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Reducing Child Poverty in California

A Look at Housing Costs, Wages, and the Safety Net

SUMMARY

CONTENTS

Technical appendices to this paper are available on the PPIC website.

Nearly a quarter of young children in California live in poverty—a fact that has profound educational, health, and economic repercussions now and in the long term. High housing costs and low wages are key barriers to reducing the prevalence of child poverty. Lawmakers have taken action to address these issues: the minimum wage is slated to increase to $15 an hour by 2022, and recently enacted laws aim to ease the state's housing crisis.

This report examines how high housing costs and low wages contribute to poverty among young children ages 0–5 and considers additional policy approaches that could mitigate need among this population. Our related interactive allows for a deeper exploration of how these potential changes could affect California's diverse counties. We find:

- In California, most young children live in areas with high costs of living, and most parents work. Among poor families with young children, 78 percent of adults work in low-wage jobs and 31 percent pay more than half their income toward housing. The challenges facing these families differ across the state. Those in low-cost areas—mostly inland and northern regions—are more likely to work low-wage jobs, while those in high-cost coastal and urban areas are more likely to pay a large share of their income toward housing. Minimum wage increases and lower housing costs could reduce child poverty substantially, especially in high-cost areas.

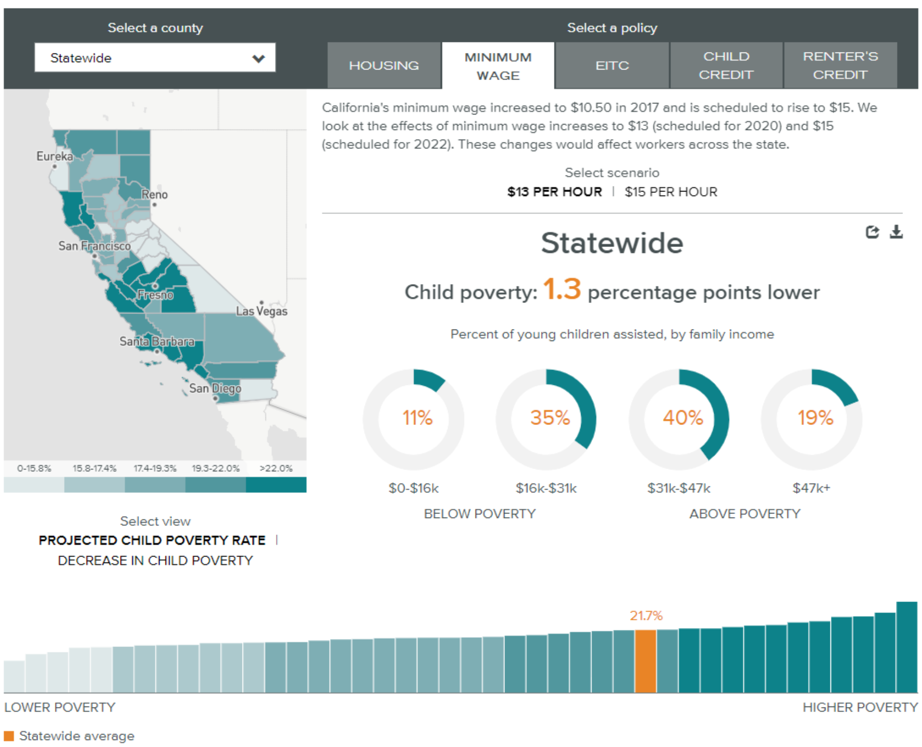
- The current safety net is limited in its ability to reach some of the lowest-income families in the state. Devoting more resources to address this gap through, for example, expansions to the state's Earned Income Tax Credit or a broad-based child credit could assist many severely poor families. Such approaches would have larger impacts on child poverty in low-cost areas. In contrast, rental assistance that targets both low incomes and high housing costs would reduce child poverty to a similar degree across the state. The approaches we examine range widely in estimated total costs, from $417 million to $2.3 billion, and would assist 210,000 to 390,000 young children statewide.

- The current safety net is also limited in its ability to reach low- and moderate-income families who are struggling but may not fully qualify for existing programs—a particular challenge in high-cost areas. Taking into account the cost of living when determining income eligibility for work-based, child, or renter's credits would help address this gap and could reach those missed by current programs. These approaches range from $4.1 billion to $5.6 billion in estimated total costs and would assist 310,000 to 1.6 million young children statewide.

As with all policy choices, there are trade-offs to consider. In particular, policymakers interested in improving children's economic well-being must weigh the merits of incentivizing employment by making programs contingent on work versus bolstering income directly. They must also consider how to prioritize improvements in the child poverty rate, the share of children assisted, cost effectiveness, and other measures. For instance, a policy that targets the lowest-income groups is unlikely to affect poverty rates, though it could substantively improve well-being among the most vulnerable.

California faces an uncertain policy environment at the federal level and—after years of robust economic growth—the next recession looms large. Nevertheless, to meaningfully reduce child poverty, policymakers may want to consider strategically expanding programs that help families when earnings fall short. Working toward a future where our youngest children live in families with enough resources to meet basic needs promises to improve their lives and buoy the state's success as well.

Our related interactive allows for a deeper exploration of how potential policy changes could affect California's diverse counties



Introduction

As policymakers consider how to improve economic well-being among California's impoverished residents, their focus often turns to young children. Once the cost of living is taken into account, California has one of the highest poverty rates in the nation. Moreover, a larger share of young children live in poverty than any other age group. Nearly one-quarter (24%) of California children ages 0–5 live in families without enough resources to make ends meet (2012–15 average). There is wide-ranging evidence that material need in children's early years has negative, long-term consequences for individuals, families, and the state. As such, policymakers have repeatedly proposed ways to assist families in need.

Social safety net programs already reduce child poverty substantially. We find that in the absence of benefits from large-scale programs like CalFresh (sometimes known as food stamps), the Earned Income Tax Credit (EITC), and others, an additional 14 percent of young children in California would be poor, equivalent to raising the poverty rate by more than half.[1] Even with these programs, the fact that California continues to struggle with such high poverty rates suggests that additional policy actions should be considered.

One limitation of the current safety net is its ability to reach working-poor families who are poor because they face a high cost of living. Currently, some key safety net benefits are allocated based on earnings relative to a single federal poverty threshold, not acknowledging that most Californians face much higher housing costs. A typical family with young children in California must have on hand nearly $6,000 more annually than a typical family elsewhere to have enough resources for basic needs. As a result, Californians—especially in coastal and urban parts of the state—may be deemed ineligible for federal safety net programs because their earnings are "too high," when in fact they lack the means to meet their basic needs. Indeed, we find that safety net programs reduce poverty much more in inland and northern areas of the state: if we subtract these resources from family budgets, the poverty rate among young children would increase by 24 percentage points in the Central Valley and Sierra, compared to 8 points in the Bay Area (Bohn and Danielson 2017).

A second gap in the safety net affects severely poor families in which adults are unemployed or working limited hours. By design, a substantial portion of the safety net is contingent on work. The EITC, for example, has the nice feature of incentivizing work since you must have earned income to be eligible, but for children whose parents face barriers to employment—or to increasing employment—the safety net is more limited.[2] In addition, families that are ineligible for existing tax credits, such as families with undocumented immigrants, miss out. We estimate that 5 percent of California's young children live in deep poverty, meaning their families have less than half of the resources needed to meet basic needs.

In recent years, California policymakers have taken a number of steps to address the state's high cost of living and the prevalence of low-wage work. In 2015, the state adopted a framework for increasing the minimum wage to $15 an hour by 2022 and indexing it to inflation thereafter. California also created a state EITC (CalEITC) that took effect in 2015—and then expanded it in 2017. Policies to increase housing supply enough to meaningfully lower costs are hotly debated, and new legislation aims to spur more housing construction overall and more affordable housing in particular (Office of Governor Edmund G. Brown Jr. 2017). Although these efforts do not specifically focus on assisting poor children, they nonetheless hold promise for improving the situation of many

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[1] Apart from CalFresh and the state and federal EITCs, this includes: the federal Child Tax Credit, CalWORKs (cash assistance for families with children), federal housing subsidies, free and reduced-price school meals, Supplemental Security Income (SSI), and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

[2] Individuals in many of these families are eligible for CalFresh and the child nutrition programs; some are eligible for SSI. California has about 108,000 children under 18 receiving SSI and about 592,000 adults ages 18–64 with SSI benefits. The share of children on SSI is relatively low in California compared with the rest of the United States, while the share of non-elderly adults receiving SSI is on par with the national average (Social Security Administration 2017).

Californians, including those with young children. However, additional steps could be taken to target the gaps in the safety net highlighted above.

While the federal government plays a large role in California's safety net, this report focuses on the potential of state action. To frame options for how the state could extend the existing social safety net to reach more poor families with young children, we use California Poverty Measure data (see text box) to simulate changes in poverty resulting from different policy approaches. The report begins with an overview of how high housing costs and low-wage work contribute to poverty among young children across the state. We then examine three approaches to further assisting low- and moderate-income families:

- **Further expand the CalEITC**. This would focus resources on the working poor with children. Like the current EITC, it would be contingent on earned income from employment.
- **Provide a state credit for families with children**. This would focus resources on families with children but would not be contingent on employment.
- **Overhaul the state renter's credit**. This would address both high housing costs and low earnings by focusing resources on families paying more than half of their income toward rent. This would not be contingent on employment.

Methodology

This report uses the California Poverty Measure (CPM), a joint effort of PPIC and the Stanford Center on Poverty and Inequality, to assess the economic standing of California's young children. Unlike the federal poverty measure, the CPM accounts for the differential cost of living that families face across the state as well as a much fuller set of resources low-income families use to meet their basic needs (including not only cash income but also tax credits, food assistance benefits, and other near-cash social safety net benefits). The CPM rates are based on the authors' calculations from the California samples of the American Community Survey, along with a number of other auxiliary data sources.

To assess how changes in the policy and economic environment might affect poverty, we adjust the 2012–15 CPM data to reflect major policy changes that have occurred by 2017. In particular, we simulate increases in the cost-of-living adjustments in the CalWORKs and Supplemental Security Income (SSI) programs, the expansion of the CalEITC as passed in 2017, and the minimum wage in effect as of January 2017. This allows us to assess the impact of additional changes from a common starting point. We do not attempt to model other changes—such as continued improvement in the job market or individuals' and businesses' migration into or out of the state. Instead, we use the most recent, detailed data on the economic standing of California's young children and their families to understand how a wide range of policy approaches could differentially affect children across the state.

The technical appendices to this report provide additional information about our methodology and estimates for other populations facing economic hardship in California.

Our analysis assesses the restricted, short-term likely outcomes of these policies.[3] In evaluating the efficacy of different approaches, it is important to keep in mind that poverty rates typically change very gradually. As California's economy improved rapidly from 2012 to 2015, child poverty rates declined by only 1 percentage point per year on average. This is in part because the poverty rate is a somewhat blunt metric: a family is either in or out of poverty. The average poor family with young children is relatively far from the poverty line—and would need more than $7,700 per year to be lifted out of poverty.[4] But programs can have positive effects even if they do not move a family above the poverty line. For this reason, we examine not only changes in poverty rates but also effects on family resources and impacts across the income spectrum. The causes of poverty among families with young children vary across California, and so will the effects of various policy approaches (Bohn and Danielson 2017). Our related interactive shows the effects of these policies across California's diverse counties.

California's High Cost of Living

Home prices and rental costs are much higher in California than in other large states (Legislative Analyst's Office 2015). Even within California, many of the least expensive areas are still more expensive than the national average. Rising housing costs, lack of affordable housing supply, and stagnant wages for lower-income individuals have contributed to disproportionately high housing burdens, meaning people are paying a sizable share of their income toward housing (Sard and Fischer 2013). The growing housing crisis has affected many low- and moderate-income families (Aurand et al. 2017; Glaeser and Gyourko 2017; Legislative Analyst's Office 2016, 2017; Woetzel et al. 2016; Zuk and Chapple 2016). Low-income households that spend a larger share of their income on housing have fewer resources available for other basic needs, such as food and health care, and are more susceptible to homelessness (Legislative Analyst's Office 2015).

Currently, the median family in California pays more than $15,000 annually in housing, and 12 percent of families are severely housing burdened, defined as paying more than 50 percent of their resources toward housing (Table 1).[5] For poor families with young children, housing costs are not substantially lower, and a much larger proportion are housing burdened. Of course, housing costs vary dramatically across the state. Poor families with young children in high-cost counties—mostly in urban and coastal areas—have annual housing costs that are almost double those in low-cost counties—which tend to be in northern and inland areas.[6] Housing burden is more common among poor families in high-cost counties (34%), but it is also prevalent in mid-cost counties (26%) and low-cost counties (23%). These statistics reflect the fact that both housing costs and low earnings drive housing burden.

How do poor families cope with the high cost of living? Some strategies include crowding into smaller dwellings, obtaining public housing subsidies, commuting longer distances, and moving.[7] Poor families with young children

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[3] In particular, we do not consider the complex set of longer-term behavioral and macroeconomic effects that would result from major policy changes. Such likely responses include additional migration into California and/or into high-density coastal areas and shifts in employment demand. In addition, we do not consider how the simulated policy expansions might interact if taken together. As such, the effects we estimate are not additive.

[4] Based on 2012–15 CPM "baseline" data as used throughout this report.

[5] The California Poverty Measure counts earnings as well as benefits from the social safety net as components of a family's "resources." In determining rent burden for the purposes of Table 1, resources from both own earnings as well as the broader range of safety net programs are counted.

[6] We split California into thirds based on the cost of living in the county (or county group). The cost of living is determined by CPM poverty threshold, which varies due to the cost of housing. High-cost counties include: Alameda, Contra Costa, Los Angeles, Marin, Monterey, Napa, Orange, Placer, San Benito, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, and Ventura. Mid-cost counties include: Alpine, Amador, Butte, Calaveras, El Dorado, Inyo, Lake, Mariposa, Mendocino, Mono, Nevada, Riverside, Sacramento, San Bernardino, San Joaquin, Shasta, Sierra, Stanislaus, Tuolumne, and Yolo. Low-cost counties include: Colusa, Del Norte, Fresno, Glenn, Humboldt, Imperial, Kern, Kings, Lassen, Madera, Merced, Modoc, Plumas, Siskiyou, Sutter, Tehama, Trinity, Tulare, and Yuba. See Technical Appendix A for more details.

[7] These strategies are explored in greater detail in our previous research and accompanying interactive map (Bohn and Danielson 2017).

do have higher rates of overcrowding—especially in high-cost counties. Notably, a smaller share of poor families with young children benefit from federal housing subsidies in high-cost counties (7%)—despite higher rates of housing burden—than in low-cost counties (15%).

Although some Californians move to cheaper areas and accept a longer commute, we do not see a strong pattern of this among working-poor parents of young children. While poor families with young children are no more likely to move from higher- to lower-cost counties than the overall population, they do move more often than other Californians—which may signal more instability at home for these young children. Working-poor parents in low-cost areas are more likely to have long commutes than those in high-cost areas, but extreme commutes occur at a similar frequency in the overall population.[8]

TABLE 1

Poor families with young children in high-cost areas are more likely to be housing burdened

		Among poor families with young children			
	All Californians	Statewide	Low-cost counties	Mid-cost counties	High-cost counties
Housing cost (median)	$15,200	$12,300	$8,000	$10,000	$13,900
Severe housing burden	12%	31%	23%	26%	34%
Overcrowded	20%	59%	51%	47%	63%
Receive housing subsidy	3%	9%	15%	13%	7%
Extreme commute	11%	10%	11%	9%	10%
Moved within last year	13%	18%	22%	23%	16%
Moved from a higher-cost county in California	15%	10%	13%	9%	n/a

SOURCES: Authors' calculations using CPM data for 2012–15.

NOTES: Low-, mid-, and high-cost counties were defined by splitting counties into three roughly equal groups based on CPM threshold (see footnote 6 and Technical Appendix A). Housing costs are for both families who rent and those who own. "Severe housing burden" is defined as having housing costs greater than 50 percent of CPM family resources (rates of housing burden defined using a 30% threshold are roughly double those shown here). "Overcrowded" is defined as having more than one person per room or more than two people per bedroom. Housing subsidy receipt is determined by CPM imputation methodology (Bohn et al. 2013). "Extreme commute" is defined as traveling more than 60 minutes each way to work, and the rate is calculated only among adults ages 18–64 who are working. The final row is calculated among all families who moved within California in the past year and only among families residing now in either low- or mid-cost counties.

How Would Lower Housing Costs Affect Child Poverty?

Because housing costs are so high in the most populous parts of the state, even relatively modest cost reductions would markedly reduce child poverty. These effects are concentrated in high-cost areas but are otherwise distributed across the population: while many poor families with young children would benefit from increased disposable income, so would many nonpoor families and Californians without young children.

California's housing costs are widely acknowledged to be among the highest in the nation, with rental costs 50 percent higher than the national average (Legislative Analyst's Office 2015). Recent policy changes aim to boost the supply of housing in the coming years in order to lower costs. These include allocating additional state or local funds for building affordable housing, easing regulatory burdens, and making new housing construction more financially advantageous to localities (Office of Governor Edmund G. Brown Jr. 2017). One aspect of housing policy that is a matter of some debate is the optimal mix of more targeted policy mechanisms—such as building affordable units or providing rental assistance—and broader approaches. Here, we discuss the implications for child poverty of a broad-based increase in housing supply. Instead of delving into any particular mechanism for

[8] See also our previous report (Bohn and Danielson 2017).

increasing supply, we focus on the poverty effects of two scenarios that bring housing costs in California somewhat more in line with housing costs nationwide:

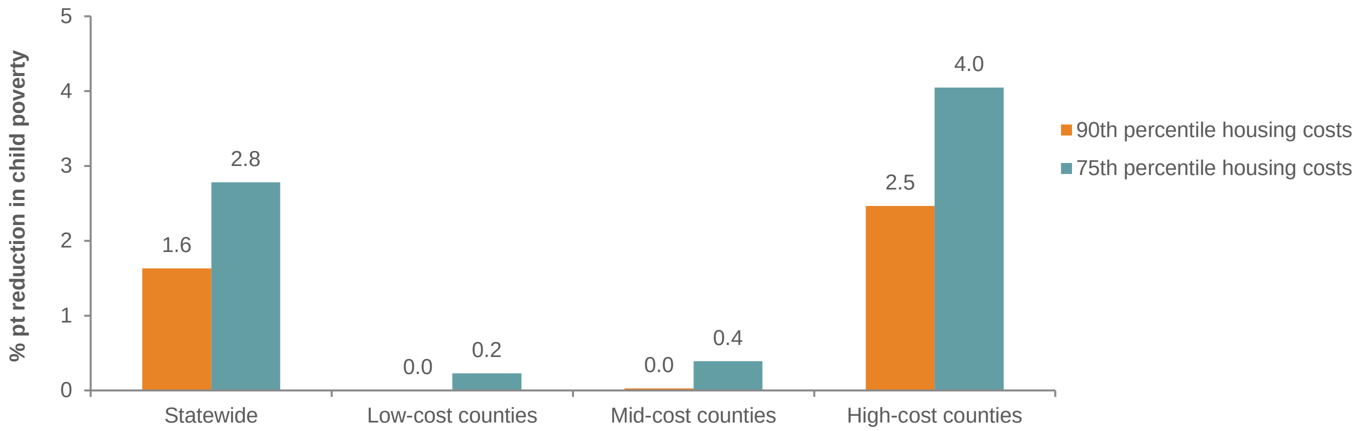
- A reduction in the cost of housing to the 90th percentile in the rest of the United States, equivalent to an 8.1 percent drop in the cost of housing statewide (11.3% reduction in high-cost counties, 0.2% reduction in mid-cost counties, and no change in low-cost counties).
- A reduction in the cost of housing to the 75th percentile in the rest of the United States, equivalent to a 12.8 percent drop in the cost of housing statewide (17.4% reduction in high-cost counties, 1.8% reduction in mid-cost counties, and 1.0% reduction in low-cost counties).

For a more detailed description of these scenarios, simulation methods, and robustness checks, see Technical Appendix B.

Both scenarios lower poverty substantially: reducing housing costs to the 90th percentile nationwide lowers child poverty by 1.6 percentage points, and reducing costs to the 75th percentile lowers child poverty by 2.8 points. Rates of deep poverty also decline by 0.3 points and 0.4 points, respectively. As Figure 1 shows, these improvements arise almost completely due to reductions in housing cost and poverty for high-cost parts of California (see our related interactive for breakdowns by county and Technical Appendix G for detailed tables). High-cost counties see declines in child poverty of 2.5 percentage points for the first scenario and 4 percentage points for the second scenario. We see minimal changes in child poverty for low- and mid-cost areas because only places with housing costs that are higher than the 90th percentile or 75th percentile are affected.

FIGURE 1

Reductions in housing costs would substantially lower child poverty in high-cost counties



SOURCE: Authors' calculations using CPM data for 2012–15.

NOTE: All estimates pertain to children ages 0–5 and show percentage point reductions in poverty under each scenario as compared with baseline poverty. Baseline poverty incorporates a cost-of-living adjustment for the SSI and CalWORKs programs, the 2017 state EITC expansion, the 2017 minimum wage levels, and other adjustments. Low-, mid-, and high-cost counties were determined by splitting counties into three roughly equal groups based on CPM threshold. See Technical Appendices A and B for more details.

Lower housing costs would affect a broad range of Californians and young children, including basically all who reside in high-cost California.[9] Under the 90th-percentile scenario, families with young children would face a substantially lower bar for meeting basic needs (a median of $2,000 less) than they do currently.[10]

[9] Among young children living in mid-cost counties, 20.7 percent would see their housing costs decline under the first scenario and 44.1 percent would under the second scenario. No young children living in low-cost counties would see their housing costs decline under the first scenario and 12.1 percent would under the second scenario.
[10] We project that about a fifth of the total benefit from lowered housing costs under both scenarios would go to families with young children.

Low Wages in California

The majority of adults in California are working, regardless of whether they have children or whether they are poor. Among all adults ages 18–64, 74 percent are employed in wage or salary work (Table 2).[11] The employment rate among poor families with young children is somewhat lower, but not dramatically different, at 61 percent.[12] However, annual earnings for poor families with young children are one-third those of families overall because of differences in hours worked and wages. We find 58 percent of all California adults are employed full-time and year-round, compared to 37 percent among poor families with young children.[13] Furthermore, the share employed full-time and year-round in low-cost counties is half that of high-cost counties. This suggests that underemployment or insufficient hours is a significant impediment for poor families with young children, especially in low-cost parts of the state.

At the same time, the majority (78%) of poor adults with young children are employed in low-wage work—more than twice the rate among all working adults. Almost all working-poor parents in low-cost counties have low-wage jobs (89%), while three-quarters of those in high-cost counties have low-wage jobs. The varying levels of employment, hours, and low-wage work result in striking differences in individual income and family income across the state.

TABLE 2

Poor adults with young children in low-cost counties are more likely to have low-wage jobs

		Adults in poor families with young children			
	All adults	Statewide	Low-cost counties	Mid-cost counties	High-cost counties
Employed	74%	61%	60%	60%	62%
Employed full-time, year-round	58%	37%	21%	29%	41%
Employed low-wage	35%	78%	89%	82%	76%
Annual income from wages (median)	$29,200	$10,500	$6,300	$6,800	$12,600
Family income from wages (median)	$66,200	$20,500	$11,400	$15,000	$23,600

SOURCES: Authors' calculations using CPM data for 2012–15.

NOTES: Actual 2012–15 data are shown in this table, and dollar values are adjusted for inflation to reflect 2016 levels. Adults ages 18–64 are included (not just parents). "Employed" refers to the share employed in wage or salaried jobs; about 9 percent more are self-employed. "Full-time" is defined as working at least 35 hours per week and "year-round" is defined as working at least 50 weeks per year. "Low-wage work" is defined as earning less than two-thirds the statewide median wage level. All other rows are calculated among wage and salary workers only. Family income is calculated at the CPM poverty-unit level. Low-, mid-, and high-cost counties were defined by splitting counties into three roughly equal groups based on CPM threshold (see Technical Appendix A).

How Would Minimum Wage Increases Affect Child Poverty?

In 2016, California enacted a plan to raise the state minimum wage to $15 by 2022, with full implementation slated for 2023. Here, we look at the effects of the increase to $13 scheduled for 2020 and $15 scheduled for 2022. We find sizable reductions in child poverty from these minimum wage increases and broad effects overall

[11] In this section, we tabulate employment among workers in wage and salaried positions. That is, we do not consider those who are self-employed, since their wage rates are not mandated by law. Overall, 9 percent of the population ages 18–64 are self-employed, and the share is similar among poor and nonpoor families.

[12] These statistics consider any adults ages 18–64 in such families and do not account for the fact that a parent may opt to care for a young child instead of working in the formal labor market. In fact, the share of families with young children where at least one adult is working (or working full-time) is higher, at 85 percent (or 72% full-time). The relative differences across county groups are similar to those shown in Table 2, though the magnitudes differ.

[13] "Full-time" is defined as working at least 35 hours per week and "year-round" is defined as working at least 50 weeks per year, according to self-reported employment data in the American Community Survey.

because a large proportion of workers—and especially the working poor—are earning wages below these higher minimum levels. Yet only about 8 percent of the people benefiting from increases to a $13 or $15 minimum wage are young children—reflecting the fact that while many young children have parents working in minimum-wage jobs, there are many more minimum-wage workers who do not have young children. Benefits from minimum wage increases are more distributed across the state than in the housing-cost scenarios described above, but they still have a larger impact on high-cost areas.

Because the research literature is not settled on the effects of minimum wage increases, and because the survey data underlying the CPM by definition contains a degree of uncertainty, we consider a range of plausible outcomes.[14] These are discussed in detail in Technical Appendix C. It is worth highlighting a few aspects of our analysis here. First, we assume that workers making slightly above or below the minimum wage are also affected by increases (but to a lesser extent). We do not model long-term labor market, demographic, or fiscal consequences of the minimum wage. However, we do take into account how immediate increases in income affect families' tax burden or credits and their eligibility for a number of large-scale safety net programs: CalFresh, CalWORKs (cash assistance for families with children), the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and free and reduced-price school meals. For some families, changes to taxes and benefits might outweigh additional income from wage increases. We also model a number of potential outcomes regarding changes in employment (e.g., if a rising minimum wage induces some employers to cut jobs or hours), the most contested aspect of minimum wage increases in both research and policy circles. The results presented here assume no changes to employment or hours. Our analysis finds that unless reductions in employment or hours are substantial, effects on child poverty remain similar.[15]

On average, individual workers affected by the new minimum wage would see increases in hourly wages on the order of 12 percent for the $13 scenario and 20 percent for the $15 scenario. Poverty among young children would drop substantially, by 1.3 points under the $13 minimum wage and by 2.8 points under the $15 minimum wage. However, changes in deep poverty among young children are smaller (less than 0.2 percentage points). This variation reflects differences in employment and work intensity across the income spectrum. For example, increasing the minimum wage to $13 benefits only 11 percent of young children who are in deep poverty but three times that share (35%) of young children who are not in deep poverty but still in poverty and 40 percent of young children who are just above the poverty line.

A much larger share of young children in poverty are estimated to benefit from minimum wage increases in high-cost versus low-cost counties (33% compared to 16%), yielding slightly larger poverty reductions in high-cost regions. As shown in Figure 2, high-cost counties in our analysis see a reduction of 3.1 percentage points in child poverty at the $15 minimum wage and a reduction of 1.4 points at the $13 minimum wage (see our related interactive for breakdowns by county and Technical Appendices C and G for detailed tables). Low- and mid-cost counties would see smaller but still sizable reductions in child poverty under both scenarios. Overall, we estimate that among poor families with young children who would benefit from the minimum wage increases, family wages would increase by about $2,700 ($13 minimum wage) and $5,400 ($15 minimum wage).[16]

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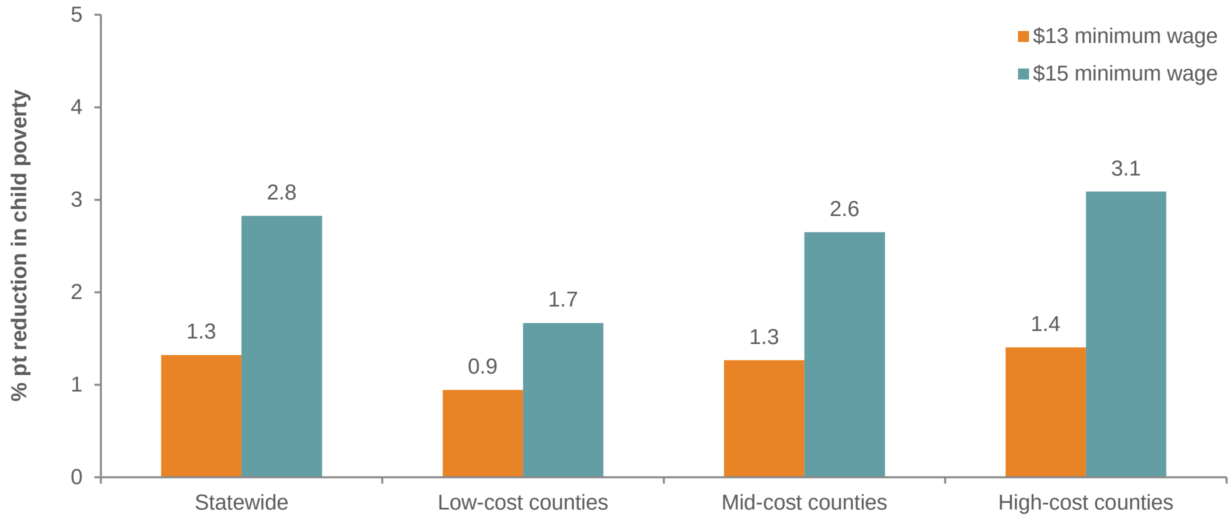
[14] See Technical Appendix A for details about the creation of baseline poverty. Our simulation follows the research literature's findings and methods for estimating minimum wage increases in the American Community Survey data. See Acs et al. (2014); Giannarelli, Wheaton, and Morton (2015); and Neumark et al. (2013) for simulation methods and Belman and Wolfson (2014); Dube, Lester, and Reich (2016); and Jardim et al. (2017) for estimates and meta-analyses, to name a few.

[15] Specifically, a 9 percent across-the-board reduction in hours would cut the poverty effects in half and employment reductions of roughly 12 percent or more could reverse the effects. Full discussion of these scenarios and detailed results are available in Technical Appendix C.

[16] Higher taxes and lower safety net benefits resulting from an increase in earnings can, in some cases, substantially reduce the net benefits to a higher minimum wage.

FIGURE 2

Minimum wage increases could lead to substantial declines in child poverty across the state



SOURCE: Authors' calculations using CPM data for 2012–15.

NOTE: All estimates pertain to children ages 0–5. We simulate changes to minimum wage for eligible workers in the 2017 simulated baseline data. Differences in poverty for each scenario are calculated from the 2017 baseline. See Technical Appendix A for details on the baseline and Technical Appendix C for details on the minimum wage methodology. This chart shows the effects if wages increase and employment and hours remain the same; other outcomes are possible, as detailed in Technical Appendix C. Low-, mid-, and high-cost counties were determined by splitting counties into three roughly equal groups based on CPM threshold. See Technical Appendix A for more details.

While increasing the minimum wage could markedly boost earnings for poor families with young children, as mentioned above most beneficiaries are not in such families. In fact, the vast majority (80%) of individuals positively affected are not in poverty to begin with, and 74 percent are not in families with young children. It is worth noting that there are other mechanisms for increasing wages that could be more targeted to populations of interest, such as the working poor or parents. Job training and continuing education programs expand career options, while child care and other supports enable parents to pursue such investments in their careers.

Policy Options to Supplement the Safety Net

As the previous sections show, shifting the playing field of high housing costs or low wages could move many young children out of poverty. Yet substantially reducing housing costs or increasing wage levels statewide are broad challenges, and actions to address them will unfold over the long term. Expanding or supplementing existing safety net programs holds promise because policymakers can more narrowly target resources to address the challenges facing poor families, while making incremental steps toward reducing child poverty. Although any such expansion would depend entirely on a new commitment of state funds, a well-targeted policy could achieve similar reductions in child poverty as lower housing costs or minimum wage increases.

Below, we provide a brief overview of potential policies that could fill gaps in the current safety net: expanding the Earned Income Tax Credit, establishing a state child credit, and overhauling the state renter's credit. For each credit, we look at two approaches, one focused on the lowest-income families and the other focused on low- and moderate-income families. In addition, because lawmakers recently established and then expanded a state EITC, throughout we consider policy designs that leverage the structure of the combined state and federal EITC.

Earned Income Tax Credit

In 2015, California adopted the CalEITC, which builds on the federal EITC by supplementing the earnings of very low-income workers. While the federal EITC targets low- and moderate-income workers, California's original state EITC targeted the lowest-income workers, providing them with an additional refundable credit up to 85 percent of the federal credit amount. This substantially increased the total tax credit for the lowest-income workers.[17] In the 2017 tax year, lawmakers expanded the CalEITC to include self-employment earnings (like the federal EITC) and broadened income eligibility to include families with children in which adults have the equivalent of full-time minimum-wage jobs. We consider two options that would further expand the EITC:

- Making the maximum federal credit available to everyone who is currently eligible for the CalEITC. This would channel more resources to the **lowest-income workers**.
- Making the maximum federal credit available to a wider range of **low- and moderate-income workers**, with cutoffs varying according to the cost of living. This would capture a broader range of the working poor, including many in high-cost areas.

For a more detailed description of data, methods, and policy design, see Technical Appendix D. Both scenarios assume that everyone who could file a tax return and claim these credits does so.[18] There is evidence that those who are not required to file taxes—who would likely be eligible for the EITC—are less likely to file, meaning that the results we consider represent a "full implementation" scenario (Anderson 2017).[19]

Child Credit

Recent research has proposed child allowances as a way to help families afford the costs of raising children, provide investments in early childhood, and smooth income volatility by providing an income floor (Hammond and Orr 2016; Shaefer et al. 2016).[20] While many Californians claim the partially refundable federal Child Tax Credit, California does not have its own child credit. Here, we examine two options for child credits:

- A credit equal to the maximum federal EITC amount for the **lowest-income families**, regardless of whether they receive the CalEITC under current rules. This would focus resources on the lowest-income tax filers, similar to the first EITC scenario above, but would also include low-income families with children who currently cannot claim the CalEITC.[21]
- A flat credit that adjusts only for the number of dependent children and is available to all families up to a more generous income cap that varies according to the cost of living.[22] This would capture **low- and moderate-income families**, including many in high-cost areas.

For a more detailed description of data, methods, and policy design, see Technical Appendix E. As with the other scenarios, the child credits modeled do not incorporate changes that recipients might make in response, such as

[17] For additional discussion about California's EITC design in comparison to those of other states, see Rueben, Sammartino, and Stark (2017). For specific eligibility rules, see the California Franchise Tax Board's EITC information page and California Franchise Tax Board (2017).

[18] In particular, all filing units that are federally required to file taxes *or* that could claim the federal EITC are assumed to file and receive credits.

[19] It is also important to note that research has found substantial work-incentive effects of the implementation of the federal EITC (e.g., Eissa and Hoynes 2006). The first scenario considered removes some of the work incentive, although to the extent that workers have more control over the decision to work and less control over how many hours to work, the change in incentive is greater or lesser. The literature finds stronger effects on the extensive margin (whether employed) rather than the intensive margin (hours worked). For recent evidence on this topic, see Miller et al. (2017).

[20] In contrast, the EITC only provides a floor to the extent that workers who see their employment cut back move into a higher EITC range. Those who entirely lose employment are not protected. See Bitler, Hoynes, and Kuka (2016) for an analysis of the protective effects of the EITC during recessions.

[21] Those who cannot claim the CalEITC include low-income families with no tax burden, or those who do not file for other reasons, or families in which at least one member does not qualify for a social security number (typically because of immigration status).

[22] Dependent children are generally under age 18. But those ages 19–40 who are enrolled full-time in school are also considered dependents for tax purposes. As for the EITC and renter's credit scenarios, we assume that all filing units that could claim the existing state and federal EITC file taxes. Those not required to file and those ineligible for these credits are excluded from the scenarios.

reducing employment; we also assume no changes to receipt of existing social safety net programs, such as CalWORKs.

Renter's Credit

Eight in ten (83%) poor families with young children are renters and, as discussed above, severe rent burden (paying more than 50% of income toward rent) is common in California, especially in high-cost areas. California currently offers a small credit of $60 for a single tax filer and $120 for a joint filer that renters can claim if their adjusted gross income is below a modest threshold. This credit is nonrefundable, so low-income filers with no net tax liability are ineligible. We consider two scenarios to help those who are severely rent burdened.[23] Both are refundable credits designed in similar ways to the credits above:

- A credit targeting the severely rent burdened that is proportionally larger (up to a cap) for those with greater rent burden, which has the effect of directing more resources to the **lowest-income families**, regardless of their eligibility for the CalEITC.[24]
- A flat credit for severely rent-burdened families up to an income cap similar to that of the current renter's credit but scaled according to the cost of living. This includes **low-and moderate-income families** that are rent burdened.[25]

For a more detailed description of data, methods, and policy design, see Technical Appendix F. Note that we consider only the direct effect of these credits on family resources, not including changes to employment or other social safety net program receipt that could happen over the longer term, were these credits to be available. We also do not incorporate rent increases that landlords might levy if they knew credits were available to offset increases.[26]

Comparing Policy Options

Because the policy scenarios described above have different targets and costs—and thus different plausible impacts—it is instructive to compare them side by side using a range of measures. Below, we focus on the projected effects across the state and in high-, mid-, and low-cost counties. Our related interactive allows for deeper investigation of how these policies could affect child poverty in individual counties.

A policy typically needs to be large-scale, very well-targeted, or both to meaningfully affect child poverty. For example, we estimate that without benefits from CalFresh, poverty among young children would be 4.8 percentage points higher—a very large effect, even compared to the changes in housing costs and minimum wage considered

[23] Severe rent burden is defined as paying more than half of one's income toward rent or Fair Market Rent (FMR), whichever is lower. In defining income, we include earnings, income from investments and retirement, social security, the EITC, and the refundable portion of the Child Tax Credit. The US Department of Housing and Urban Development (HUD) calculates FMR based on the 40th percentile of the gross rents (shelter and utilities) paid by recent movers for nonluxury units meeting certain quality standards. FMRs are used to determine payment standards for the Housing Choice Voucher Program and Section 8 contracts. Other research has considered additional renter's credit designs. See, for example, Kimberlin et al. (2017). Note that existing federal housing voucher policy provides a capped number of vouchers—far less than actual demand—that recipients can retain as long as they remain eligible. See Collinson, Ellen, and Ludwig (2015) for an overview of US affordable housing policy.

[24] The credit fills the difference between half of income and rent among those who are severely rent burdened. The maximum credit is capped at the median rent burden statewide ($3,900). Filers must have less than $78,125 for a joint filer or less than $39,062 for a single filer (in 2016) to be eligible. These are the income caps for the existing renter's credit. These income caps are increased by the regional adjustment percentage in the scenario presented in the main report. For additional detail and for alternate versions of this policy scenario, see Technical Appendix F.

[25] This renter's credit phases out on the existing federal EITC schedule. The main scenario presented in the report does not include a regional adjustment. See Technical Appendix F for additional details and alternate versions of this scenario.

[26] For an overview, see Collinson, Ellen, and Ludwig (2015).

above. Yet CalFresh alone provides $3.6 billion in benefits to families with young children in California.[27] While very large, it is also relatively well targeted: on a per dollar basis, CalFresh generates a larger reduction in poverty than either the housing or minimum wage scenarios described above.[28] The policies presented in this report are smaller in scale than CalFresh, though as discussed below they have comparable effects on poverty on a per dollar basis.

Table 3 shows the number of young children assisted by each policy, the median benefit to families, and the total amount of new resources directed to young children. The scale of the six policy scenarios is clearly quite variable, ranging from 210,000 to 1.59 million children assisted. However, with one exception (the first EITC scenario, which provides a median benefit of $390), the extent to which individual families with young children are assisted is roughly similar: the median benefit amount ranges from $2,300 to $3,900.[29] Of course, the total cost of benefits for each policy varies accordingly. On the low end, the EITC scenario that targets the lowest-income workers costs $417 million in benefits. The total cost of benefits for the other policy options ranges from $1.81 billion for the child credit targeting the lowest-income families to $5.62 billion for the child credit targeting low- and moderate-income families.

TABLE 3

Policy options vary in their costs, scale, and the degree to which they target young children

	EITC		Child credit		Renter's credit	
	Lowest-income	Low- and moderate-income	Lowest-income	Low- and moderate-income	Lowest-income	Low- and moderate-income
Number of young children assisted	210,000	820,000	390,000	1,590,000	250,000	310,000
Median benefit to families with young children	$394	$2,293	$3,400	$2,762	$3,277	$3,900
Total cost statewide (millions)	$417	$4,143	$1,813	$5,616	$2,253	$5,240
Share of total cost to families with young children	45%	36%	49%	50%	20%	16%

SOURCE: Authors' calculations using CPM data for 2012–15.

NOTES: All estimates pertain to children 0–5 or to families with any children ages 0–5. See Technical Appendix G for estimates pertaining to other age groups and family types. Number assisted rounded to nearest 10,000.

Both child-credit policies direct a large share (about half) of their total costs to families with young children.[30] The EITC expansions also direct a sizable 36 to 45 percent of benefits to young children—though not necessarily the same young children because these credits are also dependent on parents' work status. Indeed, the EITC and child-credit approaches are much more effective at targeting benefits toward young children than are potential changes in housing costs and minimum wage, which direct 20 to 23 percent of new disposable resources to families with young children (see Technical Appendix G for details). Notably, the renter's credits are more diffuse than the other credits, directing only 16 to 20 percent of benefits toward families with young children. This arises because the renter's credits reach a much larger population beyond families with young children.

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[27] Total benefits to all Californians are about $7.45 billion. Both benefit total estimates are calculated from California Poverty Measure data for 2012–15. These totals do not include the cost of administering programs. See Danielson and Bohn (2017) for benefit totals for other existing large-scale social safety net programs.

[28] See Technical Appendix G for more details. Note that California's record of enrolling eligible families in CalFresh is poor, although the state has seen improvement in recent years (Cunnyngham 2017). In other words, the program has the potential to be larger than it is currently.

[29] In comparison, federal CalFresh and EITC programs assist more young children than most of these options (1.17 million and 1.13 million, respectively) and the median benefit amounts to families with young children are higher (annually $4,000 and $4,600, respectively). CalWORKs assists 580,000 young children with a median family benefit of $5,053.

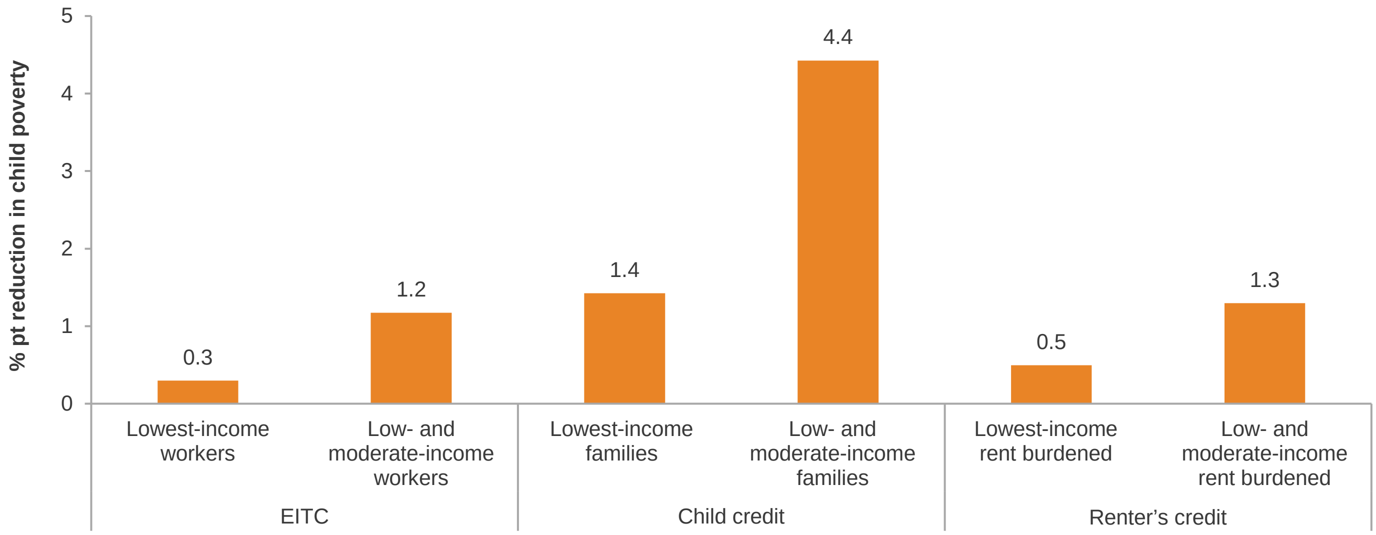
[30] Even though there are twice as many children over age 5 as children 0–5 in California, because young children often have older siblings, these credits direct a disproportionate share of benefits to young children.

Policymakers could make the renter's credits contingent on having dependent children, but this would be a larger shift from current policy as compared to the EITC and child-credit options.

As shown in Figure 3, the scenarios differ greatly in their estimated impact on child poverty. The projected decreases in child poverty range from a decline of 0.3 percentage points (the expanded EITC that targets the lowest-income workers) to a substantial drop of 4.4 percentage points (the child credit for low- and moderate-income families). Notably, each version of the EITC, child credit, and renter's credit that directs resources to low- and moderate-income groups generates larger reductions in poverty relative to its counterpart targeting the lowest-income groups. In part, this is a function of such families already being closer to the poverty line. It is thus important to be clear about policy goals when deciding how to direct resources. If resources are primarily going to families that require only a small boost to be lifted out of poverty, poverty rates may change substantially, but these resources are not necessarily improving the material circumstances of many children in worse economic circumstances.

FIGURE 3

Declines in poverty vary considerably across the policy options



SOURCE: Authors' calculations using CPM data for 2012–15.

NOTES: All estimates pertain to children ages 0–5 and show percentage point reductions in poverty under each scenario as compared with baseline poverty. Baseline poverty incorporates a cost-of-living adjustment for the SSI and CalWORKs programs, the 2017 state EITC expansion, the 2017 minimum wage levels, and other adjustments discussed in more detail in Technical Appendix A.

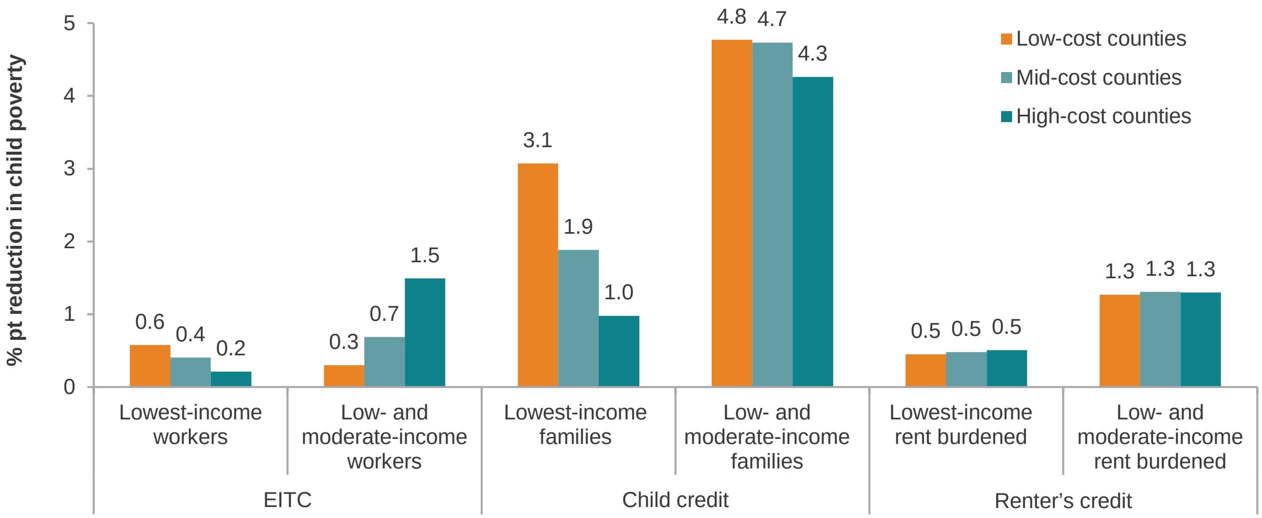
Geographic Variation

The current social safety net tends to reduce poverty more in the lower-cost northern and inland parts of the state. The scenarios we examine also have varying geographic effects, in part due to the nature of poverty across California but also because some of the policies are designed to take into account the region's cost of living. Figure 4 shows that the EITC and child-credit scenarios that focus resources on the lowest-income workers and families result in larger declines in poverty in low-cost counties. The child credit in particular—which reaches not only those who could claim the EITC but also those who do not file because they either have no earned income or are ineligible for credits—lowers poverty by 3.1 percentage points in low-cost counties, compared to a decline of 1.0 point in high-cost counties. This is not surprising because these are parts of the state where earnings and employment rates are lower—and these scenarios are designed to boost resources for the lowest-income groups.

The share of children in deep poverty assisted in these two scenarios is also markedly higher in low-cost counties relative to high-cost counties.

FIGURE 4

Geographic differences in policy impact relate to regional employment and income patterns



SOURCE: Authors' calculations using CPM data for 2012–15.

NOTE: All estimates pertain to children ages 0–5 and show percentage point reductions in poverty under each scenario as compared with baseline poverty. Baseline poverty incorporates a cost-of-living adjustment for the SSI and CalWORKs programs, the 2017 state EITC expansion, the 2017 minimum wage levels, and other adjustments. Low-, mid-, and high-cost counties were defined by splitting counties into three roughly equal groups based on CPM threshold. See Technical Appendix A for more details.

The flat child credit that includes low- and moderate-income families assists nearly all young children in poverty and has similar effects across low-, mid-, and high-cost counties. This credit is projected to reduce child poverty by 4.3 to 4.8 percentage points.[31] Renter's credits also have similar, though much smaller, effects on poverty across counties. This similarity across low- and high-cost counties stems from the fact that rent burden accounts for both income and housing costs. High-cost areas tend to face relatively higher rents, while lower-cost areas see relatively lower incomes. Both can result in rent burden.

The EITC targeted to low- and moderate-income workers has greater effects in high-cost counties. We project that a higher share of children in poverty would be assisted by this credit in high-cost counties—where the child poverty rate declines by 1.5 percentage points—compared with 0.7 percentage points in mid-cost counties and 0.3 percentage points in low-cost counties. This is partially by design: high-cost counties are given higher eligibility thresholds in this scenario. Still, even omitting this regional eligibility adjustment, we continue to project a larger poverty reduction in high-cost counties (see technical appendix Table D3).

Effects on Deep Poverty and Other Measures

It is important to keep in mind that changes in poverty rates only capture those who are moved above the poverty line; many more children in need would also receive benefits. In addition, policies that target different portions of the income spectrum will have varying effects on children in deep poverty and poverty. Figure 5 shows the share

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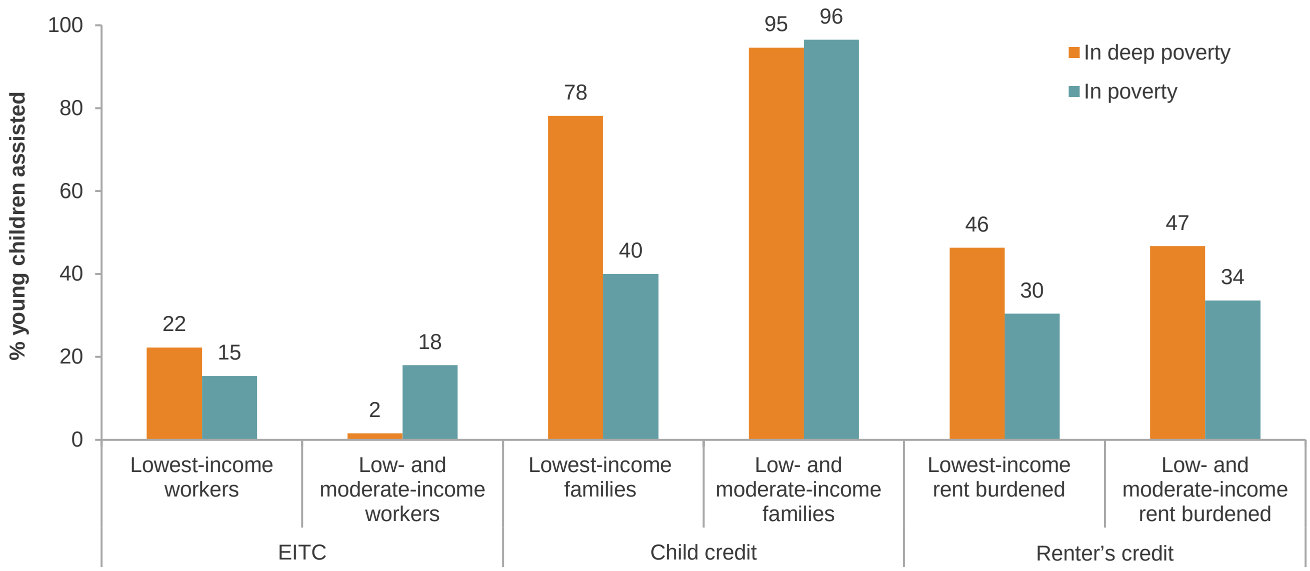
[31] These differences are more pronounced if we omit the geographic adjustment factor. See Technical Appendix E for additional detail on this and other alternate versions.

of all young children in deep poverty and poverty who receive assistance under each scenario. Both child credits stand out in their reach of young children in deep poverty; the child credit that targets low- and moderate-income families is practically universal in its assistance of young children in deep poverty (95% assisted) and poverty (96% assisted). The renter's credits reach a somewhat larger share of children in deep poverty (46–47%) than those in poverty (30–34%). The EITC targeted to low- and moderate-income workers reaches very few young children in deep poverty (2%).

FIGURE 5

Policy options differ significantly in their reach of young children in deep poverty and poverty



SOURCE: Authors' calculations using CPM data for 2012–15.

NOTE: All estimates pertain to children ages 0–5 in each poverty category

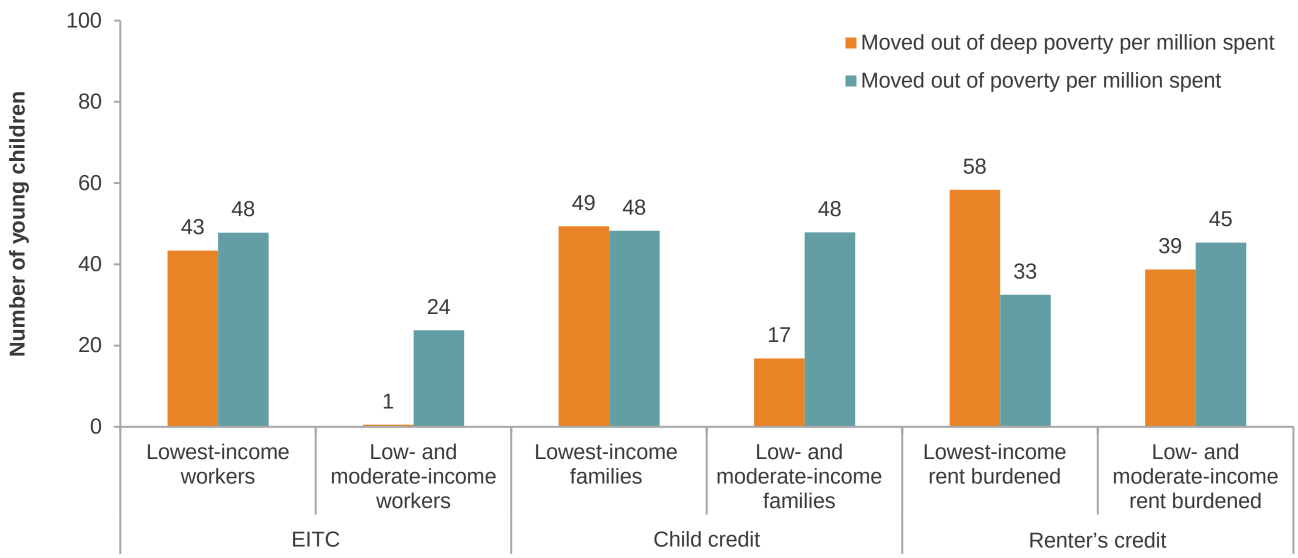
As noted above, the policy options differ widely in their total costs. To provide a measure of effectiveness independent of scale, Figure 6 shows the number of young children moved out of deep poverty or poverty per million dollars in benefits to families with young children. Figure 3 above indicates that the child credit geared toward low- and moderate-income families generates by far the largest reduction in child poverty. But when we look at effects on a per dollar basis, the policies tend to be more similar. Even a relatively small policy change, like the expanded EITC for the lowest-income workers, which only moves the child poverty rate by 0.3 points, on a per dollar basis targets young children in poverty to a similar degree as many of the other, larger-scale approaches. This arises from the fact that the policy expansion directly targets a gap in the safety net. This type of context is critical for evaluating policies that explicitly aim to address poverty among young children.

Many of the policy designs move 40 or more young children out of poverty and/or deep poverty per million spent. To put this estimate in context, we find that CalFresh, the federal EITC, and CalWORKs in their current forms move 40–46 young children out of poverty per million spent on families with young children, a similar rate. However, these existing programs move only 11–19 young children out of deep poverty. In other words, their efficacy in moving children out of poverty is on par with the policy scenarios considered in this report, but—surprisingly in the case of CalFresh and CalWORKs—they are relatively less targeted to children in deep poverty.[32]

Renter's credits are more diffuse by design, targeting high housing costs more directly and thus reaching a much broader population beyond families with young children. As noted above, only about one-fifth of the total benefits of the renter's credits would go to families with young children, roughly half the proportion for the EITC and child-credit scenarios (Table 3). However, when focusing on the dollars that do assist families with young children, Figure 6 shows a similar efficacy of both renter's credits as compared with the other policies.

FIGURE 6

Approaches that are effective in moving young children out of poverty may not have marked effects on deep poverty



SOURCE: Authors' calculations using CPM data for 2012–15.

NOTE: All estimates pertain to the number of children ages 0–5 moved out of each poverty category divided by million in benefits directed to all families with young children.

Clarifying the policy goal is critical. The effectiveness of policies in moving young children out of poverty depends heavily on the policy design, and approaches that are effective at moving children out of poverty may not make a dent in deep poverty. For example, we find that the EITC targeting low- and moderate-income workers moves 24 young children out of poverty per million dollars in benefits but almost no young children out of deep poverty per million dollars. This policy was explicitly designed to reach working-poor families with young children. These families are often in the gap between a high cost of living and eligibility for safety net programs and tax credits—and thus less likely to be in deep poverty at all.

In contrast, the approaches that target the lowest-income workers and families are more effective on a per dollar basis in lifting young children out of deep poverty than their counterparts aimed at low- and moderate-income groups—whether through the EITC, a child credit, or a renter's credit, these policies lift more than 40 young children out of deep poverty per million dollars. But they also assist fewer children overall (see Table 3).

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[32] Using a related metric for higher minimum wages yields 2–3 young children moved out of deep poverty for every million dollars in new resources for families with young children and 20–23 young children moved out of poverty. In the case of lower housing costs, the related metric yields a similar 4 young children out of deep poverty and 21–22 young children out of poverty.

Conclusion

Rising housing costs and the ubiquity of low-wage work make it hard for low-income families in California to meet their basic needs, a challenge that has particularly devastating consequences for young children. These families can supplement their income with social safety net benefits (when families are eligible and benefits are available), but the current safety net has critical limitations in its ability to reach the working poor in high-cost areas and the severely poor across the state.

Foundational shifts in housing supply and minimum wage could affect many low-income families and mitigate two major factors driving child poverty. These broad-based changes would also positively affect many more Californians who are not in poverty. Though investments in California's social safety net would need to draw directly from the state budget, they could also boost family resources considerably—and in a way that better concentrates those benefits on vulnerable populations. We examine the effects of expanding the Earned Income Tax Credit, establishing a state child credit, and overhauling the state renter's credit, each of which holds promise for reaching those missed by current policy.

Notably, the child credits and renter's credits we present in this report directly address key expenses that families face but, unlike the EITC, are not linked to employment. In addition, one scenario we examine—giving the maximum EITC amount to the lowest-income workers—actually undercuts the policy's tie to employment, though we find that this approach is quite effective in terms of moving children out of poverty and deep poverty (barring a dramatic reduction in hours of work). It would be a substantial change from recent patterns to expand the safety net in these directions. Yet these approaches are effective in addressing poverty and deep poverty among young children, in part because they provide assistance to parents who may face barriers to employment.

Our analysis also highlights several important factors for policymakers interested in improving the well-being of California's children. These considerations include targeting the lowest-income Californians or extending benefits to more moderate-income workers, balancing the goal of reducing poverty rates with a measure of how many Californians in need are assisted and by how much, focusing on low incomes or high housing costs, and accounting for regional variation in these effects. Our related interactive allows for deeper investigation of how these policies could affect child poverty statewide and by county.

As policymakers consider the most effective ways to address California's high cost of living and the prevalence of low-wage work, changes to the social safety net could create more robust protections for low-income families. The state is also subject to the actions of the federal government, which provides substantial funding to underwrite much of the safety net. Federal changes could mean more difficulties for poor families in accessing nutrition, cash, and health care programs. And the next recession will almost certainly stretch the state's capacity to fully fund its share of the safety net while continuing to fulfill other obligations. But even in an uncertain policy and economic environment, policymakers may want to consider additional strategies to help ensure the economic well-being and future success of California's young children.

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