NCCP National Center for Children in Poverty
Columbia University
MAILMAN SCHOOL OF PUBLIC HEALTH

IMPROVING CHILDREN'S ECONOMIC SECURITY

Research Findings About Increasing Family Income Through Employment

POLICY BRIEF No. 1

Policies That Improve Family Income Matter for Children

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Columbia University
MAILMAN SCHOOL OF PUBLIC HEALTH

The National Center for Children in Poverty (NCCP) was established in 1989 at the School of Public Health, Columbia University, with core support from the Ford Foundation and the Carnegie Corporation of New York. The Center's mission is to identify and promote strategies that prevent child poverty in the United States and that improve the lives of low-income children and their families.

NCCP:

- Places a special emphasis on preventing or alleviating poverty among children under age six because young child poverty poses particularly serious risks to children's healthy growth and development.
- Conducts and synthesizes relevant research to meet the needs of key audiences that work on issues affecting low-income families.
- Uses sound research to identify and promote wise investments in low-income families that have important long-term benefits for children, families, their communities, their states, and the nation as a whole.
- Employs a multi-disciplinary approach to build bridges between academic research, field-based knowledge of the experiences of low-income families raising children, attitudinal research, and the development of public and private sector initiatives for low-income families with children.
- Works to accurately, effectively, clearly, and broadly communicate its research in compelling ways.
- Emphasizes providing useful information to state and local policymakers as they establish goals and objectives and allocate resources for efforts to prevent or alleviate child poverty.
- Helps key stakeholders and the general public understand and effectively respond to the constantly changing face of child poverty. NCCP does this by assessing and tracking: the definition and measurement of child poverty; the impact of child poverty on various sub-populations; the effects of particular policies on low-income families and children; and public attitudes and awareness regarding child poverty, low-income families, and related issues.

Improving Children's Economic Security: Research Findings About Increasing Family Income Through Employment

Series Introduction

This important policy brief series focuses on state policy options that have the potential to improve children's economic security by increasing family income. More specifically, the series examines policies that seek to increase family income by encouraging, supporting, and rewarding work. These include: (1) earned income tax credits, (2) financial work incentives, (3) minimum wage standards, (4) unemployment insurance, (5) child care subsidies, (6) housing assistance, (7) public health insurance, and (8) food stamps.

The purpose of this series is to synthesize what is known from research about the effectiveness of each of these policies in increasing parental employment—either by increasing incentives to work or decreasing work disincentives—and increasing family income. Although income is only one component of family economic security, it is arguably the most basic. And research shows that income has critical implications for children's development. The series seeks to identify promising policy options for state-level policymakers and those who seek to influence them.

Each policy-specific brief provides: (1) an introduction to the policy, (2) a synthesis of what is known from research about the policy's effects on family income and employment, and (3) a discussion of research questions that remain.

The Author

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With an unparalleled focus on employment, the 1996 federal welfare reforms changed the nature of cash assistance programs for low-income families. By the end of the decade, welfare caseloads had reached their lowest level since 1969. Prior to these changes, employment rates among single mothers had begun to rise, and the trend continued throughout the 1990s. At the same time, child poverty declined steadily, reaching its lowest level since 1979, and the percent of low-income children living in families with at least one working parent increased.

Although researchers disagree about the precise causes of these trends, the trends themselves have focused new attention on low-income families in the work force. Observers across the political spectrum have recognized that low-wage employment—even if full-time—may be insufficient to meet a family's basic needs. This recognition has led to new thinking about the role of government policies in helping low-income working families move toward economic security.

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- Earned income tax credits
- Financial work incentives
- Minimum wage standards
- Unemployment insurance
- Child care subsidies
- Housing assistance
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The series seeks to identify promising policy options for state-level policymakers and those who seek to influence them.[1] Although some of the research examined focuses on federal policies—such as the federal Earned Income Tax Credit (EITC) and federal minimum wage standards—the findings have implications for state policies as well.

This introductory brief sets the stage for research syntheses on each of the eight policies listed above. The first section discusses how income fits into a broader concept of family economic security. It also addresses the role that public policies can play in helping families to achieve economic security. The second section summarizes research on the effects of family income on children's development. This body of research strongly suggests that helping families to improve their incomes will benefit children.

[1] For a similar effort focusing on federal policies, see the Making Wages Work project at www.makingwageswork.org.

Income is the Most Basic Component of Family Economic Security

Children achieve economic security by living in families that are economically secure. The National Center for Children in Poverty (NCCP) uses the term "family economic security" to refer to a family's ability to meet its financial needs in a way that promotes the health and well-being of parents and their children in both the short and long term. Defined in this broad manner, family economic security has several interrelated components, including: (1) income; (2) savings, assets, and other forms of wealth; and (3) human and social capital.

The first and most basic component of family economic security—income—provides the means through which families pay for their day-to-day needs, such as housing, food, and clothing. But for families to be economically secure, they need sufficient income to provide for more than their current minimum needs. Improving a family's financial prospects over the long term requires accumulating assets and building human and social capital. Thus, true economic security requires more income than is necessary to simply "get by." But amount is not the only attribute of income that matters for economic security and family well-being: the stability and predictability of a family's income—for example, whether it is steady or intermittent, as well as whether total income rises, falls, or is erratic over time—also matter.[2]

The second component of family economic security—savings and assets—can help families survive a crisis (e.g., loss of a job, extended illness), plan for the future (e.g., education, retirement), and improve living standards (e.g., by purchasing a home in a safe neighborhood).[3] Savings and assets can also indirectly increase family income or reduce expenses. For example, an asset such as a car can make it possible for a family member to obtain or maintain a job that would otherwise be inaccessible; owning a home can reduce regular monthly outlays. An investment of assets in education can improve family income by increasing earnings potential.

Defining Family Economic Security

Family economic security refers to a family's ability to meet its financial needs in a way that promotes the health and well-being of parents and their children in both the short and long term. Components include:

- Income
- Savings, assets, and other forms of wealth
- Human and social capital

A third component of family economic security—human and social capital—refers to education, skills, and employment experience, as well as less tangible resources such as social and professional networks.[4] Human and social capital provide family members with the means to improve their earnings potential —and ultimately to increase their standard of living over the long term—by increasing income and assets; providing access to safe neighborhoods, enriching educational environments, and high-quality services (e.g., medical care); and expanding networks, connections, and knowledge that help families improve their financial status.

This policy brief series focuses on public policies that seek to *increase the incomes of individual families in the short term by encouraging, supporting, and rewarding work*. Policy options for directly increasing family income in the short term include supplementing earnings (e.g., through state earned income tax credits), increasing wage rates (e.g., by raising minimum wage standards), or temporarily replacing earnings (e.g., through unemployment insurance or cash assistance). In-kind benefits—such as child care subsi-

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[2] Moore, K. A.; Glei, D. A.; Driscoll, A. K.; Zaslow, M. J.; & Redd, Z. (Forthcoming). Poverty and welfare patterns: Implications for children. *Journal of Social Policy*.

[3] Oliver, M. L. & Shapiro, T. M. (1995). *Black wealth/white wealth: A new perspective on racial inequality*. New York, NY: Routledge; and Haveman, R. & Wolff, E. N. (2001). *Who are the asset poor? Levels, trends, and composition, 1983-1998* (IRP Discussion Paper No. 1227-01). Madison, WI: Institute for Research on Poverty, University of Wisconsin-Madison.

[4] Becker, G. S. (1993). *Human capital: A theoretical and empirical analysis with special reference to education*. Chicago, IL: University of Chicago Press; and Coleman, J. S. (1988). Social capital in the creation of human capital. *American Journal of Sociology*, 95(supplement), pp. S95-S120.

dies, housing assistance, public health insurance, and food stamps—increase disposable income by reducing family expenses.

Although not the focus of this series, government policies can also help low-income families move toward economic security in other ways. Individual Development Accounts[5] and home ownership programs can encourage and help families to save money and acquire assets, while low-interest loan programs and assistance with financial management can help families to reduce debt. Some policies seek to increase human and social capital. Job training and education programs work to improve adult skill and training levels. Preschool and other early learning programs seek to enhance young children's cognitive and social development. Some approaches, such as job creation strategies, target whole neighborhoods or communities rather than individual parents or families. Not all policy approaches operate wholly through the public sector; many effective strategies also involve partnering with the private sector, such as providing incentives for businesses to provide child care or health insurance benefits to their employees.

Although this series focuses on employment-related policies, it is important to emphasize that, as fundamental as they are, they may be insufficient to address the income needs of all low-income families. Some low-income parents face multiple and profound barriers to employment, such as depression, alcohol or drug abuse, or domestic violence. Some parents may have difficulty finding employment because of low levels of education, learning disabilities, or health problems. These issues may need to be addressed prior to or simultaneously with employment-related efforts. In some families, a parent's ability to work may be limited because she is needed to care for a child with serious emotional or physical health needs. In short, parental employment will not always be the only or best avenue for ensuring that a family has adequate income.[6]

Analysts have hypothesized that the financial investments parents make in their children—to meet basic needs and to invest in materials, activities, and services that are developmentally enriching—are critical for child development. The inability to make such investments helps explain why poverty negatively affects children's cognitive development.

Further, employment does not always increase family income because it may lead to a loss of public benefits.[7] If wages are not sufficiently high and public policies are not well-designed and/or sufficiently generous, families can increase their work effort with no net gain in income. This point is critically important as *much of the research reviewed in this series is based on the assumption that increased work effort will increase family income*.

Income is clearly central to family economic security. And government policies can play a critical role in helping families to increase their incomes by reducing disincentives to work, rewarding employment, and helping to reduce family expenses. But just how important is it to help low-income families increase their incomes? One answer comes from research on the relationship between family income and child development.

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[5] Individual Development Accounts (IDAs) take a number of forms, but they are typically savings accounts that provide matching funds with requirements about how the money can be used (e.g., education, the purchase of a home). Some IDAs are specifically designed for children. For more information about IDAs, and asset development strategies more generally, see the Web site of the Corporation for Enterprise Development <www.cfed.org>.

[6] Even for parents who are able to work, the local economy as well as general economic conditions will influence job opportunities and thus the effectiveness of employment-focused strategies.

[7] This is illustrated concretely by NCCP's State Policy Assessment Project, which will include a family resource simulation model that calculates for individual states the effects of increased earnings on net family resources given state and federal income and payroll taxes, cash assistance payments, and in-kind benefits.

How Important is Income for Children's Development?

One of the main ways research has assessed the relationship between family income and child development is by looking at the effects of poverty.[8] Most research measures poverty using the U. S. Census Bureau's official definition, which includes income thresholds adjusted for family size. For example, the poverty threshold for a single-parent family of three in 2001 was $14,269. The Census Bureau's official measure of poverty has been criticized on a number of grounds, including the level of the thresholds (i.e., that they are too low) and the method by which they are determined, the list of family resources and expenses that are and are not counted, and the fact that national thresholds are used despite geographic variation in living costs.[9] For example, some research finds that a significant number of families whose incomes fall between 100 to 200 percent of the federal poverty level experience material hardships generally associated with poverty.[10] Nonetheless, the federal poverty thresholds continue to be the primary standard for measuring income poverty.[11]

A large and expanding body of research documents the associations between income poverty and a wide-ranging set of negative child development outcomes.[12] Poverty can impede children's cognitive development and their ability to learn. It can contribute to behavioral, social, and emotional problems. And poverty can contribute to poor health among children.[13] Research also indicates that the strength of the effects of poverty on children's health and development depends in part on the timing, duration, and intensity of poverty in childhood. The risks posed by poverty appear to be greatest among children who experience poverty when they are young and among children who experience persistent and deep poverty.[14] The negative effects of poverty on young children, troubling in their own right, are also cause for concern given that these effects are associated with difficulties later in life—teenage childbearing, dropping out of school, poor adolescent and adult health, and poor employment outcomes.

Research on the question of *why* poverty poses such grave risks for children has produced strong evidence for at least two mediating factors (or constellations of factors): (1) parental investments in children, and (2) parental stress, depression, and behavior. Analysts have hypothesized that the financial investments that parents are able to make in their children—both to meet basic needs as well as to invest in materials, activities, and services that are developmentally enriching—are critical for child development. And indeed, research strongly suggests that the inability to make such investments helps to explain why poverty negatively affects children's cognitive development. Likewise, existing research shows that low levels of family income negatively affect children's social and emotional development by increasing levels of parental stress and depression and by affecting parenting behavior.[15]

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[8] Researchers are beginning to conceptualize poverty as something much broader than a lack of income (e.g., looking at assets and wealth, and human capital). However, most research to date has focused on "income poverty."

[9] See Citro, C. F. & Michael, R. T. (Eds.). (1995). *Measuring poverty: A new approach*. Washington, DC: National Academy Press; and Bernstein, J. (2001). *Let the war on the poverty line commence*. New York, NY: Foundation for Child Development.

[10] Boushey, H.; Brocht, C.; Gundersen, B; & Bernstein, J. (2001). *Hardships in America—The real story of working families*. Washington, DC: Economic Policy Institute.

[11] Depending on the research, analysts examine poverty as an "either/or" condition—that is, families either fall above the poverty line or below it—or they measure income in a continuous fashion (e.g., income as a percentage of the poverty line).

[12] For a concise summary of this literature, see Gershoff, E. T.; Aber, J. L.; & Raver, C. C. (Forthcoming). Child poverty in the U.S.: An evidence-based conceptual framework for programs and policies. In Lerner, R.; Jacobs, F.; & Wertlieb, D. (Eds.), *Promoting positive child, adolescent, and family development: A handbook of program and policy innovations*. Thousand Oaks, CA: Sage Publications.

[13] Most of these findings are correlational, not causal—that is, the research shows that children living in poverty are at much greater risk for negative outcomes but does not establish that poverty *causes* these outcomes.

[14] Duncan, G. J.; Yeung, J.; Brooks-Dunn, J.; & Smith, J. (1998). How much does childhood poverty affect the life chances of children? *American Sociological Review*, 63(3), pp. 406-423; and Brooks-Gunn, J. & Duncan, G. J. (1997). The effects of poverty on children. *The Future of Children*, 7(2), pp. 55-71.

[15] Yeung, W. J.; Linver, M. R.; & Brooks-Gunn, J. (Forthcoming). How money matters for children's development: Parental investment and family processes. *Child Development*. For a review of this literature, see Gershoff, Aber, & Raver in footnote 12.

Some analysts argue that existing research overstates the importance of income for child well-being. For example, University of Chicago researcher Susan Mayer argues that it may not be family income per se that causes the negative outcomes observed among low-income children but rather unmeasured parental or familial characteristics associated with poverty. She argues that parental traits "such as skills, diligence, honesty, good health, and reliability… improve children's life chances, independent of their effect on parents' income."[16] After conducting her own analyses of the effects of parental income on young children's test scores and a variety of outcomes for teenagers and adults, Mayer finds that even though higher income has some effect on most outcomes, the size of the effect is generally small. She concludes that increasing family income is not likely to significantly alter the negative outcomes observed among low-income children.

But many researchers disagree. And recent experimental findings offer the strongest evidence to date that raising the incomes of poor families can positively affect child development, especially for younger children. Studies of three experimental welfare programs that *increased family income through employment and earnings supplements* showed positive effects on children.[17] The most consistent finding—observed across all three programs—was improvement in school achievement among elementary school-age children. Although the effects on children's behavior and children's health were not uniform across the three earnings supplement programs, observed effects were either positive or neutral. In contrast, six experimental welfare programs

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that *increased employment but not income* showed few effects on children, and observed effects tended to be mixed (i.e., not uniformly positive or negative across sites).[18] Moreover, findings from these and other welfare-to-work experiments show that when programs *reduce income*, the outcomes for children are sometimes, although not always, negative.[19]

Two factors about these experimental findings increase researchers' confidence that increasing income can improve child development outcomes. First, participating families were randomly assigned to "treatment" or "control" groups—that is, whether families had access to earnings supplements was determined at random—which means that the observed effects can be attributed to the features of the experimental welfare program.[20] Second, in one experimental program for which long-term results are available, the positive school achievement outcomes observed among elementary school-age children have persisted for four-and-a-half years.[21]

At the same time, the findings from welfare-to-work experiments also show that improvements in family income do not assure gains for children. For example, small, negative effects on school achievement

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[16] Mayer, S. E. (1997). *What money can't buy: Family income and children's life chances*. Cambridge, MA: Harvard University Press, pp. 2-3.

[17] Morris, P. A.; Huston, A. C.; Duncan, G. J.; Crosby, D. A.; & Bos, J. M. (2001). *How welfare and work policies affect children: A synthesis of research*. New York, NY: MDRC. Children were approximately ages 3 to 9 years (preschool to elementary school age) at the time of random assignment and ages 5 to 12 years at the time of follow-up assessment. Increases in family income were often substantial (e.g., averaging as much as $2,000 to $3,000 annually).

[18] *Ibid*.

[19] Zaslow, M. J.; Moore, K. A.; Brooks, J. L.; Morris, P. A.; Tout, K.; Redd, Z. A.; & Emig, C. A. (2002). Experimental studies of welfare reform and children. *The Future of Children*, 12(1), pp. 79-95; and Sherman, A. (2001.) *How children fare in welfare experiments appears to hinge on income*. Washington, DC: Children's Defense Fund.

[20] Since earnings supplements were only one component of these programs, which sometimes included employment services and participation requirements, the results cannot be attributed exclusively to the earnings supplement feature. However, for an effort that attempts to identify the causal effects of income, see Morris, P. A. & Gennetian, L. A. (2002). *Identifying effects of income on children's development: Integrating an instrumental variables analytic method with an experimental design* (The Next Generation Project, Working Paper Series No. 8). New York, NY: MDRC. Analyzing results for long-term welfare recipients from one earnings supplement program, the authors conclude that certain positive child outcomes are indeed attributable to income rather than other factors.

[21] Morris, P. A., Knox, V. & Gennetian, L. A. (2002). *Welfare policies matter for children and youth: Lessons for TANF reauthorization* (Policy Brief). New York, NY: MDRC. The findings are for a subset of children who were between ages three and five years when they entered the study.

and school progress were observed for adolescents across different types of welfare-to-work programs, including those that improved income.[22] Even among school-age children, increases in income did not lead uniformly to improved outcomes for children. When researchers grouped families participating in the earnings supplement programs by the adults' risk of being "hard to employ," they found something unexpected: in two of the three programs, the most disadvantaged subgroup of parents experienced strong positive gains in employment and income, while their children exhibited either neutral or negative outcomes. In contrast, in the moderately hard-to-employ group, strong positive gains in employment and income among the parents were accompanied by strong positive outcomes among the children, as expected.[23]

These experimental findings underscore the importance for policymakers of understanding the conditions under which increased employment and income provide the maximum benefit to children. But they also show that in programs that did not increase income, positive gains for children were uncommon and, in some cases, the results for children were unfavorable.

Other recent research suggests that it is not simply the *amount* of income that matters for children but its *stability* as well. Using a national data set, one recent study finds that children in deteriorating financial circumstances or fluctuating economic circumstances (i.e., not uniformly improving or declining) were more likely to experience negative outcomes than children in stable economic situations.[24]

Although research does not yet provide definitive answers to the questions of precisely how income affects child development and by how much, the research supports the conclusion that helping low-income families to increase their incomes—and to maintain higher, stable incomes over time—can improve child development outcomes.

In short, a growing body of research suggests that increasing family income helps children. Although research does not yet provide definitive answers to the questions of precisely how income affects child development and by how much, the research supports the conclusion that helping low-income families to increase their incomes—and to maintain higher, stable incomes over time—can improve child development outcomes.

In light of these findings, state policymakers and others may find it valuable to consult research findings about policy strategies that have shown the potential to increase low family incomes. The purpose of this series is to provide concise and accessible syntheses of such findings.

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[22] See Morris, Knox, & Gennetian in footnote 21; and Zaslow, M. J.; Moore, K. A.; Brooks, J. L.; Morris, P. A.; Tout, K.; Redd, Z. A.; & Emig, C. A. (2002). Experimental studies of welfare reform and children. *The Future of Children*, 12(1), pp. 79-95. Possible explanations offered for these negative effects include declines in adult supervision and increases in household responsibilities (e.g., care of younger siblings, increased wage earning).

[23] Yoshikawa, H.; Magnuson, K. A.; Bos, J. M.; & Hsueh, J. (2002). *Effects of welfare and anti-poverty policies on adult economic and middle-childhood outcomes differ for the "hardest to employ."* Paper presented at the September Research Institute of the Joint Center for Poverty Research, September 2001 (rescheduled for February 2002). The authors offer several possible explanations for the lack of improvement for the children of the hardest-to-employ parents despite income and employment gains: increases in maternal depression, destabilization of family routines, increases in job instability (i.e., longer hours and/or intermittent employment), and increased use of lower-quality child care arrangements. Although the data did not allow for full testing of these hypotheses, the authors found partial support for each.

[24] See Moore, Glei, Driscoll, Zaslow, & Redd in footnote 2. The researchers examined outcomes when the children were 10 or 11 years old and assessed the families' economic situations in the four prior years; they control for demographic factors, maternal attributes, and family economic history (i.e., past poverty and past welfare receipt).