Can Parental Work Eliminate Child Poverty?

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by

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ABSTRACT

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In his 1992 presidential campaign, Bill Clinton made the statement: "It's time to honor and reward people who work hard and play by the rules.... No one who works full time and has children should be poor any more." (Putting People First, 1992) With the implementation of TANF in 1996, families who had previously been receiving welfare through ADFC began to see whether work really is the answer to eliminating decades of persistent poverty in the United States. Now, over ten years after TANF, with poverty rates still hovering around 13%, we ask the question: was Clinton’s statement realistic?

The underlying assumption of welfare reform was that moving people from welfare to work could “fix” the poverty problem in the United States. This paper asks whether full time work can be expected to provide enough income for families with children to be above the poverty line. It also asks whether the answer is sensitive to how “income” is calculated. Using data from the March 2007 Current Population Survey, a counterfactual exercise captures the various changes in income and expenses families would receive if all families with children were given wages of at least full time work at the minimum wage.

Results lead to the conclusion that there is not a simple yes or no answer to the question of whether minimum-wage work is sufficient to alleviate poverty. Family size and composition contribute to the effect that work has on poverty, as poverty rates for single parent families with more than two children would improve the least and two-parent families with less than two children would benefit the most. Even when incorporating alternative measures of income that take into account government transfers and benefits, results show that children in single parent families would still have high poverty rates (around 26%). However, full-time work by both parents would almost eliminate poverty among children in two parent families.
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Poverty in the United States has received legislative and public attention since Lyndon B Johnson’s declaration of “war on poverty” in the 1960’s. Since then, and specifically in the past decade, the U.S. government has implemented policy changes, including welfare reform, with the hope of reducing poverty. Despite these policy changes, the official poverty rate has remained in a narrow range between 11.1-15.2 percent for the past 35 years (Census Bureau, 2009).

In his 1992 presidential campaign, Bill Clinton made the statement: "It's time to honor and reward people who work hard and play by the rules.... No one who works full time and has children should be poor any more," (Clinton and Gore, 1992). With the implementation of Temporary Assistance for Needy Families (TANF) in 1996, families who had previously been receiving welfare through Aid to Families with Dependent Children (AFDC) began to see whether work really is the answer to eliminating decades of persistent poverty in the United States. Now, over ten years after TANF, with poverty rates still hovering around 13 percent, we ask the question: Was Clinton’s statement realistic?

In 1996, President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) with the intention of implementing a policy that promoted responsibility, a stronger work ethic, self-sufficiency, and family values. PRWORA replaced the previous program AFDC with TANF. Through its 60 years of existence, AFDC did not require recipients to work for aid, and the program was sometimes considered to be anti-work and anti-family. To address this issue, policy makers crafted TANF to promote work through a set of incentives and punishments.
With the change from AFDC to TANF, states receive block grant payments from the national government and the freedom to create a welfare program that addresses their specific needs. Each state program must meet certain requirements including: “strong work requirements, sanctions for individuals who fail to comply with the new requirements, and a five-year limit on the use of federal dollars for cash assistance to individual families,” (Sawhill, et al, 2002 p. 3).

Supporters of TANF hoped that these changes and new requirements in the program would lead to more work and less poverty across the United States. Li and Upadhyay (2008 p. 1) explain that, “though PRWORA does not directly target poverty reduction...a policy that seeks to encourage work is expected to have relatively strong implications for poverty alleviation.” After the transition from AFDC to TANF “caseloads dropped by more than 50 percent, i.e. by 7.3 million at the national level, between August 1996 and June 2003,” (Li and Upadhyay, 2008 p. 1). Along with this decrease in caseloads, “poverty rates in the United States fell from a 25-year high of 15.1 percent\(^1\) in 1993 to near record lows of 11.3 percent in 2000” (McKernan and Ratcliffe, 2006, p 1).

While some argue that the implementation of TANF led to the lower caseloads and decreased poverty rate in the late 1990s, it is difficult to attribute these results directly to changes brought about by the new policy. The organization of TANF contributes to this problem, because it essentially created 51 different welfare programs, making national results difficult to attain and interpret. Although welfare reform may

\(^1\) Poverty in this case is defined as the percent of persons in poverty the United States.
have affected the decrease in caseloads, the trends can probably also be attributed to a better job market and economic growth in the years immediately following welfare reform.

The recession in the early 2000s revealed an alternative picture of how poverty in the United States changed with TANF, as rates began to rise again compared to the initial decrease with the strong economy in the late 1990s. As the economy worsened in 2001, poverty rates increased from the low of 11.3 percent in 2000 to 12.7 percent in 2004 (Census Bureau, 2009). Although this was the expected result of a recession, the increase in poverty made it more difficult to praise TANF for creating a welfare system that could have long-term positive effects on poverty. In fact, ten years after the implementation, further studies showed that “pushing people from welfare to work doesn’t appear to have lifted more people out of deep poverty,” (Urban Institute, 2006). Kilty (2006, p. 110) also argued that there has been no connection between the smaller TANF caseloads and poverty, and that instead of reducing poverty, TANF has only succeeded in making it invisible.

As research continues to be done on the effects of TANF on the poor in the United States, numbers show that poverty has not been eliminated, and it is difficult to conclude that daily life for low-income families has dramatically improved. Although TANF has generated work among the poor, parents who move from welfare to work often remain in low-paying, unskilled jobs that do not provide adequate income to move their families out of poverty. Shipler (2004, p 4) describes this new group of working
poor as, “the forgotten Americans, who are noticed and counted as they leave welfare, but who disappear from the nation’s radar as they struggle in their working lives.”

Measuring Poverty: The Income Problem

Despite policy attempts to “fix” the poverty problem in the United States, a high percentage of people still live in poverty, and the official poverty rate has changed very little relative to the many policies aimed at lowering this rate. However, “A National Research Council report argues that changes in the labor force (such as an increase in working mothers who must pay child care), the substantial expansion of the Earned Income Tax Credit (EITC), and changes in the role of in-kind transfers over the last 30 years require a new poverty calculation” (Citro and Michael, 1995, p. 11). So maybe the problem isn’t that poverty is really remaining stagnant; maybe the problem is that the current poverty measure inaccurately captures the true picture of poverty. The official poverty rate in the U.S. compares a family’s pre-tax money income to predetermined poverty thresholds. Although this method has been used since developed in 1960s, many factors have contributed to changes in the composition of the income and expenses of low-income families.

These changes lead many to believe that the use of pre-tax income is not the best way to assess the poverty problem and potential solutions. The use of pre-tax income to calculate poverty rates makes it difficult to assess policy attempts aimed at assisting low-income families. It also inaccurately addresses the tax burden often shouldered by low-income families. Although a family receives a certain amount of earnings, taxes are
removed from every paycheck, reducing a family’s spendable income. The EITC and in-kind transfer programs such as Food Stamps are programs targeted at lowering poverty rates, yet these alternative forms of income are not included in a family’s income when measuring poverty. Work expenses often shouldered by parents as they enter the job market also impact a family’s spendable income, making their ability to consume less than one may expect based on their pre-tax income. These examples show the complexities of measuring poverty and capturing an accurate picture of income and the ability of the poor to consume.

In order to address the income measurement problem in this paper, we define three different measures of income to calculate different poverty rates. Each of the three income values is associated with a consequent poverty rate calculated using poverty thresholds specific to each family based family size and number of children in the household. The first measure of poverty (Povrate1) utilizes the pre-tax income used in calculating the official poverty rate. To retain the general focus of the effect that work has on poverty, the values for alternative measures of income reflect how the inclusion of taxes, credits, and extra costs due to full time work affect poverty rates among families with children.

The second income value, used to calculate Povrate2, includes taxes and transfers to reflect the idea that a dollar given to or received from the government is a dollar that can or cannot be spent elsewhere. The use of a pre-tax income (i.e. Povrate1) when measuring poverty neglects to take into account all of these various effects that taxes and transfers have on earnings. The taxes and transfers used in Povrate2 include: federal
taxes, payroll taxes including Social Security and Medicare, the Earned Income Tax Credit, and food stamp benefits. Although federal income taxes are low for families with low-earnings, a rapid growth in payroll taxes over the past 50 years has imposed a substantial burden on low-income, working families.\(^2\) To combat this problem, the Earned Income Tax Credit was created to help lessen the effect of these taxes.

The Earned Income Tax Credit began in 1975 as a way to use the tax system as a tool to promote work and reduce poverty by providing low-income workers with an earning subsidy to lessen their tax burden. Since its inception in 1975, the program has grown substantially and is now the “largest anti-poverty program for the non-aged in the United States” with 25 million families receiving EITC payments in 2007, (Meyer, 2007 p. 1). Families are eligible to receive the EITC based on three criteria: First, at least one parent in the household must be working. Second, the family must have a low-income. Third, only a small EITC is available for childless families, so most benefits are given to families with children. Eligible families receive an earning subsidy designed to promote work by increasing after tax wages.

As seen in Figure 1, (Meyer, 2007 p. 41) the EITC benefit schedules are different for families with one child versus two or more children. Benefits for families with two or more children are initially large as a family earns an extra forty cents for each dollar of their pre-tax earnings. For these families with an income between $11,790 and $15,390, the greatest possible credit available is $4,716. Beyond this income, the credit amount begins to phase-out with a 21 percent decline in benefits for each additional dollar earned.

\(^2\) http://www.house.gov/jec/fiscal/tx-grwth/payroll/payroll.htm
until earnings for a two-parent family exceed $37,783. Based on the income and eligibility guidelines, the design of the program specifically encourages work among single parents, as they tend to be the individuals most targeted and benefited by the program. This is mostly due to the fact that single parents tend to have lower incomes than married parents. The EITC also contributes specifically to the reduction in welfare caseloads of single mothers by making work more attractive than welfare. In a study of welfare receipt among single mother families, Grogger concluded that the EITC decreased the likelihood that single mothers would enter or reenter the welfare program (Grogger, 2004 p. 683).
The Supplemental Nutrition Assistance Program (SNAP, formerly called the Food Stamps Program) provides eligible families with assistance for purchasing food. To be eligible for the program, families cannot have more than $2,000 in assets, and must have a gross income below 130 percent of the federal poverty level and a net income at or below 100 percent of the poverty level. Benefits are calculated by subtracting 30 percent of net income from the maximum benefit, which was $518 per month for a family of four in 2007. For every dollar increase in a family’s net income, benefits are reduced by 30 cents. In 2007, about one-quarter of families receiving SNAP benefits had children and earnings (USDA 2008), and 56 percent of individuals in eligible working families received benefits (Urban Institute, 2009 p. 2). Although Food Stamps are not explicit cash payments, they directly affect a family’s resources and ability to consume other goods, making them an important component of family income.

As we explore the impact of different income measures on poverty rates, the inclusion of taxes and transfer programs has implications for the value of Povrate2. Although one may initially believe that poverty rates using this second income measure will be lower than the first, results are ambiguous. After subtracting income and payroll taxes from a family’s earnings, we expect poverty to increase. However, including the EITC and Food Stamps benefits increases a family’s earnings. We would therefore expect to see a decrease in poverty. Because of these contrasting effects, values of Povrate2 may be either higher or lower than the official rate.

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3 http://www.urban.org/uploadedpdf/411938_snapforhelp.pdf
The third measure of income used to calculate poverty rates (Povrate3) further accounts for the additional costs that a parent with children faces when he or she begins to work full time. The third measure of income is calculated by subtracting an estimated annual work expense per working parent and estimated childcare expenses based on marital status and number of children, and adding an estimated value for the Child and Dependent Care Credit. Work expenses were taken from a calculation done by Citro and Michael. Childcare expenses were determined from an Urban Institute paper, which attributed different expenses to families based on marital status and ages of children. These values were chosen in hopes of assigning more accurate values to families with children of different ages as opposed to assigning one overall value to every family.

The Child and Dependent Care Tax Credit (CDCTC) is a non-refundable tax credit provided to working parents to offset the cost of childcare expenses for any dependent child under the age of 13. To be eligible, parents must care for a qualifying person, have an earned income, and must pay child care expenses that enable them to work or look for work (IRS, 2009 p. 2)\(^4\). To calculate the amount of credit received, parents multiply their work-related childcare expenses by a percentage based on their adjusted gross income. For example, if a family has an income between $15,000 and $17,000, they can receive a credit of 34 percent of their qualifying expenses. The dollar amount received from the subsidy is limited to $6,000 for a family with two or more qualifying children, and $3,000 for a family with one qualifying child (IRS, 2009 p. 10). Although many low-income families (specifically single parents) must pay child care

expenses while they work, many cannot benefit from this credit because they have no 
income tax liability to offset, making the credit worthless to them (Burman et al., 2005, p. 
1)\(^5\). Benefits also dramatically decrease as income rises, with most families receiving 
credit for less than 20 percent of their related expenses.

The inclusion of child care and work expenses is expected to reduce the previous 
income measure, leading to a measure of poverty (Povrate3) that takes into account all 
changes in taxes, transfers, and additional expenses. Because of this, it is expected that 
the values of Povrate3 will be higher than the values of Povrate2.

**Methods and Results**

The data for this paper are extracted from the March 2007 Current Population 
Survey (CPS). The CPS is a survey of households conducted monthly by the Bureau of 
Labor Statistics. The Annual Demographic Survey, completed every March, gathers 
more detailed information about family demographics, composition, work status, and 
income. We limited the sample to the 32,744 families with related children under the age 
of 18 from the March 2007 CPS, which reports information from the year 2006.

Calculated poverty rates throughout the paper utilize the Census Bureau’s 
predefined poverty thresholds for 2006 shown in Figure 2\(^6\). If a family had earnings 
below their specified threshold, every person in that family was counted as poor.

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\(^6\) http://www.census.gov/hhes/www/poverty/threshld/thresh06.html
Table 1 shows the poverty rates calculated from the sample at each different level of income measure. In 2006, the U.S. Poverty rate for families with children calculated with the official income measure was 14.4 percent. The columns married, single father, and single mother divide people in poverty living in a family with either married or single parents. People in single mother families have a 38.5 percent likelihood of being poor. This is nearly three times as large as the overall rate and almost five times greater than individuals in two-parent families.

Table 1: Poverty Rates using Alternative Income Measures

<table>
<thead>
<tr>
<th>Size of family unit</th>
<th>Weighted average thresholds</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
<th>Four</th>
<th>Five</th>
<th>Six</th>
<th>Seven</th>
<th>Eight +</th>
</tr>
</thead>
<tbody>
<tr>
<td>One person (unrelated individual)</td>
<td>10,294</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 65 years</td>
<td>10,488</td>
<td>10,488</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65 years and over</td>
<td>9,866</td>
<td>9,866</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two people</td>
<td>13,167</td>
<td>13,500</td>
<td>13,896</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household under 65 years</td>
<td>13,569</td>
<td>13,569</td>
<td>13,569</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household 65 years and over</td>
<td>12,201</td>
<td>12,186</td>
<td>13,843</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three people</td>
<td>16,079</td>
<td>15,769</td>
<td>16,227</td>
<td>16,242</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Four people</td>
<td>20,614</td>
<td>20,794</td>
<td>21,134</td>
<td>20,444</td>
<td>20,516</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five people</td>
<td>24,382</td>
<td>25,078</td>
<td>25,441</td>
<td>24,652</td>
<td>24,059</td>
<td>23,691</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Six people</td>
<td>27,560</td>
<td>28,842</td>
<td>29,957</td>
<td>28,356</td>
<td>27,798</td>
<td>26,938</td>
<td>26,434</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seven people</td>
<td>31,205</td>
<td>33,187</td>
<td>33,394</td>
<td>32,680</td>
<td>32,182</td>
<td>31,254</td>
<td>30,172</td>
<td>28,985</td>
<td></td>
</tr>
<tr>
<td>Eight people</td>
<td>34,774</td>
<td>37,117</td>
<td>37,444</td>
<td>36,770</td>
<td>36,180</td>
<td>35,342</td>
<td>34,278</td>
<td>33,171</td>
<td>32,890</td>
</tr>
<tr>
<td>Nine people or more</td>
<td>41,499</td>
<td>44,849</td>
<td>44,865</td>
<td>44,209</td>
<td>43,766</td>
<td>42,945</td>
<td>41,813</td>
<td>40,790</td>
<td>40,538</td>
</tr>
</tbody>
</table>

Povrate1: Official Poverty Rate
Povrate2: Official Poverty Line, compared to income after accounting for Federal and taxes, EITC, and foodstamps
Povrate3: Income concept as in Povrate2 less estimated childcare and work related expenses and added child care credit

The additional poverty rates in Table 1 utilize the alternative measures of income defined in the previous section. Results for Povrate2 show that although accounting for federal taxes and transfers in the income calculation has an impact on poverty rates, it is
not significant enough to conclude that measurement problems with the official poverty rate can explain persistent poverty. Blank explains this by saying that “the entry of poor low-skill workers in the labor market does not guarantee an increase in their real income as higher wages might reduce welfare benefits and neutralize earned income increases,” (Blank, 2002). The third measure of income, which included work expenses, childcare expenses and the Child and Dependent Care Tax Credit, shows the effect that these extra expenses have on low-income families. When these expenses are accounted for, any benefit that families received from the EITC and other transfer programs seems to be negated and poverty rates return very close to their original “official” rates.

The first counterfactual exercise examined in this paper addresses the expectation that full time work can eliminate poverty. In the exercise, any family head or spouse who was able to work was assigned earnings of $10,712 (2080 hours at the 2006 minimum wage of $5.15 per hour). Ability to work was determined by whether or not an individual received disability payments in 2006. To reflect the changes in earnings, we also adjusted each family’s taxes, Earned Income Tax Credit, food stamps benefits and Child and Dependent Care Tax Credit. To accurately capture the changes that occur with an increase in income, we wrote specific code based on the tax and credit laws to simulate the effect the increase in earnings would have on each family. Federal, State, and Payroll taxes were adjusted based on the tax rates in 2006. Changes in the EITC followed the schedule shown in Figure 1, where benefits increased to the maximum benefit level, remained constant, or decreased by the phase-out rate specific to each family. Food
Stamps benefits were reduced by 24 cents per every additional dollar earned until the amount became zero.

Table 2 shows the counterfactual poverty rates at the three specified income levels compared to the original rates in Table 1.

<table>
<thead>
<tr>
<th>% of population</th>
<th>Overall</th>
<th>Married</th>
<th>Single Father</th>
<th>Single Mother</th>
</tr>
</thead>
<tbody>
<tr>
<td>Povrate1</td>
<td>14.4%</td>
<td>7.2%</td>
<td>19.5%</td>
<td>38.5%</td>
</tr>
<tr>
<td>Counterfactual Rate 1</td>
<td>8.2%</td>
<td>1.7%</td>
<td>14.1%</td>
<td>29.8%</td>
</tr>
<tr>
<td>Povrate2</td>
<td>11.3%</td>
<td>5.3%</td>
<td>16.4%</td>
<td>31.6%</td>
</tr>
<tr>
<td>Counterfactual Rate 2</td>
<td>6.6%</td>
<td>1.5%</td>
<td>11.4%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Povrate3</td>
<td>13.7%</td>
<td>6.8%</td>
<td>19.6%</td>
<td>36.8%</td>
</tr>
<tr>
<td>Counterfactual Rate 3</td>
<td>9.0%</td>
<td>2.9%</td>
<td>14.4%</td>
<td>29.1%</td>
</tr>
</tbody>
</table>

These rates help answer the question: does full-time work at the minimum wage have the power to eliminate poverty? The answer to this question is, “maybe, depending on the type of family.” As the results show, if every parent in the sample who was not currently earning $10,712 or more was given this income, the overall poverty rate would drop from 14.4 percent to 8.2 percent, making the official poverty rate lower than it has been since the measure was created in 1960. With the counterfactual exercise, poverty rates for those living in married families also falls from 7.2 percent to 1.7 percent. Full time work is not nearly as beneficial for single mothers or fathers, with rates only dropping to 29.8 percent and 14.1 percent, respectively. After accounting for additional taxes and transfers using the second income measure, poverty among single parent families drops over 7 percentage points. This reflects the power of the EITC, as it is aimed specifically at helping single parents. However, the third poverty measure in this table again shows that any benefit that single parents receive from the EITC and other
transfer programs seems to be counteracted by work and childcare expenses as the rate increases back to 29.1 percent for single mothers and 14.4 percent for single fathers.

How does the number of children in the family affect these rates? Intuition would tell us that a single mother with three or four children is much more likely to be poor than a married couple with one child. The question is, to what magnitude, and does full time work provide any possibility of eliminating poverty for certain groups?

Table 3 addresses these questions by separating the original and counterfactual rates by married parents, single parents, and the number of related children under the age of 18 living in the household. The results for individuals in families with two parents is interesting because the counterfactual exercise shows that if both parents with two or fewer children work full time (with wages at least at the minimum wage) poverty essentially disappears. So, for the “typical family of four” in the U.S., full time work by

| Table 3: How does work affect poverty rates as number of children in the family increase? |
|----------------------------------------|----------------|----------------|----------------|----------------|
|                                       | Married-1 Child | Married-2 Children | Married-3 Children | Married-4 Children |
| % of population                       |                 |                 |                 |                 |
| Povrate1                              | 26.3%           | 27.8%           | 10.7%           | 4.5%            |
| Counterfactual Rate 1                 | 0.0%            | 0.4%            | 2.8%            | 9.5%            |
| Povrate2                              | 3.2%            | 3.7%            | 6.8%            | 15.2%           |
| Counterfactual Rate 2                 | 0.2%            | 0.4%            | 2.4%            | 8.7%            |
| Povrate3                              | 4.5%            | 4.9%            | 8.7%            | 17.9%           |
| Counterfactual Rate 3                 | 0.5%            | 1.4%            | 4.3%            | 13.3%           |

| % of population                       |                 |                 |                 |                 |
| Povrate1                              | 16.1%           | 9.5%             | 3.6%             | 1.7%            |
| Counterfactual Rate 1                 | 14.9%           | 25.1%            | 42.2%            | 54.4%           |
| Povrate2                              | 19.9%           | 27.2%            | 39.5%            | 50.0%           |
| Counterfactual Rate 2                 | 11.9%           | 17.4%            | 33.0%            | 48.7%           |
| Povrate3                              | 23.8%           | 32.0%            | 45.4%            | 57.4%           |
| Counterfactual Rate 3                 | 15.1%           | 22.6%            | 42.4%            | 56.8%           |
both parents seems to be enough to pull the family out of poverty. The story changes slightly when the number of children in the family increases, but rates are still much lower than those of single parents.

As shown in the second part of this table, single parents have extraordinarily high poverty rates in all cases, but even more so as the number of children in the family increases. The official poverty rate for a single parent with one child is 23.39 percent. This rate doubles for single parents with four children who have a poverty rate of 58.76 percent. Using the alternative measures of income only slightly change the results, with poverty rates falling slightly when we account for taxes and transfers and then rising again when we add child care and work expenses.

Full time work affects children in single parent families differently than children with married parents, especially as the number of children in the family increases. As seen in the counterfactual rates in the table, full time work is most effective in reducing poverty for single parents with one child. With all income measures, poverty rates fall by almost 10 percentage points when parents are put to work. However, as the number of children living in the household increases, work becomes less effective at meeting the family’s income needs, at least assuming minimum wage earnings, and poverty becomes more likely. For a single parent with four children, after taxes, transfers, and all related expenses are accounted for, the poverty rate is still 56.77 percent, not substantially different than the original official rate of 58.76 percent. Single parents only have one income to support their children and also may incur high childcare costs.
Counterfactual 2: Higher Minimum Wage

In the push to “make work pay,” arguments to increase the federal minimum wage often receive support from those who believe that an increase in the federal minimum wage would help low-income families escape poverty through work. The argument is also often specifically targeted at single mothers whose poverty rates have remained very high through changes in welfare reform with strict work requirements. To incorporate this idea into our counterfactual exercise, we ask the question: If all able parents work full time, how high would the minimum wage have to be to lower poverty rates for single mothers? To address this, we compared poverty rates at different levels of minimum wage.

Table 4 shows different counterfactual results at each of the three specified earning levels, separated for married and single parents. The overall trend in the table shows that, assuming full employment, as the minimum wage increases, poverty rates for all groups decrease.
The pattern in poverty rates for single mothers is of particular interest as we find that with all taxes, transfers, and expenses counted for (Povrate3), poverty rates for families of single mothers remains above 20 percent with both the 2006 minimum wage of $5.25 and the 2009 minimum wage of $7.25. Even at a minimum wage of $10.75, individuals in these families still have a poverty rate over 10 percent. This rate is 8 percentage points higher than the overall poverty rate of 2.57 percent at this minimum wage level, and over 10 percentage points higher than those in married parent families, for whom poverty is essentially nonexistent. The poverty rates for individuals in single mother families in this exercise are strikingly high, even as we account for extra benefits and transfer programs designed to improve the lives of working single mothers. With all of these taken into account, and when they are guaranteed an income of at least full time minimum wage, their children are still much more likely to grow up poor.

Burkhauser and Sabia addressed the assumption that a higher minimum wage would reduce poverty among families with single mothers and found that a minimum wage increase had no effect on single mothers’ poverty rates. They explained that many single moms don’t work, and among those who do, most already earn wages higher than the minimum wage (2007, p.263). In 2008, Sabia again confirms these findings by specifically looking at working single moms, finding that an increase in the minimum wage does not reduce poverty rates among this group, or moms of any education level (2008, p. 856). Explanations for this may be seen in theoretical arguments that as the minimum wage increases, there are fewer jobs available for parents looking for work.
MaCurdy and McIntyre discuss further issues with using a higher minimum wage as an anti-poverty tool. They explain that although raising the minimum wage targets low-wage workers, it does not necessarily target poor families and may actually harm them by driving up unemployment, (MaCurdy and McIntyre, 2004, p. 4). Along with this, raising the minimum wage may cause “price increases on goods and services produced by low-wage labor that can be disproportionately paid for by poor families,” (MaCurdy and McIntyre, 2004, p. III). They conclude that the high cost of an increase in the minimum wage on poor families makes it a much less effective anti-poverty tool than other support programs such as the Earned Income Tax Credit.

**Conclusion**

With the implementation of welfare reform through PRWORA in 1996, supporters hoped that work would be the answer to eliminating decades of welfare dependency and persistent poverty in the United States. With little change in the official poverty rate since then, we asked the question: Was this assumption realistic? Does work actually have the power to eliminate poverty?

Results from the counterfactual exercise show that work may provide some families with a way out of poverty, but not everyone. We found that with taxes, transfers, and additional expenses accounted for, achieving an income above the poverty line is possible for almost all married families. Assuming full time work at the minimum wage is available, poverty among this group is a “choice,” in the sense that they could work their way above the poverty line. On the other hand, the story is much different for single
parent families, who, even at a higher minimum wage can’t make work pay enough to move their families out of poverty. As the number of children in single parent families increases, poverty remains essentially unaffected as the parent’s earnings increase. Based on these results, we conclude that while employment can reasonably eliminate poverty among two parent families, it has much less of an effect on families led by single parents.

Although the counterfactual accurately captures the changes in the taxes, transfer and benefits programs we discussed, other expenses and details could be added to make the model more complete. One set of expenses we did not include in the exercise is health care expenses. Medicaid and the State Children’s Health Insurance Program (SCHIP) are the national and state programs designed to help low-income families cover medical expenses. Just as with TANF, analyzing these programs is challenging because each state has a different Medicaid and SCHIP program, making it difficult to see national effects of the policy. Including health care costs and the programs designed to combat these costs would improve the counterfactual because it would take into account another important aspect of a family’s income and ability to consume, especially as earnings increase when parents begin working full time.

Another way to move forward with the research presented in this paper would be to incorporate the employment effect of a higher minimum wage. Throughout the paper, we make the assumption that every able adult works full time at the minimum wage. It would be more realistic to assume that there will still be a certain level of unemployment attributable to the minimum wage change as well. Creating a model that could simulate these employment changes and the magnitude of their effect on family income and
poverty as earnings increase would be more realistic and potentially more accurate in studying poverty in this context.

As the United States has continued the “war on poverty” over the past 40 years many ideas about how to fix the problem have been analyzed and discussed. The pervading theme in policy initiatives in recent years has been to promote full time work so that families can become self-sufficient and move above the poverty line. Although some families have benefited from the changes in policy and work support programs, others have realized that work is not always the answer. When Bill Clinton stated that freedom from poverty was possible through full time work in 1992, he failed to mention or account for the many individuals in either single parent families or families with more than 2 children who may work hard, play by the rules, and yet still remain poor.
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