# Poverty, work, and welfare: Cutting the Gordian knot

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The United States boasts the largest and arguably richest economy in the world, yet it leads high-income countries in the fraction of children living in poverty. Policy debates about child poverty are contentious in two important ways: 1) Although poverty itself is measured by comparing family income with a poverty threshold (currently around $28,000 for a family of four), whether income itself is the driving force behind the negative associations between poverty and child well-being is unclear. Some believe that other conditions associated with low income, such as single-parent family structure, matter the most. If income is immaterial, policies designed to boost family income are unlikely to help poor children. 2) Many policies designed to help families meet their basic needs carry with them a risk that recipients will either not seek work or, if they are already working, reduce effort and even drop out of the labor force altogether. Some fear that children growing up in families in which no adult is employed may themselves work less when they reach adulthood. Thus, even if these programs reduce short-run poverty, they may increase intergenerational poverty, suggesting a need for programs that simultaneously reduce poverty and increase paid employment.

Both of these issues were at the heart of the deliberations of the National Academies of Sciences, Engineering, and Medicine's Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years. The committee was formed in 2016 when Congress directed the National Academies to conduct a comprehensive study of child poverty in the United States. The core of its Congressional charge was to review research on linkages between child poverty and child well-being and identify evidence-based programs and policies that could reduce the number of children living in poverty in the United States by half within 10 years. The committee's final consensus report, *A Roadmap to Reducing Child Poverty*, was released to the public in February 2019 (1).

## Does Poverty Matter?

Although some children are resilient to the adverse impacts of economic poverty, many studies show robust associations between poverty and poor child outcomes, such as low birthweight, impaired physical health, structural changes in brain development, and child maltreatment. Studies also show significant correlations between child poverty and lower educational attainment, difficulty obtaining steady, well-paid employment in adulthood, and a greater likelihood of engaging in risky behaviors, delinquency, and criminal behavior in adolescence and adulthood.

Because these correlations do not in themselves prove that low income is the active ingredient that produces worse outcomes for poor children, the committee focused its attention on the literature addressing the causal impacts of childhood poverty on children. Randomly assigning subjects to a poverty reduction "treatment" (e.g., income payments to families for a number of years, with no such payments made to control group families) is generally considered to produce the strongest causal evidence, and the committee was able to draw from several random-assignment studies focused on the issue of how and why money matters for poor kids.

When experimental methods are not feasible, it can be helpful to use nonexperimental methods, particularly "natural experiments," which are able to mimic random-assignment experiments. Much of the literature based on these kinds of nonexperimental designs relies on policy changes or some unanticipated event that causes family income to change for one group of children more than for another, similar group.

Although results varied somewhat across these causal studies, the committee concluded from its review that the *weight of the causal evidence* does in fact suggest that income poverty itself causes negative child outcomes, especially when poverty occurs in early childhood or persists throughout a large portion of childhood. This is not to say that correlated factors such as family structure or neighborhood conditions are unimportant; rather, the conclusion is that a family's income level is one among several determinants of children's well-being.

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In light of the evidence that poverty harms children's well-being, policies designed to provide safety-net benefits might be expected to have the opposite effect. After examining research findings to assess whether that is the case, the committee found that most, but not all, programs do in fact improve children's well-being. For example, the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) has improved birth outcomes as well as many important child and adult health outcomes; periodic increases in the generosity of the Earned Income Tax Credit (EITC) program have improved child educational and health outcomes; and expansions of public health insurance for pregnant women, infants, and children have led to substantial improvements in child and adult health, educational attainment, employment, and earnings. Thus, although the introduction and expansion of existing safety-net programs have not succeeded in eliminating child poverty, these programs appear to have boosted the well-being of poor children considerably.

## Designing Programs That Reduce Poverty and Increase Paid Employment

What are the best ideas for achieving dramatic reductions in the fraction of US children living in poverty? After soliciting advice from a diverse set of policy analysts and holding two public information sessions, the committee developed 20 ideas for antipoverty programs and policies. Some of them focused on employment—either increasing the rewards of working or providing training for jobs in growth sectors of the economy. Others involved expanding benefits of existing safety-net programs, such as SNAP and housing vouchers. One additional set focused on converting the existing child tax credit into a new monthly universal child benefit, the child allowance, which is both popular and effective in fighting child poverty in Canada and Australia. Still others focused on expanding program eligibility to include members of groups such as immigrants who are currently ineligible for program benefits.

The committee also considered ideas for such policies and programs as work requirements, marriage promotion, and paid parental leave, but in these cases it found insufficient evidence to support a policy simulation. As part of its deliberations, the committee was able to use a sophisticated microsimulation program to simulate both poverty reduction and changes in employment and earnings generated by its policy and program ideas.

Several lessons emerged from this work. First, safety-net policy and program ideas such as expanding the SNAP program typically generated greater reductions in child poverty than work-oriented policies and programs like expanding the EITC. Second, virtually all of the committee's 20 policy and program ideas were estimated to affect the employment and earnings of low-income adults. Work-based programs produced relatively large increases in employment and earnings, while safety-net programs resulted in relatively modest decreases in employment and earnings. Third, taken individually, none of the 20 program and policy ideas the committee developed was able to reduce child poverty by as much as 50%. In other words, no single program idea solved the dilemma that has vexed poverty policy for decades: how to reduce child poverty dramatically while at the same time promoting work.

The committee considered whether the dilemma could be addressed by combining work-oriented and safety-net policies into packages. Packages that combined poverty-reducing safety-net enhancements with employment-promoting work-support programs might deliver the best of both worlds. The committee constructed four packages of policy and program ideas*, but only one of them is described here in detail. As shown in Box 1, the package combined an increase in the generosity of the popular EITC program with a restructuring of the existing Child and Dependent Care Tax Credit (CDCTC), both aimed at concentrating work-enhancing benefits on low-income parents, and converted the existing Child Tax Credit.

Fig. 1 shows the poverty reductions and employment changes associated with each of the components of the package and, in the final column, with the

**Box 1. Components of a package approach to child poverty reduction.**

***EITC Policy.*** The EITC provides a refundable tax credit of up to $6,500 for workers in low-income families. At low levels of income, the EITC credits amount to a 40% wage subsidy, which means that workers earning $10,000 receive more than $4,000 in EITC payments. The committee's proposal substantially increases the maximum payment and the wage subsidy, which provides an even greater work incentive.

***Child Care Tax Credit Policy.*** The CDCTC offers tax credits to working families with children to help them offset the cost of child care. The Committee's proposal would concentrate its benefits on families with the lowest incomes; child care expenses up to $4,000 per child would be refunded in the case of children under the age of 6 years and costs up to $3,000 per child in the case of children 6 years and older.

***Child Allowance Policy.*** The current Child Tax Credit provides a $2,000-per-child tax credit for families with income as high as $400,000. The committee's proposal would extend the $2,000-per-child benefits to all low-income families and pay these amounts monthly (i.e., $166 per month per child to families with children under age 17 years).

*See Chapter 6 (1). The committee also examined other issues such as economic instability, family instability, the complexities of benefit delivery, program uptake, the role of health care programs in reducing child poverty, and six major contextual factors such as equitable access to programs, racial/ethnic discrimination, and others. These are addressed in Chapters 7 and 8 of the report (1).

package taken as a whole.† The two work-incentive programs lifted fewer than 1 million children out of poverty, while at the same time substantially increased employment among low-income adults by between one-quarter of a million and half a million workers. In contrast, the child allowance by itself lifted more than 2 million children out of poverty but simultaneously lowered employment modestly by 60,000 people. Taken individually, none of the three components solves the challenge of achieving large poverty reduction while increasing employment. However, combining the three components into a single package offers a solution, reducing child poverty by more than 3 million while increasing employment by more than half a million. Although this level of poverty reduction falls short of 50%, the two packages the committee developed that met the 50% poverty reduction cost more than twice as much as the $44 billion annual cost of the package shown in Fig. 1.

Child poverty is an urgent problem in the United States. A wealth of evidence suggests that a lack of adequate family economic resources compromises children's ability to grow and achieve success in adulthood. The annual cost of child poverty is estimated to be $0.8 to 1.1 trillion per year, suggesting that the entire package we simulated would generate more benefits than costs.

The debates about antipoverty strategies often flounder over concerns that antipoverty programs might reduce work and thereby increase intergenerational poverty. When the National Academies Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years set out to explore poverty-reduction strategies, it did not fully grasp the potential of program and policy packages that combine work-based and safety-net programs to address a thorny challenge that has plagued social policy for the last century, namely solving the challenges surrounding poverty, work, and welfare.

***A Note on the Roadmap to Reducing Child Poverty Report.*** Since the congressionally mandated report was released in February 2019 there has been a significant public analysis of the committee's approach. Congressional members and their staff have shown a keen interest in the report, hosting numerous briefings and two recent hearings on child poverty.‡ The audience reach of media coverage of the committee's report was an estimated 444,398,368 UVPM (unique visitors per month) and activity on Twitter reached an estimated 3.9 million followers. The report has led to an understanding that reducing child poverty is possible with regard to cost and program structure.

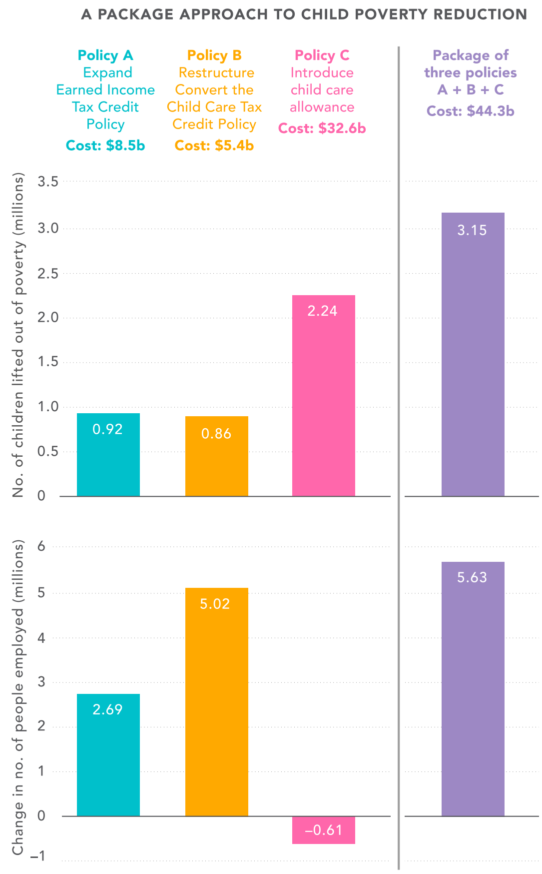


**Fig. 1. Data are based on TRIM3 policy simulations commissioned by the *Roadmap* committee (Appendix F in ref. 1). Poverty is measured using the supplemental poverty measure. Population data come from the 2015 Current Population Survey Annual Social and Economic Supplement. Income estimates are corrected for underreporting. See Appendix F (1). Image credit: Lucy Reading-Ikkanda (artist).**

†Data in this table are drawn from Appendix E of the *Roadmap* report (1).

‡See https://www.youtube.com/watch?v=_PxvKu58z2g&feature=youtu.be and https://youtu.be/K4F9–bsqwg for recordings of the hearings.


**1** National Academies of Sciences, Engineering, and Medicine, *A Roadmap to Reducing Child Poverty* (National Academies Press, Washington, DC, 2019).