

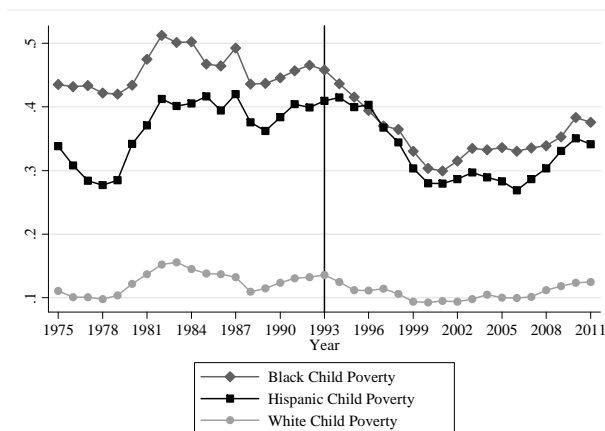
Recent Changes in Child Poverty Driven by Labor Market

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Child poverty ratcheted up from 1975 to a high of 23 percent in 1993, then fell sharply until the 2001 recession. It was back on the rise after 2001, hitting 22 percent in 2011. These fluctuations over the past two decades resulted largely from changes in parents' work, in contrast to prior decades when changes in family structure were the major driving force. Labor demand seem to be a much stronger determinant of parents' work than tax and transfer policy, suggesting government transfers could be more generous without discouraging work.

Poverty rates for black and Hispanic children fell much more steeply than rates for white children during the 1990s, but have risen more rapidly since 2000 (figure 1).

Figure 1. Child Poverty by Race and Ethnicity, 1975–2011



To better understand the drivers of changes in child poverty, we compared the periods before and after 1993, the year with the highest overall child poverty rate. The first half of this 37-year period runs from 1975 to 1993 and the second half from 1993 to 2011.

Since the official poverty definition depends only on family income and the number of adults and children in the family, changes in the child poverty rate stem from changes in either income or family structure. Changing incomes are mostly attributable to changing work attachment (gaining

or losing a job or working more or fewer hours) or changing wages, since earnings are most of cash income. Changes in family structure and work that have occurred over the past four decades can explain much of the change in child poverty.

Single parenthood is a frequently cited explanation of child poverty, and how much parents work is another. The dramatic increases in the mid- to late '90s in the share of children who had an adult in their family working full time the whole year mirrored the drop in child poverty during that time. White and Hispanic children have been steadily less likely to have married parents over the entire period from 1975 to 2011. The proportion of black children with a married parent declined from 50 percent to 36 percent between 1975 and 1993. That share rose and fell after 1993, returning to roughly 36 percent in 2011.

Changes in Child Poverty Explained

Changes in family structure drove changes in child poverty from 1975 to 1993, but changes in work drove changes in child poverty from 1993 to 2011.

To help explain changes in child poverty, we can estimate what child poverty would have been if family structure and work had not changed. Other types of estimates produce similar conclusions (Nichols 2006).

The estimates ascribe a large fraction of the change in child poverty between 1975 and 1993 to changes in age and family structure (single parenthood, number of family members, multigenerational households), as shown in figure 2. During this period, changes in parents' work were not big factors in changing child poverty. Increases in work among parents that should have lowered poverty were instead accompanied by higher child poverty rates. Drops in the share of married parents more than offset increases in work.

In contrast, changes in family structure do not explain changes in child poverty between 1993 and 2011 (figure 3). Instead, changes in work explain most of the variation. Education and other factors play a more modest role (Nichols 2013).

Figure 2. Factors Explaining Child Poverty, 1975–93

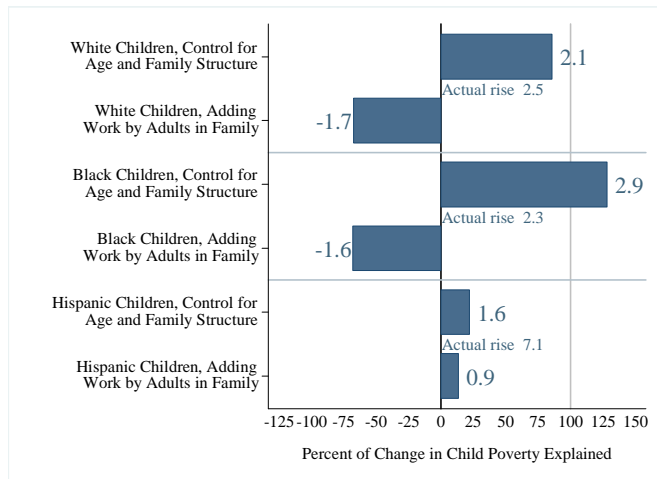
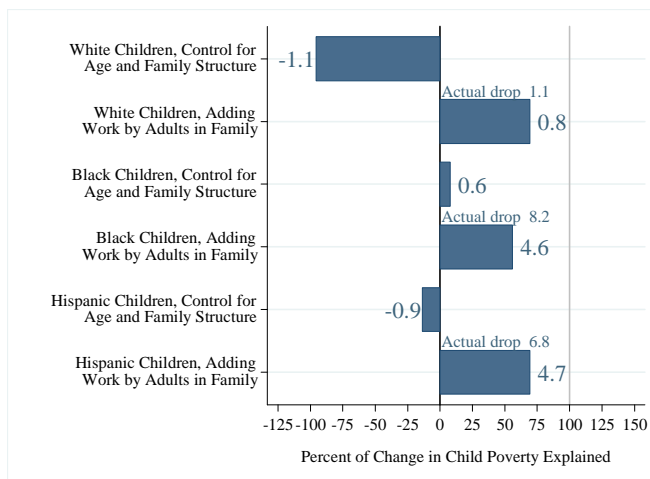


Figure 3. Factors Explaining Child Poverty, 1993–2011



Drivers of Increased Parental Work

Having found that child poverty rates over the past 20 years were driven by changes in parental work, it is natural to ask what drives these changes. Received wisdom about increasing labor force participation among single mothers in the 1990s is that most of the expansion stemmed from more generous tax credits and increasing labor demand, with welfare reform having a small effect.

This fact sheet is part of the Urban Institute's Low-Income Working Families project, a multiyear effort that focuses on the private- and public-sector contexts for families' success or failure. Both contexts offer opportunities for better helping families meet their needs. The Low-Income Working Families project is currently supported by the Annie E. Casey Foundation.

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Nichols (2013) finds no evidence that substantial changes in tax and transfer policy after 1993 changed either the incentive to work or the proportion of parents working full time (at least 1,600 hours a year), though earlier changes in incentives to work did affect the proportion working.

Shifts in the demand for workers seem to affect parents' work more than reactions to tax and transfer policy do, suggesting that more generous government benefits can help families without discouraging work.

Conclusions

Changes in family structure do not explain the large changes in child poverty over the past 20 years. Instead, changes in whether parents are working, and how many hours they work, are driving fluctuations in child poverty. Whether parents are working is driven less by tax and transfer policy in recent years than in the 1970s and '80s. Instead, wide swings in the demand for low-wage workers have caused child poverty to fall in the 1990s and rise in the 2000s.

The benefits of small reductions in child poverty are large and long lasting. There are costs to lowering child poverty as well: one such cost is discouraging work, but that might be smaller than commonly thought. If so, more generous tax and transfer policy for parents is in order. More generous transfer policies targeted at children might not drive down labor supply among parents but could dramatically improve child well-being.

Note

The source for all reported findings are author's calculations using Current Population Survey March supplement data, 1976 to 2012. The methods and findings are described in greater detail in Nichols (2013).

References

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