

The changing economic circumstances of children: Families losing ground

The success of government policy in shielding the elderly from economic adversity is apparent in the decline in their poverty rates. In contrast, recent studies portray a disturbing situation concerning changes in the well-being of children. The 1983 poverty rates of various age groups depict what Senator Daniel P. Moynihan termed, in the Godkin Lectures he delivered last year at Harvard, a “perversely inverted triangle”: 23 percent among preschool children, 21 percent among school-aged children, 14 percent among the elderly, and 12 percent among nonelderly adults.¹

Adjustment of poverty rates to include the value of such in-kind benefits as Medicare, Medicaid, food stamps, and subsidized housing further accentuates the pattern, reducing poverty among the elderly in 1983 to 3.3 percent, but leaving 18.2 percent of preschool children—almost one in five—poor. This tilt toward child poverty became manifest in 1974, when children under 18 displaced the elderly as the poorest among age groups.

A report of the Congressional Budget Office points out that households with children now account for over two-thirds of all poor people in the United States.² Yet the proportion of children within the population as a whole has declined over the past twenty years, just as the share represented by the elderly has grown. With the end of the baby boom in the 1960s and 1970s, the number of children under 15 fell by 7 percent; as the death rate declined over the same period, the number of persons 65 or older increased by 54 percent.³ The enlargement and indexation of social security benefits in 1972 gave these growing numbers of elderly persons a measure of economic security that their voting power has continued to protect against proposed cutbacks. Meanwhile, the well-being of families with children has deteriorated.

In late 1985, concern over that deterioration prompted the Joint Economic Committee of the Congress to commission an Institute study that would look more broadly at factors underlying changes in the economic status of all families with children, whether poor or not (see box). The report highlights trends in family income, long-term changes in income inequality, and alterations in components of family income since 1967.

The fluctuating fortunes of families

The authors, Sheldon Danziger and Peter Gottschalk, examined changes in family income by analyzing Census data on different types of families (single- and two-parent, white and minority) and on the sources of household

income—husbands’ and wives’ earnings as well as government transfers.

The report began with an overview of developments in the postwar period. As the economy surged in the first two decades after World War II, both one- and two-parent families enjoyed rapid increases in income. Over the period 1949–69, family income rose annually by an average of 6 percent. Growth then slowed, however: from 1967 to 1973, the incomes of two-parent families rose at an annual rate of 3 percent; that of female-headed families, at 1 percent. After 1973 incomes declined as economic stagnation reduced well-being of both single- and two-parent families with children.

Danziger and Gottschalk looked in more detail at changes in real incomes of families during the period from 1967 to 1984, the first and last years for which comparable microdata are available from the Census Bureau’s annual Current Population Survey.⁴ Three patterns characterized that span of years: mean family income grew from 1967 to 1973, remained stable from 1973 to 1979, then turned downward in the early 1980s.⁵ Table 1 illustrates these trends and the relative experience of two-parent, female-headed, and white, black, and Hispanic family units. The unemployment rate is included in the table as an indicator of the changing state of the economy.

Experiences differed among two-parent and single-mother families, the latter enjoying little income growth in the more prosperous early period and larger declines later on. Overall, families were not much better off in 1984 than in 1967. Even though average incomes were 4 percent higher in 1984 than in 1967, they were 8 percent below the high point of 1973. These trends prevailed among families of different race and ethnicity, but all of those headed by women were worse off in 1984 than in 1967.

Census data do not take account of taxes, and because almost all types of families incurred tax increases that were larger

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Sheldon Danziger and Peter Gottschalk, “How Have Families with Children Been Faring?” IRP Discussion Paper no. 801–85.

Table 1
Mean Real Income of Families with Children, and Unemployment Rates, Selected Years, 1967-1984
(1984 dollars)

	1967	1973	1979	1984	Percentage Change ^a		
					1967-73	1973-84	1967-84
All families with children	\$28,369	\$32,206	\$31,138	\$29,527	+13.5%	-8.3%	+4.1%
White	29,697	33,859	32,826	31,298	+14.0	-7.6	+5.4
Black	17,790	20,708	20,150	18,504	+16.4	-10.6	+4.0
Hispanic	n.a.	23,280	23,778	21,663	n.a.	-6.9	n.a.
All two-parent families with children	30,139	35,493	35,383	34,379	+17.8	-3.1	+14.1
White	30,963	36,276	35,976	34,954	+17.2	-3.6	+12.9
Black	21,121	27,040	28,645	28,096	+28.0	+3.9	+33.0
Hispanic	n.a.	26,247	27,539	25,777	n.a.	-2.5	n.a.
All female-headed families with children	14,184	14,371	14,530	13,257	+1.3	-7.8	-6.5
White	15,836	15,853	16,016	14,611	+0.1	-7.8	-7.7
Black	10,819	11,619	11,710	10,522	+7.4	-9.4	-2.9
Hispanic	n.a.	12,175	11,223	10,560	n.a.	-13.3	n.a.
Unemployment rate	3.8%	4.9%	5.8%	7.7%	+28.9	+57.1	+102.6

Source: Data in all the tables in this article from computations by Danziger and Gottschalk from the computer tapes from the March 1968, 1974, 1980, and 1985 Current Population Surveys.

Note: n.a. = Not available. The Census Bureau did not begin collecting annual data on persons of Hispanic origin in the Current Population Survey until 1972.

^aDefined as $100 \times (\text{later-year mean} - \text{earlier-year mean}) / \text{earlier-year mean}$.

than the 4 percent rise in income over the 1967-84 period, the typical family had less income in 1984 than in 1967. Moreover, the rate of increase in personal taxes was larger for lower-income than for higher-income families.

The demographic shift toward single-parent families in recent years has been well documented. The proportion of such families doubled between 1967 and 1984, rising from 10 to 21 percent of all families. This shift in household structure has lowered mean incomes of all families, especially blacks. Single mothers now predominate among black households: in 1984 only 44 percent of black families with children had two parents present.

The tilt toward single parenthood has had an effect on black-white income comparisons. From 1967 to 1984 the income gap between black and white two-parent families narrowed, the ratio increasing from .68 to .80. The income ratio of black to white female-headed families also rose over that period, from .68 to .72. Yet the black-white income ratio for all families with children remained unaltered, at .60,

because so many more black households than white became headed by women.

Cohort comparisons

To capture the life-cycle effect of income increases that occur as a family matures through its prime earnings years, Danziger and Gottschalk examined three separate cohorts of families with children: those aged 25-45 in three different years—1949, 1967, and 1984—and compared the average incomes of each cohort in the initial year and subsequent years.

Members of the 1949 cohort started out with an annual mean income of \$14,733 (in 1984 dollars); by 1969, when they were aged 45-65, they had a mean income of \$36,229, an average annual increase of 7.3 percent. The 1967 cohort started with a much higher average income, \$27,047, benefiting from the prosperity that characterized the two decades after World War II, but in subsequent years they fared less

well than had their predecessors: by 1984, when they were between 42 and 62 years old, they received \$36,424 per year, an annual average rise of only 2 percent. The 1984 cohort began at \$28,073, disappointingly close to the initial-year income of the 1967 cohort, and if the past trends are an indicator, their prospects for rapid increases in income are poor.

Increasing inequality

Since averages among the whole population cannot give us information on the experiences of families at different income levels, the authors divided the entire income distribution into five segments of equal size, then examined the mean incomes received by each of these groups of families in 1967, 1973, 1979, and 1984.

In each of those years, the degree of inequality of posttransfer income intensified. In 1967, the poorest 20 percent of families with children received 6.6 percent of all income, while the richest fifth received 38.5 percent. In 1984, those figures were 4.2 percent and 42.1 percent, meaning that the richest 20 percent of families had ten times the income of the poorest fifth, as compared to a 6-to-1 ratio in 1967.

Inequality has become substantially greater since 1967 among families of all three racial and ethnic groups. Over the 1967–84 period, the 40 percent of families with the highest incomes have gotten richer, while the other 60 percent of families have grown poorer. In the subperiod 1973–84, however, the mean income adjusted for inflation declined in every segment. The income decreases experienced by the five segments of the distribution, from poorest to richest, were 34 percent, 20 percent, 11 percent, 5 percent, and less than 2 percent.

This increase in inequality is a recent phenomenon. When the authors extended their analysis back to 1949, they found that the trend before 1967 was, in contrast, toward greater equality.

Although poverty among families declined from 1967 to 1973, the combination of declining incomes and rising inequality after 1973 inevitably led to a continuous climb in poverty rates, especially after 1979. In that year the incidence of poverty among all families with children stood at 12.7 percent, and by 1984 it had risen to 17.4 percent.

Blacks deviated from this overall pattern. Just as the gap in median income of blacks and whites narrowed among two-parent and among female-headed families, poverty rates also declined in both types of black households. Whereas 31.3 percent of black two-parent families were poor in 1967, in 1984 that rate was 19.3 percent. Among black female-headed families, the rate declined from 67.6 to 60.5 percent.

Accounting for family income changes

Despite greater government spending on social programs since 1967, the incomes of families with children have not kept up with consumer prices. Why? Danziger and Gottschalk pinpointed three causes: the greater number of families headed by women; the fact that more and more government transfers, most of them indexed for inflation, have gone to the elderly while the real value of transfers to poor nonelderly families has declined; and the fact that the earnings of those heading families with children have been gradually declining.

The reduction in market earnings of family heads is a particularly important issue, because it bears on the ability of able-bodied parents to escape poverty by their own efforts. Among all families with children, the proportion headed by a “low earner”—defined by Danziger and Gottschalk to mean one who, working all year at his or her current weekly wage, could not earn the equivalent of a poverty-line income for a family of four—rose from about 20 to about 30 percent over the period 1967–84 (see Table 2).

Table 2
Incidence of Low Weekly Earnings of Heads of Families, 1967–1984

Family Head	1967	1973	1979	1984
All families with children	20.8%	21.5%	23.8%	29.9%
White	17.1	17.7	19.6	25.5
Black	48.3	45.6	46.9	51.5
Hispanic	n.a.	32.8	34.6	44.0
All two-parent families with children ^a	14.3	12.7	14.1	19.5
White	12.4	11.4	12.6	17.7
Black	32.1	24.5	26.6	32.8
Hispanic	n.a.	19.2	22.2	30.1
All female-headed families with children	71.1	68.9	61.9	65.5
White	64.8	63.8	56.7	61.4
Black	83.9	78.4	71.7	72.7
Hispanic	n.a.	81.6	75.4	79.8

Note: “Low earners” are family heads with weekly earnings below \$204 per week in constant 1984 dollars. Such persons could not earn the poverty-line income for a family of four even if they worked 52 weeks a year at their current weekly wage.

^aHusbands are classified as the heads of two-parent families.

Table 3
Dependence on Cash Transfers of Pretransfer Poor Households and Reduction in Poverty due to Cash Transfers, 1967-1984

	Percentage of Pretransfer Poor Households Receiving Cash Transfers				Percentage Reduction in the Number of Persons in Poverty Due to Cash Transfers ^a			
	1967	1973	1979	1984	1967	1973	1979	1984
All families with children	51.4	71.0	71.8	68.5	-15.2	-24.7	-23.2	-15.5
White	49.3	66.8	67.1	64.2	-18.3	-28.5	-25.7	-17.6
Black	55.7	79.4	81.7	79.0	-9.8	-17.9	-19.1	-12.2
Hispanic	n.a.	70.1	69.1	66.7	n.a.	-19.9	-15.8	-10.4
All two-parent families with children	38.5	56.8	60.1	56.4	-13.6	-25.4	-26.3	-18.7
White	39.3	56.6	57.9	55.1	-15.6	-27.9	-26.9	-19.1
Black	36.8	57.3	70.1	64.5	-8.7	-17.4	-25.1	-18.2
Hispanic	n.a.	52.6	52.8	48.8	n.a.	-20.2	-15.9	-10.9
All female-headed families with children	71.1	82.6	80.8	77.8	-17.9	-23.8	-19.9	-12.0
White	70.2	78.2	77.1	73.9	-25.1	-29.1	-23.6	-14.0
Black	72.3	88.6	85.7	83.2	-11.2	-18.0	-16.5	-9.9
Hispanic	n.a.	86.9	84.4	83.1	n.a.	-19.6	-15.1	-9.3

^aDefined as (posttransfer poverty - pretransfer poverty)/pretransfer poverty × 100. For example, for all families with children the posttransfer poverty rate for 1984 was 17.4 percent. The pretransfer rate was 20.6 percent, so -15.5 is the percentage difference between the two rates.

Because the incidence of low earnings rose more rapidly than did the incidence of poverty, Danziger and Gottschalk investigated the other sources of household income that must have moderated the trend toward poverty. In two-parent families, that source proved to be the earnings of wives. Even though husbands' earnings remained the most important income component for white, black, and Hispanic two-parent families, the share of family income contributed by wives increased steadily. Earnings of white wives rose from 10.6 percent in 1967 to 18 percent of family income in 1984, accounting for three-quarters of their total family income increase; for blacks over the same years, wives' earnings rose from 19.4 to 31.1 percent of family income, accounting for two-thirds of their total family income rise; for Hispanics, the increase was from 14.4 percent in 1973 (data not available for 1967) to 19.4 percent in 1984.

In all cases, wives worked more hours and their average wages per hour rose. But because more time in the marketplace means less time for leisure activities and household production, the authors pointed out that these income gains overstate improvements in well-being. Nevertheless, without the increased contribution of working wives, mean family income of all two-parent families would not have grown as much as it did, and poverty and income inequality would have been greater.

Changes in government cash transfers are another important source of income alterations. The diminishing effectiveness of government efforts to raise the well-being of families is shown in Table 3. Both transfer reciprocity and the poverty-reducing effects of cash benefits rose from 1967 to 1973, stayed about the same until 1979, then declined through 1984. A larger proportion of two-parent families, but a smaller percentage of single-mother households, were lifted out of poverty by cash transfers in 1984 than in 1967. This difference results from the fact that more two-parent families received indexed social insurance benefits, such as social security and unemployment compensation, while single mothers rely primarily on Aid to Families with Dependent Children (AFDC), whose benefits are not protected against either inflation or the reluctance of state legislatures to increase the AFDC guarantee in a time of fiscal stringency.

Families and social policy

The facts presented in the report are cause for alarm over the present condition and future prospects of families with children. Is a course of action indicated? Samuel Preston, a sociologist and demographer, has urged that the nation take responsibility for its children:

If we care about our collective future rather than simply about our futures as individuals we are faced with the question of how best to safeguard the human and material resources represented by children. These resources have not been carefully guarded in the past two decades. Rather than assuming collective responsibility, as has been done in the case of the elderly, U.S. society has chosen to place almost exclusive responsibility for the care of children on the nuclear family. Marital instability, however, has much reduced the capacity of the family to care for its own children. Hence insisting that families alone care for the young would seem to be an evasion of collective responsibility rather than a conscious decision about the best way to provide for the future.⁶

Senator Moynihan agrees. He recently recommended that government transfers be directed at intact families:

Among the major democracies in the world, we are the only country not to develop some kind of policy for family allowances. This is even routine in Canada. Some might characterize the AFDC program as a family allowance, but it's typically the broken families that are being aided. Why not a family allowance to support the traditional family and help hold it together? Our welfare benefits should be aimed at the family units, not the individual.⁷

Several other policy changes have been advocated to improve the condition of families with children. Tax reform has been urged, especially expansion and extension of the Earned Income Tax Credit and other changes to reduce the burden of taxation on poor working families (these measures are incorporated in the tax-reform proposals now before Congress). Other policy recommendations include continued experimentation with education, employment, and training programs to enhance the earnings capacity of parents, and enactment of a national minimum benefit under the Aid to Families with Dependent Children program. As described in the accompanying article in this issue of *Focus*, an equitable system of child support is a major avenue to improve the welfare of children in single-parent homes.

Is there a national will for public policy to better the condition of society's youngest members? The expansion of the social security system indicates a consensus that the aged should be supported by society. The absence of a social security system for all families with children may seem to indicate a contrasting consensus, that parents and not society must take full responsibility for support of their children. Or is there an emerging sense, as articulated by Preston and Moynihan, that society has an obligation to the young as well as the old? ■

tives, Committee on Ways and Means, *Children in Poverty* (Washington, D.C.: GPO, May 22, 1985; prepared for the Committee by the Congressional Research Service and the Congressional Budget Office), p. 3.

³ Samuel H. Preston, "Children and the Elderly in the U.S.," *Scientific American*, 251 (December 1984), 44.

⁴ The report values cash incomes (after public transfers, but before taxes) over the years in terms of 1984 dollars, using the Consumer Price Index (CPI) as the deflator—i.e., to remove the effects of price inflation. Another method would be to apply as deflator the CPI-X, which uses a rental-equivalence approach to the cost of homeownership, which soared in the 1970s as both home prices and interest rates rose. If the CPI-X had been applied, the percentage increase in real incomes for all families between 1967 and 1984, shown in Table 1, would be 13.9 rather than 4.1 percent, and incomes among female-headed families over those years would register a 3.3 percent increase rather than the decrease shown.

⁵ Because the number of families has increased since 1973 while family size has declined, it might seem that children could be better off even if family incomes decreased, because reduced family income was shared by fewer family members. In a separate analysis Danziger and Gottschalk showed that the trends they found for family income were basically the same as those for per capita family income and for per capita family income per child.

⁶ Preston, p. 49.

⁷ "We Can't Avoid Family Policy Much Longer," *Challenge* (September-October 1985), p. 17.

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¹ "Family and Nation," The Godkin Lectures, Harvard University, April 8-9, 1985, p. 13.

² Congressional Budget Office, *Reducing Poverty among Children* (Washington, D.C.: CBO, May 1985), p. xi. See also U.S. House of Representa-