EconoFact Chats: Consequences of Growing Up Poor
Lisa A. Gennetian, Duke University
Published on November 5, 2023

Michael Klein
I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
The real value of national income rose by almost 2% in 2022. But this increase was felt unevenly. Between 2021 and 2022, poverty rose by 4.6 percentage points, the largest one-year jump in poverty rates on record. Child poverty more than doubled, from 5.2% in 2021 to 12.4% in 2022. The share of households that couldn't reliably afford food rose by more than 2.5 percentage points to 12.8%. What are the consequences of living in poverty? How does growing up poor affect the development of children, and their chances for escaping poverty as adults? I'll ask these questions and others of Professor Lisa A. Gennetian. Lisa is an economist and Pritzker Professor of Early Learning Policy Studies at the Sanford School of Public Policy at Duke University. Her research addresses a wide range of questions about child poverty, with a particular focus on how child poverty shapes children's development and the role of public policy. I'm also pleased to say that Lisa has published six memos with EconoFact. Lisa, welcome to EconoFact Chats.

Lisa Gennetian
Thanks so much. It's such a pleasure to be here and, wow, I can't believe that it's been six memos.

Michael Klein
Lisa, you follow the issue of poverty very closely, especially child poverty. What was your reaction to the news that the poverty rate increased by so much in 2022 and that the child poverty rate more than doubled?

Lisa Gennetian
Yeah, along with many of my peers and colleagues that have been working in this space, we were not terribly surprised. In fact, there were predictions this was going to happen, in part because we know that poverty responds to policy choices and policy investments. And what we saw during the pandemic was some of the usual kind of policy cushion that happens during recessions, like I'm thinking things like replacing people's earnings through the unemployment insurance system. And so that's already in place, and that certainly happened to some extent over the pandemic. But the unique thing that happened over the pandemic was expansions of benefits that had never been there before for people that usually would not have been eligible for benefits.

Michael Klein
What's striking to me, Lisa, is that at a time when we had one of the worst downturns since the 1930s, there was actually a reduction in the poverty rate.

Lisa Gennetian
Yeah. And so, I'm going to go back to this really interesting grand policy experiment that happened over the pandemic related to investments. And there were two arenas that were sort of new that really helped reduce poverty, even though we were going through a recessionary time period in the economy. One was an expansion of food benefits, and that was through schools and that was directly to especially people

with children. And so if you're subsidizing the cost of food, you're also allowing families to have more money to spend in other ways. So food subsidies was one thing that was uniquely expanded. The second is a policy that was sort of direct money to lots of folks through the tax system. And that included people who in prior years, and in prior kind of economies would have never received a tax refund. So this has been called the '2021 Expanded Child Tax Credit.' So that was a new infusion of money to many families who had never before been eligible or this kind of money. And so those expansions, I think, really made a big difference in child poverty, even though it was a recessionary time period.

Michael Klein
And more recently, we have the mirror image of that. Even though there's a recovery and unemployment is at almost historic lows, there's been an increase in poverty rates, as I mentioned in the introduction.

Lisa Gennetian
Yeah, it's so interesting thinking about that. This is like a dilemma that really puzzles actually many of my students. So we think about economic growth as being a good thing and having natural good spillovers for well-being and improving people's lives. But it's mysterious how a very wealthy nation under economic growth can also have high rates of poverty. And so I think in this case, with the pandemic, it's really useful to reflect on the circumstances of growth, and where the economy was at, right before the growth kind of happened. So we can think about this. I guess I think about this in a couple of ways. I think about workers and how they're responding to growth, and their ability to enter the labor force, and take advantage of the growth. And I think of an economy's public infrastructure. So let's say, you know, can people get to jobs? Are the roads good? Is transportation clear? Is the internet up and working? And then we could ask these questions in slightly different ways. So when growth happens, who's benefiting and who's not? And I would say the circumstances of the U.S. before this recent growth, you know, were pretty tricky for some folks, folks that didn't have good social and economic cushions, folks that really rely on good child care in order to work, folks that need working cars and reliable buses in order to get to work. And, you know, the realities of especially low skilled, low wage work, and the way that growth happens there means that you're asking people to to take on even more risks when they themselves are recovering from something like a pandemic. So I think the point to make here is that economic growth is a great thing, and there will be hopefully lots of benefits for everyone in an economy. But who immediately benefits, and how quickly is going to vary quite a bit. And we really have to look towards…I think what we're seeing here is where the sticky spots are in our economy. And I really want to highlight the role of child care here for many, for many people.

Michael Klein
And I guess what we're also seeing is a withdrawal of these policies that we're helping people out. And so in the face of the growth, when the policies are withdrawn, more than…the growth effects on diminishing poverty, we're more than offset by the withdrawal of government benefits.

Lisa Gennetian
Yeah, you know, it's really interesting. I was listening to a story recently. I forget where this mom was from, but she was talking about the retraction of the school meals program, you know, that was done off-site, but it was distributed through schools in the height of the pandemic. And so this school's meal program, the expansion, had been retracted. And this retraction really affected the family budget, right. So while this mom re-entered work and her earnings were enough to kind of get by, the additional costs now of providing breakfast and lunch to her children was a real tipping point for that family. I think it's a nice example of what happens when you retract one little bit. It seems like a little bit of a [inaudible], but it can really make a difference for families who are just about to get back into the labor force.

Michael Klein
Yeah, it can seem like a little bit for those of us in the middle class or who are well off, but people who are really living on the edge, every little bit counts. And this can really tip them over into the situation of having a much harder time making ends meet.

Lisa Gennetian
Yeah, that's exactly right.

Michael Klein
Lisa, poverty statistics are based on income. But as you point out in one of your EconoFact memos that you published about two years ago, the focus on poverty income, or income poverty overlooks precarious economic conditions that are related to low levels of wealth rather than income. Can you say a bit about the difference between income based, and wealth based measures of poverty, and why wealth poverty is so important for our understanding of the lives of the poor?

Lisa Gennetian
Yeah, I'd be happy to. You know, I've been very humbled by this recent expanded view of financial resources and low financial resources that crosses wealth and income. I would consider myself more traditionally an income poverty expert. So I want to thank my collaborators, Christina Gibson Davis and Lisa Keister, and economist Sandy Darity for really opening my eyes to wealth as an important independent aspect of financial security for families.

Michael Klein
You know, some of our listeners might not understand right away the distinction between income and wealth. Could you just quickly describe that?

Lisa Gennetian
Yeah, I'd be happy to. So we think about income as sort of the immediate resources available like cash flow. What is the money I have right now to take care of things like my needs to buy food, to pay for housing, to pay for rent, to pay bills? And the way that we have from a policy perspective thought about wealth building is that some of that income, that cash flow might also go towards savings, right? You might think about a rainy day fund, some savings for future education of your child, or putting money away to buy a home. And so cash flow, how much money people have access to has been a real focus for traditional thinking around economic policy. And what this work on wealth has really opened my eyes to is that the stock of resources matter. So here is a scenario. Let's say your cash flow is really low. Your boss called and said, you know what, I don't need you this week because of whatever reason. So now you don't have earnings that week because it is a on-demand type of job. And so to get by that week, you might rely on some savings. And so that would be considered the stock of money you have available for yourself, and is a picture sort of also of your wealth. And then you can [inaudible] a stock also broadly in other ways, like owning a home. And we know that owning a home is a really stable form, a really positive asset. It's really helpful for children. And so, this distinction between like cash and having money to take care of daily needs, versus wealth and so having some economic cushion to lean back on during times of emergency or to make good investments has really been kind of distinct in big policy circles. And I think we try to argue in this memo is we really need to think about both. And so, this this work has really been, I think, core to thinking about both low wealth and low income. And when we looked at statistics, we found that many, many children are living in households with just low resources on both fronts.

Michael Klein
And not only low levels, but volatility as well. When people don't have much wealth, they lack the cushion that can insulate them from shortfalls in income from their income volatility. And in fact, your latest EconoFact memo, which you wrote with Bradley Hardy of the McCourt School of Public Policy at Georgetown, is titled The Financial and Psychological Costs of Income Volatility. What did your research find about income volatility? Which people are most affected, and for what reasons?

Lisa Gennetian
Yeah, so I want to just start by saying I'm just going to try to describe what income volatility is, because that might be a really mysterious term for lots of folks. And in fact, it's like a super complicated term. And I appreciated the hard work done with EconoFact to convey this.

So the idea behind income volatility is that the cash resources, the money available to you to take care of your daily needs, could be shifting day to day and could have some uncertainty around it. You know, folks think about, for example, relying on the economy as one example of potentially having a lot of not only work hours volatility, but how much money you can make in any one day. And so when that kind of reliance on income is not predictable, it's really stressful. And it really puts kind of a tax on the ways that you can plan to spend your money. And it forces you to think really in the moment and day to day. That also imposes some constraints on how much you can think about the future. And this has all kinds of ripple effects on family life and especially caregiving and parenting of children.

So in the memo, we try to talk about how do we measure this. And, you know, this is hard to do, but we know that from longstanding data sources that are collected by the U.S. government, we can see that the sources of income we rely on the most – earnings and government income – are actually changed quite a bit year to year and sometimes month to month. And if that is not known to people getting the income, it kind of imposes this extra planning cost, and extra cost for budgeting. So if I know I got X earnings today and I don't know if I'm going to get the same earnings in the next month, you know, that's an extra planning exercise.

Michael Klein
We have an EconoFact Chats podcast with Arline Geronimus of the University of Michigan, who talks about weathering, and what you're saying sounds a lot like weathering in that ongoing prolonged stress has really detrimental effects on people's health and well-being.

Lisa Gennetian
Yeah, I think that's right. I think this idea of uncertainty and the unpredictable nature of something as core as money, and being able to pay for things like food and pay bills can cause a lot of wear and tear. And the wear and tear can be physiological and biological. And, you know, being in an escalated kind of stress-state. And the other way that can really affect folks is the attention they have to other things, other matters. And we try to talk about both of those things in this memo.

Michael Klein
As I mentioned in the introduction, Lisa, one of your areas of research is child poverty. And as I also mentioned in the introduction, this issue is especially relevant now that we've seen child poverty rates more than double in 2022 as compared to 2021. In what ways are children particularly hard hit by poverty?

Lisa Gennetian
So this is a really big question. And so I'm going to talk about it in lots of ways. So one's going to sound a little frustrating. I mean, poverty has so many negative impacts on children. And we have really good research that shows it affects children's health. It affects their start in life from the moment that they're

born. It affects how healthy they are when they're born. It affects potentially their brain development and rapid periods of growth in early years. It affects how they learn and how they regulate themselves and adapt to their environments. It affects the responsibilities they're asked to take on, sometimes too early over the course of their development. And, you know, typically as economists, we try to capture all these impacts through things like education and earnings, and how children are doing on test scores. But I think part of what I want to convey is those outcomes are really important and give us a picture. But there's so much happening underneath that as well that we need to be cognizant of.

Michael Klein
You are involved with a number of other scholars in a research project called Baby's First Years. And this, from what I understand, is the first study in the United States to assess the impact of poverty reduction on family life and infant and toddler's cognitive, emotional, and brain development. Can you tell us a little bit about that project, and what you and your colleagues have found so far?

Lisa Gennetian
So, indeed, you know, I'm going to characterize this as sort of a landmark randomized control study that we hope will transcend time and space, and inform science and policy for many, many years. So the genesis of this was really to answer a really basic science question. And that is, what is the causal impact of poverty in the early years of rapid brain development? And so our goal was, can we isolate the role of a mechanism, income, in our case, as way of reducing poverty, and can we connect that to how children are developing in those first few years? This is a really hard time. I just want to mention this is a really hard time to capture children's development, right? There's no test score. You can't talk to children. And it's really, really expensive to do the kind of observational measures that child development specialists tend to do. And so measuring brain development is really a novel way to think about capturing children's development really early.

Michael Klein
It's really interesting, those challenges that you're mentioning, and the fact that this is such an interdisciplinary study. Do you have any preliminary results that you can speak to?

Lisa Gennetian
Yeah, we are learning lots of things. So we landed on a design of a thousand mother-infant pairs. They're recruited from four different very diverse cities in the U.S. And from the after all the consent procedures, they automatically get an unconditional monthly cash gift. There are two groups. Everyone gets a little money. And the high cash gift group gets 333 dollars, and that's about 4,000 dollars a year. So it's about a 20 percent income boost for the families who are coming in because they're residing in poverty.

So, you know, I'm going to bucket like we've learned two buckets of things. Things that inform areas that prove to be controversial in the space of giving money with no strings attached to families and then another bucket of well, what happens when you give money to families in terms of impacts on family life and children? So one thing right away is we've learned so we're giving this money out on this debit card and it's working really, really well from the time of birth. And I think from like a how do we implement policy perspective, I think that's a really interesting result. We see that families seem to be spending money and time, so far – these are like really early findings, like within the first year – they seem to be spending money and time specifically investing in their children. So they're spending the money on things like books and toys and diapers and clothing. And the moms who are the who the reporters in our survey are reporting spending more time reading and storytelling with their children.

What we're not seeing is any support for some of the thorny issues that come up in policy debates. So one of those is we're not seeing dramatic reductions in people working, or dramatic reductions in earnings. And this is sort of a, you know, a merited concern. So what happens when you compensate people, you kind of give money with no conditions. Are they going to drop out of labor force? We're not seeing that. We're also not seeing the money being spent on things that might not be good for families or children. We're not seeing money being spent on alcohol or cigarettes or those kinds of things. We're also not seeing any so far, you know, families kind of dissolving…sort of the money being a reason to suddenly live apart from the father, or to break up a relationship. And so those three tend to be like these thorny issues in this conversation about giving money unconditionally for low-income families. And we're not seeing that much evidence to support those issues.

Michael Klein
So, Lisa, this is kind of bringing us full circle to a topic that we were discussing at the very beginning, the way in which the support during COVID really helped reduce poverty. And what you're showing now is that those reductions in poverty led to really important benefits for children. And so I guess this speaks a little bit to what could public policy do, and how efficacious would it be in the reduction in poverty that we saw with the government programs during COVID, and the results that you're starting to get with this very ambitious project point to really efficacious ways in which helping out the poor could help out their children and help generations of Americans.

Lisa Gennetian
Yeah, I mean, certainly, that was one of the reasons why we designed this study, right? We didn't know there was going to be a pandemic or all the expansions in pandemic benefits or, you know, that families who had never received money from the government were suddenly going to receive government [inaudible]. So we're delighted if this study can help generate some evidence around those big questions. You know, I just want to note like two really important context things. The money that this study is designed to test is much smaller than the expansions that happened over the pandemic benefit kind of period, especially that expanded child tax credit. And in fact, because of the price of goods has changed so much, and we don't adjust the cash gift in the study by cost of living, and it's not adjusted by the number of children. And those are two big key features of some of the pandemic expansions. But you're right that we hope that this study can help inform, provide one bit of many bits of evidence towards what would happen if we provided basic income support to families.

Michael Klein
Well, this is what economists want to do, right? We want to provide evidence in order to make better policy, and I commend you on the work that you've done to do that, especially this new study. And I also thank you, Lisa, for making these results much more widely known through your contributions to EconoFact. So, thanks very much for speaking with me today. I really appreciate you taking the time.

Lisa Gennetian
Thank you, Michael. It is a pleasure.

Michael Klein
This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site, you can log in to www.econofact.org EconoFact is a publication of the Fletcher School at Tufts University. Thanks for listening.