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This issue of Fast Focus *summarizes the research agenda of the Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison under a new, five-year national Poverty Research Center grant from the Assistant Secretary for Planning and Evaluation (ASPE) in the U.S. Department of Health and Human Services. The award is one of three made in ASPE's reconfigured poverty center program that is designed to combat poverty and inequality in the 21st century (Stanford University and the University of California, Davis host the other two new centers). In receiving the award, IRP will continue the work it has pursued since 1966, when it was established as the nation's original, university-based center for research into the nature, causes, and cures of poverty and inequality in the United States. Central to the mission of the poverty research center program is capacity-building—supporting faculty research and faculty training; mentoring students; and enhancing awareness of issues related to poverty and inequality through dissemination of research findings to a range of audiences. The new program features formalized cross-poverty-center networks and a centralized advisory committee that oversees all three centers in collaboration with ASPE analysts. In this brief, IRP researchers assess poverty and inequality in the United States. They examine key trends over the decades since the War on Poverty was launched in the 1960s, review past research, and look ahead to how poverty may continue to change and require new approaches to mitigate its effects on individuals and families. They evaluate the policies and programs devised to improve opportunities for the disadvantaged and to help them on the path to self-sufficiency. Finally, they look ahead to project what researchers, policymakers, and practitioners will need to know to improve the life chances of all Americans and what research evidence is needed to inform and improve antipoverty efforts.*

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American poverty and inequality: Key trends and future research directions

This brief is the result of a group effort that included important contributions from current and past Institute for Research on Poverty directors (Timothy Smeeding, Maria Cancian, John Karl Scholz, Barbara Wolfe, and Robert Haveman); associate directors (Jennifer Noyes, Katherine Magnuson, Carolyn Heinrich, and Thomas Kaplan); and faculty affiliates from across the University of Wisconsin–Madison campus (special thanks to Lawrence M. Berger, Marcia Carlson, J. Michael Collins, Julia Isaacs, Daniel R. Meyer, and James Walker).

Introduction

Researchers at the Institute for Research on Poverty (IRP) were recently asked to describe the key trends in the causes and consequences of poverty and inequality and their effects on Americans, to review past research in these areas, and to devise a research agenda that advances understanding and informs policy. They organized their analysis into discussion of three integrated themes that are central to the poverty problem and which therefore shape IRP's next five-year research agenda: Economic Self-Sufficiency, Family Change and Poverty, and the Intergenerational Transmission of Poverty. These themes were selected because they reflect issues of emerging importance to national and state policymakers and researchers, because IRP's multidisciplinary cadre of 160 affiliates can bring significant intellectual assets to bear on each, and because they are characterized by important gaps in knowledge and unresolved methodological problems. This brief summarizes the three integrated themes upon which IRP's five-year research agenda is based.

Theme 1: Economic Self-Sufficiency

In the United States, employment is the primary pathway out of poverty for most non-elderly adults. Secular and cyclical economic trends have changed the low-wage labor market, however, contributing to a shift in the composition of the poor toward households headed by working-age adults. Stagnating wages and increasing unemployment contribute to rising income inequality, reducing the share of aggregate income received by the bottom 40 percent of households.[1] Changes in the low-wage labor market coincided with a transformation of welfare benefits from income guarantees to a package of services and benefits designed to support the employment efforts of low-skill workers. Yet, the volatility and instability of low-wage work, particularly during times of economic downturn, challenge such an approach.

Income instability might be less of a problem if low-income workers were able to save sufficient assets to weather economic shocks. Recent initiatives to build savings have generated new research interest, but the ability of the poor to take advantage of these programs is hampered by low financial literacy and distrust of the banking system. At the same time, many antipoverty programs, including Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), Medicaid, and Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), still have asset tests that discourage savings.

Efforts to meet the twin goals of encouraging self-sufficiency and improving the well-being of vulnerable families confront a range of challenges. Despite agreement that work must be a central element of any strategy, important questions remain concerning the potential for low-income families to become self-sufficient and the role that policy can play in improving outcomes for adults and encouraging appropriate savings and asset building. In our review of prior research in this area, we focus on three key issues: (1) promoting sustained labor market participation and wage growth among low-skilled workers; (2) increasing the effectiveness of the work-based safety net; and (3) building savings and assets and improving financial decision-making.

What factors promote sustained labor market participation and wage growth among low-skilled workers?

Employment challenges faced by low-skill workers are both cyclical and structural.[2] Changes in the structure of the economy have diminished the importance of the manufacturing sector, a source of high-wage jobs for men with low levels of education, and, more recently, the housing crisis eliminated the construction industry as a source of new jobs.[3] Globalization, skill-biased technical change, and changes in union influence have also diminished the employment and wage-growth opportunities of low-skilled workers. Job growth for the unskilled is now concentrated in the low-wage personal service sector.[4] These changes have resulted in stagnant earnings for low-skilled workers, as well as an increase in long-term joblessness, especially for younger male workers.

Between 1990 and 2005, poverty was characterized more by low wages than by joblessness, but the picture has changed since then.[5] Although low wages are still an important issue, joblessness is the main cause of non-elderly poverty today.[6] During the last five years, the percentage of the population working has fallen to 58 percent from 63 percent, a decline of 10 million workers. In April 2011, a full 20 percent of 25- to 54-year-old prime age male workers were not employed, the highest fraction since 1948 and a full 5 percent higher than in the trough of any previous recession.[7] For young men, the recent declines in employment rates are staggering. Between 2000 and 2009, rates of employment declined 11 percent for men ages 25 to 29 and by about 17 percent for African American and high school dropout males of that age.[8] A large proportion of these young men are disconnected not only from the labor market but also from school and training programs.[9] The economic vulnerability of both adult men and women has profound implications for their ability to fulfill their roles as breadwinners and caregivers for their families.

How effective is the work-based safety net at reducing poverty and increasing economic self-sufficiency?

In the past 25 years, antipoverty policies and public welfare benefits have transformed from guaranteed income support to a work-based safety net. These changes were solidified in the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) and resulted from a long-standing debate about the adverse effects of income transfers and the effectiveness of job training programs and work supports, as well as a shift toward a cultural norm of parental employment even for single mothers. The resulting policy changes reduced mothers' access to welfare cash support by introducing time limits and conditioning them on work efforts. At the same time, funding for work supports, such as child care subsidies, subsidized health insurance, nutrition assistance, and wage supplements (in the form of the Earned Income Tax Credit or EITC) grew extensively. Income support programs now function as complements to, rather than substitutes for, formal employment.

These welfare reform policy changes have been studied extensively, although most evidence was collected during a period of economic expansion. The general conclusion, stated in Grogger and Karoly's (2005) synthesis of welfare reform studies, was "reform generally raised earnings, although not by amounts that are likely to raise many poor families out of poverty."[10] Specific aspects of the work-based safety net have also been evaluated, and are often found to have the anticipated labor market effects. Mandatory work (or work-related activities) reduces welfare use and increases employment.[11] Family caps, sanctions, and time limits also appear to reduce welfare and increase employment. Finally, more generous child care subsidies also promote maternal employment.[12]

Patterns of welfare receipt look very different today compared to 15 years ago. The largest expenditures today are for means-tested entitlements from Medicaid and SNAP, as well as the EITC (the average federal family EITC transfer in 2009 was $1,701 and the average state family EITC in Wisconsin was $504—and the amounts were larger if only families with children are considered).[13] In 2011, the EITC and SNAP programs will pay out over $75 billion each in benefits to low-income families, compared to $28 billion for

TANF and its related child care components.[14] As detailed by Affiliates Scholz and Moffitt, it is not just the type of spending that has changed, but also which low-income families receive assistance.[15] In the past, the most economically disadvantaged families received the largest amount of support. That is no longer the case; for single-parent families under 50 percent of the poverty line, increases in income now result in larger public benefit transfers, and families that are near or just above the poverty line receive substantially larger transfers than in the past.[16]

What are the most effective strategies to build savings and assets as well as improve financial decision-making among low-income populations?

One measure of household economic security is whether a family has sufficient net worth to survive at the federal poverty level for three months (about $5,500 for a family of four); by this measure, 22.5 percent of all U.S. households are asset poor.[17] Low-income families are asset poor not just because they have low levels of income, as even with little income asset building is possible and beneficial. Three other important factors conspire to constrain low-income families' savings: a lack of financial planning capability, limited access to basic banking products and services, and asset tests for public benefits.

Precautionary savings are those set aside in anticipation of job loss, seasonal earnings, or other income shocks, while emergency savings are those reserved for unexpected large expenditures such as a medical expense or a car breakdown. There is a strong positive relationship between income and saving, and low-income households fail to adequately anticipate their need for emergency savings.[18] Behavioral economic scholars are studying how cognitive processes compromise financial decision-making among the poor, including how cognitive biases may influence borrowing and perceived costs of credit.[19] This work has been applied in the developing world, and domestic applications are now being tested and are likely to be an important source of future innovative interventions and policy changes.[20]

Theme 2: Family Change and Poverty

Since the declaration of the War on Poverty more than 50 years ago, family life in the United States has changed drastically. One of the most important demographic changes over the past half-century has been an increase in family complexity, owing to high rates of cohabitation, nonmarital childbearing, divorce, and repartnering. Particularly notable is an increase in multi-partner fertility, the proportion of adults who have biological children by more than one partner. Another notable family trend is the persistence and prevalence of child maltreatment. These changes and trends in family life are important for understanding both the causes and consequences of poverty. As the reach and consequences of many antipoverty policies vary with family structure, changes in family life pose challenges to the effective design of antipoverty programs and policies.

This section describes major demographic and social trends since the mid-1960s and the ways they have affected families and poverty, focusing on three important issues: (1) the relationship between family complexity and poverty, (2) the role of unwed fathers in families, and (3) the causes and consequences of child maltreatment.

How does family change and increasing family complexity relate to poverty, and how might public policies better respond to these challenges?

Shifts in the nature of union formation have been at the core of changes in family life over the past half century. Marriage has become less central to the life course, both because Americans are marrying later and divorcing more often.[21] Unmarried cohabitation has arisen as a precursor to—or a substitute for—legal marriage. Over 60 percent of marriages are now preceded by cohabitation, and nearly half of all women have cohabited at some point by their late 30s.[22]

Concurrent with the changes in marriage practices has been a sharp increase in childbearing outside of marriage. In 1940, only 4 percent of births occurred outside of marriage, whereas in 2009, 41 percent of births occurred outside of marriage, with higher proportions among racial and ethnic minorities.[23] Much of the recent increase in nonmarital childbearing can be attributed to births to cohabiting couples, who tend to form unstable unions.[24] Despite positive attitudes toward and expectations about marriage expressed at the time of a nonmarital birth, only a minority of unmarried couples who have a child subsequently marry—17 percent by five years after the child's birth.[25]

Changing patterns of union formation and childbearing have yielded a range of complex and diverse family arrangements, which are strongly differentiated by race/ethnicity and socioeconomic status (SES).[26] Whereas 29 percent of white children in 2009 were born to unmarried parents, the numbers for African American and Hispanic children are 73 percent and 53 percent, respectively.[27] Women in the bottom two-thirds of the educational distribution experienced large increases in nonmarital childbearing since 1970, whereas women in the top third experienced virtually no increase.[28] On average, high school dropouts have 2.5 children per woman by age 40, compared to 1.6 children for college graduates.[29] Also, college graduates are much less likely to divorce than their less-educated counterparts.[30]

As a result of changes in patterns of marriage and fertility, a rising fraction of adults have biological children by more than one partner, a pattern referred to as "multi-partner fertility."[31] Multi-partner fertility is particularly likely to occur to unmarried parents. Estimates from a recent birth cohort of urban parents suggest that for three-fifths of unmarried couples who had a child together in the late 1990s, either the mother or father (or both) already had a previous child by another partner at the time of their common child's birth; this was true for less than a quarter of married couples.[32]

How are unwed fathers involved in the lives of their children, and how might father involvement change under alternative public policies?

Although the father's role in family life has historically been defined by financial contributions, fathers today are directly and indirectly involved in child rearing in numerous ways.[33] The "new" role of fathers as parents has often been discussed with respect to higher-SES fathers, but ethnographic studies report that many unwed or low-income fathers describe their roles in terms similar to those used by married or middle-class fathers.[34]

Yet, the reality is that low-income fathers are much more likely to live away from their children and, thus, to be less involved than their higher-income counterparts. Children in single-parent families are often deprived of two types of resources from their fathers—economic (money) and relational (time).[35] The economic consequences can be most easily quantified. Single-parent families with children have a significantly higher poverty rate than two-parent families with children, and living in poverty has potentially wide-ranging adverse effects on child development and well-being.[36] In addition, nonresident fathers see their children less often than resident fathers, and lack of interaction decreases the likelihood that a father and child will develop a close relationship.[37]

Child support from non-residential fathers has the potential to be an important source of income for many economically vulnerable single-mother families. Traditional child support enforcement policies have been strengthened over recent decades so that about half of custodial mothers are legally supposed to receive child support. Nonetheless, only 40 percent of poor single mothers receive the full amount that the courts have ordered, and 32 percent receive nothing at all.[38]

What is the relationship between parental income and child maltreatment and between maltreatment as a child and subsequent economic outcomes?

The concerns about the effects of family demographic changes and the role of low-income fathers stem primarily from an understanding that such changes are both a cause and possible consequence of poverty. Another important intersection between family trends and poverty is child maltreatment and its effects. Child maltreatment and child protective services (CPS) involvement, particularly if they result in child removal, have been described as extreme forms of family breakdown.[39] Maltreatment, CPS involvement, and child removal occur at substantial rates in the United States. Official statistics suggest that about 4.3 percent of U.S. children are reported to CPS each year and that just over 1 percent are found to be victims of abuse or neglect.[40] Estimates from the Fourth National Incidence Study of Child Abuse and Neglect indicate that 1.7 percent of all children have been harmed by abuse or neglect and that low SES children are five times as likely to experience maltreatment as their higher SES counterparts.[41] Additionally, more than 400,000 children currently reside in foster care.[42]

Both family complexity and low income are risk factors for maltreatment and CPS involvement. In turn, experiencing abuse, neglect, or CPS involvement during childhood has been linked to adverse economic consequences later in life. In July 2009, IRP hosted a working conference on "Innovations in Policies Supporting Healthy Families," which convened researchers, practitioners, and policymakers from across the nation. A major focus of this conference was how best to prevent and address child maltreatment and CPS involvement through home visiting, alternative or community response, and integrated planning. An important future direction identified at the conference is determining whether associations of low income with child maltreatment and CPS involvement, or associations of maltreatment and CPS involvement with subsequent adverse economic outcomes, are causal.

Theme 3: Intergenerational Transmission of Poverty

Poverty scholars have long referred to the intergenerational transmission of economic disadvantage as the "cycle of poverty," whereby poverty appears to be passed across generations. Children's life chances, and perhaps those of their future children, are constrained by their parents' economic fortunes. Most low-skill and low-wage workers are also parents. Thus diminished labor market opportunities create economic hardship not only for individual workers, but also for their children. Poverty and economic inequality is transmitted across generations by social institutions: families, schools, communities, and labor markets. The urge to intervene, and break the cycle of poverty, is strong, as the payoff for successfully improving their life chances is potentially quite large, for both individuals and society. Yet, to date, only a handful of policies and programs have been proven to improve the long-term well-being of low-income children, leaving many researchers and policymakers seeking more innovative and effective approaches.

Poverty is a common experience for children in the United States, and follows poverty rate trends in the general population. Although only about one in five children are poor in any year, roughly one in three will spend at least one year of their childhood living in a poor household.[43] Young children, children of single mothers, children of immigrants, and children of color are disproportionately likely to experience poverty.

This section addresses three important areas of research related to the Intergenerational Transmission of Poverty: (1) associations between poverty and the life chances of children and youth, (2) social and biological explanations for the transmission of poverty across generations, and (3) the effectiveness of policies and programs in reducing the intergenerational transmission of poverty from parents to children.

To what extent does poverty affect the life chances of children and youth?

Economic disadvantage plays a formative role in shaping children's opportunities for success and acquisition of skills. The degree of intergenerational transmission of poverty and inequality varies across studies, but the correlation between parent and child income is typically estimated to be about 0.5.[44] Such persistence in economic positions across generations, coupled with strong theory about why poor children fare worse than their more advantaged peers, argues that poverty affects children's life chances.

Cumulative research evidence, much of it conducted by IRP affiliates, suggests that deep and early poverty is particularly associated with lower levels of educational achievement and attainment, holding constant other family advantages.[45] Emerging research in neuroscience and developmental psychology suggests that poverty early in a child's life may be particularly harmful. Not only does the astonishingly rapid development of young children's brains leave them sensitive (and vulnerable) to environmental conditions, but the family context (as opposed to schools or peers) dominates their everyday lives.

Increasingly, scholars have recognized the importance of "non-cognitive skills" such as appropriate behavior, self-regulation, and mental health in determining labor market and other important adult outcomes, such as criminal activity.[46] Low-income children demonstrate lower levels of self-regulation and mental health and higher levels of problem behaviors in childhood and throughout adolescence.[47] These non-cognitive factors, as manifest, for example, in criminal activity and incarceration, compound low-income children's low levels of education and job skills, thus limiting their later labor market prospects.[48] Our understanding of the extent to which poverty, and related disadvantages, affects these types of "non-cognitive" skills remains in its infancy, therefore more studies are needed.[49]

What social and biological processes explain the transmission of poverty across generations?

Knowing whether poverty affects children tells only part of the story of the Intergenerational Transmission of Poverty. Also important, particularly for building successful interventions, is identifying the key pathways by which poverty affects children. There are many plausible pathways, but our review of the literature will focus on two that have received significant attention in recent years: family resources and investment, and familial and environmental stress.

Economic models of child development focus on what money can buy. They view families with greater economic resources as being better able to purchase or produce important "inputs" into their children's development such as books and educational materials at home, high-quality child care settings and schools, and safe neighborhoods.[50] Economically disadvantaged parents may also have less time to invest in children, owing to higher rates of single-parent families, nonstandard work hours, and less flexible work schedules.[51]

Psychologists and sociologists point to the quality of family relationships and stress to explain poverty's detrimental effects on children. These theoretical models argue that higher income may improve parents' psychological well-being and family processes, in particular the quality of parents' interactions with their children. A long line of research has found that low-income parents are more punitive, harsh, inconsistent, and detached, as well as less nurturing, stimulating, and responsive to children's needs than their middle-class counterparts. At the extreme, poverty may contribute to child maltreatment. Poverty and economic insecurity take a toll on a parent's mental health, which may be an important cause of low-income parents' less-supportive parenting.[52]

What policies and programs are successful at reducing the intergenerational transmission of poverty from parents to children?

With accumulating evidence pointing to the environmental characteristics of poverty as a key explanation for the intergenerational transmission of poverty and inequality, intervention efforts to improve the life chances of poor children focus on improving such environments, directly or indirectly. Indirect strategies raise family economic resources, either by providing cash supplements or in-kind benefits that offset the costs of basic necessities, or by increasing the earnings of poor workers. Interventions aimed directly at children and families provide an additional policy lever for enhancing the development of poor children.

Despite many years of service delivery and research, there is limited evidence about the most effective (and cost-effective) interventions for low-income children. Moreover, both theoretical and empirical evidence suggests that many interventions likely have varied effects, with some families and children benefiting more than others. Thus, in order to build better programs that reduce the Intergenerational Transmission of Poverty, we need to continue to study how programs and policies affect children and families.

In the United States, the tax system has been used to redistribute cash to low-income families. The child tax credit and the EITC have been heralded by many policy analysts for their ability to boost family incomes and promote employment.[53] Evidence on its effects on child outcomes is emerging, with results suggesting it improves children's achievement and possibly birth outcomes.[54] Means-tested work supports and welfare benefits such as SNAP; Women Infants, and Children nutrition assistance (WIC); housing assistance; and children's health insurance also provide poor families with valuable in-kind support. Both SNAP and WIC have been found to improve birth outcomes.[55]

Interventions aimed directly at enhancing the educational experiences of poor children have been shown to be effective at boosting children's long-run fortunes. As human capital development and education offer a route out of poverty for youth in low-income families, the general failure of the public K-12 education system to adequately prepare low-income youth for the labor market or postsecondary training is especially worrisome. While a full review of the effectiveness of education policy and practice reforms is beyond the scope of this review, Jacob and Ludwig (2009) identify a few educational initiatives, including accountability and incentive programs, that are likely to be cost-effective.[56]

Future research directions

IRP will organize its major research activities in the next five years around the three themes identified in this analysis of key trends: Economic Self-Sufficiency, Family Change and Poverty, and Intergenerational Transmission of Poverty. In doing so, we will:

- Focus the IRP thematic seminar series on one theme in each of the five years of the Center grant. The seminar series serves to concentrate interest and create opportunities for exchange across the broad range of disciplines of affiliates, staff, and the greater university community. It also engages local community members as well as key poverty researchers from other institutions.
- Pursue a major research agenda in each theme, encompassing an extramural small grants program, a mentoring workshop, a national research conference and volume, and policy and practice briefs.
- Convene five additional conferences and workshops focused on areas of interest related to the themes, one in each year of the Center award.
- Initiate cross-Center research networks with the other Poverty Centers.

Two additional research activities will occur. First, in each year of the Center grant, IRP will convene the Summer Research Workshop, which is an opportunity for established and emerging researchers to discuss works in progress. Second, as a final capstone activity, IRP will complete a sixth volume in its summative "Poverty Volume" series.[57] IRP has produced a book in this series in each decade since 1977 that summarizes the state of literature in poverty research and evaluation in a manner that is accessible to a range of readers. ASPE's investment in all of these activities is leveraged by ongoing, complementary, multidisciplinary research at IRP that is funded by other sources, private and public.■

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