Boosting Low-Income Children's Opportunities to Succeed Through Direct Income Support

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Abstract

Direct income supports have long been known to substantially reduce the extent and depth of poverty. Evidence suggests that they can also bolster children's opportunities to succeed and enhance long-term mobility. A growing body of research, for example, links income from 2 related tax credits for working families—the Earned Income Tax Credit and the Child Tax Credit—to benefits for children in those families, such as improved birth weight, better school outcomes, and increased rates of employment in adulthood. Similarly, the introduction of food stamps has been found to improve not only the birth weight of infants given access to the program but also their educational achievement, as well as indicators of health, well-being, and self-sufficiency decades later. These are striking research results for income support that is not typically thought of as improving children's health or education. The mechanisms through which these income supports lead to such benefits are likely varied and complex, but emerging research suggests that helping families with children afford basic necessities can reduce the added stress of financial difficulties, preventing downstream neuroendocrine and biochemical changes that affect children's longer-term outcomes. These findings have important implications for policy makers. Research suggests that potential weakening of the safety net would not only substantially increase poverty, but also have damaging long-term effects on children. Policy makers should reject funding cuts and instead strengthen the safety net, which this analysis suggests could reduce poverty further and also enhance children's opportunities to succeed.

Keywords: food stamps; mobility; poverty; safety net; tax credits

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In 2012, THE safety net reduced the poverty rate by more than half using a comprehensive measure of poverty that counts the effect of government programs and tax benefits. It lifted 48 million people, including 12 million children, out of poverty.[1] The safety net includes universal social insurance programs like Social Security and unemployment insurance and means-tested programs—those targeted to people with limited incomes, such as the Earned Income Tax Credit (EITC), the low-income component of the Child Tax Credit (CTC), the Supplemental Nutrition Assistance Program (SNAP, formerly called food stamps), and others. Evidence is mounting that safety net programs not only greatly reduce poverty but also enhance long-term mobility and bolster children's opportunities to succeed.

A growing body of research, for example, suggests that income from the EITC and CTC, which goes to millions of low- and moderate-income working families each year, not only encourages work and reduces poverty but also leads to benefits ranging from improved birth weight to better school outcomes and increased rates of employment. These are striking results for tax credits that are not explicitly health or education programs. Similarly, the introduction of food stamps has been found to improve not only the birth weight of infants given access to the program but also educational achievement and indicators of health, well-being, and self-sufficiency decades later.

Researchers are still studying the precise ways in which income support from these safety net programs might lead to long-term benefits. However, it is clear that they are important for children, for reducing their poverty in the short term and also for improving their development and future well-being.

This article is focused on means-tested safety net programs that provide direct income and income-like support; therefore, the terms "safety net" and "income support" are often used interchangeably henceforth. We discuss primarily programs such as tax credits and food assistance, which are not widely thought of as explicitly health- or education-promoting but the research now shows have benefits in these areas. Other policies that do explicitly target health outcomes (such as assistance with affording health coverage), policies that are not part of the means-tested safety net (such as the minimum wage), and policies for which there is less research (such as Supplemental Security Income) are also crucial to low-income people but are beyond the scope of this analysis.

THE SAFETY NET'S SUCCESS AT REDUCING POVERTY

The safety net of programs that provide cash or in-kind help in paying bills substantially reduces the extent and depth of poverty. As shown in Figure 1, it kept millions of people out of poverty in 2012 according to the federal government's Supplemental Poverty Measure (SPM), which most analysts favor over the official poverty measure because it accounts for major noncash benefits that the official poverty measure leaves out, such as SNAP, rent subsidies, and tax credits for working families. Unlike the official poverty measure, the SPM also takes certain expenses (such as income and payroll taxes and child care) into account when considering the income that a family has available to buy basic necessities such as food, clothing, and shelter, and it uses a modernized poverty threshold that accounts for geographic differences in the cost of living. The SPM poverty rate would have been 29.1% in 2012 if no government assistance was taken into account but decreases to 16.0% when such benefits are counted. Among children, the safety net reduced poverty from 29.8% to 18.0%.

Moreover, these SPM figures understate the safety net's effectiveness. The safety net decreases the poverty rate by more than half when using data that correct for households' under-reporting of key government benefits in the Census Bureau survey. (Household surveys depend on participants' recollections over many months and typically fail to capture some income and the Census data are no exception; for more on correcting for under-reporting, see Sherman and Trisi.[1]) Taking into account these corrections, the safety net decreased the SPM poverty rate to 13.8% in 2012—2.2 percentage points less than in SPM data without these corrections. Correcting for under-reporting has an even greater effect on the SPM poverty rate for children, reducing it to 13.5% in 2012, lifting 48 million people—including more than 12 million children—above the poverty line (Fig. 2).

These large effects reflect important expansions of the safety net in recent decades that have greatly reduced the extent of poverty. Columbia University researchers have found that by today's living standards the poverty rate has decreased sharply since the 1960s.

The recent recession underscored the safety net's importance. Programs such as unemployment insurance and SNAP expanded, as they are designed to do when the economy turns down and joblessness increases. Also, policy makers enacted further temporary expansions of these and other programs under the 2009 Recovery Act. Together, these expansions averted a steep increase in poverty despite the severe economic downturn. Before counting government income-support programs, the poverty rate increased from 23.6% in 2007 to 28.1% in 2010, according to the Columbia research team. But after including government income-support programs, the anchored SPM edged up just 0.6 percentage points, from 14.7% to 15.3%—a remarkably modest increase given the depth of the downturn and still well below the 1967 level of approximately 26%.[3]

However, the evolution of the safety net has created sizeable gaps. Welfare-to-work mandates and work-supporting policies such as the EITC and child care assistance expansions adopted in the 1990s helped move substantial numbers of families into the workforce and above the poverty line, but apparently they also caused some families to fall deeper into poverty by leaving them with neither public assistance nor earnings. In 1995, for every 100 poor families with children, 76 families received cash welfare assistance; today, it is 26 families for every 100 poor families that receive such benefits.[4] This sharp decrease is part of the shift to more of a work-based safety net. Some of these changes have affected extremely poor people; various academic studies, for example, have found an increase in "deep poverty" (household income below half of the poverty line) since the mid-1990s.[5]

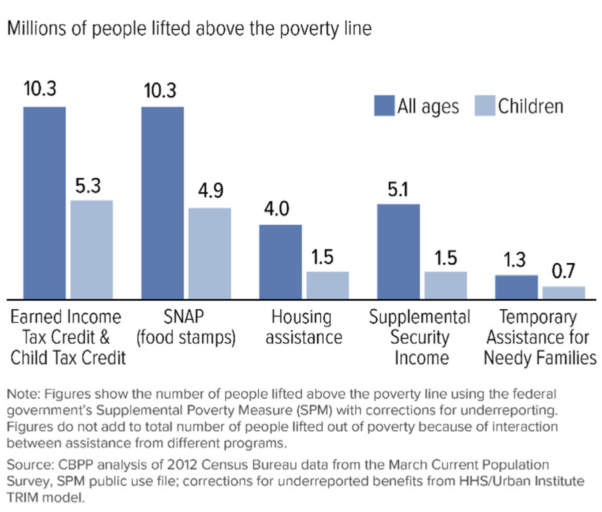

Figure 1. *Major tax credits and means-tested programs lifted millions out of poverty in 2012. Reproduced from the Center on Budget and Policy Priorities.*[1]

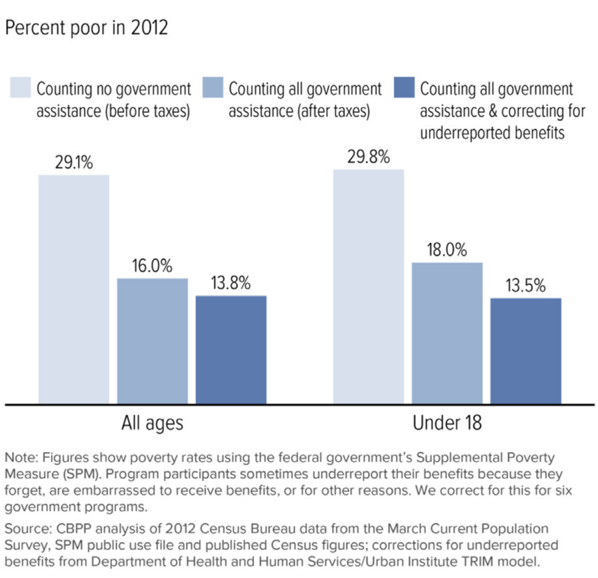

Figure 2. *Correcting for under-reporting shows even bigger effect of the safety net. Reproduced from the Center on Budget and Policy Priorities.*[2]