



Children in working poor families:

A review of the literature

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Introduction

A review of the literature on the working poor carried out about three years ago (Wertheimer, 1999) found relatively few articles or books addressing the subject. Since then, there have been dozens of studies devoted to the topic. This sudden interest in the working poor is associated with enactment of federal welfare reform, which has succeeded in dramatically reducing the welfare caseload during an economically robust period in which the number of children in poverty has fallen. Due presumably to the increased emphasis placed on work for families either on or recently on welfare, the number of children in working poor families has risen at the same time (Wertheimer, 2001).

As part of an update and extension of our previous work (Wertheimer, 1999), this review provides a review of this burgeoning literature. We begin by revisiting the thorny definitional issues surrounding both poverty and work—issues that have still not been satisfactorily resolved. Next, we address the reasons why working poor families fail to escape poverty. The following section focuses on the dynamics of poverty by emphasizing the large movements of people and families into and out of the ranks of the poor and the working poor. Next, we address the role of government programs in reducing poverty. The final section focuses on the association of family and child well-being and the working and poverty status of the family.

Defining the working poor

In defining the working poor, a key issue involves the measurement of poverty. The official poverty measure in the U.S. has been in place since the 1960s and uses a set of income thresholds that vary by family size and composition. In recent years, the official method of measuring poverty has become the subject of much debate.

In 1995, the National Research Council (NRC) of the National Academy of Sciences (NAS) Panel on Poverty and Family Assistance issued a report that identified and analyzed a number of problems with the official measure (Citro and Michael 1995). The official poverty measure does not reflect:

- increases in the standard of living since the measure was first developed in 1963,
- government policies that alter an individuals' or families' pretax money income (e.g., payroll taxes, in-kind benefit programs, and refundable tax credits),
- increases in medical care costs and benefits,
- geographic variations in price,
- changes in the composition of families and households (e.g., larger expenditures on child support, increasing number of households cohabiting or headed by someone 65 or over), and
- changes in work patterns (e.g., child care expenses, transportation expenses).

To address these weaknesses, the NAS Panel made a number of recommendations for revision and proposed a new definition of poverty that would identify the current poor population more accurately. These changes focused on three main areas: the poverty

thresholds, the measurement of resources, and data sources. Since the publication of the report, additional research has been undertaken to operationalize the Panel's recommendations and propose conceptual or methodological amendments (e.g., Baiver 1997; Doyle 1997; Garner, Paulin et al. 1997; Johnson, Shipp et al. 1997; Naifeh and Eller 1997; Shea, Naifeh et al. 1997; Iceland, Short et al. 1999).

An earlier study of the working poor by Child Trends (Wertheimer 1999), in addition to using the standard poverty definition, also used an alternative definition of poverty that included as economic resources a limited number of non-cash benefits and also deducted child-care expenses. While the number of children in working poor families was affected by the definitional change, the patterns describing the characteristics of working poor families contrasted with other families remained unchanged.

In 1999, the Census Bureau released a comprehensive report that analyzed the changes in poverty estimates associated with each recommendation by the NAS Panel relative to estimates based on the official measure (Short, Garner et al. 1999). The report also presented several variations to the Panel's recommendations, including six experimental measures with changes to the measurement of childcare expenses, equivalence scales, and geographic adjustments.

A series of studies by the Census Bureau have since implemented these experimental approaches (Short 1999; Short, Iceland et al. 1999; Iceland 2000; Short and Iceland 2000). In 2001 the Census Bureau released a new report that provided additional variations to the Panel's recommendations (Short 2001). Similarly, the 2001 report presented six experimental poverty measures that slightly varied from the NAS proposals, adding further changes to the different equivalence scales presented in the 1999 report with respect to the measurement of work-related expenses (including childcare), housing subsidies, medical out-of-pocket spending, and geographic adjustments.

Certain manipulations to the poverty measure have effects of either increasing the overall poverty rates (e.g., including more goods in the thresholds) or decreasing the poverty rates (e.g., by adding in additional resources such as housing subsidies to income). However, studies have generally found that poverty rates based on the experimental NAS measures produce trends over time that are similar to trends produced using the official poverty measure (Baiver 1997; Garner, Paulin et al. 1997; Johnson, Shipp et al. 1997; Short, Garner et al. 1999; Short 2001).

However, the socioeconomic and demographic composition of the population tends to differ from the poor population captured by the official measure (Garner, Paulin et al. 1997; Johnson, Shipp et al. 1997; Naifeh and Eller 1997; Shea, Naifeh et al. 1997; Short, Garner et al. 1999; Short 2001). Of particular importance to the present research, the poverty rates for children vary considerably depending on how one chooses to measure poverty. For instance, in 1999 children constituted 37.5% of the poor population using the official measure. Using the experimental measure presented in the 2001 Census report, this percentage fell to around 31 to 32 % (Short 2001).

While most research on the debate over the measurement of poverty has focused on revising the current measure of poverty, other research has proposed alternative approaches to measuring poverty. The family budget approach estimates the cost of meeting basic economic needs in today's marketplace—identifying budget items

necessary for a working family to maintain a safe and decent standard of living and determining the cost of providing those items at an adequate level (Bernstein, Brocht et al. 2000). A recent study by Bernstein and associates recommended a number of items for inclusion in family budgets, such as food, housing, health care, transportation, child care, telephone, apparel, personal care, and other necessities. Bernstein and colleagues also recommended adjusting budgets for geographic differences and family size and updating budgets to reflect current expenditures. Their resulting average basic family budget was over \$30,000 in 1996 dollars for a single-parent family with two children. This amount was more than twice the official poverty threshold and 1.7 times the median income for that family type.

Haveman and Berhadker (2001) presented another approach to measuring poverty, described as “self-reliant poverty.” Self-reliant poverty is determined by the *potential* of a family to maintain a level of consumption in excess of its needs, using its own resources and efforts, as opposed to a family’s *actual* resources. The self-reliant poverty measure is obtained by 1) estimating the sum of a family’s earning potential in the labor market if each adult worked to capacity (full-time, full-year), given their capabilities and characteristics, 2) adjusting the family’s gross earning potential for constraints on working at capacity (e.g., health problems, disability, expenses), and 3) comparing the family’s net earning capacity to a ‘minimum living conditions needs standard’ (official poverty threshold). Those families whose net earnings capacity falls below the poverty line are in “self-reliant poverty.” Haveman and Berhadker then compared children’s poverty rates (of children less than six years old) using the self-reliant measure and the official measure from 1975 and 1997. While the prevalence of children’s poverty was similar in 1997 (18.9% using the self-reliant measure compared with 21.0% using the official line), the prevalence was quite different in 1975 (8.7% using the self-reliant measure compared with 16.2% using the official line). In addition to the sharper increase in children’s poverty rates using the self-reliant measure between 1975 and 1997, Haveman and Berhadker also found that the self-reliant measure was more monotonic and exhibited less cyclicity than the official measure during that time. Clearly, the method in which one chooses to measure poverty can have a great effect on the population captured.

In addition to debating how to measure poverty, researchers have highlighted a number of other measurement obstacles that exist when attempting to capture the working poor population. There has also been some debate about whether measurement error exists in using Census data to estimate the number of working poor. Schiller (1995) contends that the number of working poor is exaggerated by using Census data for three reasons. First, the Census survey asks how many hours per week an individual “usually” worked when employed, therefore the annual hours of work can only be approximated. Schiller cites a previous study (Smith and Vavrichek 1987) that found that 1 out of 10 individuals who were classified as year-round, full-time workers were actually employed part-time at least 6 weeks of the year. Second, income is not accounted for completely by the Census because irregular forms of compensation, such as tips, are not included. These forms of income may be of particular importance to lower-paid hourly workers. Third, the Census data does not differentiate between paid workers and self-employed workers. Self-employed workers, who make up a substantial proportion of paid workers, have different

circumstances than paid workers (e.g., they may own farms or business assets of significant value) and are also prone to underreporting their income.

However, Weinberger (1999) argues that the Census' Current Population Survey (CPS) is a statistically accurate measure of the poverty rate. Using a data set that included both individual self-reported earnings in the CPS and employer-reported earnings to the Social Security Administration, Weinberger tested the assertion that the CPS overestimates the working poor population since individuals must recall their earnings over the past 15 months instead of reporting their current earnings. His findings showed that measurement error in self-reported earnings did not bias estimates of the working poor population. While a large number of those with low earnings overreported, an equally large number of low earners underreported—thereby canceling each other out. It should be noted, however, that these potential measurement problems are less serious with the Survey of Income and Program Participation (SIPP) and overall the SIPP appears to be a better measure of income than the CPS, particularly at the lower end of the income distribution (Citro and Michael 1995). This is primarily because interviews are conducted every 4 months and income data is measured on a monthly basis.

In addition to conceptual differences in measuring poverty, there have also been substantial differences in the thresholds used in measuring both work and poverty. The original Child Trends study (Wertheimer 1999) employed a definition of work based on work requirements built into federal welfare reform legislation. This definition differed from most those in other studies at the time by being based on the work effort of both parents in the family rather than on the work effort of a single person. The threshold was set at 1,820 hours per year for married-couple families and 1,040 hours per year for single-parent families.

The definition of work in other studies (many based on the work effort of a single adult) has varied dramatically. On the liberal side, studies have identified a person as working if they worked at any time during the past year (Kim 1998), if they had any earnings during the past year (Long and Martini 1990), or if they worked at least one week during the past four months (Kim and Mergoupis 1997). On the more stringent side, studies have counted individuals as working only if they worked full-time (at least 35 hours per week) all year (at least 50 weeks per year) (Schiller 1995; Barrington 2000). Other definitions of working have included devoting 27 weeks or more during the past year working or looking for work (Hale 1997; U.S. Department of Labor 2000) and working at least 27 weeks in the previous year, usually for at least 20 hours per week (Swartz and Weigert 1995).

The poverty threshold in research on the working poor has also varied greatly across studies. While most studies have used the official poverty line (Long and Martini 1990; Schiller 1995; Swartz and Weigert 1995; Hale 1997; Barrington 2000; U.S. Department of Labor 2000), other studies have reported the number of working poor individuals by various increments of the poverty line, such as 125% or 150% of the poverty line (Kim 1998; Jensen, Findeis et al. 1999). Another definition of poverty used in defining working poor individuals was based on whether they qualified for Food Stamps or AFDC (Kim and Mergoupis 1997).

Estimates of working poor adults have thus varied greatly, depending on the definition selected for both working and poverty. These definitional differences can have major consequences. For example, comparing two studies that both used the official line to define poverty, one found that there were 3 million workers in poverty in 1998 (Barrington 2000), while another found that there were 7.2 million workers in poverty in 1998 (U.S. Department of Labor 2000). The former study had counted individuals as workers if they worked full-time all year, while the latter study had counted individuals as workers if they had devoted 27 weeks or more working or looking for work during the past year.

In order to investigate the well-being of *children* in working poor families, it is necessary to look at studies that take a child or family perspective. Fewer studies that have examined the working poor population have taken this perspective. Just as with the studies that take an individual perspective, there has been no consistent definition of working poor families or their children.

The work effort specified by these studies has been especially complicated. As stated earlier, the Child Trends study set the work threshold for the family at 1,820 hours per year for married-couple families and 1,040 hours per year for single-parent families (Wertheimer 1999). The definition of work in other studies has varied broadly. For instance, one study counted a family as working if there was at least one half-time worker who earned at least the minimum wage throughout the year (Center on Budget and Policy Priorities 1998), while another study counted a family as working if at least one member was either working or looking for work for 27 weeks or more (U.S. Department of Labor 2000).

Two reports published by the Urban Institute required an average of at least 1,000 working hours per year by adults in the household (roughly half-time work) (Acs, Phillips et al. 2000; Acs, Phillips et al. 2000). Iceland (2000) defined two types of working families. The first was “full-time working families,” where the aggregate number of hours worked in a family was equal to 1,750 hours during the past year (equivalent to 35 hours per week for 50 weeks). The second was “part-time working families,” where the aggregate number of hours worked in a family ranged from 50 to 1,749 hours during the past year. Another study counted working poor parents, which included household heads and their spouses who lived with children and worked a combined total of more than 13 weeks during the year (Guyer and Mann 1999).

Poverty definitions in these studies have also not conformed to a single standard. While most studies have used the official poverty threshold (Center on Budget and Policy Priorities 1998; Hofferth 1999; Barrington 2000; Children's Defense Fund 2000; U.S. Department of Labor 2000), others have used 200% of the poverty line (Guyer and Mann 1999; Acs, Phillips et al. 2000; Acs, Phillips et al. 2000), while still others have used experimental measures of poverty (Iceland 2000). Comparing estimates from studies that take a child or family perspective is thus difficult. Some studies count children, while others count parents or families; and some present actual counts, while others present rates or proportions with varying denominators. Moreover, the various studies often present estimates of the number of people and families who are working poor from different years.

Ultimately, there is no scientific basis for setting a particular threshold for either poverty or working. However, if we are to keep track of how many children in working poor families there are and how well these children and families are doing, it is important that a consistent set of definitions be used to construct internally consistent time series of key measures concerning the working poor.

The Child Trends definition is family-based, which is critical for a focus on children. It is normally tied to the official poverty threshold, which appears to be essential as long as this threshold remains the federal standard. However, it also provides the option of using alternative measures of economic resources (for example, including non-cash income and excluding child care expenses). The Child Trends standard for work picks a middle ground that is tied to the work expectations of policy-makers for persons leaving welfare at the time that federal welfare reform was originally enacted and, thus, provides a standard with policy significance.

The original Child Trends study (Wertheimer 1999) and its update (Wertheimer 2001) provide consistent time series covering most of the 1990s using data from the Survey of Income and Program Participation and the Current Population Survey. It would seem important that such time series be extended to cover the early 2000s as the economy passes through the first business cycle fluctuation since the implementation of welfare reform. Just as these time series have shown that the number of children in working poor families increased even as the total number of poor children declined, these time series would provide valuable indicators of how working poor families have weathered a recession.

Why are working individuals and their families poor?

Many studies have investigated why those individuals and their families who put in a considerable work effort continue to be poor or have low incomes. While reviewing these studies, it is important to keep in mind that these studies employed a wide range of definitions to identify the working poor population. A number of researchers have focused on why the income of the working poor is simply not enough to lift them out of poverty and have provided a number of explanations. Other researchers have focused more on the work effort of the working poor. The general assumption underlying this focus is that increasing one's work effort would enable an individual and their family to escape poverty.

Studies seeking to explain why the overall earnings of the working poor are not enough to raise them out of poverty have examined a number of factors. First, many of the working poor simply have low wages (Schiller 1995; Hale 1997; Kim and Mergoupis 1997; Kim 1998; Wertheimer 1999; Acs, Phillips et al. 2000; Children's Defense Fund 2000; U.S. Department of Labor 2000). According to data from the 1993 Survey of Income and Program participation, 29 % of parents in single-mother working poor families (with a work standard of 1,040 hours per year) had an average hourly wage of less than \$5.00 per hour in 1994, compared with only 4 % of working non-poor families (Wertheimer 1999)

Similarly, according to the U.S. Department of Labor, 7 out of 10 working poor adults in 1998 were subject to low wages alone or in combination with other labor market

problems. Examining the wage rate of all working families (with a work standard of 1,000 hours by all adults in the household), Acs, Phillips, and McKenzie found that the median hourly wage of primary earners in low-income families was about half that for higher-income working families (\$7.55 versus \$16.67). Additionally, Schiller found that only 11% of full-time year-round workers earned enough to help a family of four out of poverty. While many argue that these individuals simply do not put in enough of a work effort to lift them out of poverty (see Schiller 1994 cited in Kim, 1998), Kim found that most of the working poor would have remained poor even if they had worked full-time (40 hours per week, 52 weeks per year) at their current wage rate.

A second explanation for the overall low earnings of working poor families is that they are less likely to have more than one significant earner than are working families with higher incomes (Hale 1997; Acs, Phillips et al. 2000; U.S. Department of Labor 2000). In 1997, for example, while just more than 61% of all adults who were not primary earners in low-income working families worked at all, 85.7% of other adults in higher-income working families provided additional earnings for their families (Acs, Phillips et al. 2000). Additionally, secondary workers in low-income working families work fewer hours than secondary workers in higher-income working families (Acs, Phillips et al. 2000). The most common family structure of working poor families also precludes an additional earner in the family: the working poor are most likely to be in single-parent families and least likely to be in married-couple families (Hale 1997). Furthermore, the presence of children in the family also decreases the labor supply of the family, thereby decreasing overall earnings (U.S. Department of Labor 2000). The loss of potential income by a secondary worker in the family has a dramatic effect on the poverty level of that family. For instance, in 1995, the poverty rate for families headed by women with children under 18 was 25%, compared with less than 2% for married-couple families with at least two earners (Hale 1997).

A third reason given to explain the low income of the working poor is that many do not take advantage of the welfare system. In 1998, only 12 % of children in working poor families received income from TANF, and only 36 % received food stamps (Wertheimer 2001). Similarly, analysis of 1988-1989 data from the SIPP revealed that 68% of the working poor population who qualified for Food Stamps did not receive benefits (Kim and Mergoupis 1997). In addition, one-third of the working poor who qualified for AFDC benefits did not receive benefits. Even if this population did take advantage of the non-cash benefits that were afforded to them, however, the number counted as poor would not change using the official poverty line since non-cash benefits are not currently included while calculating income.

Other explanations that have been cited to account for the overall low earnings of the working poor include their low education levels (Wertheimer 1999) as well as certain characteristics of the jobs they hold. In a study of former welfare recipients, education was a primary determinant of whether families were able to move out of poverty as a result of their work activities (Children's Defense Fund 2000). While 52% of families headed by a working parent with a high school education had combined weekly earnings that were below the poverty line, 81% of those without a high school education were below the poverty line (Children's Defense Fund 2000). Similarly, the poverty rate for workers who were in the labor force for at least half the year in 1995 was nearly three

times greater for those without a high school diploma than for those who graduated from high school (Hale 1997). The poverty rates continued to decrease substantially as the level of education rose after completing high school (Hale 1997).

Research has also examined certain characteristics of the jobs that the working poor tend to hold to explain their low levels of economic well-being. Jobs of the working poor generally provide few benefits (Kim and Mergoupis 1997; Acs, Phillips et al. 2000), thereby increasing out-of-pocket expenses. Kim and Mergoupis also found that jobs of the working poor hold little opportunity for advancement, thereby reducing the opportunity to earn a higher income in the future.

Researchers have also examined the work effort of the working poor to explain their poverty status. While it is possible that this population is poor because they do not choose to work enough hours, much of the literature has argued that other external factors play a larger role in preventing the working poor from working full-time, year-round.

Both labor market problems and particular job characteristics have been cited as major reasons the working poor are not able to increase their work effort. For instance, as many as 42% of the working poor in 1995 (Hale 1997) and nearly one-third of the working poor in 1998 (U.S. Department of Labor 2000) experienced at least one spell of unemployment during the previous year. Additionally, many individuals are unable to work full-time or experience involuntary part-time employment (Hale 1997; Kim 1998; U.S. Department of Labor 2000; Dalaker 2001). While these individuals face a number of difficulties that prevent them from working full-time that are not related to the labor market (discussed below), many work less than full-time because of slack work or business conditions (Kim 1998; U.S. Department of Labor 2000; Dalaker 2001). In both 1995 and 1998, for instance, nearly one-fourth of the working poor reported involuntary part-time work, either alone or in conjunction with other labor market problems at some time during the previous year (Kim 1998; U.S. Department of Labor 2000). Furthermore, Acs, Phillips, and McKenzie (2000) and Kim and Mergoupis (1997) find that the jobs of the working poor tend to be relatively unstable and have little job security.

Health problems may also make it more difficult for the working poor to escape poverty. Using data from the National Longitudinal Survey of Youth 1979 cohort, Zagorsky (1999) examined the prevalence of health and other problems (including mental or physical disabilities, alcoholism, drug dependency, general health problems that prevented participation in the labor force, and language difficulties) among the working poor from 1985 to 1995. The study revealed that, on average, one-third of the working poor young baby boomers had at least one personal limitation or disability from 1985 to 1995 and that individuals with health or other limitations were twice as likely to be working poor as those without these limitations. Moreover, individuals with health or other limitations spent 1.2 years longer in poverty than individuals without these problems.

Finally, transportation problems may help to explain why the working poor are unable to work more hours and thereby rise above the poverty line. According to a Child Trends study (Wertheimer 1999), 15 % of children in working poor families lived in families that did not own a car, compared with only 2 % in more affluent working families.

Lambert (1998) cited a study by Murakami and Young (1997) that analyzed the Department of Transportation's Nationwide Personal Transportation Survey to examine the daily travel of low-income individuals. The study found that 26% of low-income households did not have access to a car and of those that did own a car, the average age of the car was around 11 years – 3 years older than the average age of cars owned by higher-income households. Furthermore, Lambert maintained that many low-income individuals reside at a geographical distance from areas experiencing employment growth and also encounter problems with mass transit, as it does not necessarily take them where they need to go. Therefore, although many working poor could rise out of poverty if they worked full-time year-round, many individuals are simply not able to do so for a number of reasons (Kim 1998).

In short, working poor families are poor for several reasons. Many parents earn low wages, work less than full-time, full-year, and are less likely to have a spouse or partner who contributes additional earnings. Many working poor families do not take full advantage of the welfare system, which can permit welfare payments and food stamps to coexist with work under many circumstances. The educational attainment and occupational level of working poor adults is lower than for non-poor working adults. Finally, they are more likely to have health and transportation problems.

Movement into and out of poverty and the role of government programs

Dynamics of poverty

Among working families and individuals, there is a great deal of movement in and out of poverty. Based on five years of data on children from the Survey of Income and Program Participation (SIPP), Wertheimer (1999) found that there was considerable transition in and out of poverty and that the number of children entering poverty each year approximately balanced the number exiting. From 1992 to 1993, for example, approximately 2.6 million children left poverty while 2.3 million fell into poverty. Notably, Barrington (Barrington 2000) found that there are ethnic differences in the movement of full-time, year-round workers in and out of poverty, such that non-whites experience greater fluctuations than do whites, and whites are less likely to enter poverty.

Changes in income are associated not just with government anti-poverty programs but also with changes in personal circumstances, such as work or marital status (Spain and Bianchi 1996). For example, Masumara (1996) analyzed data from SIPP and found that individuals were more likely to experience a considerable drop in income if they got divorced or discontinued full-time, year-round work. Conversely, individuals were more likely to see a considerable gain in income if they became a full-time, year-round worker, experienced an increase in the number of workers in their household, got married, or otherwise saw a rise in the ratio of adults to children in their household.

Macroeconomic influences on poverty

In general, the strength of the economy has an important influence on employment; however, a strengthening economy does not always translate into a material decrease in poverty among the working. In a summation of the current state of knowledge regarding

fighting poverty, Blank (2000) suggests that: “A strong macroeconomy matters more than anything else.” Blank further notes that many government programs designed to alleviate poverty rely on the availability of jobs and sufficient wages to operate at reasonable cost and efficiency. Indeed, in their analysis of the Current Population Survey (CPS) from 1988, 1992, and 1997, Smith and Woodbury (1999) found that, for almost all groups, unemployment increased markedly during the last recession, as low-wage jobs declined.

However, these same analyses indicate that during the economic expansion over the mid-1990s, the labor market for low-wage workers—particularly women with less education—did not improve in tandem with the growing market for high-skilled workers. Similarly, based on data through 1998, Barrington (2000) reported that—although economic growth during the 1960s was associated with a decline in poverty among full-time, full-year workers—since the mid-1970s, extended economic growth had not been sufficient to lessen poverty among full-time, full-year workers. Blank (2000) suggests that patterns such as these may reflect the net effect of decreasing unemployment but declining real wages among low-skilled workers during some time periods—and that more recent increases in real wages, though not ample enough to offset previous declines, have begun to reverse this pattern.

Influence of government programs and policies to reduce poverty

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) can bring workers and children in working poor families out of poverty. There is compelling evidence that the EITC can actually lift workers and children out of poverty (see, e.g., Center on Budget and Policy Priorities 1998; Mueller and Schwartz 1998; Porter and Primus 1999; Sawhill and Thomas 2001). Analyses by Sawhill and Thomas (2001), for example, indicate that in 1998 the EITC brought 4.1 million people, including 2.2 million children, out of poverty, and reduced the 200 % poverty gap by nearly \$20 billion.¹ Importantly, a number of states have implemented their own EITCs, which complement the federal EITC and its anti-poverty effects (Johnson 2001).²

Research suggests that the EITC encourages work among single parents, including those who are low-income or on welfare. At the same time, the EITC incentive structure appears to discourage work among some married women.

A number of studies have reported an association between expansions of the EITC and increased work effort among single parents (see, e.g., Ellwood 2000; Meyer and Rosenbaum 2000). Notably, based on data from the California Work Pays Demonstration Project, Hotz and colleagues (2001) found that the EITC is positively related to work among welfare recipients with children. On the other hand, studies

¹ The 200 % poverty gap represents the sum of the differences between each poor or low-income family’s income and twice the federal poverty level.

² As of October, 2001, 16 states (including the District of Columbia) had in place state EITCs based on the federal credit Johnson, N. (2001). A hand up: How state Earned Income Tax Credits help working families escape poverty in 2001. Washington, DC, Center on Budget and Policy Priorities.

suggest that the EITC may discourage work among some groups of married women. One study of CPS data found that, among married couples with less than 12 years of education, expansions in the EITC between 1984 and 1996 only slightly increased work effort among men and discouraged work among women, particularly those in the phase-out range of the EITC (Eissa and Hoynes 1998). Additional analyses of CPS data yielded similar results for low-income married mothers (Ellwood 2000). Whether this is an undesirable consequence or a desirable one—in that it may allow parents more time with their children—is a subject of debate (see, e.g., Michalopoulos and Berlin 2001). It will be interesting to see how the recent changes in the incentive structure of the EITC, designed to gradually implement increases in the phase-out amount for married couples, might affect these labor force patterns.

Research findings regarding the relationship between the EITC and marriage have been somewhat mixed, but in combination suggest that the incentive structure of the EITC may have a small effect on marriage patterns.

Ellwood (2000) found little convincing evidence that the EITC was affecting marriage patterns, but suggested that his analyses of CPS data gave some indication that small changes in marriage and cohabitation patterns may be emerging. Analyses by Eissa and Hoynes (1999), suggest that the EITC has a moderate effect on marriage behavior, encouraging marriage, on average, among those with incomes under \$25,000 and discouraging marriage among those with higher incomes, in accordance with the EITC incentive structure. Interestingly, based on an analysis of data from SIPP and CPS, Rosenbaum (2000) found a relationship between marriage tax penalties and a lower probability of marriage, but also reported that the magnitude of this relationship varied according to the measurement of the tax incentives and to the sample analyzed.

Some studies have assessed how the EITC incentive structure specifically affects decisions to *end* a marriage. Dickert-Conlin (1999) reported an association between marriage tax penalties and an increased likelihood of separation among married couples; however, Rosenbaum (2000) found that decisions to end a marriage appear to be less sensitive to tax policy than are decisions to marry.

As with the relationship between EITC and work, it will be interesting to observe how the new tax policies, intended to ease the marriage penalty as they are phased in slowly over time, might influence marriage patterns.

Because the EITC leaves taxpayers to report their own qualification for the credit, the efficiency of its administration represents a trade-off between low administrative costs and a non-stigmatizing quality on the one hand, and susceptibility to noncompliance on the other.

Compared with other government programs like AFDC/TANF, the EITC has low administrative costs, particularly because it does not require caseworkers (Liebman 1998). It also avoids the stigma associated with many government anti-poverty programs, and has a greater participation rate (Liebman 1998; Mueller and Schwartz 1998). Noncompliance, however, is a potential disadvantage of EITC administration. Researchers have found that noncompliance does occur and is generally due to taxpayers incorrectly claiming a qualifying child (Liebman 1998; McCubbin 1999). Encouragingly, though, the vast majority of EITC recipients are in fact low-income

families with children, and there is some evidence that reforms designed to increase compliance (including verification of social security numbers of claimed children) may be attenuating the noncompliance problem (Liebman 1998).

Welfare

Following recent welfare reforms, there has been a dramatic decline in the welfare caseload, accompanied by an increase in labor force participation and rise in family earnings for many families.

Several studies have analyzed national data to assess the association of state welfare waivers in the early 1990s and/or the federal welfare reform in 1996 with exits from welfare to work. These studies have generally found that the welfare reforms are associated with reductions in welfare rolls and increases in work (see, e.g., Moffitt 1999; Hofferth, Stanhope et al. 2000; Meyer and Rosenbaum 2000; Schoeni and Blank 2000), although some analyses suggest that the state of the macroeconomy may account for a substantial portion of the rise in work following the 1996 federal reforms (Schoeni and Blank 2000). Interestingly, based on analyses of CPS data from 1984 to 1996, Meyer and Rosenbaum (2000) concluded that modifications to welfare policies did meaningfully encourage work among single mothers, but to a lesser degree than did the EITC.

There is also evidence that family earnings and income have risen for a number of families following welfare reform. Based on an extensive review of the literature, including studies of those who exited welfare (“leavers studies”) and analyses of national data on income, Haskins (2001) concluded that for many families, leaving welfare led to an increase in income, as welfare income dropped but earnings and EITC benefits rose. Blank and Schmidt (2001) caution, however, that while annual earnings among single mothers have risen on average, they remain quite low.

For some families, though, income declined following welfare reform, as the loss of benefits counterbalanced any increases in earnings and EITC. There is a sizable group of families who saw a worsening in their financial well-being following welfare reform (Haskins 2001; Primus 2001). On average, the poorest fifth of single-mother families experienced a 4 % drop in income between 1995 and 1999 (Primus 2001). Indeed, Schoeni and Blank (2000) found that, although state welfare waivers were associated with positive income changes among low-skilled women of all incomes, the 1996 federal welfare reform was associated with increasing income only for less-skilled women at the mid-to-upper range of the income distribution for this group. Moreover, Porter and Dupree (2001) reported that, because of a contraction in government safety net programs, the poverty rate³ among families headed by working single mothers did not change—and the poverty gap for this group increased—between 1995 and 1999, in spite of strong economic growth and an expanding EITC. This is in contrast to the trends for single-mother families from 1993 to 1995 and to findings for other families throughout the 1990s. All in all, because fewer families are receiving welfare benefits, there has been a decline over the 1990s in the degree to which cash assistance itself plays a direct role in

³ After counting cash and non-cash government benefits as well as positive and negative taxes.

lifting families out of poverty and decreasing the poverty gap (Porter and Primus 1999; Porter and Dupree 2001).

Results from demonstration projects in some states suggest that various novel approaches to supporting the transition from welfare to work, either within or as a supplement to the welfare system, can have positive effects for those leaving welfare. A number of recent papers (Blank, Card et al. 1998; Berlin 2000; Michalopoulos and Berlin 2001) have reviewed findings from several demonstration projects designed to provide financial incentives for work as well as to support the transition from welfare to work more generally. Many of these programs include an enhanced earnings disregard and several incorporate specific job support services, such as temporary placement or job search assistance, among other program components. As summarized in the reviews noted here, these programs have generally encouraged work, increased income, and decreased poverty among participants, with the degree of these effects varying according to the specifics of each program. The research literature further suggests that supplementing financial incentives with employment services enhances the effect on employment and income, over and above that of financial incentives alone (see Blank, Card et al. 1998). Some scholars have argued that programs that are more narrowly targeted and more specifically designed to encourage full-time work are (or would be) more cost-effective (Robins and Michalopoulos 2000; Michalopoulos and Berlin 2001). Blank and colleagues note that the choice for narrower targeting would likely represent a trade-off between more desirable effects on program costs and perhaps on employment on the one hand, and lesser anti-poverty effects on the other. In general, though, programs that incorporate both financial incentives to encourage work and job support services appear promising; and many could be established by states either within the context of the state's welfare program or as a supplement to it.

Importantly, it is unclear to what extent the apparent successes of welfare reform may be reliant upon the expanding economy, and what effects these welfare policies would have in a less favorable macroeconomic environment. Several scholars have noted that the findings to date regarding the effects of welfare reform all exist in the context of—and may be dependent upon—a strong and growing economy (Blank 2000; Danziger 2000; Blank and Schmidt 2001; Haskins 2001). What would happen in the context of a downturn is unknown. Some argue that the observed improvements might not be sustained—and may even reverse—in a less vibrant economic context (e.g., Blank and Schmidt 2001).

Food stamps

The Food Stamp Program (FSP) is an important part of the safety net and can meaningfully increase the income of poor families with children. In combination with other government anti-poverty programs, like the EITC, food stamps can raise the income of working poor families by a considerable amount and can, in some cases, lift working poor families out of poverty (see, e.g., Parrott and Dean 1999). Moreover, because food stamp benefits increase with decreasing disposable income, the FSP helps to equalize government assistance across poorer and richer states with varying wages and cash welfare benefit levels (Currie 2000; Greenstein and Guyer 2001).

However, low participation rates among the working poor, benefit cuts, and administrative constraints have led many scholars to argue that the FSP could be improved to provide more and more effective support. Recent reforms have begun to address these concerns.

The participation of working poor households in the FSP has been quite low, historically, and declined further over the 1990s. A Child Trends study of the working poor found that 36 % of children in working poor families received food stamps in 1998, compared with 41 % in 1996 (Wertheimer 2001). Another study showed that the percentage of FSP-eligible families who actually participated dropped from 57 % in 1994 to just 43 % in 1999 (Center on Budget and Policy Priorities 2001).

Moreover, based on analyses of the 1997 National Survey of American Families (NSAF), Zedlewski and Brauner (1999) found that families leaving welfare have left the FSP at higher rates than other families. Researchers have suggested that those who leave welfare (and have traditionally received food stamps automatically in conjunction with their welfare benefits) may not be aware that they can continue to receive food stamps (Zedlewski and Brauner 1999; Currie 2000; Quint, Widom et al. 2001). Additionally, the FSP has historically exacted a set of complex bureaucratic demands on participating families with earnings, requiring, for example, frequent reporting of even small changes in income (Center on Budget and Policy Priorities 2000; Greenstein and Guyer 2001).

The declining participation, in combination with food stamp benefit cuts included in the welfare law in 1996, have had practical implications for the anti-poverty effects of the FSP. Between 1995 and the late 1990s, there was a sizable drop in the extent to which the FSP decreased poverty and lessened the poverty gap among children (Porter and Primus 1999), particularly those in families headed by working single mothers (Porter and Dupree 2001). Recent reforms to food stamp regulations have addressed some of the limitations of the FSP administrative structure, alleviating some of the bureaucratic burden of participation, for example, by allowing states to limit required income reporting and benefit assessment to twice a year (Center on Budget and Policy Priorities 2000). Although these reforms are expected to improve participation rates and the reach of the FSP, several authors have proposed additional adjustments to the program, including a readjustment of benefit levels and reforms to streamline and simplify program administration (Center on Budget and Policy Priorities 2001; Greenstein and Guyer 2001; Primus 2001; Quint, Widom et al. 2001).

Minimum wage

Research findings on how increases in the minimum wage affect employment have been mixed. There has been an ongoing debate in the research literature regarding the relationship between the minimum wage and employment. Some studies have found a negative relationship between the minimum wage and employment (Neumark and Wascher 1995; Burkhauser, Couch et al. 2000), while others have suggested that there is either no or a small positive relationship (Card and Krueger 1994; Card and Krueger 1998). Yet another analysis suggests that both of these conclusions may have merit, in that increases in the minimum wage may be associated with no change in the number of employed workers but a decrease in the number of hours worked by each (Michl 2000).

Overall, then, there is currently no clear consensus regarding the effect of minimum wage on employment.

Researchers have generally found that any anti-poverty effect of a moderate minimum wage increase would be modest; however, some suggest that a minimum wage hike is an important component of a comprehensive set of anti-poverty policies.

In a recent empirical study, Neumark and Wascher (1999) analyzed data from the CPS and concluded that the EITC is a much more promising strategy for increasing earnings among poor families than are minimum wage increases. Other studies have aimed to simulate the effects of a proposed minimum wage increase on poverty. Acs, Phillips, and McKenzie (2000) performed a simulation that assumed no negative effect of the minimum wage on employment, and concluded that a modest minimum wage hike would increase income for some of the working poor but would have only small effects on poverty among working families. Based on simulations that did assume a negative effect of a minimum wage increase on employment, Sawhill and Thomas (2001) conclude that a moderate rise in the minimum wage would have a meaningful, albeit not dramatic, effect on poverty. These authors argue that a minimum wage increase would play an important part in a multi-pronged approach to reducing poverty among working poor families, and so recommend a minimum wage hike as one component of their policy proposal.

Although many poor families include a minimum-wage worker, the minimum wage is not as well targeted to working poor families as is the EITC. Studies show that teenagers represent a disproportionate fraction of minimum-wage workers, and a large percentage of minimum-wage earners are not poor (Turner 1999; Sawhill and Thomas 2001). Yet, at the same time, a substantial fraction of minimum-wage workers are family heads or their spouses (Sawhill and Thomas 2001). Sawhill and Thomas also point out that, while most minimum-wage earners are not poor, a considerable proportion (44%) of workers in poor families are minimum-wage earners. Overall, then, a sizable percentage of working poor families are in fact affected by the minimum wage; however, other anti-poverty efforts, such as the EITC, are better targeted specifically to this group.

Other programs

In addition to the major programs reviewed above, there are a number of other important programs and policies, intended to support low-income families, that are in place either nationally or in certain states or communities. Researchers at the Center on Budget and Policy Priorities (Sweeney, Schott et al. 2000) recently released a paper that outlines a number of additional initiatives, based on extant state or community programs, designed to aid low-income families. These include, among others:

- assistance for basic necessities among the working poor, such as child care (see also Blau 2000; Sawhill and Thomas 2001),
- transportation, and housing (see also Center on Budget and Policy Priorities 2000);
- employment services to enhance job retention and advancement, to offer education and training, and to provide transitional job opportunities (see also Barnow 1999; Loeb and Corcoran 2001);

- policies and programs to increase child support payments (see also Primus and Castro 1999; Lerman and Sorensen 2000); and
- public health insurance.

Summary

In summary, research suggests that there is considerable movement in and out of poverty. Some of this movement is unrelated to government programs designed to alleviate poverty and is the result of the state of the macroeconomy or changes in family structure, employment, or other personal circumstances. However, some government programs play a role. The EITC, in particular, has had a substantial anti-poverty effect and has encouraged work among single parents. Decreases in welfare participation and increases in work and earnings have followed welfare reform; yet, not all groups have benefited from these changes, and it is unknown to what extent the observed improvements are or were dependent on the strong economy. Food stamps have the capacity to contribute materially to the incomes of eligible families, although low and dropping participation rates have limited the effectiveness of this program in practice. With regard to the minimum wage, some scholars argue that this policy is an important part of a multi-faceted anti-poverty approach; however, it is less well targeted to the working poor and has smaller anti-poverty effects than programs like the EITC. Finally, there are a number of other vital approaches to supporting working poor families, including, for example, assistance for child care, transportation, and housing as well as employment support and training services.

Family Characteristics and Child Well-being

In exploring how well children in working poor families are faring in an era of welfare reform, we begin by exploring the current individual and family characteristics of working poor families. Then, we look at how working poor families fared as federal welfare reform was implemented.

Individual and family characteristics of working poor families

The individual and family characteristics of working poor families provide evidence on the environment in which their children are being raised. These characteristics include the demographic and educational characteristics of the families' parents, their employment and income, their child care arrangements, and their health insurance coverage.

Demographic and socioeconomic characteristics of working poor families

Working poor families are *less* likely than poor families not making a substantial work effort to have a single adult, a young adult, or a less well-educated adult in the family. However, they are *more* likely than non-poor working families to have this same set of characteristics. Using a work standard of 1,040 hours per year for single-parent families and 1,820 hours per year for married-couple families and data from the 1993 Survey of Income and Program Participation (SIPP), Wertheimer found that 59 % of children in working poor families lived in married-couple families, compared with only 33 % of

children in poor families not meeting the work standard (Wertheimer 1999). In a more recent analysis using the same work standard and data from the 1999 Current Population Survey (CPS), Wertheimer found that 47 % of children in working poor families lived in married-couple families, compared with 22 % of children in poor families not meeting the work standard (Wertheimer 2001).

Similarly, an analysis of the 1997 National Survey of American Families (NSAF) found that 37 % of working poor families (using a work hours threshold of 1,000 hours per year by adults in the family) were headed by women, compared with 57 % for non-working poor families and 27 % for non-poor working families (Acs, Phillips et al. 2000). Also according to the Acs study, the head of 11% of working poor families were younger than age 25, compared to 4% of working non-poor and 18% of non-working poor homes.

According to analysis of the 1993 SIPP and the 1998 CPS, parents were better educated in working poor families than in poor families not meeting the work standard of 1,040 hours per year for single-parent families and 1,820 hours per year for married-couple families. According to SIPP data, 68 % of children in married-couple, working-poor families had at least one parent with a high school diploma, compared with 59 % of children in poor families not meeting the work standard. For children in single-mother families, the corresponding percentages diverged more widely—73 % for working poor families versus 49 % in single-mother families (Wertheimer 1999). According to CPS data, 67 % of children in working poor families had at least one parent with a high school diploma, compared with 57 % in poor families not meeting the work standard (Wertheimer 2001). Conversely, parents were less well-educated in working poor families than in non-poor working families.

Similar results were reported using the 1997 NSAF. The head of a working poor household was more likely to have attended college for some period of time or to have a college degree than the head of a poor family not making a substantial work effort (Acs and Loprest 2001).

According to analysis of the 1993 SIPP, children in working poor families were more likely to have parents who owned a home (45 %) or a car (85 %) than children in poor families not meeting the work standard (22 % and 70 %, respectively) (Wertheimer 1999). Conversely, their parents were less likely to own a home or car than children in non-poor, working families (77 % and 98 %, respectively). Similar results for car ownership were found using the NSAF (Acs, Phillips et al. 2000).

Using NSAF data, (Acs, Phillips et al. 2000) found that about 82% of low-income working families had at least one child living at home compared to 62% in higher-income homes and 65% in other types of low-income homes. In addition, children from working poor homes were typically younger than those from other types of homes (Acs, Phillips et al. 2000).

Employment and income characteristics of working poor families

According to data from the 1997 NSAF, median annual hours of work for the head of the household were approximately the same for poor and for non-poor working families (2,080 and 2,184 respectively) (Acs and Loprest 2001)

According to data from the 1993 SIPP, children in married-couple, working (1,820 hours per year) poor families are less likely (24 %) than children in married-couple working families not meeting the work standard (36 %) to have their higher-wage parent earning an average of less than \$5.00 per hour (Wertheimer 1999). The difference is even larger for single-mother families—29 % and 53 %, respectively. However, virtually no children in working, non-poor families had parents earning such an extremely low average hourly wage.

Similarly, according to data from NSAF, the median wage rate for the highest paid family member in a working (1,000 hours per year) poor family was \$7.55, compared with \$16.67 for a non-poor family (Acs, Phillips et al. 2000). The primary earner of a working, low-income family was also found to be less likely than primary earners from higher income homes to work during the daytime, to have held a job for more than one year, or to have worked more than one job (Acs, Phillips et al. 2000).

In addition, the primary earner from a working poor family often worked in a lower status occupation. The largest percentage of primary earners from working poor families worked in the service industry (20.1%), followed by the fields of transportation/operators, repair/craft, and technical/professional/managerial (in that order). For the working non-poor, over a third worked in the technical/professional/managerial field (43.3%), with far fewer employed in the fields of repair/craft, transportation/operators, and sales (in that order) (Acs, Phillips et al. 2000).

Child care

Paid child care is less common in working poor families than in non-poor working families. Only 8 % of children in married-couple working poor families were in paid child care in 1994, compared with 37 % in working, non-poor families (Wertheimer 1999). The corresponding statistics for children in single-parent families were 26 % and 47 %, respectively.

Similarly, Hofferth (1999) reported that in 1993, almost twice the number of children under the age of 6 from working poor families (poor families with employed mothers) were cared for by relatives than in child care centers (43% versus 22%). This was especially true for children under age 2 from working poor families, where 57% were cared for by relatives, and 5 % were cared for in child care centers.

Because, by definition, working poor families have lower incomes than non-poor, working families, formal child care expenses are likely to consume a larger percentage of family income. In 1990, working poor families spent 33 % of their income on child care, whereas those with an income above the poverty level but below \$25,000 spent 13 %, and those with an annual income of at least \$25,000 spent 6 % of their income on child care. Also, over a quarter of the working poor actually pay for their own child care. In 1990, 27 % paid for their own care, compared to 8 % of the poor not meeting the work standard, 32 % of those with incomes above the poverty level but below \$25,000, and 43 % of those with incomes above \$25,000 (Hofferth 1999).

Finally, some studies have shown that children from low and high income homes are placed in higher quality child care arrangements than are children from working poor homes (Hofferth 1999). The reason for this may be that low-income families not making

a substantial work effort are more likely than working poor families to be eligible for more subsidized child care, while higher-income parents are more likely than working poor families to take full advantage of the Child and Dependent Care Tax Credit, which is not refundable for families with no federal income tax liability. In turn, this may cause working poor families to be less likely to place their children in formal child care (Hofferth 1999).

Health insurance coverage

Analyses of the Current Population Survey showed that in 1998 children in working poor families were less likely to have health insurance coverage than children in poor families not making a substantial work effort (70 % vs. 77 %) but that the gap had narrowed between 1996 and 1998 (Wertheimer 2001). According to this same study, children in working poor families also were less likely to have health insurance coverage than children in working families with incomes between 100 % and 200 % of the poverty threshold (79 %) and children in working families with incomes higher than 200 % of the poverty threshold (94 %).

Similarly, analysis of the 1997 National Health Interview Survey indicated that children from working poor homes were significantly less likely to have health insurance than were children from nonworking poor homes and higher income homes (22% versus 12% and 5% respectively) (Guendelman and Pearl 2001). Guyer and Mann (1999) also found that in 1997, twice the number of working poor families were without health insurance compared to non-working poor families (46% versus 23% respectively), and Secombe and Amey (1995) found that the working poor were five times less likely to have health insurance than were those from working non-poor families.

In addition, children from working poor families were less likely to be covered by Medicaid than were children from poor families not making a substantial work effort (31% versus 78% respectively). Moreover, they were more likely to experience an interruption in their health insurance over the past year (9.1% compared to 4.8% of children from poor families not making a substantial work effort and 2.9% of children from moderate to affluent families), and to have passed up or postponed health care because of financial limitations (7.3% versus 4.4% of children from poor families not making a substantial work effort and 2.7% of children from moderate to affluent families). Working poor children were also the least likely to have a regular source of health care (Guendelman and Pearl 2001).

One method suggested to help alleviate this problem is to simplify the enrollment process and to allow families to stay on Medicaid when they exit welfare (Broaddus and Ku 2000). However, Kenney and Haley (2001) found that, although recent changes have allowed states to expand health insurance coverage to more low-income children through the development of the State Children's Health Insurance Program (CHIP), many children have not been enrolled. They cite a lack of need, ineligibility, enrollment difficulties, and a general lack of knowledge about the health insurance program as a whole as partial explanations for why more parents were not enrolling their children in CHIP.

Summary

With respect to parental education, working poor children appear to fall between children in poor families not making a substantial work effort and children in working families with incomes above and well above the poverty threshold. It is not surprising, therefore, that the hourly wages of working poor parents were lower than the wages of more affluent parents. However, mean hours worked per year for the head of working poor families were nearly as high as for the heads of non-poor working families.

With respect to child care and health insurance coverage, children in working poor families appear to fare worse than *both* children in poor families not making a substantial work effort and working families with higher incomes. Children in working poor families are more likely than more affluent families to rely on informal arrangements instead of day care centers or preschools and their child care is less likely to be subsidized than for families not making a substantial work effort. Similarly, children in working poor families are less likely to have health insurance coverage than *both* children in poor families not making a substantial work effort and working families with higher incomes.

How did welfare reform affect working poor families?

Welfare reform appears to have had a substantial impact on employment and participation in public assistance programs, but its effect on poverty and child well-being is much less clear. We discuss each of these issues below.

Employment characteristics

As noted earlier, employment of single mothers increased substantially over the period straddling the 1997 implementation of federal welfare reform. Consequently, between 1994 and 2000 the percentage of children under six in single-parent families whose mother was in the labor force rose from 52 % to 73 % (U.S. Department of Health and Human Services 2002). Between 1993 and 1999, the number of single mothers working increased by approximately 25%, while the number of never-married mothers working rose by 50%. The latter increase is important because never-married mothers are more likely to enter and remain on welfare longer than are other types of single mothers (Haskins, Sawhill et al. 2001).

However, most women who left welfare to start a job took positions that provided few of the benefits that ideally would be available to working parents (Heymann and Earle 1998). These missing benefits include flexible schedules, paid sick leave, and paid vacation time. In addition, although approximately 75% of families that exit welfare worked at some time during the first year after they exited the program, they earned an income at somewhere around the poverty level (Acs and Loprest 2001). Those especially in jeopardy of lower earnings were younger individuals with lower levels of education and decreased health status (Moffitt and Roff 2000); (Acs and Loprest 2001); (Wilson and Cherlin 2001).

Poverty rates

As the economy boomed during the mid to late 1990s, poverty rates for children fell substantially during the period of welfare reform (22 % were poor in 1993 compared to 16 % in 1999) (Dalaker 2001). While the drop in the poverty rate is good news, there may still be substantial room for further improvements. Analysis by the National Center for Children in Poverty found that a strong economy does not necessarily alleviate most childhood poverty. Indeed, poverty levels were lower from the late 1960's through the late 1970's than they are now, although the economy was weaker during this period than it is now. Moreover, there was much greater change in welfare caseloads than there was in poverty. Based on data from the Current Population Survey, although the state welfare caseloads fell by 47% between the years of 1993 and 1998, the national child poverty rate decreased by only 17%. (Haskins, Sawhill et al. 2001). Sengupta (2001) also noted that in 1993 the United States still had one of the highest rates of childhood poverty compared with other industrialized nations.

Government assistance programs

Although the lives of those who exit welfare and enter the workforce can improve in many ways, other aspects of their lives can potentially worsen. For example, analysis of the 1997 National Survey of America's Families showed that for some, exiting welfare meant exiting the Medicaid program, sometimes without other backup forms of health insurance. Also, the employment status of the head of the family had little impact on whether their children had health insurance. Thus, participating in welfare-to-work programs may not increase the chances of children having health insurance (Acs, Phillips et al. 2000).

In addition, Acs and colleagues (2000) have suggested that because eligibility for many public assistance programs is contingent on a family earning a yearly salary at or below the poverty level, the working poor may not qualify for some programs, since the average salary of a working poor family is 39% above the poverty level. This, as well as the fact that some government assistance agencies are typically only open during normal business hours, means that the working poor may be unable to utilize many of these services.

Looking at other government assistance programs, participation in the Women's, Infants, and Children (WIC) nutritional supplement program increased since the implementation of TANF. (Lee, Bilaver et al. 2001) found that between the years of 1993 and 1996, children ages 2 and under enrolled in AFDC/TANF dropped by roughly 26% in the state of Illinois, while the percentage of children receiving food stamps fell by 22%. At the same time, the enrollment of children in WIC increased by 10%.

According to analyses of the 1999 CPS, only 12 % of children in working poor families received any TANF income in 1998, and only 36 % received any food stamps (Wertheimer 2001). Similarly, analyses of the 1997 NSAF found that only 7% of working poor families received welfare in 1996 (Acs, Phillips et al. 2000). About 25% of non-working poor families, however, received assistance that year. This same pattern held true for families receiving Supplemental Security Income, Food Stamps, and Medicaid. More working poor families received child support, however, but the difference was small (13.8% vs. 11.5%).

Child well-being

The only experimental studies of how welfare reform affects children were initiated prior to welfare reform and produce mixed findings. One study found that many adolescent children were negatively affected by welfare-to-work programs (Brooks, Hair et al. 2001). Some of the negative side-effects for adolescents included increased alcohol and cigarette consumption, increased participation in other types of delinquent behavior, and a decrease in academic performance (Duncan and Chase-Lansdale 2000).

However, other researchers found that welfare-to-work programs have had either neutral or positive impacts on families receiving welfare (excluding adolescents). Younger children's academic performance, health, and behavior, on average, changed little due to their parents' participation in welfare-to-work programs (Zaslow, Moore et al. 2002); (Haskins, Sawhill et al. 2001). Positive effects on children were generally limited to programs that either increased family income or the mother's education (Zaslow, Moore et al. 2002). Researchers found the most positive effects of welfare-to-work programs were associated with increased participation in structured activities outside the home including formal child care and after-school programs (Haskins, Sawhill et al. 2001).

A recent study of how children in welfare-receiving and welfare-leaving families have fared since welfare reform found that both children in families currently receiving welfare and children in families leaving welfare had higher levels of risk than economically better off families in several areas (Zaslow, Moore et al. 2002). These included social behavior, engagement in school activities, and health. With two exceptions, there was no significant difference in risk levels for the current welfare versus the welfare leaver families. The exceptions were whether 12-17 year-old youths had been suspended or expelled from school in the past year (children of welfare leavers more likely) and the presence of a health condition that limits activity (children of current recipients more likely)⁴. There was also no evidence that risks either increased or diminished during the early years of implementation of welfare reform.

Another study contrasting welfare stayers and leavers and focused on three cities (Boston, Chicago, and San Antonio) has found that teenagers of mothers who were on welfare in 1999 have "lower levels of cognitive achievement and higher levels of behavioral and emotional problems" than mothers who left welfare or mothers who were never on welfare (Chase-Lansdale, Coley et al. 2002).

Summary

One of the major goals of welfare reform was to shift families from reliance on welfare to reliance on work. This shift definitely has begun to occur, as labor force participation rates of single mothers, never-married mothers, and mothers with young children have all increased substantially. However, the jobs obtained by mothers who left welfare were often at poverty-level wages and did not provide the benefits that working parents ideally would have.

⁴ This latter difference was significant at the .10 level but not the .05 level.

Increased work effort, however, may not have substantially reduced poverty. Although child poverty dropped during the welfare reform period, poverty rates were still higher in the late 1990s than in the late 1960s and early 1970s and are much higher than in other industrialized nations, in spite of an exceptionally strong economy. Moreover, it is not clear to what extent welfare reform played a role in the drop in child poverty since so many of the families who moved from welfare to work continued to have poverty-level incomes. In addition, moving off of welfare may have led to decreased use of other assistance programs—notably Food Stamps and Medicaid (although WIC usage increased). Moreover, new issues regarding the availability and quality of child care services and after-school programs have arisen.

Experimental assessments of the effect of welfare reform on children, which have been limited to programs initiated prior to welfare reform, have found mostly neutral effects with some negative effects for adolescents and mostly small but some positive effects for younger children.

Conclusion

While the research literature on the working poor has substantially advanced in many areas over the past few years, serious definitional problems remain surrounding both poverty and work. While the official poverty threshold and its associated measurements of resources have been justifiably challenged, the federal government has not changed its definition of poverty, although it has produced statistics using many alternative poverty definitions. This profusion of measures continues to hinder both comparisons across studies and the development of indicators measures consistently over time. Definitions of work range just as widely as definitions of poverty. This matters because some definitions have set the work standard so low as to include nearly everyone who works at all, while some definitions exclude people (especially single mothers) who are making a substantial work effort even though they are not working full-time, full-year. The Child Trends definition picks a middle ground that is tied to the expectations of policy-makers at the time that federal welfare reform was originally enacted and, thus, provides a standard with policy significance.

On the other hand, there has been substantial progress in identifying the reasons why the working poor remain poor. Adults in working poor families generally have low wage rates and often do not work full-time and year-round, although they often would prefer to do so. The working poor are also less well-educated than more prosperous adults and tend to work in lower-skill occupations. Finally, the working poor are less likely to be married and, thus, less able to pool two earnings streams.

There is substantial movement into and out of poverty. These movements are associated not just with changes in eligibility for government programs but also with changes in personal circumstances, such as divorce or a job change.

Both poverty and work behavior are strongly influenced by the strengths of the economy, although low-wage workers seemed to benefit less from the economic boom of the 1990s than higher-wage workers.

The earned income tax credit has become the program most successful at moving working families out of poverty. The effect of welfare reform is much less clear. It has

been noted that the apparent success of welfare reform may be reliant on the expanding economy which accompanied it and might not be sustained—or even reversed—in a less favorable economic climate. Food stamps have the potential to help working poor families, but welfare reform appears to have led to a decline in already low participation rates.

The effect of all of the changes accompanying welfare reform on families and children is not clear. While working poor families and their children generally are somewhat better off than poor families not making a substantial work effort (*e.g.*, somewhat better educated, more likely to have two potential earners), they are also less likely to be covered by health insurance or to be benefiting from food stamps. They also are at a substantial disadvantage compared with more prosperous working families. In addition to being less educated, they are less likely to have their children in formal child care arrangements and pay a larger share of their incomes for child care services.

There is relatively little information on how welfare reform may have affected children in working poor families. Welfare-to-work experiments find mixed effects on children with some apparent benefits to younger children and some adverse effects on teenagers. More recent data find no substantial difference in child well-being measures between welfare leavers (many of whom are still poor) and children in families currently on welfare. However, these data include neither the many working poor families who have not left welfare nor the working poor families who have never been on welfare.

Finally, there is a need for studies focused on the effects of the recent economic slowdown. It is still not clear that the reformed welfare system as it currently is structured can handle the strains that would be caused by a serious recession.

In short, the biggest remaining gaps in the literature are a lack of measures defined consistently and available over time, the relatively little research focused on the well-being of all working poor children, and the lack of studies focused on welfare reform in a period of economic slowdown.

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