Insights on Southern Poverty

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What we know, don't know, and need to know about welfare reform

Rebecca Blank
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Although welfare changes are among the most thoroughly evaluated public policies, it is striking how many questions remain unanswered. For instance, there is little information that would allow us to make comparative statements about the value of different components of state welfare programs.

Two major issues limit what can be learned about the effects of welfare reform. The first is the problem of establishing clear causality. The second is our limited data on certain aspects of new state programs.

Important changes were occurring at exactly the same time as welfare reform, like minimum wage and EITC increases. A very strong economic expansion also reduced unemployment rates nationally. Untangling these effects from each other has been extremely difficult.

We are not going to be able to nail down the final causal effect of reforms in a fully convincing way. The most convincing evidence comes from consistent results across multiple studies.

Recent papers analyzing health and insurance indicate that reform appears to have reduced health insurance coverage. Despite this, few effects have been found on a range of health behaviors.

It appears that young children fared slightly better as a result of welfare-to-work, particularly when placed in formal child care settings, but there is also evidence of small negative effects of reform on adolescent behavior. So far, there is little evidence to support or refute the claim that moving mothers into work has increased the value that their children place on education and work.

Studies on the effects of welfare reform tend to show few effects on marriage or non-marital births. There is little evidence to support the expectation that decreasing welfare and encouraging work would also encourage marriage.

Since 2002, consumption among single mothers shows less change than income. Research indicates that consumption increased for a very high share of single-mother families. These increases in consumption are concentrated in transportation and housing.

It is perhaps surprising that these very large changes in welfare use, work, and earnings have had at best small effects on other domains of family life among single-mother families. There may be longer-term cumulative effects on health, child outcomes, or fertility that are simply not yet visible in the data.

An ongoing challenge to our ability to evaluate welfare reform is that we continue to have limited data with which to specify either individual program eligibility or state program parameters. Without this information, estimating the causal effects of program components is difficult. It is particularly important to maintain the Department of HHS Welfare Research Database (WRD), which is the only readily available source of annual state program information.

There are at least three crucial research questions related to the impact of welfare reform which will need to be answered over a longer time period: Will the current program configuration survive a major recession? What's happening to women who are neither working nor on welfare? What is the impact of time limits and sanctions?

If welfare reform had been implemented immediately before a major recession, the story could have turned out quite differently. Long-term evaluation of these changes will require more than results from 1997-2005, a period of relatively strong economic expansion.

Rebecca Blank is the Henry Carter Adams Professor of Public Policy at the University of Michigan and a member of the UKCPR National Advisory Board.

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Letter from the director

By James P. Ziliak

With this issue of *Insights on Southern Poverty* we focus on the national long-term impact of passage of welfare reform legislation in 1996. The research in this issue was presented at an April 2007 conference hosted by UKCPR titled *Ten Years After: Evaluating the Long-Term Effects of Welfare Reform on Children, Families, Welfare, and Work*.

In our lead article, Rebecca Blank discusses what we know, don't know, and need to know about the effects of welfare reform. In an extensive review of research on the topic, Blank notes formal child care proved beneficial to young children when recipients entered the workforce, the impact on marriage rates are inconclusive, and consumption did increase for recipients after reform. Blank also points out that establishing clear causality for policy reform is very difficult, data are limited on certain aspects of state reforms, and we do not have enough long term data to answer other questions, such as how the new policies will fare during a major economic downturn.

Jean Knab et al analyze the impact reforms in child support policies and welfare have on marriage among recipients. Their analysis finds that more generous benefits and stepped up efforts to collect child support payments are associated with lower rates of marriage and stricter policies on welfare receipt are associated with higher marriage rates.

Ariel Kalil and Kathleen Ziol-Guest examined the impact of reform policies on the health of the children of immigrants to see if there is a chilling effect for untilization of services by eligible immigrants. They found a widening of the gap between the health of native born vs. children of immigrants.

Qin Gao and co-authors looked at how the Earned Income Tax Credit influences consumption among single mothers. They find that the EITC is associated with increased consumption rates in February, especially, and that the most consistent effects are seen in single mothers with a high school education.

Peter Mueser and co-authors examined the leaver characteristics of program participants in Maryland and Missouri and found that reform did not cause material harm to recipients nor did it change circumstances for those at the bottom of the income distribution.

John Ham and Lara Shore-Sheppard looked at the impact of reform on health insurance coverage and found that negative effects are primarily concentrated among women who are less-educated, single, Hispanic immigrants.

Pamela Morris and co-authors analyzed the school performance of children to determine the impact of reform policies. They find that effects vary depending on the age of children. Pre-school and younger children benefited from child care support when parents entered the work force, but pre-teen and early teenage children suffered setbacks in their adjustment to this change.

Bianca Frogner and co-authors examined the progress of families surveyed in the Three Cities Study and found that while incomes grew and TANF participation fell, many families remained dependent on other assistance, and nearly half of the families remained poor.

Chris Bollinger et al examined the level and composition of income among welfare recipients and concluded that while reform efforts did increase the labor market skills of low-skilled single mothers, after-tax income, including the cash value of food stamps, has fallen and potentially jeopardizes the well being of the children in these families.

Scott Allard, whose work on the rural social service safety net was highlighted in the previous issue, extended his research to include data on urban providers and compares and contrasts the two. He found that the poor in low-income urban neighborhoods, especially minorities, have less access to services than the poor in more affluent neighborhoods.

The effects of welfare and child support policies on marriage following a non-marital birth

Jean Knab, Irwin Garfinkel, Sara McLanahan, Emily Moiduddin, and Cynthia Osborne

The standard economic model of the family suggests that generous welfare benefits should reduce incentives to marry and increase single motherhood by providing mothers with a source of income outside marriage. For the same reason, stronger child support enforcement also reduces the incentives for single mothers to marry. By increasing the costs to fathers, however, stronger child support enforcement provides increased incentives for fathers to marry.

A major goal of welfare reform was to reduce the incidence of out-of-wedlock births and to strengthen and encourage the formation of two-parent families. Both goals emanated from the belief that the well being of children is greater in two-parent families relative to single-parent families, a belief that was corroborated by research showing strong positive correlations between marriage and child well being.

As a consequence, reform legislation significantly affected the incentives to marry, both by altering benefit generosity and by imposing tougher requirements on child support enforcement. Although some states raised nominal benefit levels, reducing the incentive to wed, other states (or in some cases the same state) introduced other policies making cash welfare less "generous." These policies, such as caps restricting benefits based on family size, diversion payments providing short-term relief, tough sanctions for failure to comply with program rules, and time limits on benefit receipt as short as two years, each raised the incentive to wed after a non-marital birth. Child support policy was enhanced by providing financial rewards to states for raising their paternity establishment rates and making it harder for non-resident fathers to shirk their child support obligations.

Using data from the Fragile Families and Child Wellbeing Study, a longitudinal birth cohort study of children born in 20 large urban areas between 1998 and 2000, we examined the link between state welfare and child support policies and marriages to the biological father in the five-years following a child's birth. We also consider marriage to another partner, as well as examine results for several key subgroups, including the parents' relationship status at birth.

The outcomes we examine are whether the mother ever married in the five years following the child's birth - first to only the biological father, then to either the biological father or a new partner. We first consider reduced-form models of the effects of TANF benefit levels, sanctions policies, and child support policies on each of our key outcomes. Then, we estimate a model of actual welfare benefits received on the incidence of marriage to the child's biological father, where we instrument for welfare benefits because of the possible simultaneity of welfare and marriage decisions.

In our sample, 18% of mothers with a non-marital birth married the child's biological father within five-years; however, this percentage varied dramatically across cities – from 5% to 34%. Marriage rates also differed considerably based on the parents' relationship status at the child's birth; roughly 27% of cohabiting couples married within five years, compared to only 11% of dating couples. Twenty-two percent of mothers married either the child's biological father or a new partner within five years.

Our reduced form models indicate that greater welfare generosity is associated with lower rates of marriage. For example, each $100 increase in cash benefits is associated with a 15% reduction in the odds of marrying the child's father within five years, which translates into 2 percentage points off a baseline marriage rate of 16.5%. In addition, moving from a strict sanctioning city to a more lenient sanctioning city (at mean benefit levels) is associated with a 5.5 percentage point reduction in the likelihood of marrying during the five year follow-up. These effects are substantial and result from a combination of policies that work together to reduce the incentives for mothers to marry.

Stronger and more effective child support enforcement is also associated with lower odds of marriage. A one standard deviation increase in the child support payment rate ratio is associated with a 15 percent reduction in the odds of marrying during the five year follow-up. Negative effects on marriage due to strong child support enforcement are concentrated among mothers whose partner has a child with a prior romantic partner. This suggests that fathers' obligations to a prior partner and the greater likelihood of him having to pay those obligations, negatively impacts the mother's and father's decision to marry.

The instrumental variables results imply even more substantial effects on marriage incentives -- a $100 increase in predicted monthly TANF benefits is associated with a 58 percent decrease in the odds of marriage following a non-marital birth over the five year follow-up. The measure of predicted benefits combines the joint effects of cash benefits and sanctions, however, and likely also captures some of the marriage disincentive effects from child support enforcement.

The results of our study suggest that the marriage behavior of unwed parents may be strongly influenced by the policies enacted as part of the 1990s welfare reforms, and that these effects were most pronounced among those mothers at highest risk of welfare use such as those without a high school education. However, our estimates are based on between-city differences in policies, and we cannot rule out the possibility of some unmeasured city characteristics.

Jean Knab is a research associate at the Bendheim-Thoman Center for Research on Child Wellbeing, Princeton University. Irwin Garfinkel is a professor of contemporary urban problems at Columbia University. Emily Moiduddin is a graduate student at Princeton University. Cynthia Osborne is an assistant professor of public affairs at the University of Texas-Austin.

Welfare reform, the chilling effect, and physical health among the children of immigrants

Ariel Kalil and Kathleen Ziol-Guest

This study investigates the health of low-income young children of immigrants versus natives over the period spanning welfare reform. Children of immigrants, or those with at least one foreign-born parent, are the fastest growing segment of the U.S. population under age 15 and comprise 20% of all American children.

Prior to 1996 reforms, legal immigrants and their children were generally eligible for public benefits under the same terms as citizens. Welfare reform imposed new restrictions on immigrants' eligibility for most transfer programs, and immigrant participation in these programs has fallen faster than among natives, even though many immigrants remain eligible for the programs. A leading hypothesis for these trends is the so-called chilling effect whereby immigrants reduce welfare dependence because of concerns about adverse consequences for citizenship or possible confusion over eligibility. A decline in the health insurance coverage and health outcomes of children of eligible immigrants after welfare reform would lend support to the chilling effect hypothesis.

We use data from the 1993, 1996, and 2001 panels of the Survey of Income and Program Participation to examine the health of children ages 6 and younger in families whose annual income falls below twice the poverty line. We focus on poor, young children because there is a 93% likelihood that those in this age group with foreign born parents are likely to have been born in the U.S. and are eligible for benefits. Health is assessed with two indicators, including parent reports of children's physical health and access to care.

Twenty percent of these low-income children are rated in poor health by their mothers, though children of non-naturalized parents are significantly more likely than children of native or naturalized parents to be in poor health. Non-naturalized children are significantly more likely to postpone medical care after welfare reform (14% compared to 6%) than children of natives or naturalized parents.

In our regression analyses we employed a difference-in-differences strategy to identify the effect of welfare reform on children's health and whether these effects varied by nativity. We found that the gap between low-income children of non-citizens versus natives in terms of children's health widened by six percentage points, which is sizable given the baseline of 20% in poor health. Non-naturalized citizen households increased postponement of necessary medical care by about nine percentage points relative to natives following welfare reform.

The differences in use of care and in children's health are not due to important average economic differences between the groups in the post-reform period. Our results are therefore consistent with the hypothesis that families with non-citizen members face barriers, real or perceived, to using relevant programs in the wake of welfare reform.

At the same time we cannot rule out the possibility that these results reflect not a chilling effect of welfare reform, but rather a widening of the gap in children's health if new programs such as SCHIP had differential impacts on young children in citizen versus immigrant households. For example, differences in outreach efforts could have resulted in these programs' reaching more native than immigrant families and better mitigating any declines in native children's health.

Even if this were the case, however, it does not rule out that immigrant families were more reluctant to take up these programs in the wake of welfare reform. Our results provide tentative evidence that young children of immigrants may be adversely affected by current welfare policies where some parents are barred from receiving assistance and many parents are worried about the consequences of using assistance to which they are entitled. As the ranks of children of immigrants continue to expand it is critical that ongoing research be conducted to assess of how children in these families are faring relative to children of citizens as a consequence of reform.

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How have expansions in the Earned Income Tax Credit affected family expenditures?

Qin Gao, Neeraj Kaushal, and Jane Waldfogel

How the material well being of families has changed in response to welfare reform and expansions in the Earned Income Tax Credit (EITC) is important for a more comprehensive understanding of the effects of major social policy reforms in the 1990s on low-income families in the United States. Earnings rose for most families, but disposable income increased for some and not for others, and how these income changes affected family consumption patterns is not well established.

Recently we examined the effects of welfare reform on single-mother family expenditures and found that families affected by the reforms increased expenditures on work-related expenses such as transportation, adult clothing and food away from home. In this paper we extend our earlier work to estimate the effect of EITC expansions on expenditures of single-mother families. The EITC is the largest federal cash-transfer program for low-income families, providing $39 billion to 22 million households in 2003, and presently 23 states have implemented state-level EITC programs modeled after the federal credit.

We use the Consumer Expenditure Survey (CE) data for 1994-2004 and study the associations between state and federal EITC expansions and household expenditures, debt, composition of expenditures, and purchase of consumer durables in single-mother-headed households aged 18 to 54 years. We examine three distinct groups: low-educated (less than high school), medium educated (high-school graduate or some college), and high-educated (college degree or higher). The low and medium educated groups are the focal groups likely to be affected by the EITC, while the high educated group largely functions as a comparison group because it has incomes near or above the cutoff for EITC eligibility and thus is less likely to be affected by the policy.

Our descriptive analysis reveals a modest upward trend in real monthly expenditures since 1996 for all single-mother families. Monthly spending among low and medium educated families remained relatively constant after 2000, and thus the upward trend was driven by spending increases among high-educated families. This highlights the importance of conducting our tests separately by education level given the differential trends, and also highlights the need to control for other confounding factors such as age, race, family size, and local economic conditions.

For the pooled model of all mothers we identify a statistically significant increase in expenditures associated with the EITC in February (along with a marginally significant increase in January). A $1 increase in maximum EITC credit is associated with a nearly $0.10 increase in total expenditure in February, when EITC receipt peaks. This result is consistent with other literature on household consumption that finds spikes in consumption associated with receipt of social security checks and tax refunds.

The EITC effects here are driven largely by increased spending among the medium-educated group (a $0.13 for every $1 increase in the EITC), which are the families best positioned to benefit from the EITC given the strong laborforce attachment and modest income levels.

In terms of disaggregated spending we found that the 1990s EITC expansions are associated with economically small, but statistically significantly increased expenditures by the medium-educated group on food, clothing, transportation, and education, and marginally significant increases on housing, alcohol, and tobacco. A $1 increase in EITC is associated with a $0.013 increase in average monthly expenditures on food (three-fourths of which is spent on additional food at home), a $0.008 increase on clothing, and a $0.002 increase on alcohol and tobacco.

The February EITC refund effect among the medium-educated sample of single mothers is evident in several spending categories, including housing, transportation, education, and durable goods such as new cars and major appliances. The new spending on transportation presumably will improve access to employment and stability of employment.

An important finding for overall family balance sheets is that EITC expansions resulted in lower household debt. A $1 increase in EITC lowered debt by about $0.04 for all single-mother families, $0.02 for low-educated single mothers.

Our results showed that the EITC expansions of the 1990s had the greatest consumption benefits among families where the mother had either a high school diploma or some college. This is a group that has a high probability of being employed but typically has earnings low enough to be eligible for the EITC.

Spending among low educated mothers did not increase in response to the EITC, perhaps because disposable incomes fell for this group as noted in the article by Bollinger, et al. in this issue, though there is some evidence that they retired debt. Collectively the social policy reforms over the past decade have not substantively improved the material well being of low skilled single mother families.

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The impact of welfare reform on leaver characteristics, employment and recidivism

Peter Mueser, David Stevens and Kenneth Troske

The impact of welfare reform on the longer-term well-being of welfare leavers and recipients remains an open question. Previous research during the welfare waiver era, and in the years immediately following the introduction of TANF, showed that leavers have low levels of job skills and are working in jobs with low wages, few benefits, and little security. These studies, however, generally followed leavers for only a short time, limiting our understanding of long-term changes in well being. Post-TANF research was conducted during near unprecedented economic growth and thus is silent on how leavers fared after the economic downturn of the early 2000s.

We examined the longer-term dynamics of welfare participation, employment, and earnings of single mothers age 18-56 over the period 1991-2004, using administrative data from Maryland and Missouri on a current cohort of recipients and three cohorts of leavers. These states, which both implemented reforms prior to 1996, are representative of the general move toward constraints on recipients and greater emphasis on employment. Moreover, the people affected by welfare reform in Maryland and Missouri in the 1990s were operating in a nationally representative economic environment.

We divide our cohorts of welfare leavers into three groups: pre-waiver recipients (1993 fiscal year), post-waiver recipients (1997 fiscal year), and post-TANF recipients (2002 fiscal year). Our ability to compare recipients prior to reform with recipients after reform is a key advantage of our research compared to earlier studies because we are able to separate the influence of policy reforms from changes in the macroeconomy. Another advantage of our data is that we have information on both the demographic and family characteristics of recipients and leavers, as well as the characteristics of welfare leavers' employers The latter data is important because previous research has shown that employer characteristics, such as employment size-class, industry, and total payroll are correlated with an employee's wages, benefits, wage growth, and employment stability.

In terms of composition and program participation, average age for both arrivals and departures increased through the mid 1990s. Those exiting were about two years older than those entering, with the difference declining over time. Educational levels in Missouri changed very little prior to 2000, but increased by almost 0.2 years by 2002. Both arrivals and leavers had more schooling than the caseload as a whole, reflecting shorter spells for more educated recipients.

Although employment rates are substantially lower in Maryland than in Missouri, the experiences of program participants and changes over time are strikingly similar. In the late 1990s, leavers were more likely to be working than prior to reform. Since 2000, with the slowing of the economy, employment declined in both states but remained above the early 1990s rate, suggesting some lasting, long-term positive effects on employment.

In both states, earnings following welfare exit were appreciably higher for the second cohort than the first. In the post-2000 cohort, earnings declined. Our research suggesting that the strong economy was an important factor in the higher earnings observed following reform.

In Maryland's first cohort, earnings of those with jobs are appreciably higher than the other cohorts, suggesting that reforms may have forced these individuals into lower-paying jobs. Average earnings for those employed were even lower in the third period. Missouri showed relatively small differences in average earnings, with earnings slightly higher for both cohorts following reform.

Leavers were very likely to have jobs in retail trade and service firms, and this proportion grew modestly over time. Nine to 14% of leavers were working in eating and drinking establishments in the quarter after leaving welfare in both states. At over 13%, the initial proportion in manufacturing is nearly twice as high in Missouri as in Maryland but declined by about half in both states over the entire period.

Program recidivism rates were 35-38% for the first cohort, declined to 29% or below in the second, and increased in the third group in the range of 31-33% The probability of program return was not tied to changes in the characteristics of individuals leaving welfare, changes in the economy, or in the characteristics of employers. Although higher recidivism rates since 2000 suggest that unmeasured labor market differences may play a role, the economy is not solely responsible for the decline since the early 1990s.

Those with greater welfare experience are more likely to return. We also found that people who worked more prior to leaving welfare were more likely to return to welfare in the future, perhaps the reverse of expectations.

We found little evidence that reform has pushed less-skilled workers into the labor market. It does not appear that, after reforms, recipients are any more likely to work for employers paying low wages or in industries with unstable employment.

Finally, we find that since the early 1990s there has been a significant decline in the probability that a welfare leaver returns to welfare, but the economy does not appear to be the primary factor. Our results suggest that leavers after reform are more likely to be working after leaving and are less likely to return.

In the face of these changes, welfare reform may have imposed little material harm for welfare recipients, but we found little basis to conclude that policy reform substantially improved the material conditions for recipients or others at the bottom of the income distribution.

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The impact of welfare reform on health insurance among less-skilled women

By John C. Ham, Lara Shore-Sheppard, and Xianghong Li

The extent of health insurance coverage of single mothers and their children is of keen interest to researchers and policy makers in light of welfare reform. Historically, this population was covered by Medicaid by virtue of its participation in the AFDC program, but with policy reforms and the strong macroeconomy pulling women off of welfare and into work in the late 1990s the prospect of maintaining coverage was less clear.

Typically the family would be eligible for Medicaid for a year upon leaving welfare, but some questioned whether the families were aware of such continuing eligibility, while still others may have left public insurance altogether for employer-provided coverage.

In our paper we use 1986-2003 data from the Survey of Income and Program Participation (SIPP) to examine the effect of welfare reform and other policies on health insurance coverage among less-skilled women, aged 21-44, where we define "less-skilled" as having a high school education or less.

We focus on this group because it is among the highest risk groups for welfare use and attendant Medicaid coverage. We also focus on the effects of welfare reform among Hispanic women, a group that is of particular importance for evaluating welfare reform due to its over representation among less-educated women and the fact that PRWORA targeted immigrants specifically.

One of the first contributions of our paper is that we test the widely used identification strategy in non-experimental evaluations of welfare reform of isolating single mothers as the "treatment" group assumed to be affected by welfare reform, and either married women (with or without children) or single childless women as the "comparison" group assumed to be unaffected by reform. If the latter groups are valid comparison groups then they should have similar state-level trends in insurance coverage in the absence of welfare reform.

We conducted a battery of tests and soundly reject this assumption. The data reveal substantial differences in insurance trends by type of insurance. Single mothers experienced a marked decline in Medicaid coverage beginning in late 1993, with their levels of private coverage remaining fairly constant, while single women without children experienced sharply declining levels of private coverage and little change in public coverage (excluding disabled and SSI recipients).

Both groups of married women experienced steady declines in the level of private coverage over the entire period and little change in coverage by Medicaid. Whether this assumption is likely to be rejected for other welfare outcomes is unknown, but the results suggest that we should conduct our analyses of health insurance separately for each group.

A second contribution of our research is to examine simultaneously the effects of reform policies along with Medicaid, the introduction of the State Children's Health Insurance Program (SCHIP), expansions of the EITC, changes in state-level health care costs, and several barometers of the low-wage labor market. The objective here is to control for other changes in the policy and economic environment to more accurately isolate the effects of welfare reform on public and private health insurance.

We find only weak evidence of an effect of reform for women with a high school education or less and a negative association between the implementation of waivers and Medicaid participation for single mothers. However, this small effect is due to the inclusion of mothers with a high school diploma because when we restrict our samples to women with less than a high school education, we find some evidence that implementation of welfare reform is associated with reductions in Medicaid and increases in private coverage for single mothers.

Much of the welfare-reform-induced reduction in Medicaid coverage and increased private coverage is concentrated among single, Hispanic mothers. Moreover, when we split this Hispanic sample into immigrants and native-born, we find the effects to be largely concentrated among immigrants. The increase in private coverage does not fully offset the reduced coverage from Medicaid, leaving more uninsured mothers in this group. The latter holds for both the waiver and TANF periods, despite the fact that only TANF singled out immigrants for differential treatment.

For married mothers with or without high school, some of the other corresponding policy changes revealed more evidence of an impact, especially the EITC. The expanded EITC reduced the probability of Medicaid participation, raised the probability of private coverage, and raised the probability of coverage overall.

We also examined the dynamics of health insurance coverage. The standard model ignores that employment histories are highly persistent (both in and out of the labor force), and in the case of Medicaid there are significant fixed costs of entry onto the program that likely make participation carryover from one period to the next.

We find strong evidence of persistent health insurance coverage and that this persistence explains nearly all the variation in insurance status leaving little role of policy to explain.

The finding that most of the loss of health insurance during the waiver and TANF periods fell upon unmarried, immigrant, Hispanic mothers is broadly consistent with the "chilling hypothesis" discussed by Kalil and Ziol-Guest in this issue. Our results also point to greater need for research on the dynamics of low-wage health insurance coverage over time and the business cycle.

John Ham is a professor of economics at the University of Southern California. Lara Shore-Sheppard is an associate professor of economics at Williams College. Xianghong Li is an assistant professor of economics at York University.

Welfare policy effects on school performance

**Pamela Morris, Lisa Gennetian,
Greg Duncan, and Aletha Huston**

Improving the well being of children has not been at the fore of much of the rhetoric and evidence driving welfare policy debates. Rather the debates have been dominated by outcomes such as adult employment and welfare participation. Several studies of welfare leavers, including the papers by Frogner, et al. and Mueser, et al. in this issue, indicate that many welfare leavers remain in poverty even when employed fulltime. This has lead to a new emphasis in policy circles away from caseload reduction to concerns about reducing poverty and improving child well-being in low-income working families.

Our research summarized here synthesizes results from a number of random assignment experiments in the late 1980s and early 1990s as part of the Next Generation Project to learn how policies aimed at increasing work and decreasing program participation among adults can affect children's development.

The Next Generation Project is a collaborative project involving researchers at MDRC and a number of universities that relies on seven random-assignment studies that together evaluate the effects of 13 employment-based welfare and antipoverty programs in the United States and two Canadian provinces. The studies provide information on over 30,000 low-income children, primarily from single-parent families. Although various packages of policies were tested, we highlight four dimensions here: earnings supplements, mandatory employment services, time limits, and expanded child care assistance.

The studies reveal that impacts on children's achievement and school performance hinge critically on two important factors—the age of the child at the time their parents entered the programs and whether the program offered generous supplements. Programs with earnings supplements increased family income by $1,600 per year, on average; other programs increased income by a statistically insignificant $240 per year. With the average level of annual income at $11,854 in the control group, the former constitutes a substantial gain for families receiving earnings supplements.

For preschool children ages 4-5 years old at study entry, programs with earnings supplements that boost both maternal employment and income improve achievement; programs that increase maternal employment without concomitant increases in income (e.g., through mandatory participation in employment-related services and time limit policies) generally have neither favorable nor unfavorable effects on achievement.

Putting the two pieces of information together, our data show that a $1,000 increase in annual income over two to five years boosts child achievement by 6 percent of a standard deviation. Programs with earnings supplements increased family income for younger children by between $800 and nearly $2,200 per year, which corresponds to achievement effect sizes ranging from 5 to 12 percent of a standard deviation.

Our results also show the benefits of programmatic increases in the use of center-based care arrangements. Programs that provided expanded child care assistance increased by a few percentage points the use of center-based care as compared to home-based care arrangements; the reverse is true for programs without such assistance. Moreover, the use of center-based child care during preschool years was found to lead to positive impacts on children's achievement as they entered more formal schooling.

Effects for children who were adolescents (ages 11 and older) when their parents entered the programs were very different, showing modest unfavorable impacts across a variety of program models and for a variety of outcomes including increases in special education services, dropout rates, and school performance. These adverse effects were never significantly different from each other across program type. Because all three policies raised parents' average employment, it is likely that program effects on adolescent schooling were somehow linked to changes in parents' employment levels. Notably, this group is going through a major transition from elementary school to middle school as well as the beginnings of puberty when their parents enter the programs.

We found some evidence that increased responsibility for sibling care may have contributed to lowered adolescent school success. For adolescents with younger siblings, programs reduced the percentage who performed above average in school, and increased the percentage who received special educational services, were suspended or expelled, and dropped out of school. Among those with no younger siblings, in contrast, the programs had no significant effect and actually decreased the rate of suspension by nearly 7 percentage points.

What about the effects for other age groups? For younger preschool children, age 2-3 years old, and for middle childhood children, who were 6-9 years old when their parents were randomly assigned, we see less consistent positive effects. Notably, all of these age-related differences cannot be attributed to family characteristics that differ for children of different ages.

Our investigation of the mediating pathways was intended to identify targets of intervention. In that spirit, for younger children, center-based care seems like a worthwhile policy target, either by encouraging parents to take up such care through increased income or encouraging its use through alternative policy levers. Coordinating welfare and employment policies with early intervention efforts could produce even greater benefits for children than we see in the studies examined here. For adolescents, supporting the needs of the family system may be critical – if sibling care is part of the challenge, then providing care for all children in the family may be important; after-school programs for adolescents will not be sufficient.

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How families are doing 9 years after reform

By Bianca Frogner, Robert Moffitt and David Ribar

An ongoing issue in studies of welfare reform is whether the observed income gains for many families in the wake of reform came from increased earnings of welfare leavers or from other members of the household unit. Several authors argue that the earnings gains for former welfare recipients were offset by transfer income losses, and thus much of the observed gains arose from other sources. Much of this research, however, was confined to the years immediately following passage of PRWORA, and thus evidence of how former recipients and eligible non-recipients are faring in the longer term is lacking.

In this paper we examine how patterns of welfare use have evolved in the nine years after welfare reform, how the employment, incomes, and composition of incomes have changed with welfare status, and what role employment plays in fostering economic self-sufficiency for families leaving welfare.

The data we use for our analysis come from the Three-City Study, a longitudinal survey which began in 1999 with 2,400 low-income families (including non-welfare receiving families) with children living in Boston, Chicago, and San Antonio. Follow-up interviews were conducted in 2000-2001 and in 2005.

Although the study is limited to only three cities, the cities are representative of large urban areas in the United States, and there is substantial policy variation across the three sites. Moreover, the study is one of the longest on-going panel surveys of low-income families in the U.S., and has some of the most recent data available, including detailed information after the 2001 recession. The sampling frame also includes non-welfare families, meaning that welfare entry decisions can be studied as well as welfare exit decisions. The focal sample is of caregivers under the age of 62 who are present for all three interview waves and are living with at least one child under the age of 18.

We found that TANF participation among caregivers fell from 32% in 1999 to 12% in 2005, much greater than the average state leaving rates. However, participation in other types of assistance, including food stamps, held steady over the period. Evidence of moderately high participation rates in means-tested programs such as food stamps, Medicaid, and SSI indicate that many families remained disadvantaged and in need, even if they were not receiving TANF assistance.

In terms of welfare participation, about 4% of the caregivers received benefits at all three interviews. These caregivers are a select group who worked less, had lower rates of marriage, and reported worse health and higher rates of disability than other caregivers. Another 13% were on welfare at the first two interviews but left by the third interview. Only 14% of the caregivers who were not initially on welfare ever reported receipt in a subsequent interview, and only 4% of the caregivers who were off welfare during both of the first two interviews reported receipt in the third interview.

Employment increased over the study period from 50% in 1999 to 58% in 2005, although there were significant differences across welfare status. Continuous recipients had the lowest rates of employment of the groups examined, and continuous non-recipients had the highest rates. By the third wave of the survey, only one-sixth of the continuous recipients were working, compared to about two-thirds of the continuous non-recipients.

Perhaps not surprising given their employment status, continuous non-participants in TANF had the highest incomes and the best economic circumstances across the three waves. Interestingly the income levels among the other families who stayed on TANF or who cycled on or off welfare were not substantively different. Continuous recipients in Wave 3 had incomes that were higher than late leavers and almost as high as those of the early leavers, mostly a result of large increases in SSI and SSDI payments, possibly because of declining health but also possibly a result of a policy-related push to move families from state-funded TANF to federally-funded SSI and SSDI. The number of caregivers reporting that they were in fair or poor health increased from 24% in 1999 to 30% in 2005. Also, the number of caregivers reporting functional disabilities rose from 14% to 22%.

In general, for families whose incomes increased, it did so due to the addition of income from other household members. Leavers saw increases in their household incomes after exiting welfare that were largely due to increases in the earnings of spouses and partners that in turn arose partly because marriage and cohabitation rates rose and partly because more spouses and partners with earnings were in the household after leaving welfare. Nonemployed leavers also benefited from more spouses and partners in the household and from more of these adults having earnings. Even with this, however, nonemployed leavers' incomes were below their incomes while previously on welfare; thus, they were worse off.

We also address the question of whether "work pays," which we define as occurring when the increase in a leaver's own earnings after exiting welfare exceeds the loss of benefits. We find that work does not pay when we pool employed and non-employed leavers together because increases in average own-earnings are completely offset by declines in TANF and Food Stamp benefits. This finding corroborates results from national survey data reported in Bollinger, et al. in this issue.

Overall, nine years after the enactment of welfare reform the caregivers in our sample were on average enjoying higher incomes and lower rates of poverty in 2005 than they did in 1999, with the economic gains coming primarily from increased earnings of non-recipient family members. The picture, however, was not positive for all families or for every measure. Although average incomes grew and TANF utilization fell, many families remained dependent on other types of assistance, and nearly half of the families remained poor.

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Welfare reform effects on the level and composition of income

**Christopher Bollinger,
Luis Gonzalez, and James P. Ziliak**

The effects of welfare reform and EITC expansions in the 1990s on the incomes and earnings of single mother families have received much attention in the research community. The research to date, however, has tended to rely on data only through the 1990s and has focused on the average effects of the policy reforms.

The focus on the 1990s implies that we do not yet have an understanding of how the policy changes interacted with the business cycle following the 2001 recession, and the emphasis of impacts at the averages of income and earnings ignores possibly large positive or negative effects of social policy reforms in other parts of the income and earnings distributions.

In this paper we estimate how welfare reform, the macroeconomy, and the earned income tax credit (EITC) affected the level and composition of after-tax income of single mothers in the decade since passage of welfare reform. We use data from the 1980 to 2005 survey years of the March Current Population Survey, which spans the past three aggregate business cycles as well as major reforms to the tax and welfare systems. Our key variables of interest are before-tax labor-market earnings and after-tax total income, the latter of which includes the official Census income definition for poverty measurement, plus food stamp income, EITCs, and state, federal, and payroll tax payments.

The regression model includes multiple sources of heterogeneity in policy responses across skill levels (determined by education attainment) and business cycle conditions, and we estimate models both at the mean of the income and earnings distributions as well as at several percentile points. The literature has been hindered from identifying business-cycle interactions with policy reforms because the strong growth of the 90s was shared by all states. With the onset of the 2001 recession and subsequent recovery it is now possible to exploit cross-state over time variation in the business cycle to aid in identifying the effect of interactions between the economy and welfare reform on income and earnings.

Examining basic trends in income over the past two and a half decades reveals large changes in the level and composition of income across the distribution during the welfare reform era. At the 10th percentile—which is an income level equal to about 50% of the poverty line for a 3-person family—mothers still rely quite heavily on transfers, on average, but post welfare reform fewer than half of mothers even at this low level of income receive any cash support from TANF, SSI, Social Security and DI, or earnings.

At the same time, average real income at the 25th percentile grew by about 32 percent between 1993 and 2004 and by about 12 percent overall from 1979 until 2004. The trends hint that changes in social policy and economy in the 1990s differentially affected mothers depending on their location in the income distribution.

Our multivariate regression results show that welfare waivers in the mid 1990s had no direct impact on after-tax income at any point in the distribution for either high-skilled mothers (those with 12 or more years of schooling) or low-skilled mothers (those with less than 12 years of schooling). However, waivers did lift earnings at the 40th percentile and higher, and strong local economies in the mid 1990s accommodated welfare waivers that fostered income and earnings gains among the less skilled.

TANF raised disposable incomes an average of 8 percent among higher skilled mothers, with the strongest effects between the 30th and 60th percentiles, and raised earnings among low skilled mothers in the lower half of the distribution by as much as 20 percent. The EITC expansions in the 1990s substantially raised earnings at most points of the distribution for both high and low-skilled mothers.

At the same time both TANF and the EITC resulted in substantial losses of after-tax total income among the low-skilled. The negative effects of TANF on the income of the low skilled was concentrated in the bottom half of the distribution, while the negative EITC effects were found across the income distribution. This suggests that as earnings rose, transfer income fell by more than the gain in earnings resulting in lower disposable incomes after welfare reform for less skilled mothers.

The only evidence of interactions between welfare reform and the business cycle is during the waiver period, and this is concentrated among the low skilled. Although the EITC is designed to enhance self-sufficiency of single mothers, it appears that many are "running in place" because of offsetting income losses from other sources.

On the one hand, low-skilled single mothers have acquired more labor-market experience than they would have in the absence of welfare reform and expanded EITC, and returns to experience accumulate over the life course so that earnings gains are likely to beget more earnings gains provided the mothers remain attached to the labor force. On the other hand, after-tax income including the cash value of food stamps, which is a common barometer for economic well being, has fallen in the wake of the social policy reforms and thus potentially jeopardized the well being of the children in these families.

Additional research on the distributional consequences of the 1990s social policy reforms in terms of health, child development, and material well being is needed for a more complete understanding of welfare reform.

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Assessing service delivery in urban and rural America following move from cash assistance

By Scott W. Allard

Anti-poverty programs have transformed from a system of cash assistance to that of social services. Whereas annual governmental spending on welfare cash assistance totaled about $11 billion today, annual governmental expenditures for job training and social service programs reached about $34 billion, according to the Congressional Research Service. Additionally, data from the National Center for Charitable Statistics (NCCS) indicate that nonprofit human service and job training providers increased from 26,059 in 1990 to 41,707 in 2003.

Social service programs address multiple barriers to employment for low income populations, such as low education, physical and mental health, and child care. Many poor households draw assistance from a variety of social service agencies at some point, including large numbers of individuals who do not receive public assistance.

The provision of social services poses a number of challenges that are different than cash assistance. There is no guarantee that low-income households will have easy access to services, and in high poverty communities inadequate access to service providers can be tantamount to being denied assistance.

There is evidence that the geography of poverty has shifted over the past decade from urban to suburban areas, and agencies may be unable to maintain funding or client caseloads due to this shift. Stable funding is also critical for service agencies that sometimes experience substantial changes in revenue sources from year to year. The services safety net also may not be responsive to growing demands during a recession.

This research is based on surveys of providers in urban and rural locations between November 2004 and June 2006. The Multi-City Survey of Social Service Providers (MSSSP) conducted telephone survey interviews with executives and managers from 1,487 social service providers in three cities (Chicago, Los Angeles, Washington, D.C.). Similarly, the Rural Survey of Social Service Providers (RSSSP) interviewed administrators from 724 agencies in southeastern Kentucky, south-central Georgia, southeastern New Mexico, and the border counties of Oregon-California.

While most funding for these providers came from government agencies, the majority of providers were nonprofit organizations. Government agencies were prominent in each local safety net, accounting for about 25-40% of all service agencies. Faith-based service organizations also played a prominent role in urban and rural safety nets.

When controlling for demand for assistance and the availability of assistance, poor urban and rural areas have less access to social service agencies than lower poverty areas. Low-income households living in high poverty urban neighborhoods in Chicago and Los Angeles have access to far fewer service opportunities than low-income households in more affluent neighborhoods.

Even more consistent across different urban settings, persons living in neighborhoods composed predominately of racial minorities have access to about half as many service opportunities as those living in predominately white areas.

Both urban and rural service providers show substantial volatility or change in the composition of agency funding. Although it varies by site, anywhere from one-third to one-half of providers in these survey sites report a decrease in at least one funding source over the previous three years.

Comparable percentages of agencies report an increase in a given revenue source over the three years prior to the survey. Of agencies reporting a funding cut in the previous three years, 61% of urban providers and 76% of rural providers did not experience an increase in other funding sources over that time.

Lost program revenues in both urban and rural areas lead to substantial volatility in service provision. For instance, 71 percent of urban service providers and 77 percent of rural providers experiencing a decrease in funding report reducing staff, reducing services, reducing clients served, or temporarily halting operations in response to lost revenues. Other strategies for coping with revenue losses include staff reductions, reduced services, and, in some instances, temporary or permanent closure.

Beyond access and funding issues affecting accessibility of service providers, factors commonly identified as barriers to employment may affect patterns of service utilization, such as child care, access to reliable transportation and proximity to providers (especially in rural areas), and substance abuse and alcoholism.

Social service providers are the critical thread that tie together our local safety nets and determine how communities assist poor populations. Retrenchment of welfare and greater budgetary pressure on other public safety net programs suggest that local social service agencies will become even more integral sources of support for the poor.

A safety net mismatched from need will not be well-suited to remedy persistent poverty, no matter how well we understand the antecedents of that poverty. Insufficient distribution of social assistance and service providers undermines the success of safety net programs, the efficiency with which the safety net operates, and the ability to promote better outcomes among the poor.

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