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Investing in Parents to Invest in Children

Remarks by Gordon L. Berlin, President, MDRC

National Summit on America's Children

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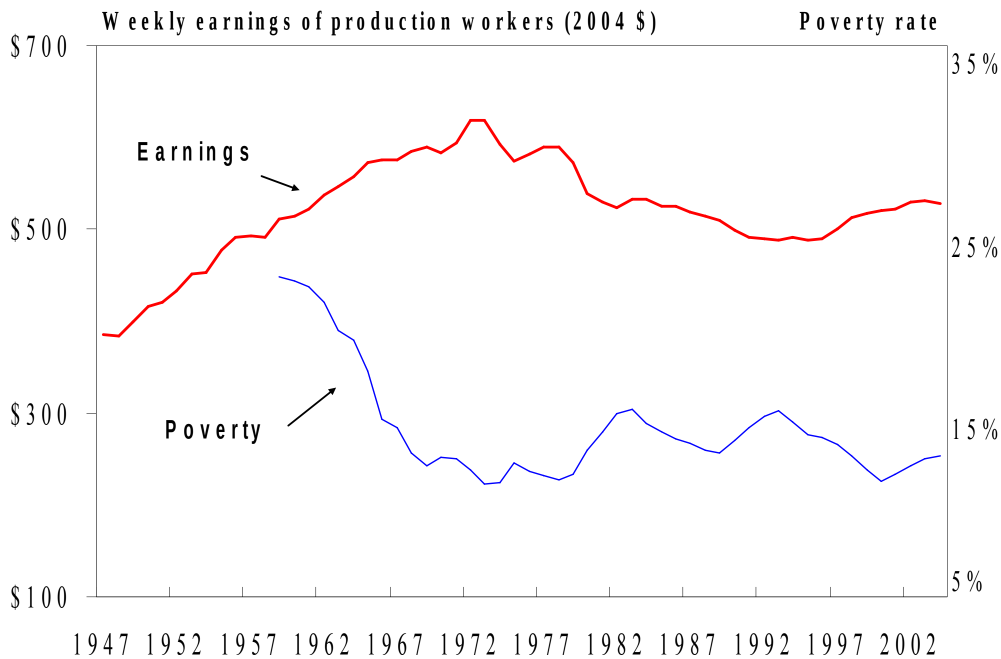
Madame Speaker, Congressman Miller, Congresswoman DeLauro, Congressman Fattah, and attending members of the House of Representatives, thank you for the opportunity to participate in this important event about America's children. My name is Gordon Berlin, and I am President of MDRC, a nonprofit, nonpartisan education and social policy research organization. At MDRC, we focus on finding solutions to the problems that confront the poor by designing and rigorously evaluating programs in education (from preschool to postsecondary), income and work supports, workforce development, and community development, among other policy realms — all with a goal of improving the lives of low-income families and children.

This morning we've heard compelling evidence about the effects of the environment on early brain development and about promising interventions for poor children, as well as concerns about the daunting challenges and frequent failures when taking high-quality programs to scale. But even the most successful programs for children are likely to be undermined if we don't address the poverty of the families in which these children are growing up. Today, I will summarize a remarkably strong body of research — much of it based on large-scale, well-implemented, experimental research designs — showing that supplementing the earnings of parents helps raise families out of poverty and improves the school performance of young children. This point is so important — and to many so surprising — that I want to state it again: We have reliable evidence involving thousands of families in multiple studies demonstrating that "making work pay" causes improvements in young children's school performance.

The two main federal income supplement programs that help to make work pay are the Earned Income Tax Credit (EITC) and the Child Tax Credit. The EITC, which is conditioned on work, is the largest antipoverty program for working families by far; more than 20 million taxpayers take advantage of the EITC each year, at a cost approaching $40 billion. The Child Tax Credit (at $1,000 per child) is even larger, providing $46 billion in subsidies to families every year. However, most of the benefits accrue to middle-class families, as the credit is only partially refundable for poorer families with incomes of at least $11,300 per year.[1]

Before describing the evidence base on the effects of earnings supplements on children, I want to first use the chart below, which shows trends over time in earnings and poverty, to tell a simple but compelling story about poverty's underlying causes. The top line tracks average weekly earnings in 2004 dollars from 1947 to 2004 for nonsupervisory workers, and the bottom line tracks the national poverty rate from 1959 when the Census Bureau first began tracking poverty to 2004. Between 1947 and 1973 earnings grew for all Americans — up by 60 percent — and much of these gains accrued disproportionately to workers with a high school diploma or less. It was as if all of America was on an up-escalator, each year higher than the previous. As earnings grew, poverty plummeted, down by half from 22 percent of all Americans in 1959 to 11 percent by 1973. But then the up-escalator came to a grinding halt, earnings stagnated, and then fell, ending down nearly 20 percent by 2004. Poverty followed suit — holding in a relatively steady range for the next 30 years. Men with a high school diploma or less were hardest hit by this decline in earnings. The causes of this 30-year decline in earnings include sweeping technological and globalization changes that have placed a premium on higher education, demographic changes that have produced a generation less prepared for college than the previous one, the decline of collective bargaining and unionization, and the erosion of the value of the minimum wage.

Tracking Trends in Earnings and Poverty, 1947/1959-2004



Sources: Bureau of Labor Statistics, U.S. Census Bureau.

Why are these trends so important?

- The entire 1960's War on Poverty was predicated on the assumption that earnings gains would continue. If they had, earnings today would be 30, 40, or 50 percent higher than the peak in 1973. Poverty would surely be much, much lower.
- How did families cope with the decline in earnings? They had fewer children, they sent both parents into the workforce, and they postponed marriage.
- As a result, a higher share of all the nation's children would grow up in single-parent families, and many more of the nation's children would grow up poor than would have otherwise been the case.

Children who grow up in poverty do worse in school, earn less when they become adults, and are more likely to become teen parents, among other problems.[2] Reducing child poverty really means reducing family poverty. Most poor families are headed by parents who work, but they earn so little that their families remain poor. Moreover, some of these parents are working only part time or they work sporadically. Encouragingly, a reliable body of evidence demonstrates that work-based earnings supplements — including the EITC — can boost employment and employment stability, increase earnings and income, and reduce poverty and the poverty gap.

The "Make Work Pay" Experiments as a Response to Low Wages

Concerned that low-wage work simply did not pay relative to welfare, the state of Minnesota, the New Hope community group in Milwaukee, and two provinces in Canada began to experiment during the 1990s with new approaches designed to increase the payoff from low-wage work — that is, to make work pay. All three provided work incentives in the form of monthly cash payments to supplement the earnings of low-wage workers. The payments were made only when people worked, and the amount of each month's cash payment depended on the amount of each month's earnings.

Together the three studies involved more than 12,000 people, and all three used highly reliable random assignment research designs, the "gold standard" in evaluation research. Despite variation in target groups and program design, the results across the three programs were consistent, positive, and encouraging. The mostly single mothers who were offered earnings supplements in these three large-scale, rigorous studies were more likely to work, earned more, had more income, and were less likely to be in poverty than control group members who were not offered supplements.[3] At their peak, these employment, earnings, and income gains were large — reaching 12- to 14-percentage-point increases in employment rates, about $200-$300 more per quarter in earnings, and $300-$500 more in quarterly income. The largest and most persistent effects on adults were found for African-Americans and for the most disadvantaged participants, particularly high school dropouts without recent work history and with long welfare spells. For these groups, the employment and earnings effects continued through the end of the follow-up period — six years in the Minnesota project.

How did these programs for parents help children? The evidence clearly shows that the parents' employment and income gains produced, in turn, modest but important benefits for young children. That is, these children did better on a range of school measures — based on standardized test scores, teacher ratings, and parent reports — than children in the control group whose parents were not eligible for earnings supplements. The Wisconsin and Minnesota programs also found improvements in behavior and related noncognitive skills. Preschool-age children of participating parents did better academically (and sometimes socially) — in part, because their parents had higher incomes and, in part, because they were more likely to attend center-based child care programs.[4]

The story for adolescents is less encouraging. Programs that increased the employment of mothers (whether or not the interventions included earnings supplements) were associated with modestly unfavorable school-related outcomes for teens, although these effects did not appear to lead to negative effects in the long-term. The evidence suggests that increased maternal employment might be related to poor school outcomes among adolescents, perhaps because the teens receive less adult supervision (a result that won't surprise any of you who knows a teenager) and perhaps because the teens assume adult roles in caring for younger siblings when parents go to work.[5] Importantly, as the younger children described above aged into their teen years, they did not experience the negative effects found for teens whose mothers joined the labor force when their children were already teens.

How big were the effects for young children? The effects were modest but I think important — equivalent to raising children's average percentile ranking from the 25th to the 30th percentile. Because this is the average gain for all children in the study, including those whose parents did not benefit from the program (that is, they did not go to work and did not receive an earnings supplement), the children who did benefit must have benefited a lot more than this average implies.

Is there reason to believe that the Earned Income Tax Credit and the Child Tax Credit produce results like those found in the make work pay experiments? Yes, there is, and let me tell you why.

The EITC's distinguishing feature is its status as a safety net built around work — only people with earnings can claim the credit. The amount varies by both family type and earnings. Families with two or more children can receive a maximum credit of $4,716; those with one child, $2,853; and single adults with no children, $428. The evidence suggests that the EITC increases work (a 3-percentage-point increase in the labor force participation rate of single women with children),[6] increases income, and reduces family poverty by a tenth, reduces poverty among children by a fourth, and closes the poverty gap by a fifth.[7] Remember that the Census Bureau's official poverty estimate doesn't count the EITC as income; if it did — and if one also subtracted the cost of work expenses, child care, and payroll taxes — the poverty rate would likely fall by a couple of percentage points.[8]

However, the EITC does create some disincentives for work, co-parenting, cohabitation, and marriage. Because the bulk of EITC benefits go to families with children and because both parents' earnings are counted when a couple is married, but only one parent's earnings count when they are not, the EITC can penalize marriage when both partners work — even as it rewards marriage between a nonworking single parent and a working partner.[9] Recently enacted provisions that increase the credit's value for married couples by several hundred dollars a year attempt to offset those penalties. By 2008, when those changes are fully in effect, penalties would be eliminated for most cohabiting families (considering marriage) with incomes below 200 percent of the poverty line,[10] but substantial penalties (averaging $1,742) would still remain for 44 percent of all cohabiting couples, mostly those with incomes between $20,000 and $30,000 a year.[11] Two-earner couples where both workers have similar earnings are especially hard hit by EITC reductions if they marry. In a forthcoming paper in *The Future of Children* journal, I make the case for testing an enhanced EITC for individuals and second earners in two-parent families — which, I believe, would greatly reduce family and child poverty and better align incentives for adults to work, co-parent, and marry.[12] This plan would address the deleterious effects of the long-term, secular decline in earnings that has so decimated low-wage workers and has contributed, to some extent, to the high rates of incarceration, low marriage rates, and the large number of children growing up in poor, single-parent families.

Unlike the EITC, the Child Tax Credit (CTC) is not explicitly conditioned on work — although, because recipients need at least $11,300 in income to be eligible, it is not available to the typical non-working parent. Above that amount, the credit is partially refundable at a rate of 15 percent of earnings over $11,300 — that is, a family gets a credit for taxes paid plus this refundable amount until the benefit equals $1,000 per child. According to Elaine Maag, a couple with two children would not get the full credit until their income reached $24,180 in 2006. The child credit doesn't begin to phase out until income reaches $110,000 for a married couple and $75,000 for a single parent. Because the CTC amount families receive phases in at about the same income amount that the EITC plateaus and continues to support families as the EITC phases down, the current CTC helps to smooth out the marginal tax rate for low-earners.[13] Indeed, Elizabeth Kneebone estimates that nearly half of all EITC claimants also receive support from the CTC, adding an average of nearly $900 more per year in payments to those families.[14]

There are no reliable studies of the impact of the EITC or the CTC on child well-being, but, to the extent that they boost employment and income together, the effects should mirror those of the "make work pay" experiments cited above. A similar argument could be made for a boost in the minimum wage. Indeed, the supplements paid by both the Minnesota program and the Wisconsin New Hope program were on top of the then-EITC, indicating that there was room to further enhance the EITC.

Conclusion

There are essentially two types of antipoverty strategies one could pursue to help children. The first is to "make work pay" for parents by supporting low-wage workers with earnings supplements and other kinds of work supports. The second type is long-term, children-focused strategies — principally investments in early childhood education through twelfth-grade — so that the next generations of young people have the knowledge and skills to fill higher-paying jobs and succeed in society. Importantly, the two strategies could reinforce each other. The bottom line is that investing in a two-generation strategy is key to making the kind of quantum leaps needed to help poor children succeed in an ever more competitive world. The best incubator for developing a child's human capital tomorrow is a family that is not living in poverty today.

Thank you.

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