

Child  
Poverty  
and  
Inequality

**Securing a Better Future for America's Children**



DUNCAN LINDSEY



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America's Children

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*For Sierra and Ethan*

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## Preface: The Future of Children

Children are the future. We rebuild our nation anew with each new generation. Children represent the growth and vitality of our nation. In this book, my concern is what we provide our children to build their future. P. D. James begins her novel, *The Children of Men*:

Early this morning, 1 January 2021, three minutes after midnight, the last human being to be born on earth was killed in a pub brawl in a suburb of Buenos Aires, aged twenty-five years, two months and twelve days.

Twenty-five years earlier, women were no longer fertile. They were no longer able to become pregnant and give birth to children. The consequence of this plague slowly reveals itself. Life as we know it—life among human beings—is coming to an end. When children no longer arrive, we learn that our future fades. P. D. James is able to portray a world without children after 25 years of no new births. It is a world without future. There is no reason to worry about the impact of our actions on the future of the planet. Neither will we know the future, nor will our children. The world—at least for human beings—is coming to an end.

Our future is renewed each year with the birth of a new cohort of youth. They inherit a world we contribute to and create. The United States has historically been a land of opportunity for young people. We have provided opportunities to children to participate in the wealth that is the fruit of our democratic political institutions combined with a free market economy. Our citizens have been rewarded with prosperity and personal satisfaction. The



greatness of the United States has been its inclusion of the middle class in the nation's economic prosperity. Each new generation has had hope and opportunity before them. In recent years, however, there has been a troubling change. A wide-ranging shift in public policy has favored those with assets and wealth and led to a substantial increase in the prosperity of the top-income and wealth holders. The middle class has failed to participate in the economic growth and prosperity to the same degree it did in earlier decades. Those at the bottom have fared even worse.

Children from middle class and low-income families have been particularly hard hit by these trends. Their opportunities have been declining. As a result, we are rebuilding and replenishing our society, but the children who are the future of the nation are inheriting a land of receding opportunity. In the childless world created by P. D. James, we learn that with no children to care for and no future to care about, those who remain are completely self-absorbed, pampering themselves, exploiting immigrants, and turning control of political affairs over to a dictatorship that guarantees their safety. But life is without meaning, purpose, and joy, not just for the exploited but for all inhabitants. It is not until we restore the opportunities and hope of birth and children that we see new life and a future for the world. Such is the lesson from P. D. James.

Inequality and declining opportunity is not our destiny. In earlier decades, the nation embraced the participation of all income groups into economic prosperity and opportunity. We can restore the foundation and commitment to opportunity for all groups. This is the vision and direction of the discussion here. It begins with the children. The children are our future.



## Acknowledgments

Conversations among colleagues, friends, and family are the wellspring of my work. In the preparation of this book, I have had the great fortune of many conversations with those who share my concern with the future of children. We live in a troubling time where progress toward equality of opportunity has eroded and too many children are denied hope and a future.

As I have been writing this book, I have shared it with the students in my courses at UCLA. I begin by thanking them and specifically recognizing Kush Cooper, Kelly Hoehn, Darcy Merrit, Sacha Mareka Klein, Ellen Polamero, Gina Albert, Brenda Batarse, Amy Billings, Reiko Kimiko Boyd, Jessica Denise Brown, Doris Chau, Wai Lam Chu, Maggie Cenovio, Erica Corley, Rocio De La Torre, Megan Doyle, Kathleen Edwards, Lauren Finkel, Juan Gomez, Jacqueline Gonzalez, Mariela Gonzalez, Shaghayegh Guerami-Dahi, Luz Guevara, Tara Henry, Kelly Suzanne Hoehn, Mahsa Hojat, Whitney Holum, Linh My Huynh, Gagandeep Kaur, Grace Lee, Paul Loya, Carolee Matias, Raven Letrice Maxie, Fernando Mallory, Rebecca Mcguire, Abigail Mecham, Jason Nitz, Jessica Okhovat, Dena Orkin, Elizabeth Phan, Spencer Daniel Presler, Monica Ravizza, Chelsey Rice, Kylene Richards, Carmen Romero, Sahar Sepidehdam, James David Simon, Sepideh Shahri, Cheryl Singzon, Wendy Skillern, Paul Stevens, Shana Ann Stewart, Ronen Stromberg, Raha Tabankia, Dustin Tillman, Diem Tran, Nicole Vazquez, MaryAnn Wee, and Tiffany Williams.

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This book has benefited from the careful reading and suggestions of my twin brother Buck Lindsey and my son Ethan Lindsey. My wife, Debbie, has been at the center of this study and my life. Our daughter, Sierra, has been one of the most important sources of my interest and concern with these issues. Her compassion and commitment to making this a better world is infectious. I especially recognize the contribution of my mother to my work in this field. It all began with her. My family has sustained me through the years and been instrumental in developing my views. I thank Aaron and Midore McDaniel, John and Rene McDaniel, Paul McDaniel, Jerry McDaniel, Anne Marie McDaniel, Rebecca McDaniel, Sean Lindsey, Garrett Lindsey, Jenny Lindsey, Marcy and Paul Cauthorn, Dan, Kirsten, Lucas, Aidan, and Arthur Kaufman, and Saimon Kos.

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I want to close with a memorial to Betty McDaniel and Howard Wade. I dedicated my last book *The Welfare of Children* to Betty. More than anyone she has inspired my work in this field. More than anyone, Howard contributed to the development and writing of that book. I miss both of these loved ones so much. Betty and Howard's voice and influence are found through out this study. I so wish I could give them a copy.

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# Child Poverty and Inequality



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# Introduction

Children enter the world full of promise matched only by the dreams and aspirations of their parents. They embark on life's journey with relatively equal potential regardless of race, ethnicity, sex, or economic background. DNA and RNA code will govern their physical development. Their economic and social development will be primarily influenced by the opportunities their parents, community, and society provide. Collectively, we are responsible for making sure the road ahead is safe and filled with opportunity. African-American and Hispanic infants enter with similar genetic potential as White and Asian infants, but in a matter of a few years the outcomes for these children will be very different. Why? That is the central question that drives this inquiry.

The seeds for the very different childhoods and life trajectories for African-American and Hispanic youth compared to White and Asian youth are not found in the delivery room, but in the experience of poverty and inequality that awaits many of them when they leave the hospital and begin life in America. Children who are poor often embark on a life of poverty. It is very hard to break the cycle of child poverty. In a previous time education was the springboard to entering the economic mainstream. However, education is no longer as effective in creating opportunity. Schools in the United States have come to reflect the economic status of their communities.<sup>1</sup> Schools in poor communities have fewer resources and often the least effective teachers. Children leave school with their relative status little changed from when they entered. The expanding opportunities for personal betterment and entering the middle class that existed in earlier times have receded.

After World War II, the United States began an "era of the middle class," where virtually all segments of American society participated in the growing wealth of the country. During the 25-year period from 1950 to

1975, the inflation adjusted median income in the United States doubled.<sup>2</sup> All groups, including the poor and low income and working class families experienced substantial income gains. However, since 1980 the “era of the middle class” has come to an end, and we have entered what can best be described as the “era of the wealthy class.” During the 25-year period after 1980, the country has experienced the same phenomenal growth as it experienced during the prior 25-year period. The personal computer, wireless phone and handheld devices, the Internet, and other technologies have transformed the nation and the world. During the era of the wealthy class, the incomes and wealth of the top 1 percent and the top 10 percent have more than doubled, whereas the income and wealth of the middle class have stagnated and the economic situation of the poor has declined.<sup>3</sup> The doubling of wealth at the top has been at the expense of middle class participation in the new economic growth.

Our individual economic futures begin in childhood. Today, the economic future of children is tied more closely to the income and wealth of their parents than ever before. Children from low-income and poor communities have very limited opportunities. They begin life with little true hope of escaping the economic grind that takes their mother away from them for long hours.<sup>4</sup> They too often fail to receive the care and attention children need in their earliest years.

In America today, there are essentially two worlds of childhood.<sup>5</sup> White and Asian families represent more than 75 percent of the population in the United States. Their children represent more than 60 percent of the children. White and Asian children growing up in two-parent families have a poverty rate of less than 5 percent.<sup>6</sup> Most of these children live in families that are doing well. In contrast, the poverty rate for African-American and Latino children ranges between 35 and 40 percent. The majority of African-American children are born to single parents (more than two-thirds), and their child poverty rate is close to 60 percent.

Children who begin lives in poverty are at a substantial disadvantage.<sup>7</sup> They will not have the developmental enrichment opportunities that most children experience. They will likely experience substandard child care while their parent is working at a low wage job. They may lack health insurance. They will experience hunger and the pain of poverty for long periods during critical development in early childhood.

Child poverty and growing inequality are intertwined and contribute to each other. In this book, I examine these developments. I argue that we cannot solve these problems separately. If we want to reduce the growing inequality then we will need to reduce child poverty, which is where the inequality most often begins and is sustained.

Chapter 1 examines the current situation of child poverty in the United States. Two major factors define child poverty—single parenthood and race and ethnicity. In this chapter I examine the “color of child poverty” in the United States. The United Nations recently reported that the United States had the highest child poverty rate among more than 30 industrialized nations studied.<sup>8</sup> This is difficult to believe, given the fact that the United States is the wealthiest nation in the world.<sup>9</sup> How could the wealthiest nation in the world have the highest child poverty rate? The answer, of course, is that the United States has what can best be described as two worlds of childhood. The highest rate of poverty is found among African-American and Latino children—several times higher than found among White and Asian children. The poverty these children endure is often debilitating. The restrictions of opportunity that begin in the earliest years are carried into adolescence and young adulthood. As a consequence, the opportunity of getting a college education is out of reach for most children raised in the other world of poverty. The likelihood of getting a four-year college degree is less than 1 in 15 for children coming from poor families.<sup>10</sup> Chapter 1 explores the very different opportunity structures that exist in the two different worlds of childhood. I also examine the role of standardized testing in restricting the opportunities of poor and low-income children.

Chapter 2 examines the growing inequality in the United States. According to the Internal Revenue Service, in 2005 the top 1 percent of income earners received more than twice as much income as everyone in the bottom 50 percent combined.<sup>11</sup> Two decades earlier, the bottom 50 percent earned twice as much income as the top 1 percent. In this chapter, I examine the origins of the growing inequality in the United States. The half century after World War II can essentially be divided into two periods. The first period I call the “era of the middle class.” This was the time when the American middle class emerged in full force. During this period, for the first time in history, a majority of Americans graduated from high school. College and university enrollments tripled. Televisions, refrigerators, and automobiles became standard commodities found in most homes. Home ownership increased from 40 to 60 percent—the highest rate of home ownership in the world.<sup>12</sup> The real (inflation adjusted) incomes of the average family doubled. Prosperity was experienced by all groups—from the wealthy, who saw their income double, to the poor who saw their ranks decline substantially.

The era of the middle class began to close in 1970 and essentially came to an end by 1980. In 1980, Ronald Reagan became the president of the United States and ushered in a new “era of the wealthy class.” President

Reagan removed what he saw as the impediments to building wealth. Taxes on the highest income earners were reduced from 70 to 50 percent in his first term. In his second term, Reagan reduced the rates on the highest income earners to 25 percent. The result has been an extended period of prosperity for the wealthiest families in America. The number of millionaires and billionaires—controlling for inflation—more than doubled during the period.<sup>13</sup> The amount of privately held wealth more than doubled during this same period. The incomes of the wealthiest 10 percent more than doubled.<sup>14</sup> But the increase in wealth and income was not experienced by all. During this same period, the income of the median family essentially stagnated. If some families earned more, it was primarily because there was a substantial increase in the number of families with two full-time workers.<sup>15</sup> During the “era of the wealthy class” tax rates were cut substantially for the wealthiest families, whereas the taxes for middle income families rose.<sup>16</sup> The capital gains tax cut and the dividend tax cut directed more than 80 percent of its benefits to the wealthiest 10 percent. The major federal tax borne by the middle class has been the employment tax, including Social Security and Medicare, and it has increased substantially during this same period. As a result, the wealthiest families have been able to save more and accumulate more wealth and further improve their relative wealth and prosperity. In contrast, the middle class and the poor have seen their portion of the nation’s income and wealth decline. The result has been the most dramatic increase in inequality in the nation’s history. The middle class has found itself over this period less able to save and invest. The result has been a decline in the nation’s saving rate. The only families that have had the ability to save have been the high income and wealthy.

As there has been a substantial improvement for the wealthy, there has not been a concurrent decline in poverty. During the period after World War II, two groups accounted for most of the poverty in the United States: children and seniors. The foundation for ending poverty for seniors was put in place with the Social Security Act passed in 1935 as the nation came out of the Great Depression. By the early 1950s, the majority of seniors became eligible for Social Security benefits. From a poverty rate for seniors well above 30 percent in 1959, there has been a steady decline over the years to less than 10 percent today.<sup>17</sup> Although there is a difference in senior poverty rates by race and ethnicity, it is not nearly as great as the difference for children. During the period, when the senior poverty rate was cut to almost one-third of what it once was, the poverty rate for children has essentially remained the same. However, in recent years the poverty rate for children has begun to increase.<sup>18</sup> Why has the nation been so successful in reducing poverty among seniors but ineffective in reducing child poverty?

In Chapter 3, I examine the impact of Social Security on ending poverty among seniors. The Social Security Act also included what we commonly refer to as the welfare program (originally called Aid to Families with Dependent Children, AFDC and now, after welfare reform, referred to as Temporary Assistance to Needy Families, TANF). Social Security was built on a “social savings” model and required seniors to set aside money for their retirement. As a result, all seniors have a floor of income support that assures them, even if they have no other source of income when they retire, that they will not live in poverty.

In contrast to the Social Security program, welfare was built on a “means-tested” approach designed to target income assistance to the most needy. Single mothers and their children who could prove that they lacked the means to provide for themselves were provided cash assistance through the welfare program. In contrast to Social Security that has popular support, over the years the public has grown weary and skeptical of welfare. Many have come to view welfare as encouraging dependency and out-of-wedlock births. Conservative critics of the program have published studies and made arguments that support the public’s widespread skepticism. Chapter 4 begins the discussion of welfare reform.

Chapter 4 examines the impact of welfare reform on child poverty. In response to public disenchantment with welfare, the program was fundamentally altered in 1996 with the passage of welfare reform. Supporters of welfare reform suggested that it would lead to improved lives for those impacted by the welfare program.<sup>19</sup> In the first several years of welfare reform, the country was in the midst of a period of historic economic growth and prosperity. Many of the single mothers removed from the welfare rolls found jobs in the expanding economy. The early results of the reform were a small increase in employment for welfare mothers and a substantial drop in the number of children receiving welfare benefits. The number of children receiving welfare declined from about 9 million in 1996, just before the enactment of welfare reform, to about 3 million today.<sup>20</sup> Looking at these numbers and the early studies of welfare reform would suggest that welfare reform has been successful in reducing child poverty. But this is not the case. In Chapter 4, I examine the impact of welfare reform a dozen years after its enactment. What we find are more children in poverty, more children receiving food stamps, more children receiving federally subsidized free lunches (even controlling for population changes) than prior to welfare reform. Although the architects of welfare reform have argued that it has been successful, particularly in reducing child poverty, the empirical data in this chapter suggest just the opposite—child poverty and the economic situation of poor children has grown worse.

Although welfare reform has failed to make a difference in reducing child poverty, it is not likely to be restored. In fact, the welfare program was fundamentally flawed. In Chapter 5, I examine the limitations and flaws of the welfare program and suggest different approaches to solving child poverty that have been used in most of the other industrialized nations of Europe, Australia, and elsewhere.<sup>21</sup> The two central approaches to reducing child poverty that have been used in most other industrialized nations are effective child support collection and a progressive children's allowance. The United States has among the worst record in the world in terms of assuring child support collection. This problem is particularly important for poor and low-income children. If the United States were to adopt child support collection approaches used in Europe, Australia, New Zealand and elsewhere, it could cut child poverty rates in half. Furthermore, if the United States were to adopt a progressive children's allowance as is found in most other countries, it could further substantially cut child poverty.<sup>22</sup>

The advantage of the approaches to ending child poverty presented in Chapter 5 is that, like Social Security, they are universal and not means-tested. Recipients do not have to be poor. The major limitation with welfare was that it was limited to the poor. Whenever a welfare mother earned enough money to exit poverty, she would lose her welfare benefits. This "claw back" effect of means-tested welfare provided, in a perverse manner, an incentive to remain poor. Furthermore, it created a high "effective tax rate" for welfare mothers who worked. As they worked, they would lose benefits while also paying employment tax. Studies by the Urban Institute and others pointed out the welfare mothers paid among the highest effective tax rates in the country.<sup>23</sup>

The universal programs examined in Chapter 5 would substantially end the poverty of single mothers and poor children in the United States. These approaches would allow child poverty to decline in a fashion similar to the declines in poverty rates for seniors. This reduced child poverty would have widespread effects in terms of reducing child abuse, improving educational opportunities for all children, reducing crime and the need for welfare.

During the last quarter of a century, there has been a substantial increase in the prosperity of the wealthiest families in the United States.<sup>24</sup> The fortunes of the top 1 percent and the top 10 percent have increased dramatically. However, the same benefits have not been shared by the middle class and the poor. The children of the middle class and the poor need to learn about the importance of saving and investing if they are to have hope of improving their economic situation.<sup>25</sup> In the last several decades, there has been a substantial increase in inequality largely because ownership of the assets and capital of the nation have become increasingly concentrated at the top. Those