}_B \right) \mathbf{b}_A}$$

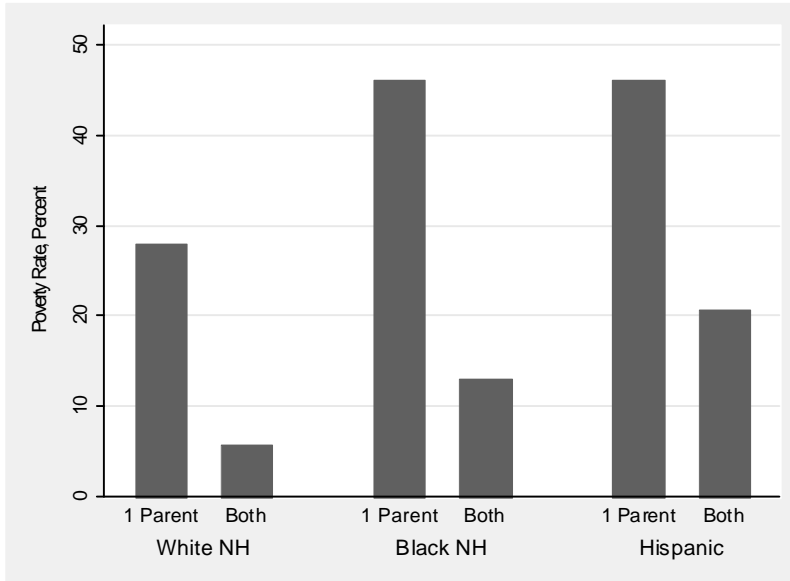
In addition, the detailed decomposition is not robust to changing the base category when including a set of indicator variables as explanatory variables (capturing, e.g., all possible family structures). I use the normalization of coefficients on categorical explanatory variables described by Yun (2005), which makes the decomposition invariant to the choice of indicator variables. In short, for a set of four indicator variables characterizing family structure, the normalization produces a result identical to running four regressions, once with each category excluded, and averaging the coefficients across all specifications.

Differences in Child Poverty Rates by Subgroup

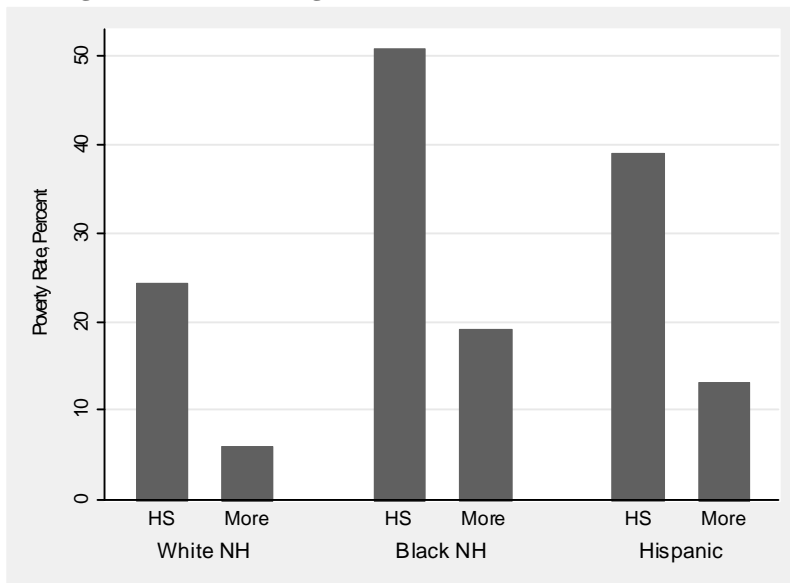
The latest data (from the March 2005 CPS, referring to poverty in 2004) show in stark terms the importance of the primary determinants of child poverty in cross-sectional data—single parenthood, low educational attainment, and less than full-time work—and their interaction with race. Children living in single-parent families are much more likely to be poor than those living in two-parent married families (figure 2).⁶ Parents' education also shows a clear relationship with child poverty. Children in high-school-or-less families are four to five times more likely to be poor as those living in families with more education (figure 3).

⁶ Single-parent families include families where other adults, possibly including other biological parents of children, live with unmarried parents and their children.

**Figure 2. Child Poverty by Race and Family Type
(One Parent Present versus Both, Excluding Families with Neither Parent)**



**Figure 3. Child Poverty by Race and Parents' Education
(Highest Attainment High School or Less versus More than HS)**

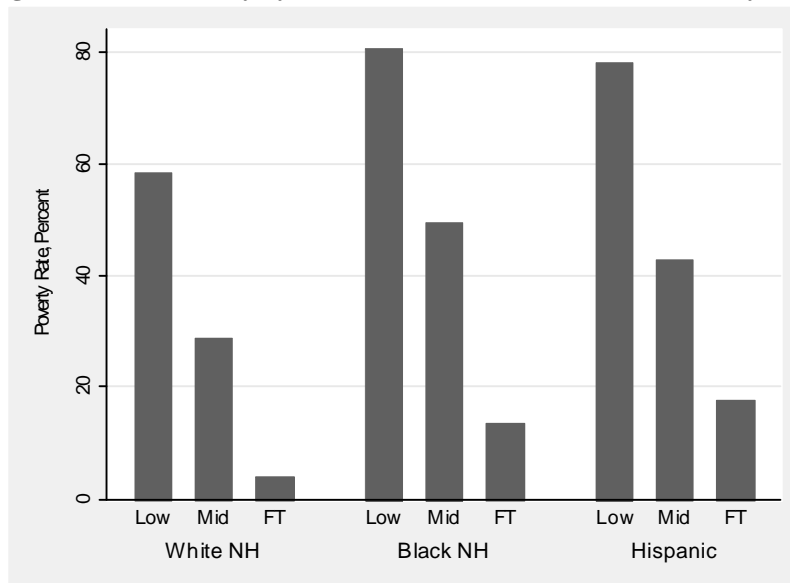


Conditional on being in either a single-parent or low-education family, however, a black child is twice as likely to be poor as a white child. These patterns suggest that the racial gap in child poverty is not easily explained by differences in these two characteristics.

Parents' work effort highlights an even more dramatic difference in poverty across family types (figure 4). Children in families with at least one full-time worker (FT families) are

substantially less likely to be poor. I call families without a full-time worker in which adults also averaged less than 1,000 hours of work apiece in the prior year “low-work” families, and I call families without a full-time worker that are not low-work families “medium-work” families. Children in low-work families are about eight times more likely to be poor than children in FT families. Poverty rates for children in medium-work families fall midway between rates for low-work families and FT families.

Figure 4. Child Poverty by Race of Child and Work Level in Family, 2004



Within each category of family, both black and Hispanic children are much more likely to be poor than white children, but the comparison between black and Hispanic children is more complex. Black children in families with a full-time worker are less likely to be poor than their Hispanic counterparts, but black children in “low-work” or “medium-work” families are more likely to be poor than comparable Hispanic children.

Table 1 shows that the racial gap persists when we examine the combined effect of these characteristics (“low-work” and “medium-work” families are combined as families “without a full-time worker”). 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 the rate 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 group of 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 (the rates of 73.79 and 71.14 are not statistically different). Black children have higher poverty rates than Hispanic children in this sample, then, because more of them are in the higher-poverty no-full-time-worker category (since the poverty rate of black children is lower or statistically indistinguishable in every category of family with an adult working full time). Across all three race categories, the largest group of children in families with no full-time workers have only one parent present, and black and Hispanic families are more likely to fall in the lower education group.

There are large differences within the no-adult-full-time category by parent status. For example, poverty rates for black and Hispanic children in two-parent families are both around 58 percent compared with 34.5 percent for comparable white children. Black children in two-parent families with more education are much more likely to be poor than either white or Hispanic children (56.2 percent compared with 26.55 and 34.3 percent, respectively). In contrast, children in the most disadvantaged families (no adult full time, single parent with HS or less) have relatively small differences in poverty rates, which are about 71 (white children), 84 (black

children), and 85 percent (Hispanic children), in proportional terms. The difference in percentage points between the white child poverty rate and the black and Hispanic rates is still quite large in this group, however.

Table 1. Poverty Rates 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	4.7	2.42	1.32	4.32**	10.52	12.16**
All Adults HS or Less	2.95	2.05	2.1	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	0.4	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	4.8	3.72	2.43	59.22**	77.15	78.38**
Any Adult More than HS	2.36	1.28	0.6	47.03**	63.48	58.84**
All Adults HS or Less	2.44	2.44	1.83	71.01**	84.32	84.74**

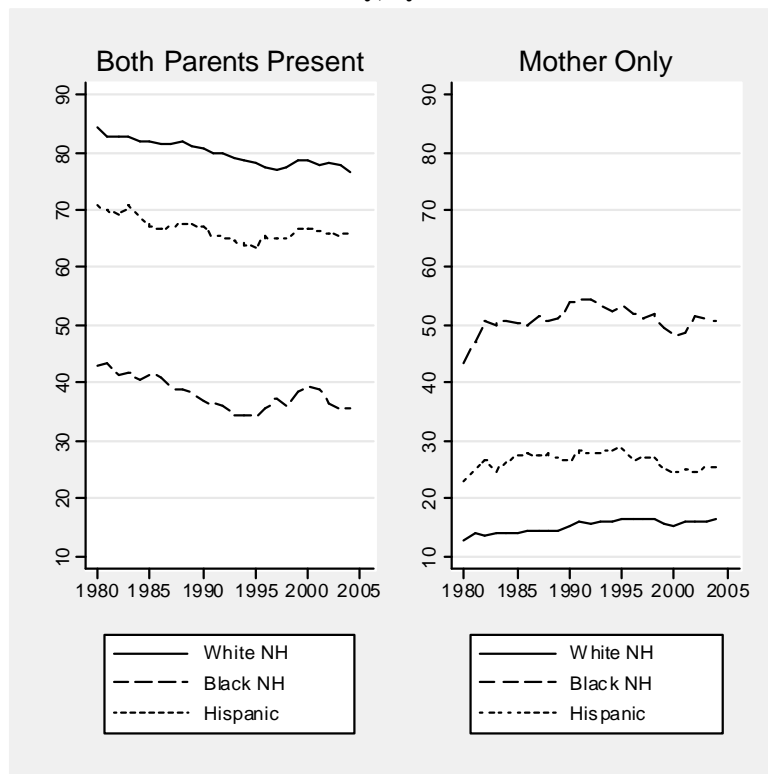
Note: Tests of significance are for equality of proportions across white and black in white column, black and Hispanic in black column, and Hispanic and white in Hispanic column. One asterisk indicates proportions differ at the 5% level, and two asterisks indicate they differ at the 1% level.

Trends in Key Factors Affecting Child Poverty

Having identified a set of factors clearly associated with child poverty in the most recent year of data, it is interesting to explore whether the prevalence of these factors has changed over time. We cannot draw any firm conclusions from these trends, but understanding general changes in family structure, work attachment, and educational attainment over the past decades helps to inform our analyses of trends in child poverty.

Family structure has changed dramatically across the 1980–2005 period (figure 5) The proportion of children living with only their mother and not their father has increased for all children, and the proportion of children living with both parents decreased from 1980 to the early 1990s, but both proportions have been nearly level since then. The dip in mother-only families after 1996 is roughly coincident with welfare reform, though no causal link should be inferred,⁷ and the rise in mother-only families after 2001 is presumably inconsistent with such a link. The patterns over time for white and black children are similar, though changes are more pronounced in the series estimated for black children.

Figure 5. Percent of Children with Both Parents Present, or Mother Only, by Race and Year



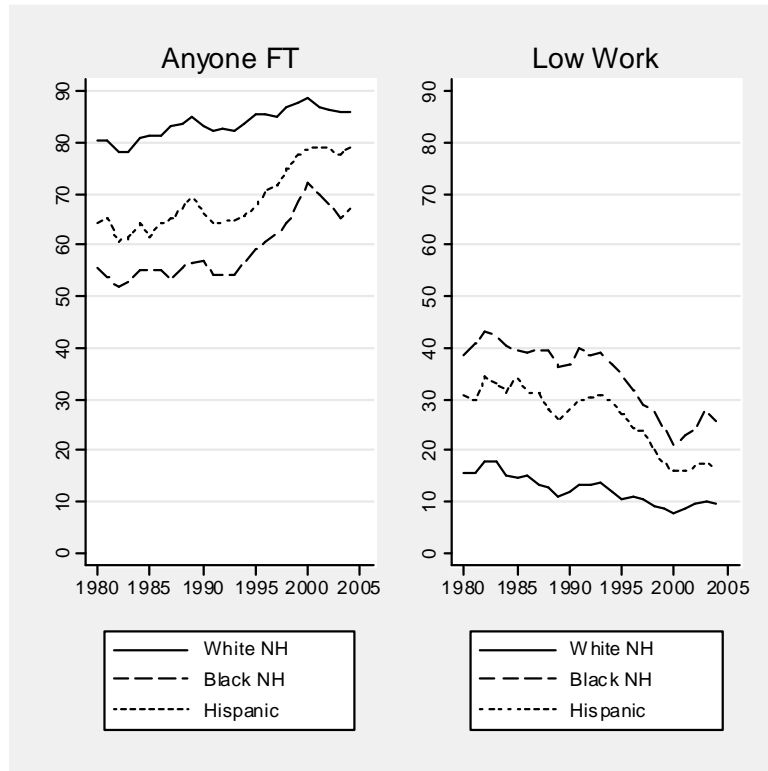
⁷ Fein (2001) indicates that welfare reform reduced the prevalence of single-mother families. But Bitler, Gelbach, and Hoynes (2004) find that the effects may differ dramatically by race and that welfare reform may have decreased the proportion of black children in two-parent families.

The proportion of all families with any adult working full-time has remained relatively constant across the 1980–2005 period, fluctuating around 80 percent, and the proportion of “low-work” families (in which all adults average under 1,000 hours of work) has made up most of the remainder, fluctuating around 20 percent. Within each race category, however, work increased between 1993 and 2000, and has since fallen (figure 6). The apparent constancy of work attachment averaged across all children arises from changes in the share of children in different race categories.

These data also show that black children are more likely to be in low-work families, and to be without a full-time worker in their family, in all years. However, in the period 1993 to 2000, the difference shrank, as black children’s families seem to work substantially more. The effect of the EITC on labor force participation mentioned earlier, especially after its expansion in 1993, may help to explain this trend. Eissa and Nichols (2005) note that black single mothers are much more likely than white single mothers or two-parent families⁸ to be eligible for the maximum credit, which might lead to greater pro-work incentives of the EITC in the families of black children, on average. The EITC did not disappear in the recession of 2001, however, so this story cannot explain the much larger decrease in work in the families of black children over the past four years.

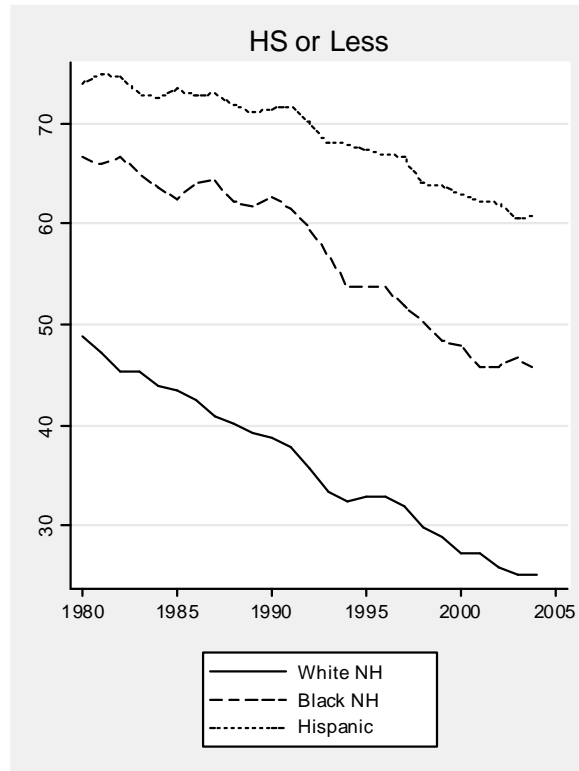
⁸ In contrast to the child tax credit (CTC), expanded in 2003, which, as Burman and Wheaton (2005) show, disproportionately benefits middle-class and white families. They find half of black children’s families have income too low to claim the full CTC. Less than a fifth of white children’s families have income too low, and a fifth have income too high, to claim the full CTC.

Figure 6. Percent of Children in Families with Anyone Working Full-Time, or Families with Low Work, by Race and Year



Whereas work effort (by race) seems to exhibit a lot of cyclical variation, the proportion of children who live in families where no adult has more than a high school education has been steadily decreasing over the past several decades (figure 7). This kind of secular decline would be expected to result in steadily declining poverty rates, if the return to education were relatively constant over time. Certainly, there is no evidence in figure 7 that the sharp decline in black child poverty in the 1990s was the result of dramatic changes in educational attainment, since the series for black children and all children seem to move in lockstep.

Figure 7. Percent of Children in Families with Maximum Education High School Degree or Less, by Race and Year

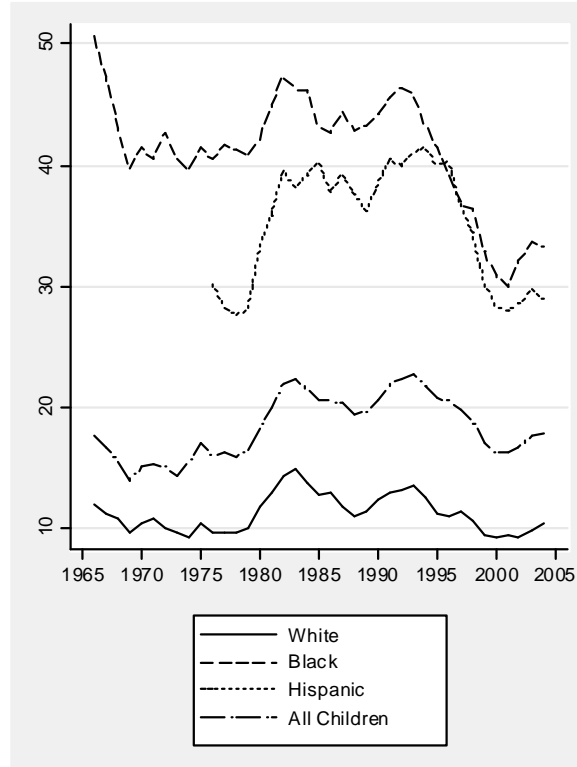


As described above, trends in most variables analyzed did not differ substantially across race groups. Single parenthood and education levels increased for all groups, but the families of black and Hispanic children did increase work effort relative to the families of white children during the late 1990s. Of course, different race groups also faced largely the same macroeconomic conditions over time. Trends in child poverty, however, do vary considerably across race groups (figure 9). Black and Hispanic child poverty rates declined dramatically over the 1994 to 2000 period, and much more than the decline for white children, and poverty rates increased for all racial groups after 2000.

Borjas (2005) claims that low-skill minorities display “excess sensitivity” to changing macroeconomic conditions. Increases in child poverty are associated with economic recessions, and decreases with economic expansions, so if minorities are more sensitive to macroeconomic

conditions, we would expect increases in child poverty among minorities to be greater than among white children during periods of increase, and decreases in child poverty among minorities to be greater than among white children during periods of decreasing poverty among all children.

Figure 8. Child Poverty Rates by Race, 1966–2004



The effects of economic upswings seem to be felt more strongly by black and Hispanic children than other children—especially black children. When child poverty has fallen, black child poverty has fallen faster. Weaker economic conditions, on the other hand, are coincident with nearly equivalent increases in poverty for black children and all children (a seven-point increase from 1973 to 1982, and a three-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).

In contrast, Hispanic child poverty has varied proportionally over time in much the same way as white child poverty, but with larger increases and decreases in the level of the poverty rate. As a result, Hispanic children have had poverty rates about three times as high as white children for much of the past 30 years, whereas black child poverty was about four times as high as white child poverty for most of the years prior to 1993, and in recent years, it has been about three times as high. 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, I will focus on comparing black and white child poverty in the remainder of this paper.

Explaining Long-Term Trends in Poverty

Cross-sectional comparisons and time series strongly suggest that family characteristics and macroeconomic conditions affect child poverty rates. The relative importance of these factors is properly determined in a regression framework. Table 3 shows the results of four regression models using data on children in CPS surveys from 1981 to 2005, regressing an indicator for poverty on various family characteristics and macroeconomic conditions. I ran separate regressions for white children and for black children, with and without interactions of economic variables with education level, attempting to explore whether these key factors may have influenced black child poverty in different ways than for white children.

Focusing on the simple regression results without interactions for white (column 1) and black (column 3) children, changing state unemployment rates are not significantly associated

with changes in child poverty rates, conditional on family characteristics (including work status). For example, a 1 percent increase in the state unemployment rate is associated with a 0.08 percentage-point increase in white child poverty, conditional on parents' work. In contrast, a 1 percent increase in the state unemployment rate is associated with a 0.44 percentage-point increase in black child poverty. Despite the large apparent difference in these effect, we cannot reject the hypothesis of no effect for either group.

The regression results that include interactions between unemployment and minimum wage rates and family education (column 2 for white children and column 4 for black children) show the association of child poverty and the state unemployment rate for higher-education families as an "Unemployment Rate" effect, and the difference from higher-educated families for families with less education as an "Unem. Rate \times HS or Less" effect. Thus, the statistical significance of the -0.16 "Unem. Rate \times HS or Less" effect in column 2 indicates that white children in low-education families suffer less of an increase in poverty when unemployment increases in their state, and adding the difference to 0.19 for the base category (more education) gives an estimate of a 0.03 percentage-point increase in child poverty when state unemployment rates rise by 1 percentage point (though this small estimate does not differ significantly from zero). This is a counterintuitive pattern: higher unemployment is associated with higher white child poverty in high-education families, but no discernable change in low-education families, conditional on the work status of the family.

Black child poverty is higher when the state unemployment rate is higher, for both more and less educated families. Column 4 of table 2 shows that an increase in unemployment by 1 percentage point is associated with a 0.71 percentage-point increase in black child poverty in more educated families, or four tenths of a percentage point larger than the increase for low-

education families. The net effect of a 1 percentage-point increase in unemployment in less-educated families of 0.29 percentage points does differ significantly from zero.

Table 2. Regression Results for Calendar Years 1980–2004, Dependent Variable Is POOR

	White Children		Black Children	
	No Interactions	With Interactions	No Interactions	With Interactions
Low Work	9.40** (0.30)	9.41** (0.31)	19.16** (0.78)	19.17** (0.78)
Anyone FT	-10.10** (0.22)	-10.11** (0.22)	-17.88** (0.51)	-17.87** (0.51)
HS or Less	7.30** (0.18)	11.20** (1.41)	13.66** (0.52)	18.49** (4.00)
Unemployment Rate	0.08 (0.07)	0.19* (0.09)	0.44 (0.26)	0.71** (0.24)
Unem. Rate x HS or Less		-0.16** (0.06)		-0.42* (0.21)
Minimum Wage	-0.05 (0.25)	0.22 (0.27)	0.68 (1.02)	0.98 (1.04)
Min. Wage x HS or Less		-0.54 (0.30)		-0.42 (0.79)
Mother Only	7.29** (0.23)	7.29** (0.23)	15.34** (0.47)	15.33** (0.47)
Father Only	2.44** (0.31)	2.41** (0.31)	4.87** (0.86)	4.82** (0.87)
Neither parent present	-0.35 (0.33)	-0.37 (0.33)	5.36 (0.61)	5.35** (0.61)
Number of observations	754576	754576	136191	136191

Note: Marginal effects for a one-unit change are reported, calculated at the mean for both continuous and discrete variables, scaled by 100 to represent percentage points, and calculated from logit models with state and year fixed-effects. Robust standard errors adjusted for clustering at the state level appear in parentheses.

Increases in the real value of the highest minimum wage (the higher of the state and federal rates) for covered employment are generally associated with negligibly small changes in child poverty for both white and black children, even when interactions are included. The largest estimate for an association of the minimum wage with child poverty rates is 0.98, for black children in families with an adult who has more than a high school education, which suggests that a one-dollar increase in the minimum wage increases child poverty in these families by about 1 percent, but the large standard error (in parentheses) suggests that a one-dollar increase

in the minimum wage might increase child poverty in these families by 3 percent or decrease it by 1 percent.

The insignificance of the relationship between child poverty rates and the state minimum wage could result if the role of the minimum wage differs across the time period and the estimate reflects an average effect. Also, the minimum wage raises wages for some employees, but may also reduce employment or hours worked, at least in the long run,⁹ so it has an ambiguous theoretical effect. Mincy (1990) finds that increases in the minimum wage reduce poverty among families, but Neumark, Schweitzer, and Wascher (2000) find that the net effect of a minimum wage increase is lower earnings among low-wage workers. They also find that union members gain at the expense of the lowest-wage nonunion workers. In a similar vein, a minimum wage increase may improve the lot of low-wage workers who enjoy some advantage in their relationship with employers over other low-wage workers, while hurting others. The results in table 2, suggesting that increasing the minimum wage may have no effect on child poverty rates, are consistent with large positive and negative effects that are partially offsetting.

Other predictors have the expected coefficients, in general. Children in low-work families are much more likely to be poor, and children in families with a full-time worker are much less likely to be poor. Children in families with no adults with more than a high-school degree are much more likely to be poor.

Ultimately, it is hard to conclude much from such an aggregated regression framework, where the effect of economic conditions and family characteristics is assumed to be the same in economic upturns and downswings. The patterns seen in the earlier descriptive analyses show

⁹ Card and Krueger (1994) and other researchers have found that increases in the minimum wage do not seem to lower employment, but Baker, Benjamin, and Stanger (1999) provide convincing evidence that the long-run elasticity of employment with respect to minimum wages is probably negative, while the short-run elasticity is likely zero or positive. Estimates using lagged minimum wages were essentially identical.

that there was an anomalous drop in black child poverty in the 1990s, and a regression does not explain what may have been different about this period.

Explaining Changes in Child Poverty over the Past Decade

The results so far suggest that changes in the characteristics of children's families are plausible sources of changes in child poverty, and macroeconomic factors may also play a role, even controlling for family characteristics. However, the previous results cannot identify which of these factors is responsible for the dramatic decline in black child poverty in the 1990s and the subsequently faster increase. I use a different method to look at these two key time periods—comparing the years at either end of the decline in child poverty in the 1990s first, and then the years at either end of the rise in child poverty in the new millennium.

This method¹⁰ decomposes changes between pairs of years into a component that captures the change in characteristics of the population, such as the proportion of children who live with both parents, and a component that cannot be explained by the changes in characteristics of the population. Looking across the population in the base year (e.g., 1993) and predicting poverty status using the characteristics of individuals (such as the unemployment rate in their states, or their family structure), we can use the contribution of these characteristics in the base year to predict what poverty would have been in the comparison year (e.g., 2000) using individual characteristics in the comparison year. This tells us what poverty would have been if the likelihood of poverty based on individual characteristics were the same in the comparison year, that is, what the contribution of the change in characteristics of the population was to the change in poverty.

¹⁰ Described in more detail in Data and Methods, above.

The decomposition 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 during the 1993 to 2000 period. 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. 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 *for the families of children in low-education families*. The variable measuring the differential impact of state unemployment rates among low-education 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 almost 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).

Table 3. Decomposition of Changes in Child Poverty Rates, by Race

	1993-2000		2000-2004	
	White	Black	White	Black
Educ and Economy	63.1%	50.0%	76.7%	65.8%
Unemployment Rate	17.6%	6.6%	57.6%	65.0%
Real Min Wage	-1.3%	12.0%	13.2%	-1.4%
HS or Less	36.5%	-11.3%	-13.5%	-18.0%
HS or Less * U.Rate	36.1%	29.3%	3.8%	-7.1%
HS or Less * M.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 FT	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%

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 3. 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, but the family variables 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, e.g., 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 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 proportion 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 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 HS or Less explains only about 5 percent (3.8 plus 15.6 minus 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.

The impact of changes in the distribution of work status is still relatively large but does not compare to the power of these changes in explaining 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 that are correlated with state unemployment rates. The size of these estimates indicates that macroeconomic 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 to be less well-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 to be better-equipped to escape falling into poverty during an economic downturn than the average poor person would have been, 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.

Conclusions

Child poverty dropped dramatically in the 1990s, and especially for black children. I find that both family characteristics, such as presence of both parents or a full-time worker, and macroeconomic conditions are important factors in explaining child poverty rates. Looking only at the 1993 to 2000 drop and the 2000 to 2004 rise in child poverty, I find that the drop in child poverty during the 1990s seems to be largely due to improvements in the job market, especially for less-educated workers (which helps explain the dramatic drop in black child poverty, partly due to the fact that 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 recession, the safety net did not catch those who were nearest to the poverty threshold, so those who lost jobs were often forced into poverty. For example, Unemployment Insurance helped single-parent families much less, as shown by Acs, Holzer, and Nichols (2005), even though these families needed benefits the most. 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 that favor full-time workers. Presumably this shift improves the incentives of poor families, and 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 suggest the importance of 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.

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