

The Effects of Anti-Poverty Policy on Poverty Exits versus Poverty Cycling among Poor Children

Shelley K. Irving*

The Pennsylvania State University
Department of Sociology and Population Research Institute

Introduction: Identifying the primary pathways through which Americans exit poverty is important from research, policy, and political perspectives. Children, which are the focus of this study, are of particular importance because of the political interest in this group. Children growing up in poor households are prone to developmental problems (e.g., decreased cognitive abilities and lower reading and math test scores); behavioral problems (e.g., juvenile delinquency, school dropout, nonmarital childrenbearing, and increased aggression); and health problems (e.g., chronic health conditions, low birth weight, and depression), which collectively increase their risk of being poor as adults (Brooks-Gunn, Duncan and Maritato 1997; Lichter 1997).

Researchers and politicians stress the importance of a strong economy and anti-poverty policies (i.e., Earned Income Tax Credit and minimum wage levels) for alleviating poverty (Grusky and Wimer 2008; Iceland 2003b; McKernan and Ratcliffe 2005; Picot, Zyblock and Pyper 1999). From a political and public policy perspective, poverty and poverty exit outcomes are unquestionably key issues in the 2008 Presidential election. How might a new war on poverty be fought? Candidates who have focused on this issue emphasize the potential impact of several public policies: 1) the Earned Income Tax Credit, 2) minimum wage laws, 3) child-care subsidies, 4) job retraining/job transition programs, 5) college attendance grants, and 6) affordable/subsidized housing programs (Grusky and Wimer 2008). In this study I will provide evidence on the impact of these current programs, which vary across states, on whether poor children exit poverty, versus cycle in and out of poverty, versus remain in poverty, and on the impact of these policies on racial/ethnic and nativity differences in poverty exit probabilities.

Using the 1996-99, 2001-03, and 2004-07 Panels of the Survey of Income and Program Participation (SIPP), which span across several distinct economic periods, the current study improves upon previous poverty exits studies by incorporating a multicategory poverty exit outcome, such as that used by Moore, Rangarajan, and Schochet (2007), which captures children remaining in poverty, exiting poverty with reentry (poverty cyclers), or exiting poverty without reentry (poverty leavers). The analysis will focus on the effects of anti-poverty public policies on poverty exits with and without reentry, net the effects of household characteristics known to be related to poverty exits, state-level macroeconomic context, and economic periods.

I will address three primary research questions in this study. First, what are the effects of state-level anti-poverty policies on poverty exits with and without reentry? Second, do these policies mediate any racial/ethnic and nativity differences in poverty exiting and poverty cycling? Finally, do the effects of state-level anti-poverty policies vary across racial/ethnic and nativity groups?

Background and Significance: Most previous poverty exit studies do not make the distinction between true poverty exits from poverty exits that are followed by a subsequent poverty spell.

* Direct correspondence to Shelley K. Irving, 211 Oswald Tower, University Park, PA 16802; Email: sirving@pop.psu.edu

Only a small segment of the poor remains in poverty over long periods of time; although, a large proportion of American adults will live in poverty at some point in time (Bane and Ellwood 1986; Eller 1996; Iceland 2003a; Rank and Hirschl 2001a). Among the ever-poor, those who do not experience long, uninterrupted spells of poverty, poverty spells tend to be short in duration (Rank and Hirschl 2001b) and returns to poverty are quite common (Stevens 1994, 1999). In the present study I will address this shortcoming of previous poverty exit studies by using a multicategory poverty exit outcome – whereby households exit poverty without reentry (poverty leavers), exit poverty with reentry (poverty cyclers), or remain in poverty.

Race and ethnicity of the family or household head are important correlates of poverty exits (Eller 1996; Iceland 2003b; McKernan and Ratcliffe 2005; Picot et al. 1999; Ribar and Hamrick 2003); yet, it is unclear whether racial and ethnic differences are due to personal and family/household characteristics (e.g., educational attainment levels or household structure) or to other factors (e.g., local labor markets, discrimination, or public policy). The dramatic rise in immigration, especially from Mexico and other Latin American countries, over the past few decades likely plays a role in explaining some of the racial and ethnic differences in poverty exits. Despite well documented racial/ethnic and nativity differences in poverty experience, the literature lacks in-depth comparisons of poverty exits across these population sub-groups.

The literature has identified the key events associated with poverty exits. These include changes in household composition, changes in employment status, changes in disability or health status, changes in educational attainment, and changes in economic conditions (Cellini, McKernan and Ratcliffe 2008; McKernan and Ratcliffe 2005). Little empirical research has tested the relationship between anti-poverty policy and poverty exiting behavior. This study will address this issue and further develop it by determining if the effects of anti-poverty policy vary across racial/ethnic and nativity groups. In other words, for example, is the effect of a state-level Earned Income Tax Credit program the same for whites as it is for blacks?

Data: Household data come from the 1996-99, 2001-03, and 2004-07 Panels of the Survey of Income and Program Participation (SIPP). The dependent variable is a child's poverty status in month $t+1$ assuming that the child was in poverty in month t . Children may remain in poverty in month $t+1$, or they may exit poverty in one of two ways. The first captures children that are no longer in poverty in month $t+1$ and do not reenter poverty throughout the duration of the SIPP panel. The second measure captures households that are out of poverty in month $t+1$ and return to poverty before the panel's end. Race/ethnicity is measured with four dummy variables (black, Asian, other race, and Hispanic) with whites as the reference category. Nativity is measured with two dummy variables (foreign-born naturalized citizens and foreign-born non-citizens); native-born citizens are the reference group.

Household-level SIPP data are supplemented with state-level data from several sources. The effect of macro labor market areas on poverty exits is measured by a set of time-variant, state-level variables. While smaller units of analysis (i.e., metropolitan area or census tract) would provide better indicators of the local labor market area, the state is the smallest geographical unit that can be identified for most sample respondents. Monthly state unemployment rates come from the U.S. Department of Labor, state quarterly real gross domestic product (GDP) from the U.S. Department of Commerce, and annual state poverty rates from the U.S. Census Bureau. "Nonmetro residence" captures whether the household lives in a nonmetropolitan area, rather than a metropolitan area. Dummy variables indicating the time period (i.e., 2001-03 or 2004-07 SIPP panel) of observation assess the impact of macroeconomic

cycles on households' exits from poverty without or with reentry. The reference category is participation in the 1996-99 SIPP panel.

The effects of state anti-poverty programs on poverty exiting and poverty cycling are assessed with the inclusion of several time-variant, state-level variables. (1) A dummy variable indicates whether the state has implemented its own EITC program, in addition to the federal program. This information is provided by the State EITC Online Resource Center (available at www.stateeitc.com). State EITC programs are expected to promote poverty exits and to a less extent poverty cycling. (2) The effect of minimum wage laws is captured by a continuous variable indicating the current minimum wage level (for adults) in each state. The U.S. Department of Labor's Employment Standards Administration provides these data. Poverty exits and poverty cycling are expected to be more likely to occur where minimum wage levels are higher. (3) Analyses include the income eligibility criterion for child care assistance, measured as the monthly income eligibility level as a percentage of the state median income to captures the accessibility of these services. These data are compiled from the State Child Care and Development Fund Plans. Children living in states with more generous child care assistance programs should be more likely to exit poverty or exit and subsequently return to poverty. Importantly, these first three anti-poverty policies are contingent upon labor force participation of children's parents and other adults in the household. Interaction effects will be added to see if this is the case. Moreover, due to racial/ethnic and nativity differences in labor force participation, I expect to see some differences in the effects of these policies across these population subgroups. (4) A dummy variable identifies whether a state offers job training and job retention programs to all qualifying poor adults. States that do not offer these programs or only offer them to certain subgroups (e.g., welfare recipients) are the reference category. These data come from The Urban Institute. Job training programs should lead to future employment and exits from poverty. (5) Statistical Abstracts provide data on state educational expenditures per capita to reflect the state's commitment to education. Children living in states with better educational opportunities are expected to exit poverty with and without reentry more so than children living in other states. (6) Finally, the availability of subsidized and other affordable housing is captured by a continuous variable indicating the income threshold (in dollars) that determines eligibility for public housing programs. This information comes from the U.S. Department of Housing and Urban Development. Households that spend less money on housing costs have more money to spend on factors such as transportation and clothing, which are associated with going to work.

This study uses the official measurement of poverty as defined by the U.S. Office of Management and Budget. Total household income includes all money from earnings, child support, educational assistance, pension income, interest and dividends, and cash assistance (i.e., AFDC/TANF benefits, unemployment compensation, and Supplemental Security Income) from all household members. Receipt of non-cash benefits such as food stamps, Medicaid, public housing subsidies, WIC, and money received from the Earned Income Tax Credit (EITC) are not counted towards total household income. The poverty threshold varies according to the size of the household and the ages of household members. Following the advice of a report prepared for the U.S. Department of Health and Human Services, the unit of analysis for defining poverty in this study is the SIPP household, rather than the SIPP family. The household is recommended for three reasons: (1) the SIPP household most closely matches the "family" definition used in the PSID; (2) the SIPP household includes cohabiting partners; and (3) the SIPP household includes single-person households (McKernan and Ratcliffe 2002).

Empirical analysis: The research questions listed above will be addressed with multinomial logistic regression models. The multinomial logistic regression model in a discrete-time event history modeling framework estimates monthly transitions from poverty using current-month (time t) covariates as predictors, where the dependent variable is the poverty status of children at time $t+1$, assuming that the child was in poverty at time t . Poor children contribute person-months to the analysis until they experience an event (exit poverty with reentry or exit poverty without reentry), leave the sample through attrition, or are right censored by the end of the survey. Since SIPP's cluster sampling design has serious implications for the estimation of standard errors, SUDAAN is used to obtain robust standard errors that correct for sample design effects and to appropriately weight the results using stratification weights.

Preliminary findings: Table 1 shows the number of children from each of the 3 SIPP panels who experienced poverty. Preliminary descriptive statistics looked at the outcome of the first poverty spell for each child in the sample. In all cases, a minority of children did not exit poverty during the SIPP panel. However, there are important racial/ethnic, nativity, and economic period differences in the likelihood of remaining in poverty. In almost all cases, poverty exits are more likely to be with reentry than without reentry; thus, pointing to the importance of making the distinction between these two types of poverty exits. Table 1 shows that between 40 percent and 70 percent of children cycle in and out of poverty, while less than one-half of children make more permanent exits from poverty. The next step is to examine the impact of state anti-poverty policies on the likelihood of exiting poverty with and without reentry versus remaining in poverty, net the effects of household characteristics, macroeconomic context, and economic cycles.

Table 1. Outcomes associated with children's first observed poverty spell expressed as a percentage of total poverty spells displayed separately by SIPP panel.

	No poverty exit (%)	Exit without reentry	Exit with reentry	N
1996 panel (48 months)				
Full sample	5.12	38.06	56.82	17,199
<i>Race/ethnicity</i>				
White	3.37	42.63	54.01	8,584
Black	7.24	34.65	58.11	4,061
Asian	3.25	37.88	58.87	462
Other	4.05	29.76	66.19	420
Hispanic	7.22	32.14	60.65	3,672
<i>Nativity*</i>				
Native	3.85	34.81	61.34	10,538
Naturalized	2.51	39.46	58.03	517
Not naturalized	3.86	29.29	66.85	2,489
2001 panel (36 months)				
Full sample	8.12	40.94	50.94	13,529
<i>Race/ethnicity</i>				
White	6.51	45.43	48.06	6,542
Black	11.57	37.55	50.88	3,129
Asian	10.40	42.13	47.47	375
Other	8.43	29.52	62.05	332
Hispanic	7.74	36.05	56.20	3,151
<i>Nativity</i>				
Native	7.07	36.24	56.69	7,494
Naturalized	4.62	43.57	51.81	498
Not naturalized	6.28	30.54	63.18	1,958
2004 panel (32 months)				
Full sample	12.09	42.06	45.84	15,545
<i>Race/ethnicity</i>				
White	10.26	47.64	42.09	7,191
Black	15.88	35.64	48.48	3,457
Asian	14.46	41.91	43.63	408
Other	11.23	38.62	50.15	997
Hispanic	12.08	37.94	49.97	3,492
<i>Nativity</i>				
Native	12.30	41.86	45.85	14,712
Naturalized	6.82	49.43	43.75	176
Not naturalized	8.98	44.75	46.27	657

* In the 1996-99 and 2001-04 SIPP panels, nativity status is reported as a household measure, since children's nativity status was not obtained. A more refined measure of children's nativity status will be developed for the final paper. Currently, children are identified as "not naturalized" if at least one member of the household is foreign born and not a naturalized citizen. Those living with at least one foreign-born naturalized citizen but with no one who is foreign born and not a naturalized citizen are identified as "naturalized." If no one in the household is foreign-born, the child is identified as "native." The 2004-07 SIPP panel identifies the nativity status of the child and these descriptive data are reported as such.