

Reducing Intergenerational Poverty

The Role of Income and Employment in Intergenerational Poverty

At any given time over the past decade, about 10 million U.S. children lived in families with incomes below the poverty line. Their experiences with childhood poverty can compromise their health and welfare and also hinder their opportunities for economic mobility in adulthood. An intergenerational cycle of economic disadvantages weighs heavily not only on children and families experiencing poverty but also on the nation as a whole by reducing future national prosperity and burdening its educational, criminal justice, and health care systems.

The National Academies of Sciences, Engineering, and Medicine released a comprehensive report on intergenerational poverty—a situation in which children who grow up in families with incomes below or near the poverty line experience low-income status in adulthood—in the United States. The report, *Reducing Intergenerational Poverty*, examines the drivers of long-term, intergenerational poverty; identifies potential policies and programs to reduce it; and recommends actions to address gaps in data and research.

FAMILY INCOME AND CHILD POVERTY

Family economic resources and parental employment influence the family, schooling, and neighborhood contexts in which children develop. These factors are key in shaping children's academic skills, health, and opportunities to secure good jobs when they become adults. Low earnings leave low-income parents

unable to provide their children with proper nutrition, access to medical care, and enrichment and learning activities. Persistently low levels of family income, wealth, and employment are important predictors of intergenerational poverty. Accordingly, policies that increase parental incomes, wealth, and employment may increase the intergenerational mobility of children growing up in low-income families.

Rigorous evaluations of recent employment and income policies tell an interesting story. Programs such as the Earned Income Tax Credit (EITC), which simultaneously increase parental employment and family income, appear to promote children's intergenerational mobility. In contrast, policies such as work requirements that increase employment but not family income do not predict to either better or worse child outcomes. At the same time, recent evidence has yet to establish intergenerational benefits for policies that increase income but not employment. There is a great deal of ongoing research in this area, so these conclusions should be regarded as tentative.

TRENDS IN EARNINGS AND EMPLOYMENT

Average household incomes of children whose families are in the bottom, middle, and top of the income distribution best demonstrate trends in family income and its impact on poverty. The income data used in this study include earnings and in-kind income sources,

including tax credits and payments from programs such as the Supplemental Nutrition Assistance Program (SNAP).

Over the last 50 years, between 1967 and 2017, income inequality between high- and low-income households has widened dramatically. However, even lower-income households have seen growth in total household incomes, inclusive of tax credits, SNAP benefits, and other noncash sources. The average annual household incomes of children in low-income households were 80% higher (adjusted for inflation) in 2017 than in 1967, a trend that contributed to the 45% reduction in child poverty rates over this period. This income growth is nearly as rapid as it was for middle-income households, though substantially lower than for children growing up in high-income households. The bulk of the growth in low household incomes came from increased transfers and tax credits for families with low but positive earnings, particularly the EITC. Income trends for non-working households are much less positive.

Parents’ employment and earnings is one of the most important means of avoiding intergenerational poverty.

Over the last 50 years, parental earning alone lifted the

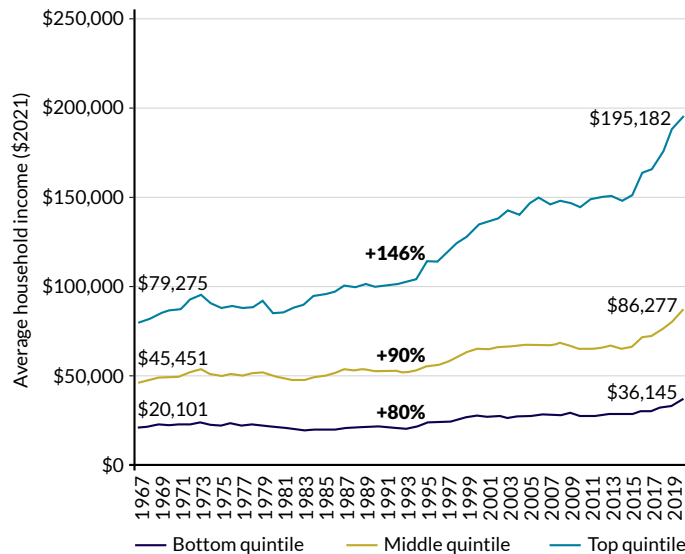


FIGURE 1 Average U.S. household income of children in the bottom, middle, and top income quintiles, 1967–2019.
 NOTE: Dollars of cash and in-kind income received in different years are adjusted for inflation using the Personal Consumption Expenditures Price Index.
 SOURCES: Data for 1967–2009 produced with the Historical Supplemental Poverty Measure Data series (Wimer et al., 2022) and the Annual Social and Economic Supplement to the Current Population Survey (CPS-ASEC) data from IPUMS-CPS (2022).

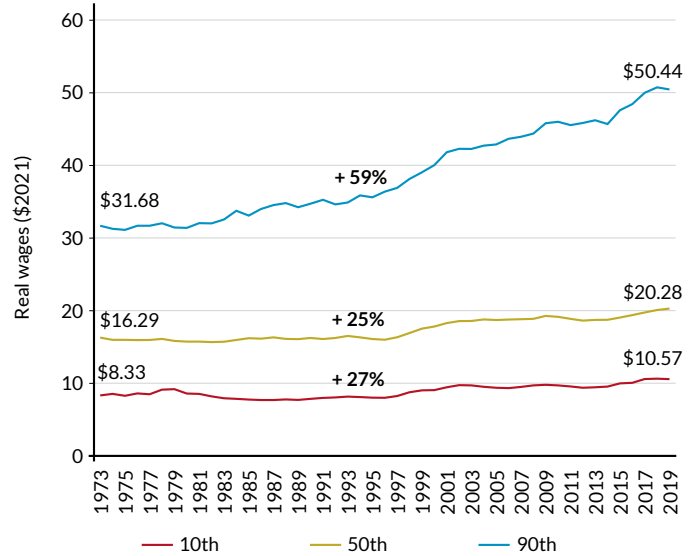


FIGURE 2 Average real wages in the United States for the 10th, 50th, and 90th percentiles, 1973–2019.
 NOTE: Dollars of cash and in-kind income received in different years are adjusted for inflation using the Personal Consumption Expenditures Price Index.
 SOURCE: Data from Economic Policy Institute, State of Working America Data Library, “Wages by percentile and wage ratios,” 2022a.

incomes of between 70% and 75% of children above the poverty line. However, like total family incomes, the earnings of low- and middle-skilled workers have risen more slowly than the earnings of higher-skilled workers. Between 1973 and 2019, the average hourly earnings for workers at the 10th and 50th percentiles grew by about 25%. Worker wages at the 90th percentile grew by more than twice that amount.

INCOME DISPARITIES

Both wage levels and employment rates show important differences by race and gender.

Even after improvements in their relative earnings over time, Black workers have lower average earnings, face less predictable work hours and less stable employment, and reside disproportionately in states where the relatively low federal minimum wage is binding. While some of these differences can be attributed to lower educational achievement and attainment, as well as lower labor force participation rates, audit studies document the ongoing prevalence of racial discrimination against Black workers and other workers of color. Furthermore, discriminatory barriers are severe for previously incarcerated men, particularly Black men. The tight

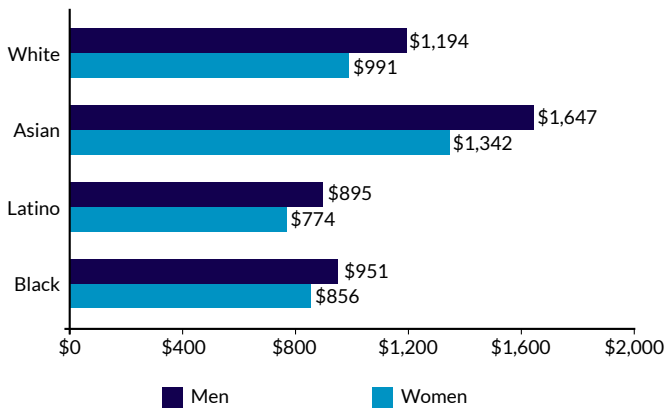


FIGURE 3 Median usual weekly earnings of full-time wage and salary workers by race/ethnicity and sex, 4th quarter 2022 averages.
SOURCE: Data from the U.S. Bureau of Labor Statistics.

links between skill levels and wage rates suggests an important role for skill-boosting educational policies.

While the wages and employment rates of women relative to men improved greatly during the second half of the 20th century, progress largely slowed or ceased after 2000. Many economists believe that the conflicting demands of employment and caregiving responsibilities contribute to this persistent gender gap. This can be a particular challenge for low-wage women, because the cost of child care relative to their wages can be very high.

POLICIES AND PROGRAMS TO REDUCE INTERGENERATIONAL POVERTY

Expand the Earned Income Tax Credit

Evidence suggests that income transfer programs during childhood and adolescence have the potential to improve children’s educational and labor market attainment, as well as physical health, in adulthood. The strongest direct evidence on intergenerational benefits for children is found for programs that increase both family income and parental employment during childhood and adolescence. The most promising such program is the EITC, a refundable credit that substantially subsidizes the earnings of adults in low-income households. The report presents several options for reforms to the EITC to further expand its impact by increasing the generosity of the transfer while at the same time preserving or enhancing the EITC’s work incentives

Education-Based Strategies

Another important approach for increasing earnings in adulthood is through evidence-based education policies at almost all levels of education. If implemented for parents, these can increase parental earnings during childhood. If implemented for children, they constitute human capital investments with long-term benefits. The committee found strong evidence for the following education-based strategies, all of which were found to benefit Black participants.

K–12 schooling:

- Increase K–12 school spending in the lowest-resourced districts by \$1,000 per pupil in the 20% of districts with the lowest average family incomes.
- Increase teacher workforce diversity, based on strong evidence showing the positive effects of Black teachers on the high school graduation and college enrollment of Black students.
- Reduce harsh school discipline practices, based on research that shows exclusionary school discipline increases students’ chances of dropping out of high school and their contact with the criminal justice system in young adulthood and reduces their college enrollment.

Post-secondary schooling:

- Increase federal funding for higher education by \$10 billion annually for proven financial aid programs that target low-income students.
- Increase federal funding by \$8 to \$10 billion per year for campus support programs aimed at boosting higher education completion rates among low.

Sectoral training programs:

- Offer sectoral training for youth through scaled-up versions of proven industry-focused training

programs to 250,000 youth each year who come from low-income families and appear unlikely to earn post-secondary credentials.

FOR MORE INFORMATION

This Consensus Study Report Highlights was prepared by the National Academies' Board on Children, Youth, and Families and Committee on National Statistics based on the report *Reducing Intergenerational Poverty* (2023).

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