

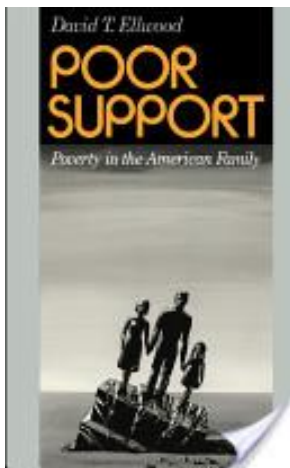
The 1996 welfare reform: impacts on poverty, work and fragile families

Darryl McLeod & Meshry El Koudous

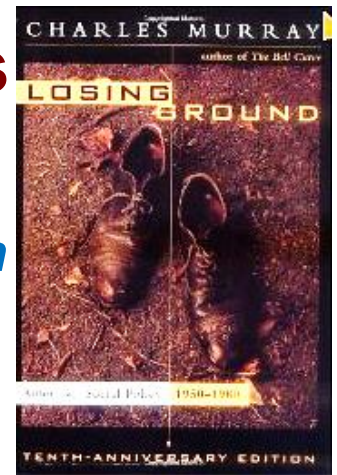
Spring 2015 Econ 3240

Poverty, Inequality & Mobility (PIM)

Lecture notes Fordham University



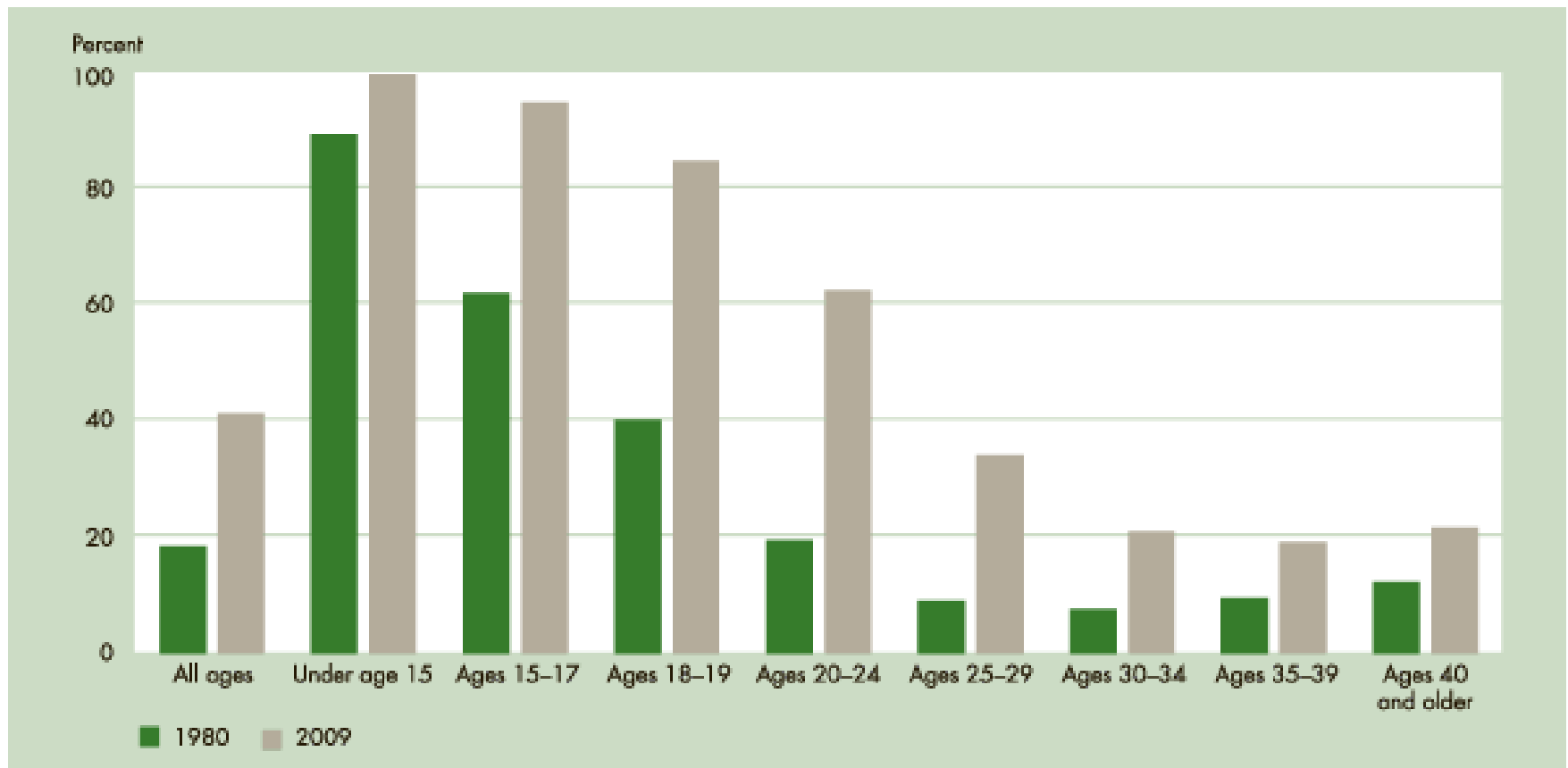
1989: Ellwood's *Poor Support* is a response to Murray's 1986 *Losing Ground*: Candidate Bill Clinton reads it on a plane: promises to "end welfare as we know it..."



- **1980s: High unemployment, a falling minimum wages and declining welfare benefits** raise poverty from 11% to 15%, Murray blames AFDC and family values (more single mothers).
- **Ellwood says Murray wrong: welfare (AFDC) is not a big cause of poverty problem, but it is not the solution either**— states with low benefits have more SPFs and even during “tough love” period 1987-96 children living in SPFs grew – though share on welfare did not— “working poor families” represented big increase in poverty.
- **Ellwood: Still, welfare reform needed... welfare is not the problem, but not a good solution either... and everyone hates welfare... recipients, tax payers, social workers**—
- **Tough Love phase starts in 1979: steady decline in benefits for welfare families – right though 1993.**

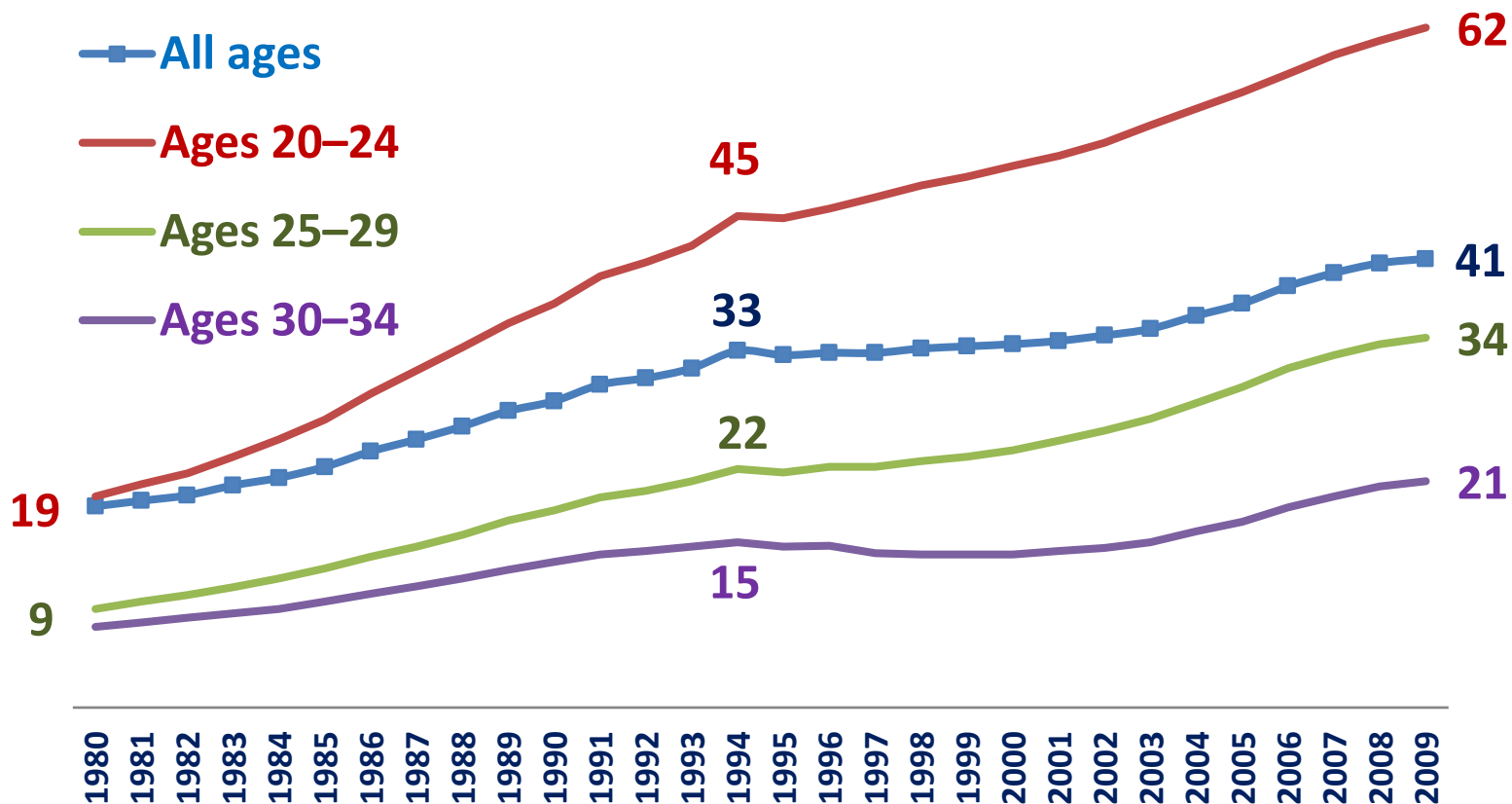
Sharp rise in share of births to unmarried women.

Indicator Fam2.B: Percentage of all births to unmarried women by age of mother, 1980 and 2009



Sharp rise in share of births to unmarried women.

Figure 7: Share of all births to Unmarried Women



Source: U.S. HHS ChildStats, accessed April 2012

<http://www.childstats.gov/americaschildren/famsoc2.asp>

Ellwood's *Poor Support: American values consistent with OPM (pre transfer poverty)*

1. **Individual Autonomy:** *“Americans believe that... people can provide for themselves if they are willing to make the necessary sacrifices. The rags-to-riches American dream pervades our culture. Rugged individualists win respect even if their behavior borders on the eccentric or even the criminal.”*
2. **The Virtue of Work.** *“The work ethic is fundamental... People ought to work hard not only to provide for their families, but because laziness and idleness are seen as indications of weak moral character. The idle rich command as much disdain as jealousy; the idle poor are scorned.”*
3. **Primacy of the Family.** *“The nuclear (2 parent) family is still the primary social and economic unit, and, certainly, its foremost responsibility is to raise children. Families... socialize children, guard their safety, provide for their education, impose discipline and direction, and ensure their material well-being while they are young. The husband and wife are also expected to support each other.”*
4. **Desire for and Sense of Community.** *“The autonomy of the individual and primacy of the family tend to push people in individualistic and often isolating directions. But the desire for community remains strong in everything from religion to neighborhood.”*
5. **Compassion and sympathy for others** *“can be seen as flowing from a sense of connection with and empathy for others.” see David*

[Ellwood, 1986 page 16 Chapter 2](#)

Welfare reform helps mitigate Ellwood's helping conundrums

1. **Work- security:** provide a safety net but not reduce the incentive/rewards to work (“make work pay”).
2. **Assistance-family structure:** help 2-parent families, mothers & families (but EITC taxes marriage)
3. **Targeting-Isolation:** reduce stigma, integrate don't isolation (EITC is private only IRS knows).
4. **Geographic, social & skill mobility:** migration, education and promotion facilitated (bus tickets, student loans, affirmative action).

Ellwood's 1989 plan to help two-parent families: (Ellwood p.105)

- ❑ **Universal Medical Insurance** (similar to auto insurance– public insurance last resort)
- ❑ **Make Work pay** – raise minimum wage & plus EITC (a personal wage subsidy)
- ❑ **Replace cash welfare payments (AFDC) and food stamps with transitional assistance program (done, TANF, 1996).**
- ❑ **Last resort low wage jobs** for those who lose their transitional assistance (Walmart, Shop-rite?).

How to help single-parent families

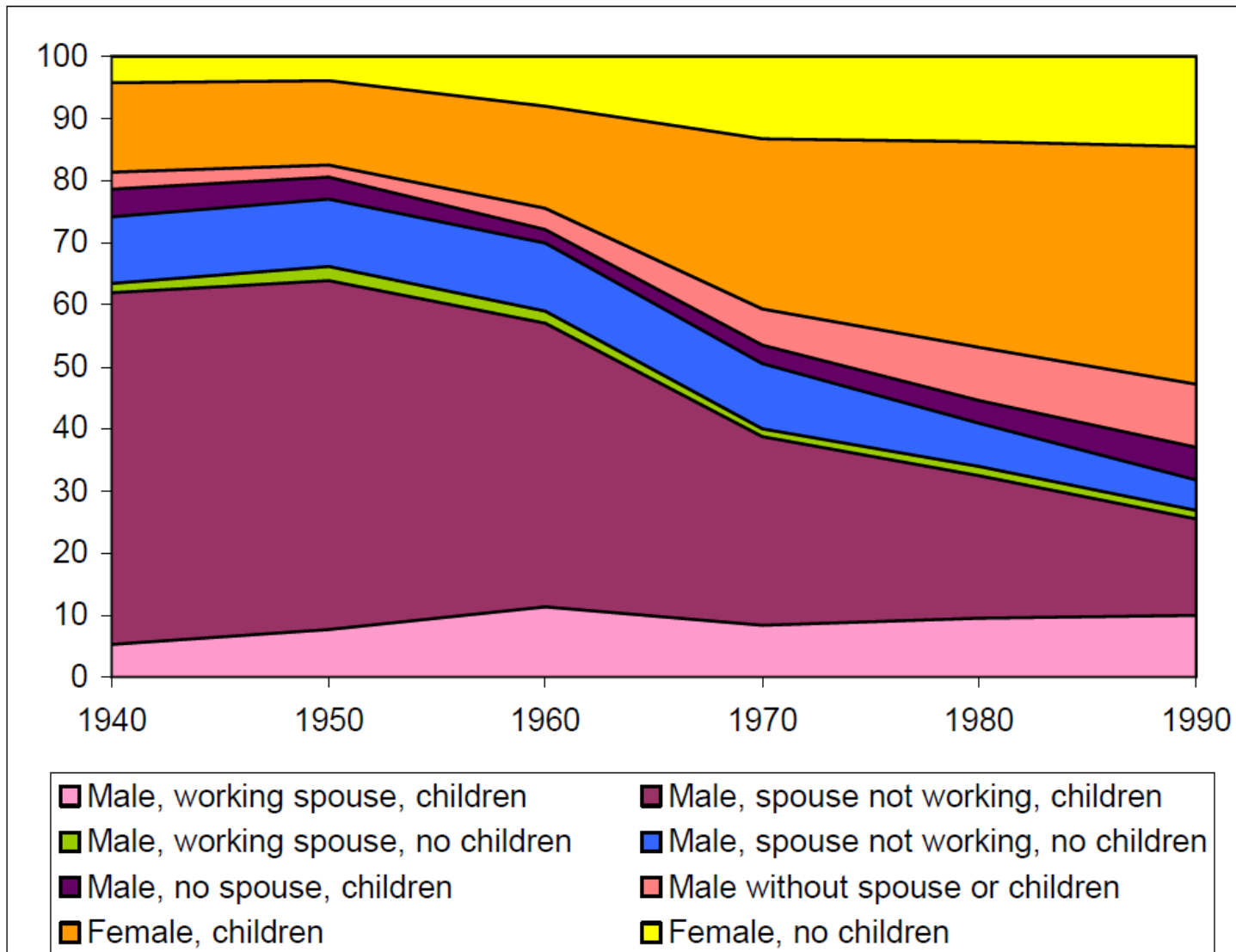
(Ellwood, 1986, Poor Support, pp. 155 & 175)

- ❑ **Child support assurance**— as opposed to welfare payments per child.
- ❑ **Universal Medical Insurance** (public option: last resort)
- ❑ **Make Work pay** – raise min wage & EITC
- ❑ **Replace welfare and food stamps with transitional assistance + Job Training e.g., California's GAIN program**
- ❑ **Jobs of last resort** for those who lose their transitional assistance.

Single-parent families now largest poverty demographic (Katz and Stern, 2001, *Poverty in the 20th century*)

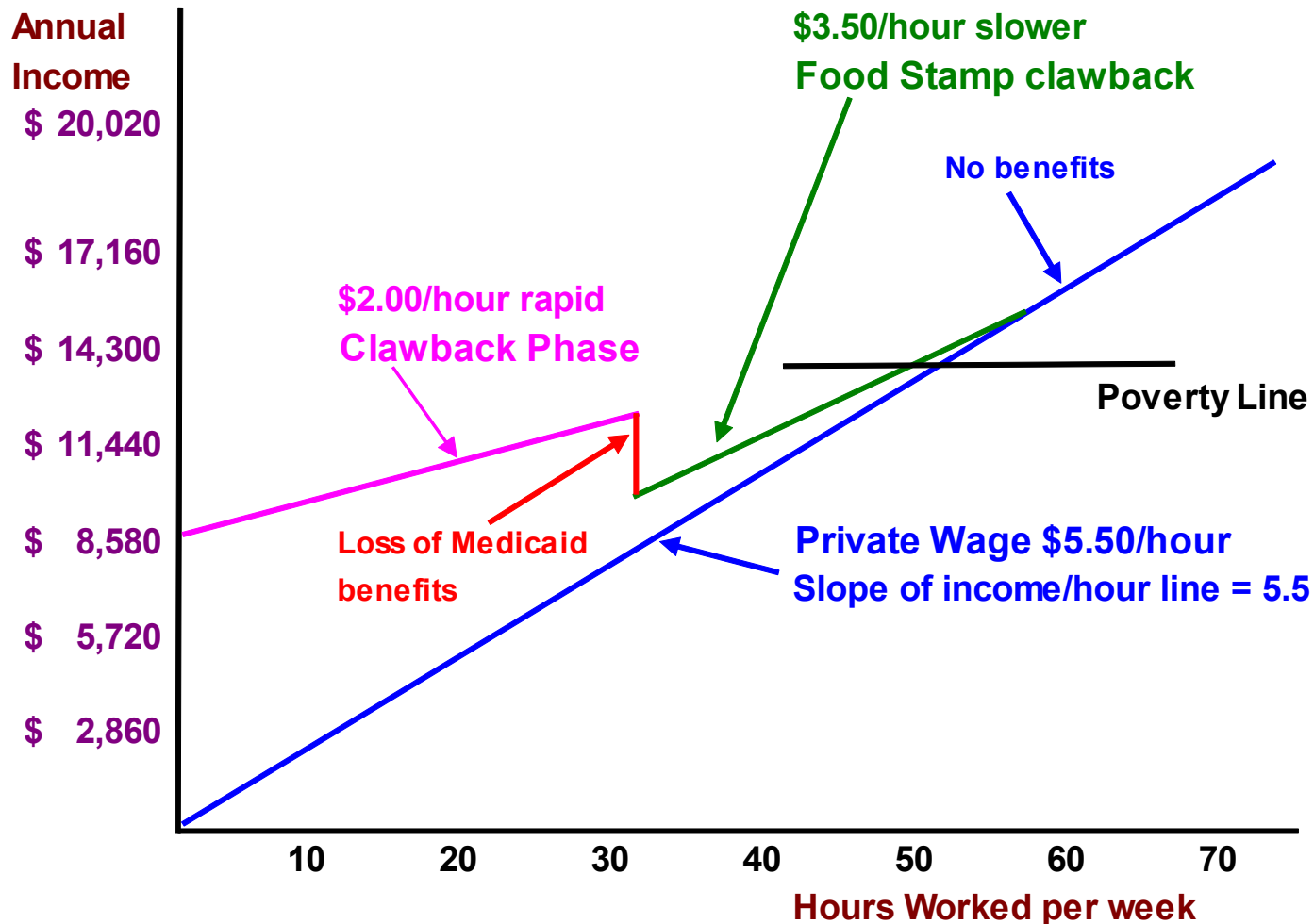
<http://www.sp2.upenn.edu/america2000/wp7all.pdf>

Figure 8—Distribution of poor people by household structure



Under AFDC: single parents work taxed at high rate (a long clawback phase)

Work Rewards under AFDC (pre 1996 TANF)



Evolution of the EITC 1984 to 2006

Schedule for Family with 1 Child

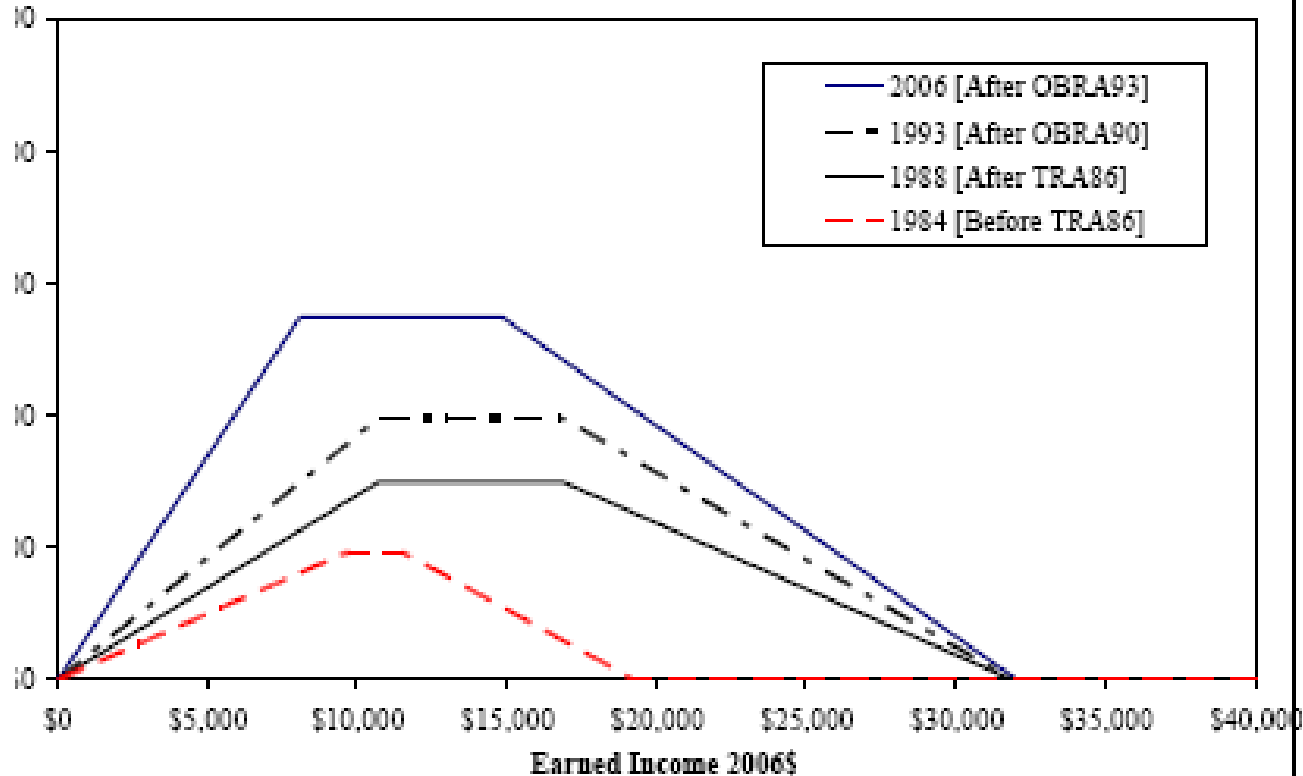


Figure 2: Real EITC Schedule for Single Mothers by Real Earnings (2006 dollars)

Source: Hilary Hoynes *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, University of California, Davis

Evolution of the EITC 1984 to 2006

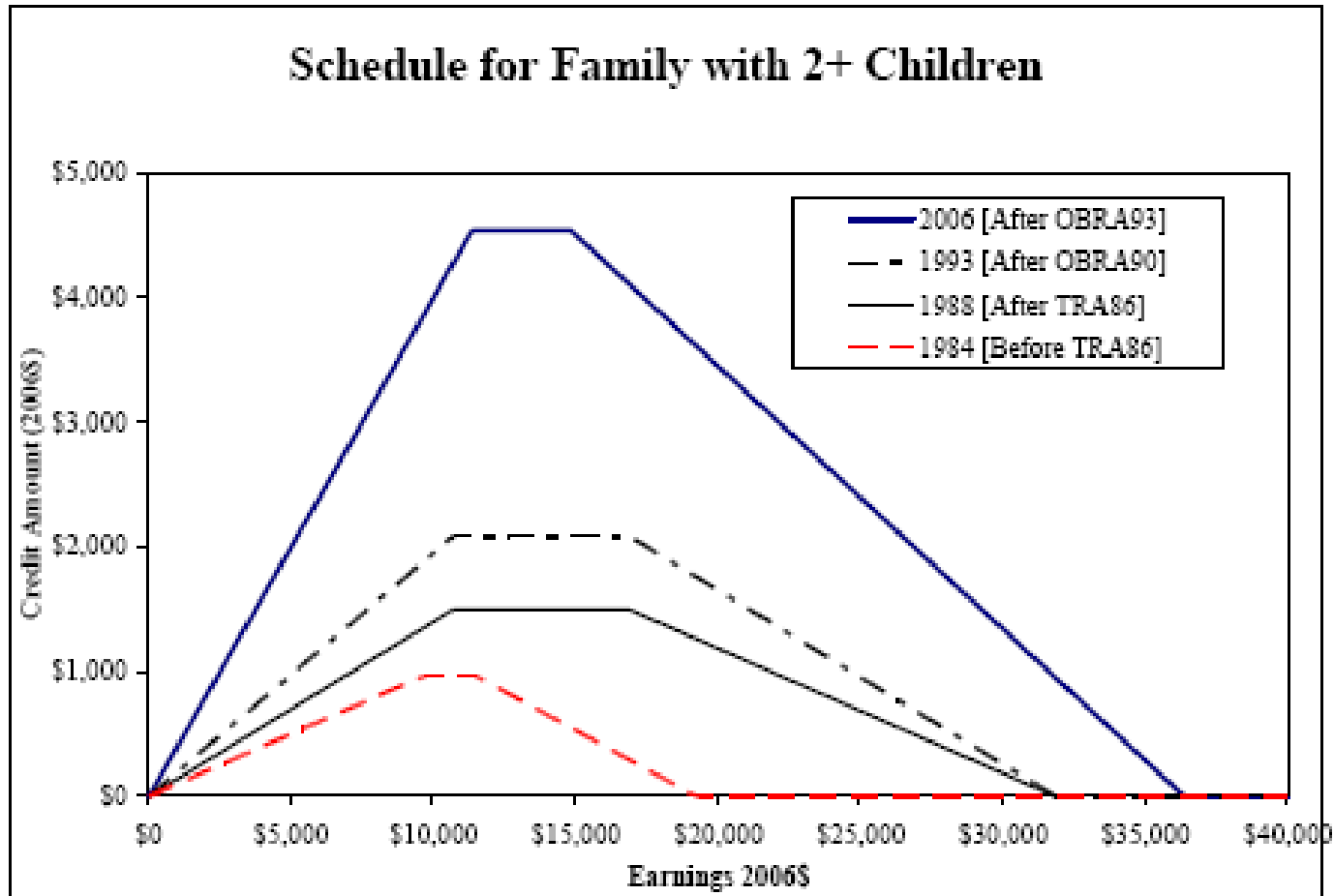
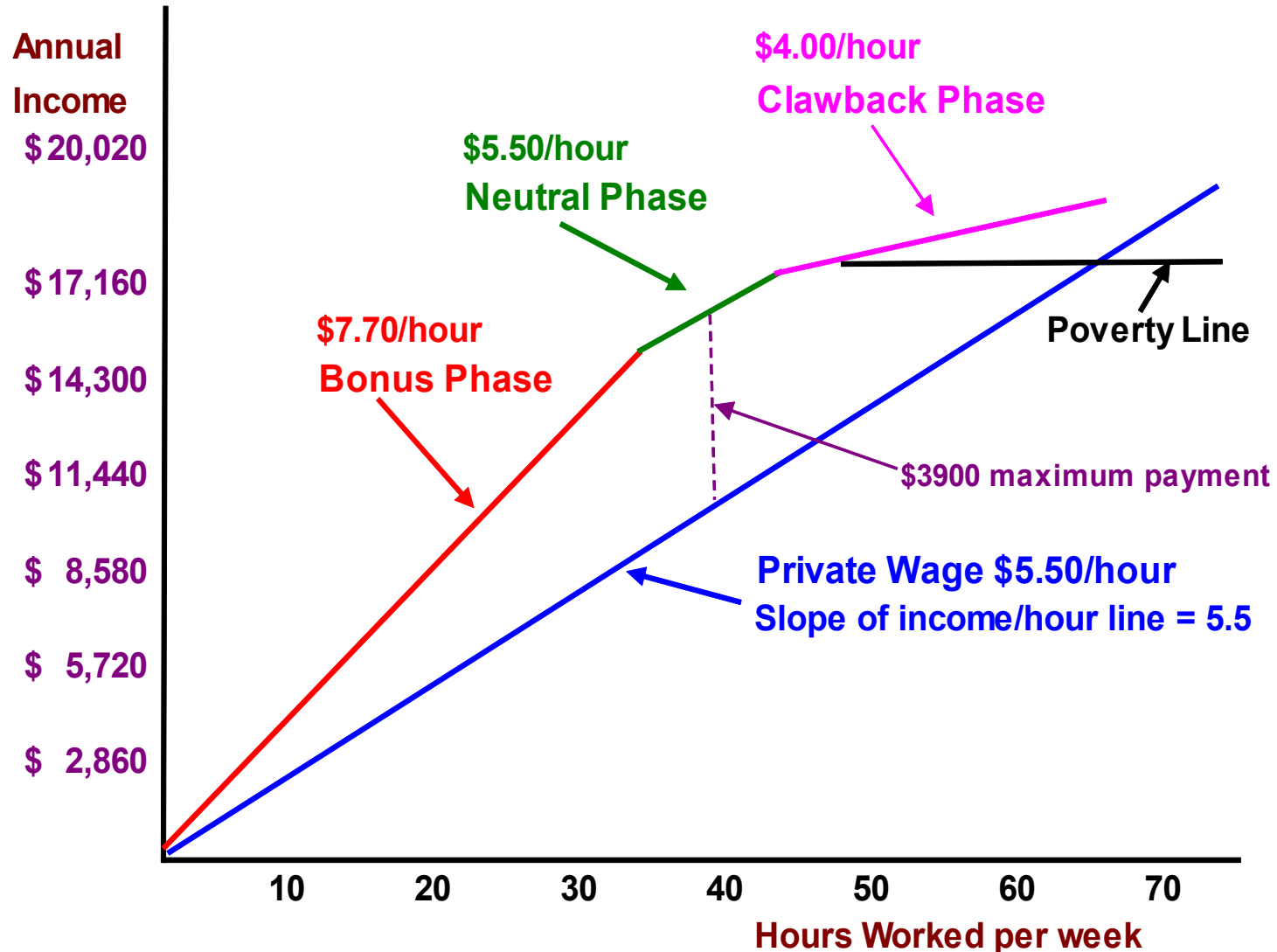


Figure 2: Real EITC Schedule for Single Mothers by Real Earnings (2006 dollars)

Source: Hilary Hoynes *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, University of California, Davis

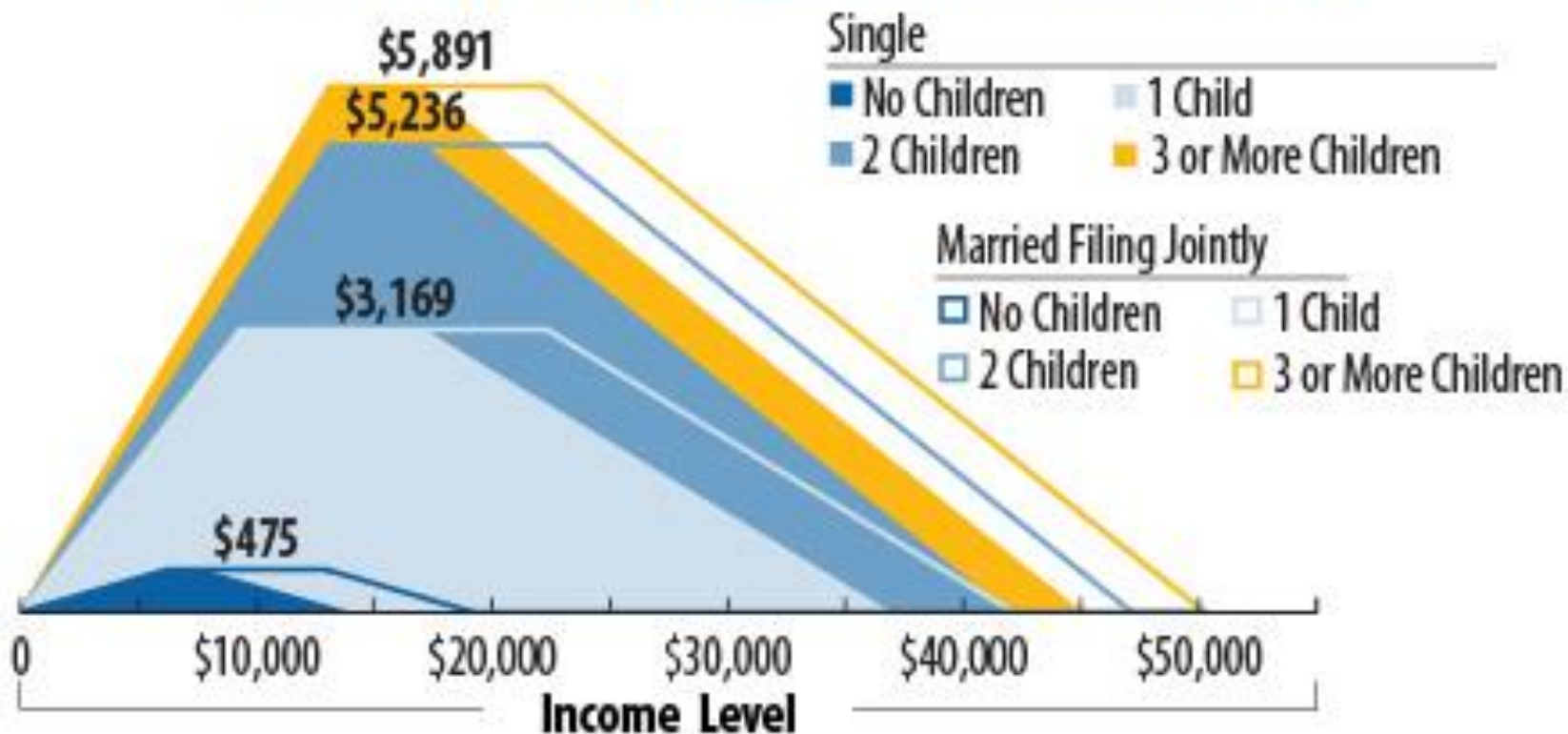
EITC & Min wage make work pay...

Three Phases of the EITC circa 1999



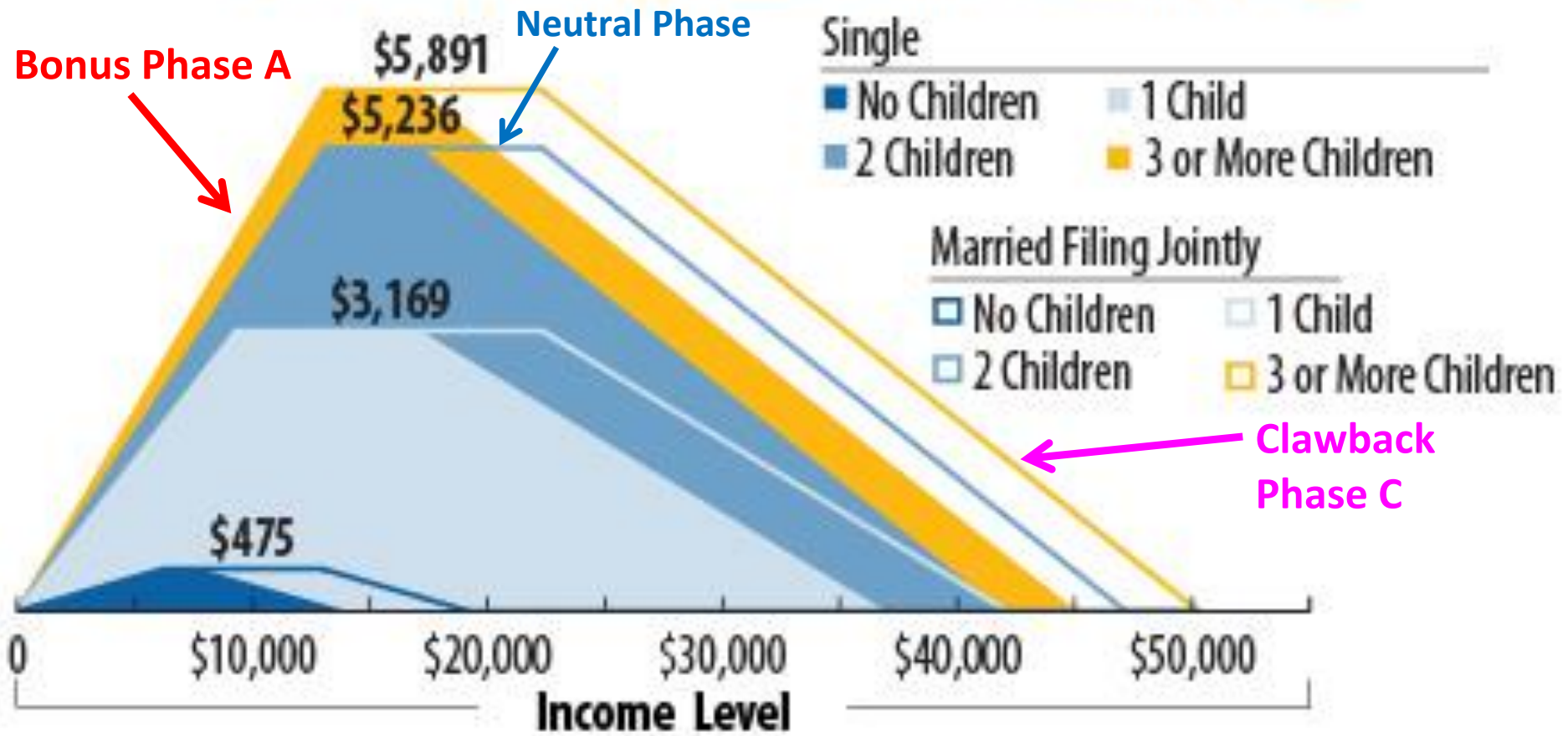
EITC circa 2012

Value of Federal Earned Income Tax Credit, 2012



Center on Budget and Policy Priorities | cbpp.org

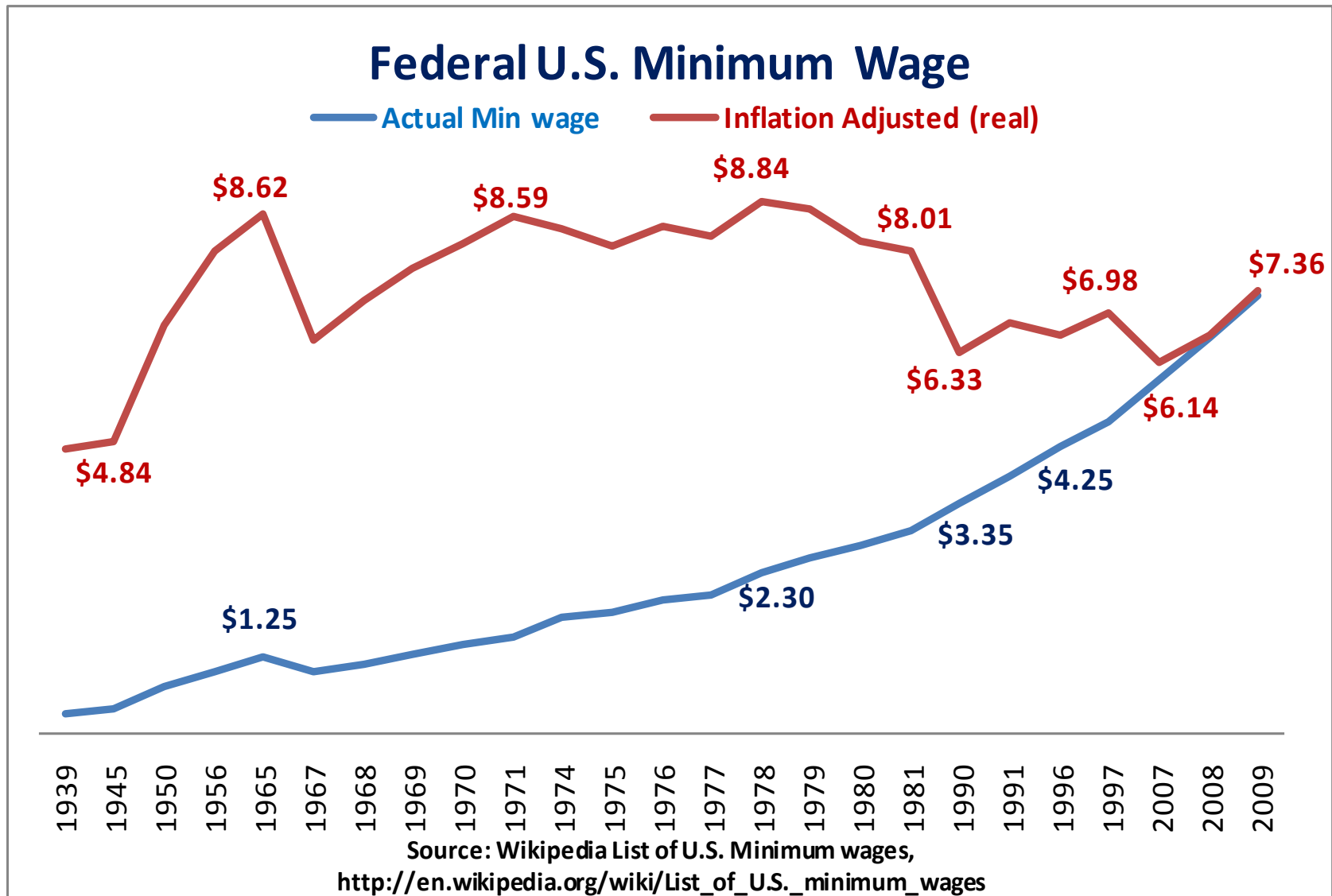
Value of Federal Earned Income Tax Credit, 2012



Center on Budget and Policy Priorities | cbpp.org

Source: Center on Budget and Policy Priorities... accessed April 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>

Higher minimum wage vs. EITC.. Who pays, and who gains the most?



Make work pay: raise the minimum wage?

Many states including NYC propose raising the minimum wage to \$10-\$15 per hour, this makes work pay

1. Efficiency wage: reduces turnover, reduces job openings for least skilled workers
2. May eliminate jobs, Paris subway, Euro for a shopping cart; automated tellers, scanners, RF tags...
3. Discriminates against least educated workers (immigrants? See Ivan Light.)
4. Raises prices for some services where automation/mechanization is difficult

Make work pay: extend the EITC?

Republicans, Brookings, economists and President Obama recommend expanding the EITC

1. Wage subsidy, workers paid a bonus for working
2. But many see as subsidy to corporations who pay low wages, employ mainly immigrants, etc (a conspiracy of the poor to avoid minimum wage laws).
3. Increases mobility, lowers first rung on ladder, makes it easier to get first or quick job (Angelique Melton)
4. Lowers prices for some services where automation/mechanization is difficult

How to help the working poor: EITC vs. a higher minimum wage (HMW)

- ***Benefits of a higher minimum wage not targeted to families with children***, EITC targets families with dependents, higher minimum wages also benefit young and very old workers with other sources of income... who may not be poor.
- ***A higher minimum wage raises costs in S-R? (EWH?)*** for low wage employers: Walmart, grocery stores, some of these costs are passed on in the form higher prices and reduced services... example: shopping carts and trains in Europe.
- ***The EITC and other benefits are a wage subsidy*** for large corporate employers of low wage workers, encourages hiring and increases turnover (low wage does this)
- ***But The EITC creates a marriage penalty*** for low wages workers with families who want to get married (benefits higher when not married), a higher minimum wage has no marriage penalty (the opposite).

How to help the working poor: EITC vs. a higher minimum wage (HMW)

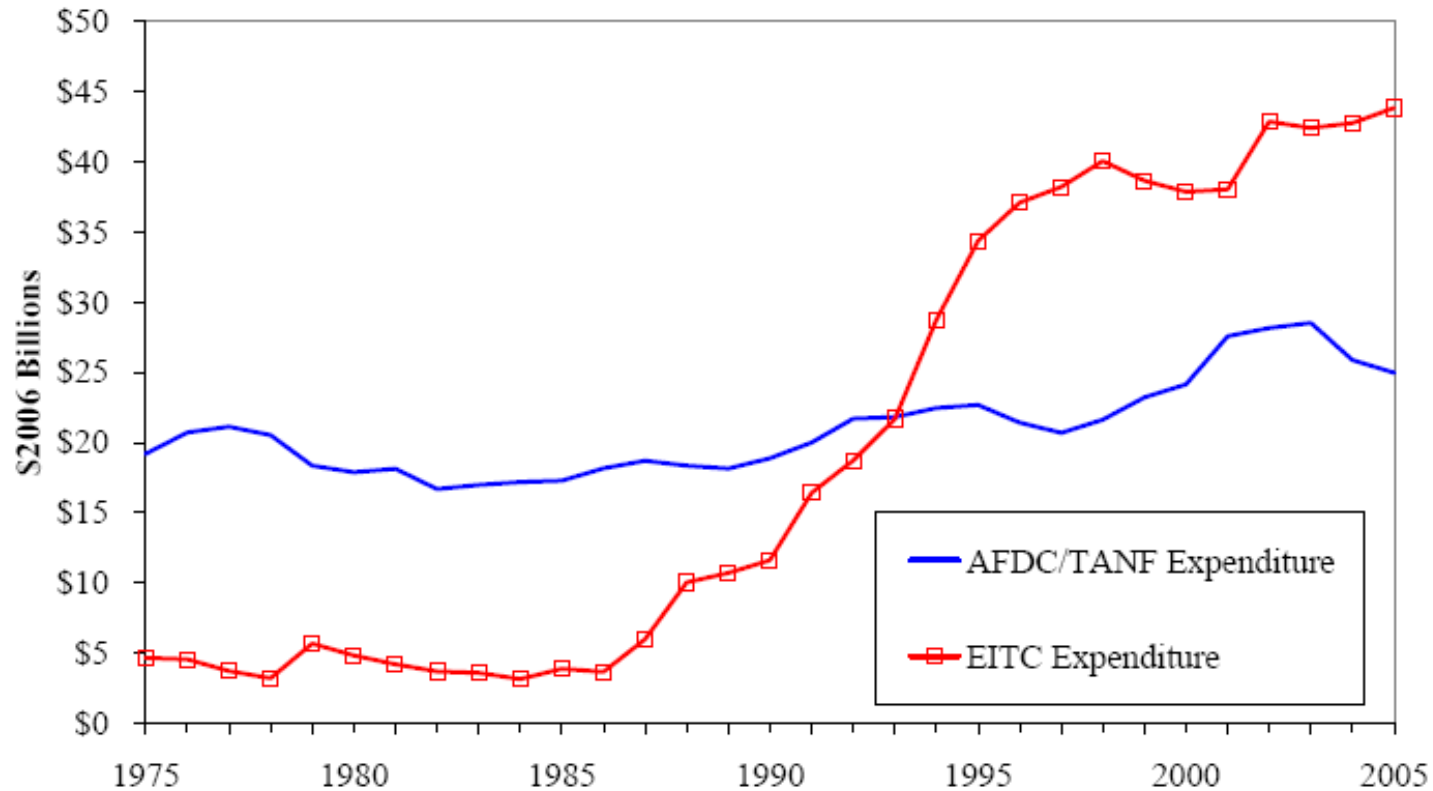
- ***Both a higher MW and the EITC encourage work***, but a high minimum may reduce turnover and reduce the number of entry level jobs available.
- ***Higher minimum wages encourage employers*** to automate, and use fewer and higher skilled workers... the number of entry level jobs decline.
- ***Problems with both ways to make work pay***: there may not be a enough mobility for less educated minimum wage workers—
- ***EITC is popular with employers, both parties, recipients and poverty advocates***, the minimum wage is popular with some but not all of these groups....

How to help the working poor: Walmart and EITC liberal success story?

Jason Furman now CEA head, thought so in 2005

- **Lower wages help Walmart and reduce costs** automate, especially to poor consumers...
- Mobility increases: the number of entry level jobs decline.
- **Lower wages lead to more employment** –
- **EITC compensates workers with families, raises them over the poverty line.** Examples: Karen Spain, Angelique Melton (NY Times, 2012)
- **But critics see EITC and Chips subsidy to Walmart (not its customers...).** Minimum wage will reduce profits of low cost retailers and restaurants....
- **CBO sees a little of both, 500k lost jobs due to higher \$10 minimum wage + indexing**

Figure 4: Comparing Cost of AFDC/TANF to EITC, 1975-2005



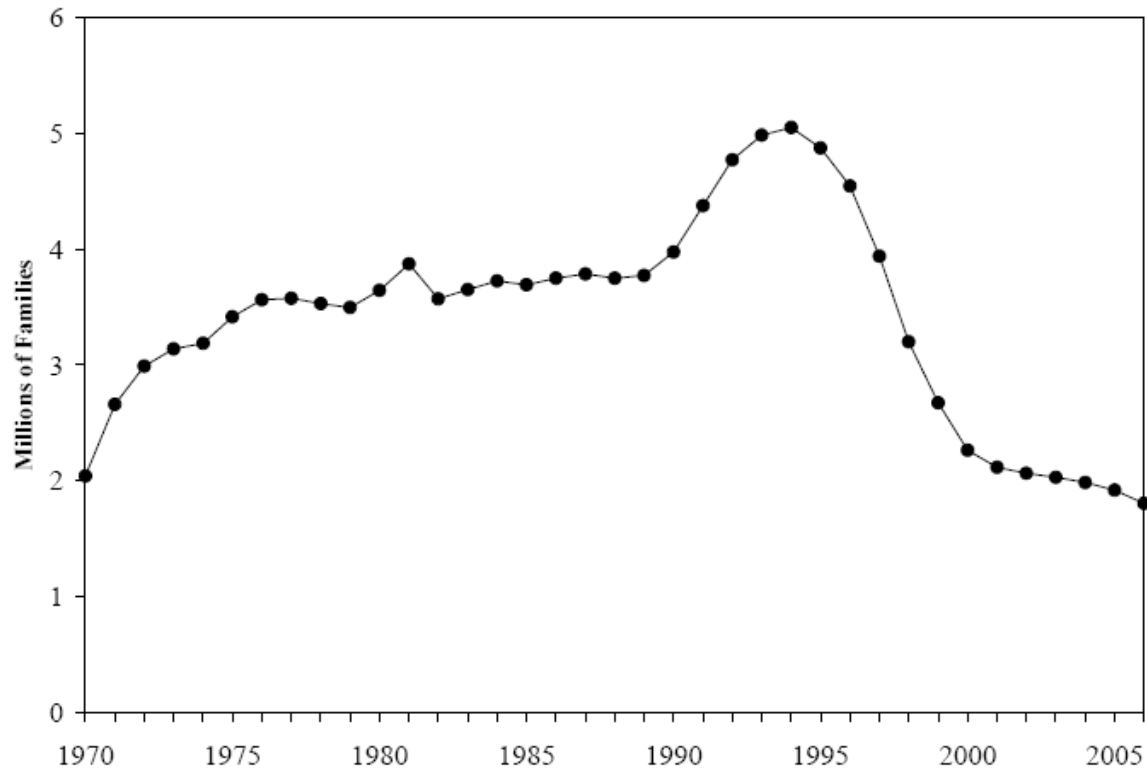
Source: AFDC/TANF figures from Budget of the US Government, Fiscal Year 2008: Historical Table 8.5 "Outlays for Mandatory and Related Programs,"

<http://www.gpoaccess.gov/usbudget/fy08/pdf/hist.pdf>. EITC expenditures from Tax Policy Center, Tax Facts: "Historical EITC Recipients"

<http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=37&Topic2id=40&Topic3id=42>.

Welfare Caseloads Fall After Welfare Reform

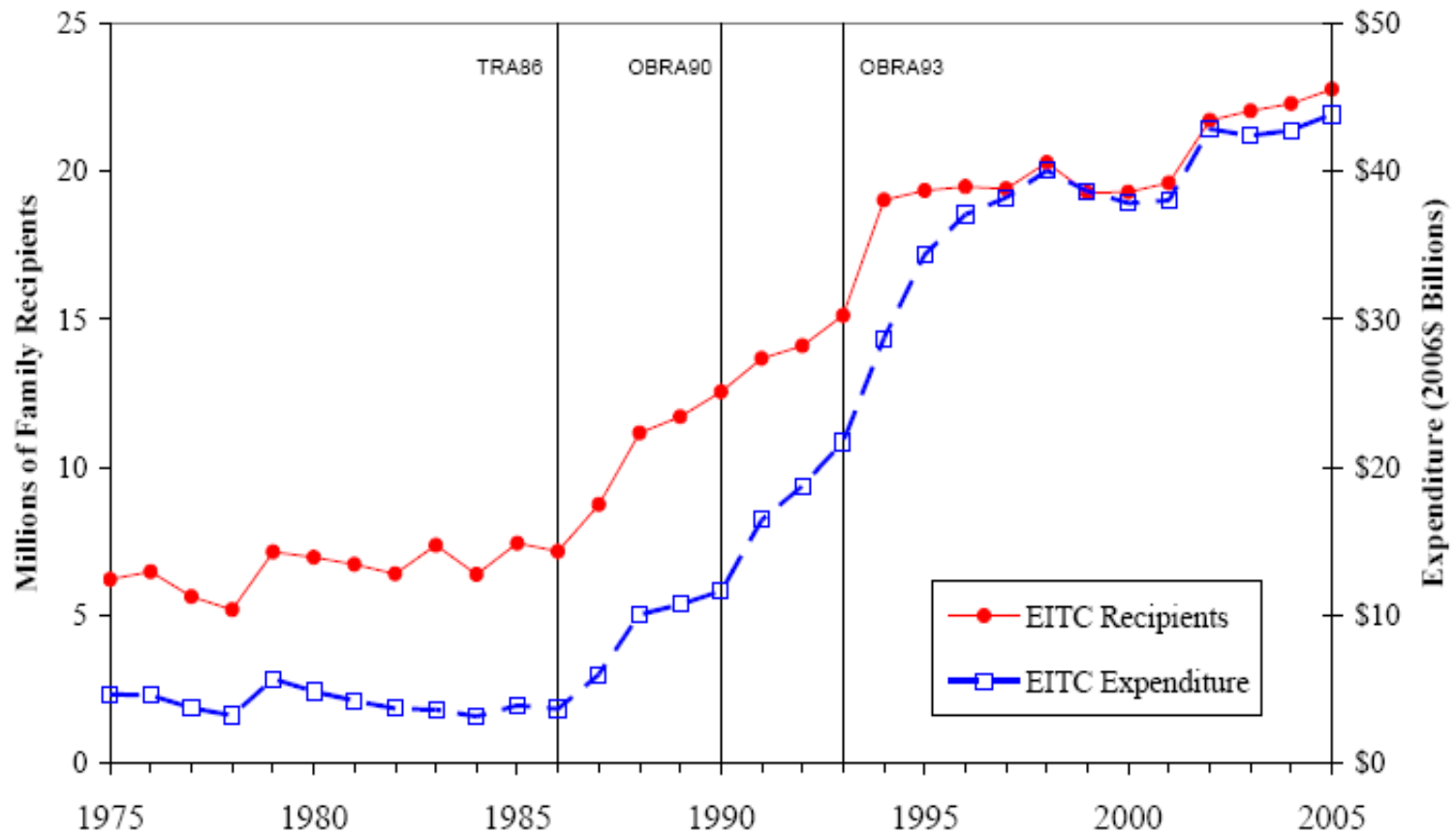
Figure 1: AFDC/TANF Caseload 1970-2006 (Millions of families)



Source: (1) Health and Human Services, Office of Family Assistance, TANF/AFDC Caseload Data
<http://www.acf.dhhs.gov/programs/ofa/caseload/caseloadindex.htm>

Source: Hilary Hoynes *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, University of California, Davis

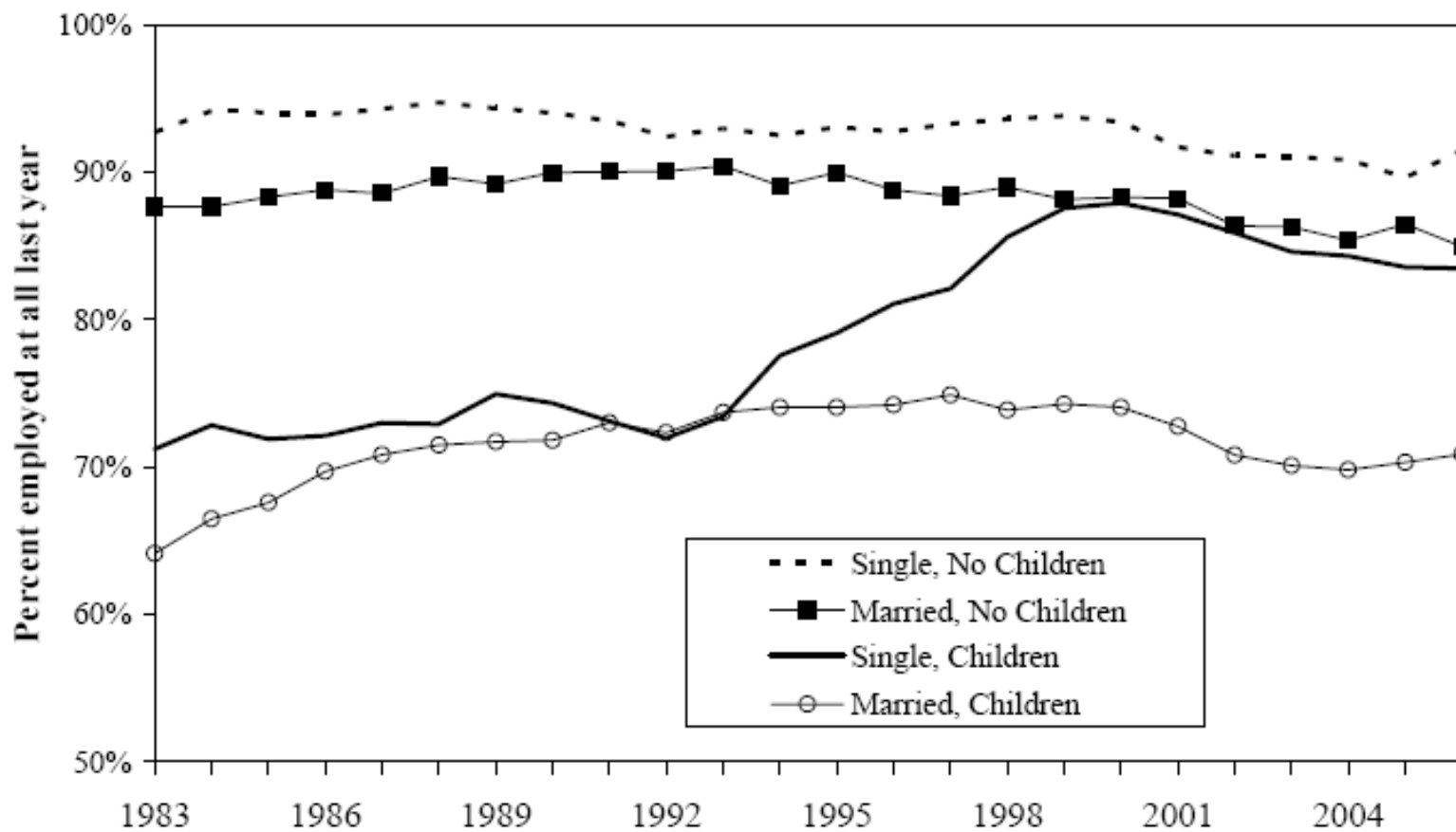
Figure 3: EITC Recipients and Expenditures 1975-2005



Source: Tax Policy Center, Tax Facts: "Historical EITC Recipients"

<http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=37&Topic2id=40&Topic3id=42>

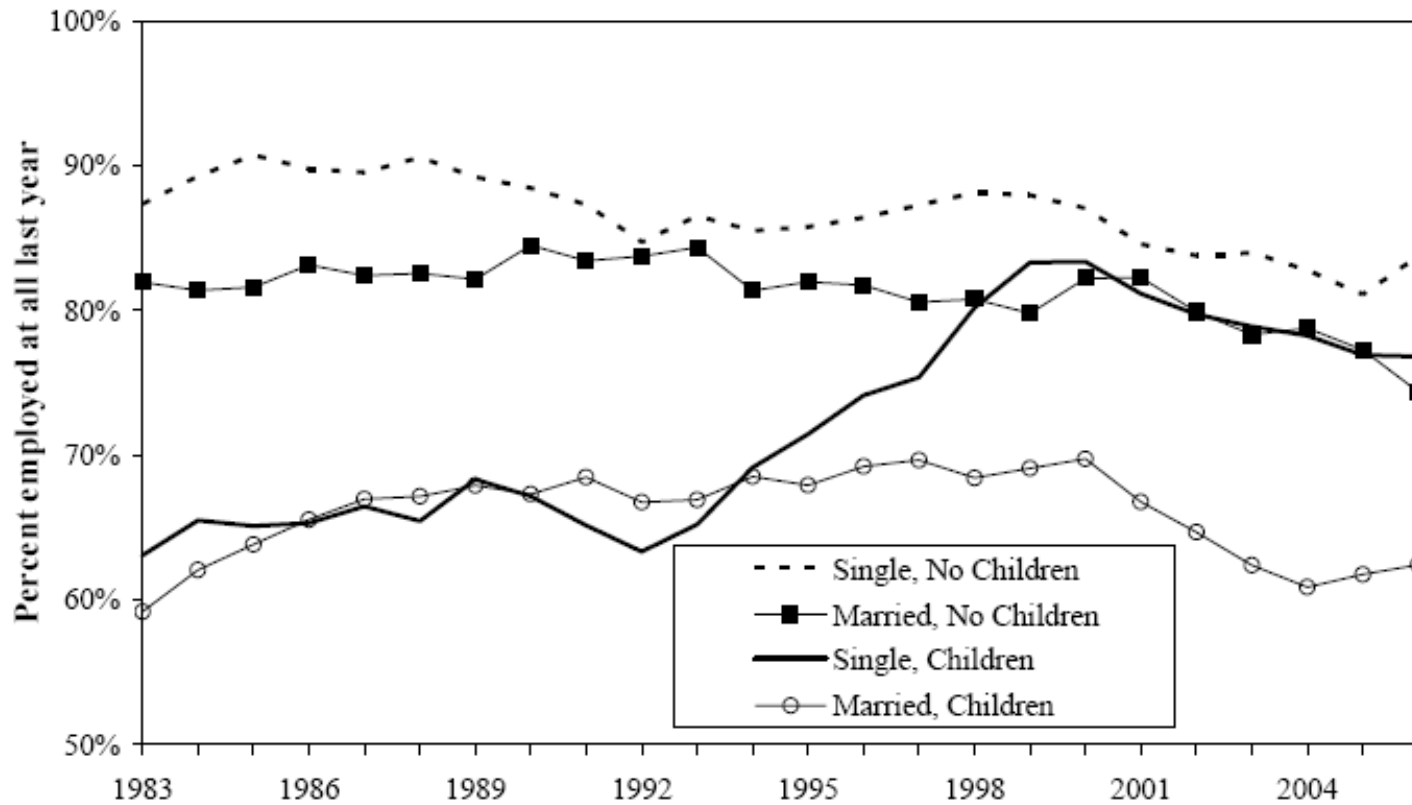
Figure 5: Female Annual Employment Rates by Marital Status and Presence of Children



Source: Author's tabulation of the 1984-2007 March Current Population Survey

Source: Hilary Hoynes *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, University of California, Davis

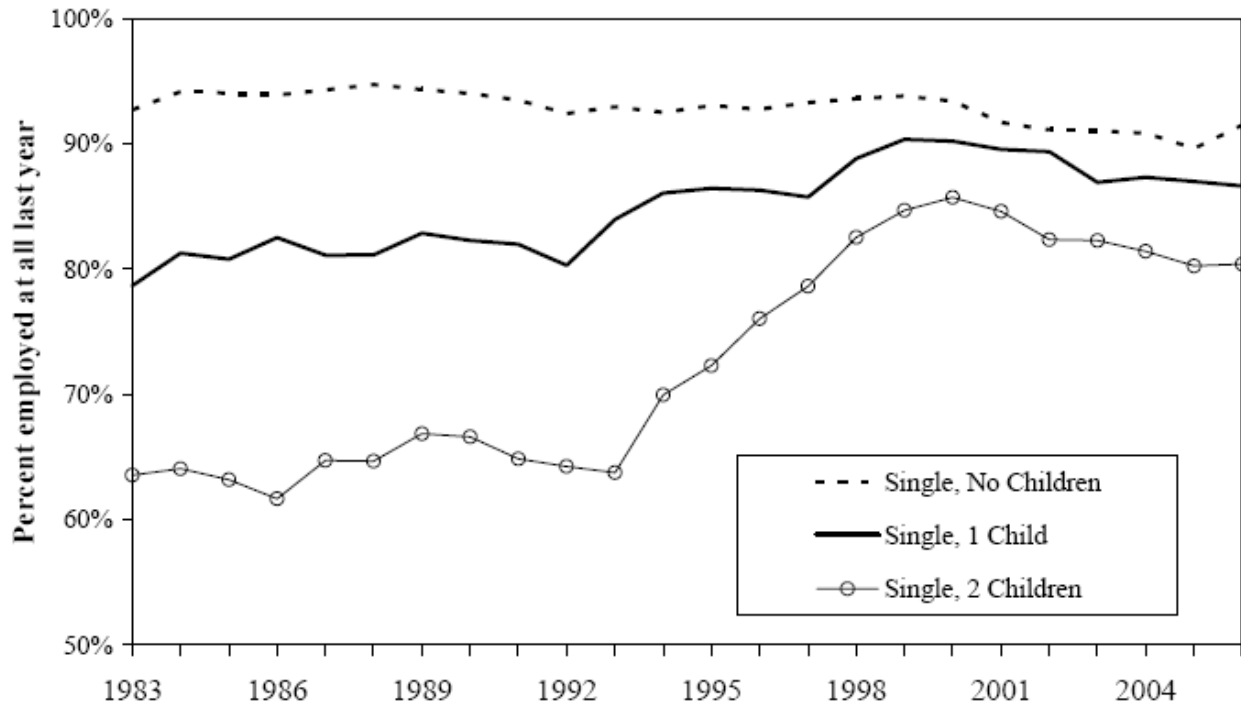
Figure 6: Annual Employment Rates by Marital Status and Presence of Children
 Women with a High School Education or Less



Source: Author's tabulation of the 1984-2007 March Current Population Survey

Source: Hilary Hoynes *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, University of California, Davis

Figure 7: Annual Employment Rates for Single Women, by Number of Children



Source: Author's tabulation of the 1984-2007 March Current Population Survey

Source: Hilary Hoynes *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, University of California, Davis

Key criteria for judging success of welfare reform

1. The material well-being of single parents and their children increase (health insurance, child care, housing, etc..)
2. The official poverty rate for parents & children should decrease (pre-transfer poverty).
3. Private earnings and labor market should increase, but not displace benefits one for one.
4. Episodes of severe deprivation should not increase, and hopefully decrease.
5. Teen pregnancy should fall (and the out of wedlock birth rate?)

Other (controversial) criteria for successful welfare reform

1. Mobility: the social and geographic mobility of single parents should increase.
2. Stigma should be reduced and self-esteem of single parents built up
3. The formation of two parent families should increase...more marriages? Fewer divorces.
4. Welfare (TANF) participation should decrease.
5. Recipients, voters and administrators should be happier with system over all (no more clashes of welfare recipients on Oprah).

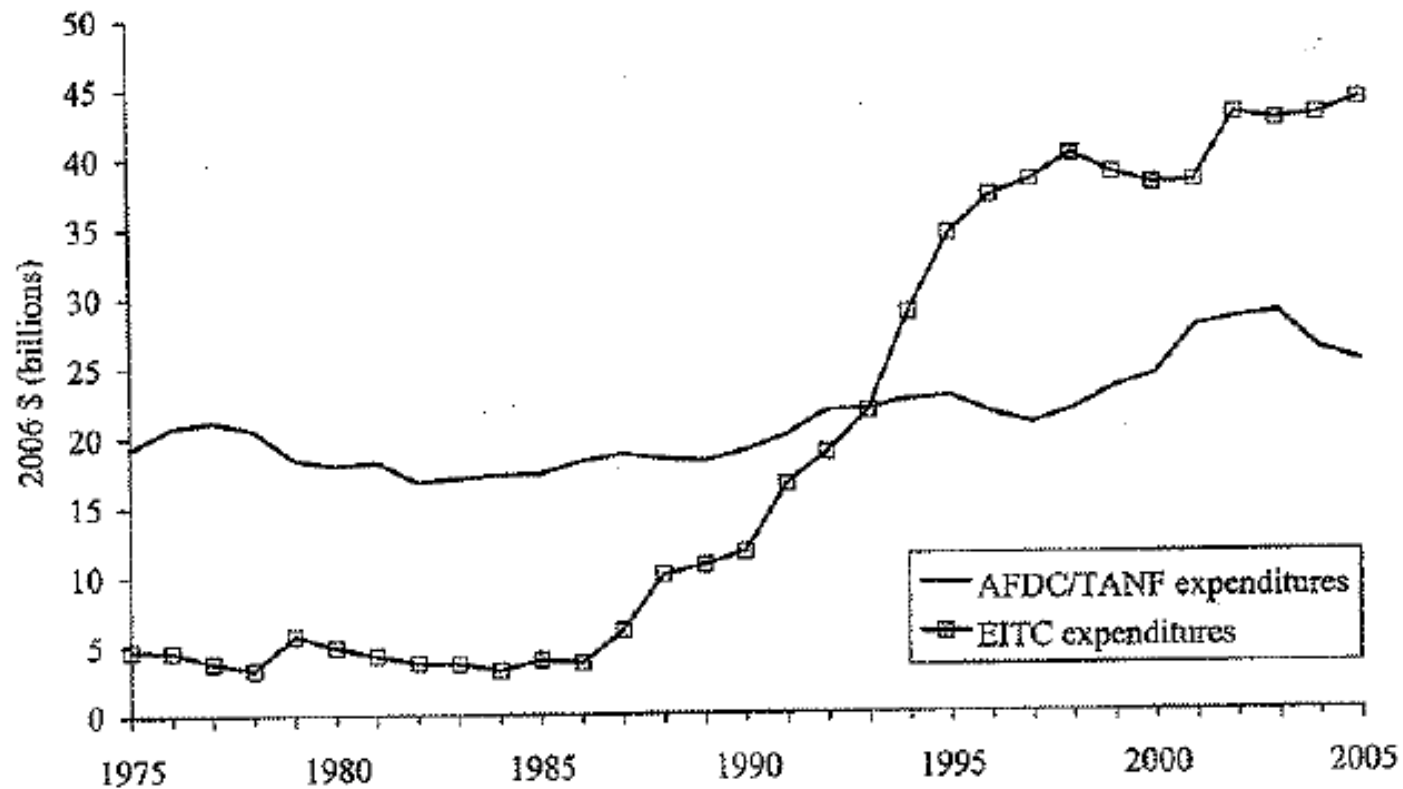
Unfinished welfare reform

1. **Safety-net during crises:** Did it work, New York Times said yes, food stamps, unemployment insurance and stimulus, so far, knock on wood...
2. **Fragile families:** how to help fathers, and encourage marriage? – reduce marriage tax should be easy, but
3. **Medical insurance:** – will reform work, SCHIP made a big difference but was it enough?
4. **Help for single parents** Netherlands makes it easier for women to work part time, and they do. Is this a good model for the U.S.

Reformed welfare (EITC, TANF) mitigates helping conundrums

1. **Work- security:** provide a safety net w/o reducing incentive/rewards to work (“make work pay” mothers with young children too).
2. **Assistance-family structure:** either parent can get tax credit... but EITC creates a marriage tax.
3. **Targeting-Isolation** conundrum: stigma should be reduced, EITC is private between you and the IRS.
4. **Geographic and social mobility** enhance don't reduce (do no harm). Voluntary migration may help, unlikely to hurt (a round trip ticket?).

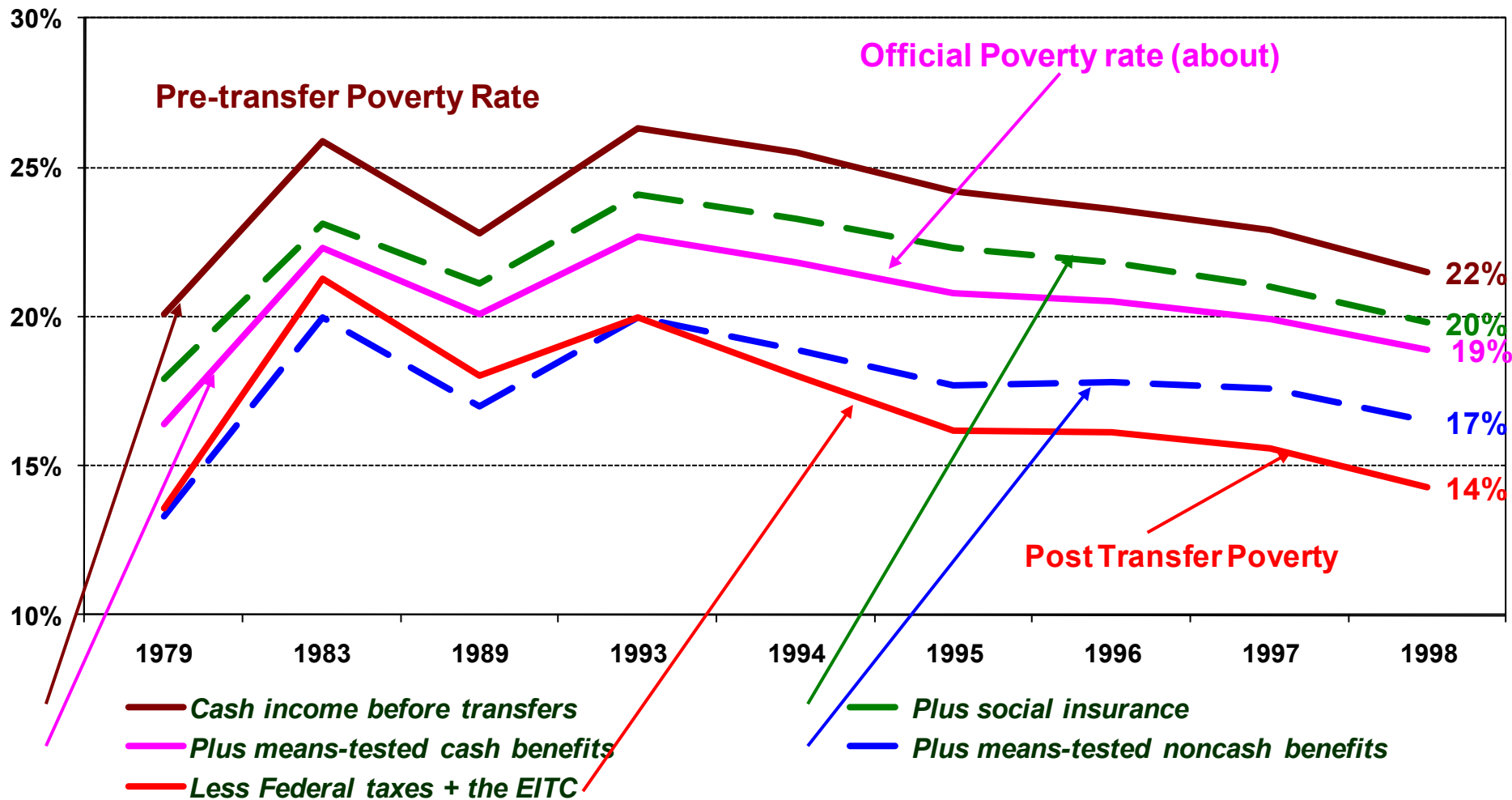
Figure 4.4 Comparing Cost of AFDC/TANF to EITC, 1975–2005



SOURCE: AFDC/TANF expenditures from the Office of Management and Budget (2007). EITC expenditures from the Tax Policy Center (2007).

Source: Hilary Hoynes (2009) The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers, Upjohn Press,

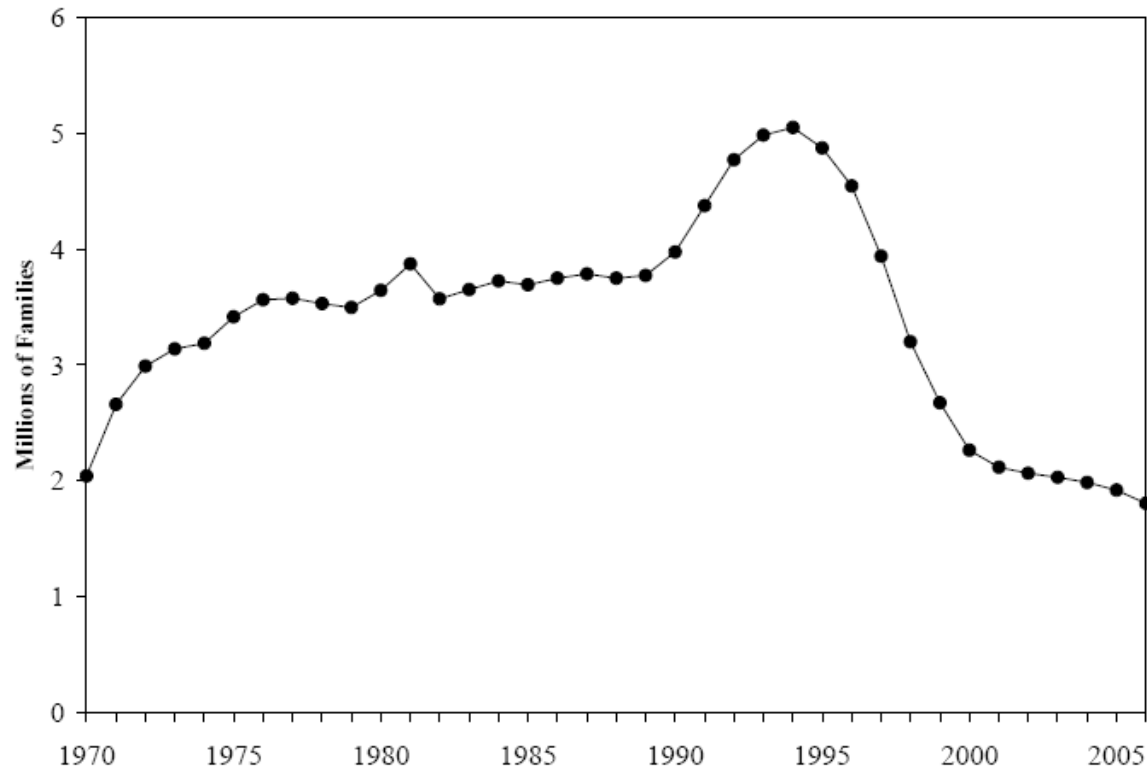
Transfers reduce poverty rates by about 5% for children under 18 (Haskins, 2001)



Source Haskins (2001) Table 4.3 page 123, in Blank and Haskins eds (2001) *New World of Welfare*, Brookings Inst. Press, Washington, D.C.

Welfare Caseloads Fall After Welfare Reform

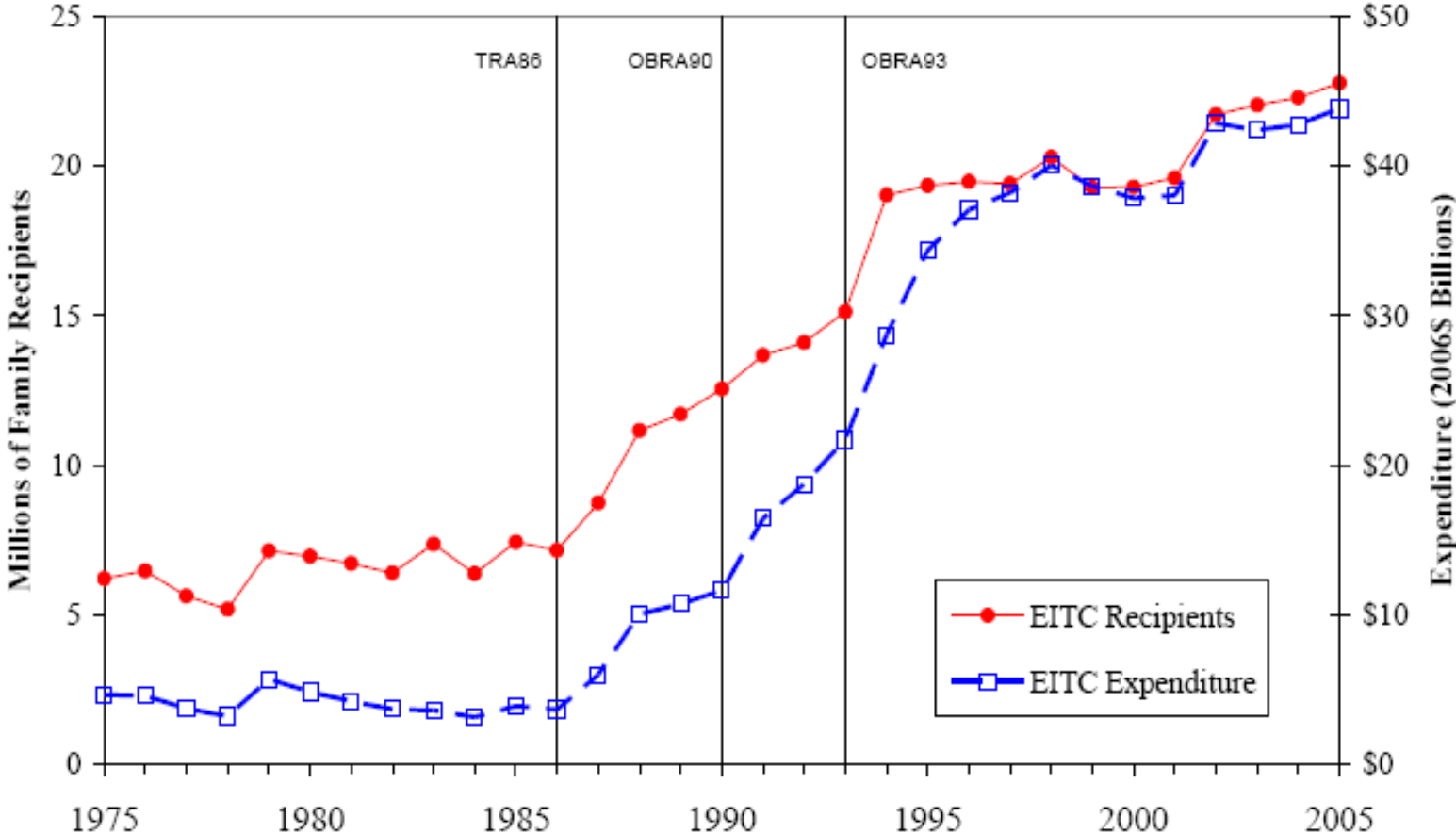
Figure 1: AFDC/TANF Caseload 1970-2006 (Millions of families)



Source: (1) Health and Human Services, Office of Family Assistance, TANF/AFDC Caseload Data
<http://www.acf.dhhs.gov/programs/ofa/caseload/caseloadindex.htm>

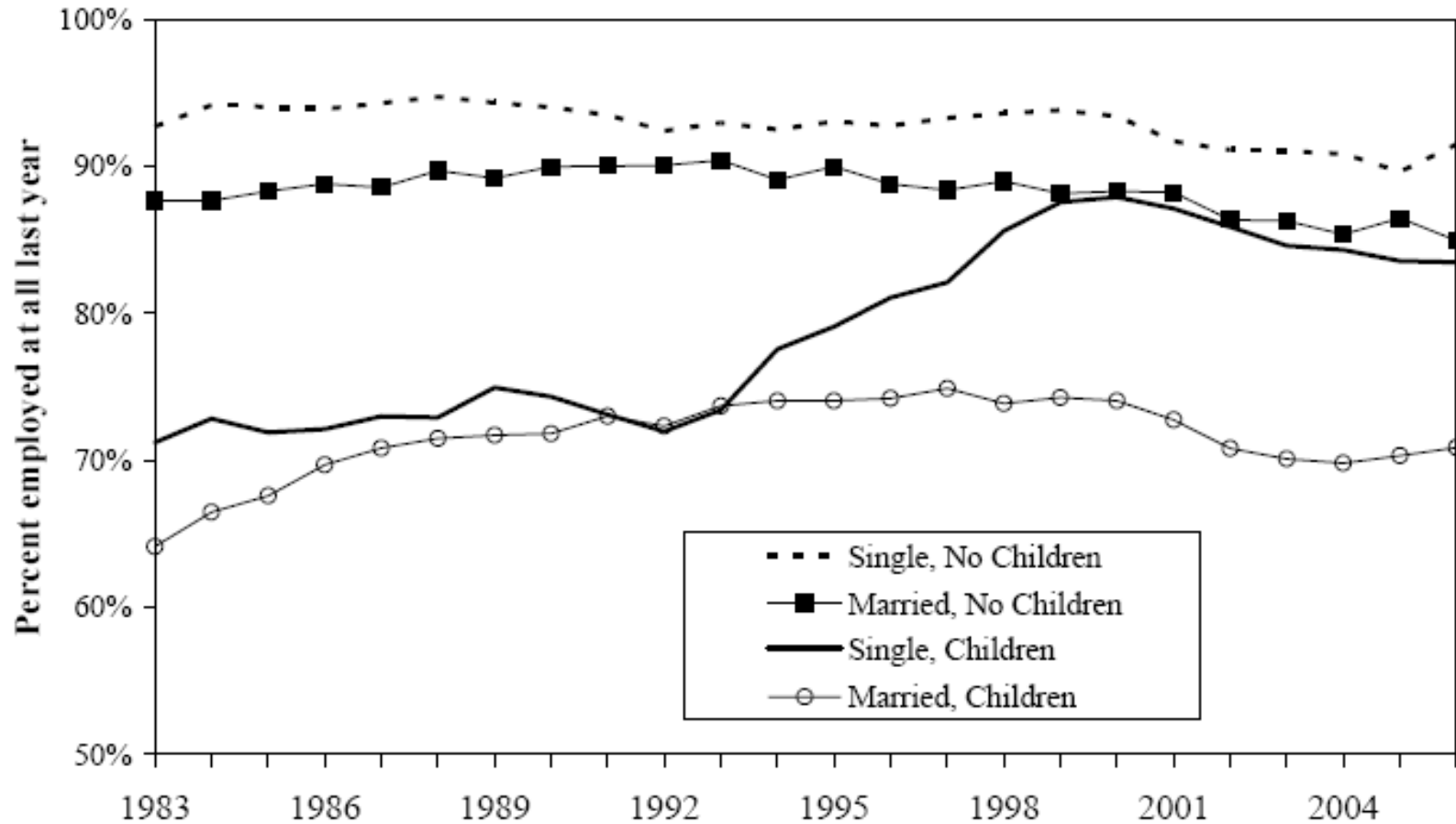
Source: Hilary Hoynes (2009) *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, Upjohn Press,

Figure 3: EITC Recipients and Expenditures 1975-2005



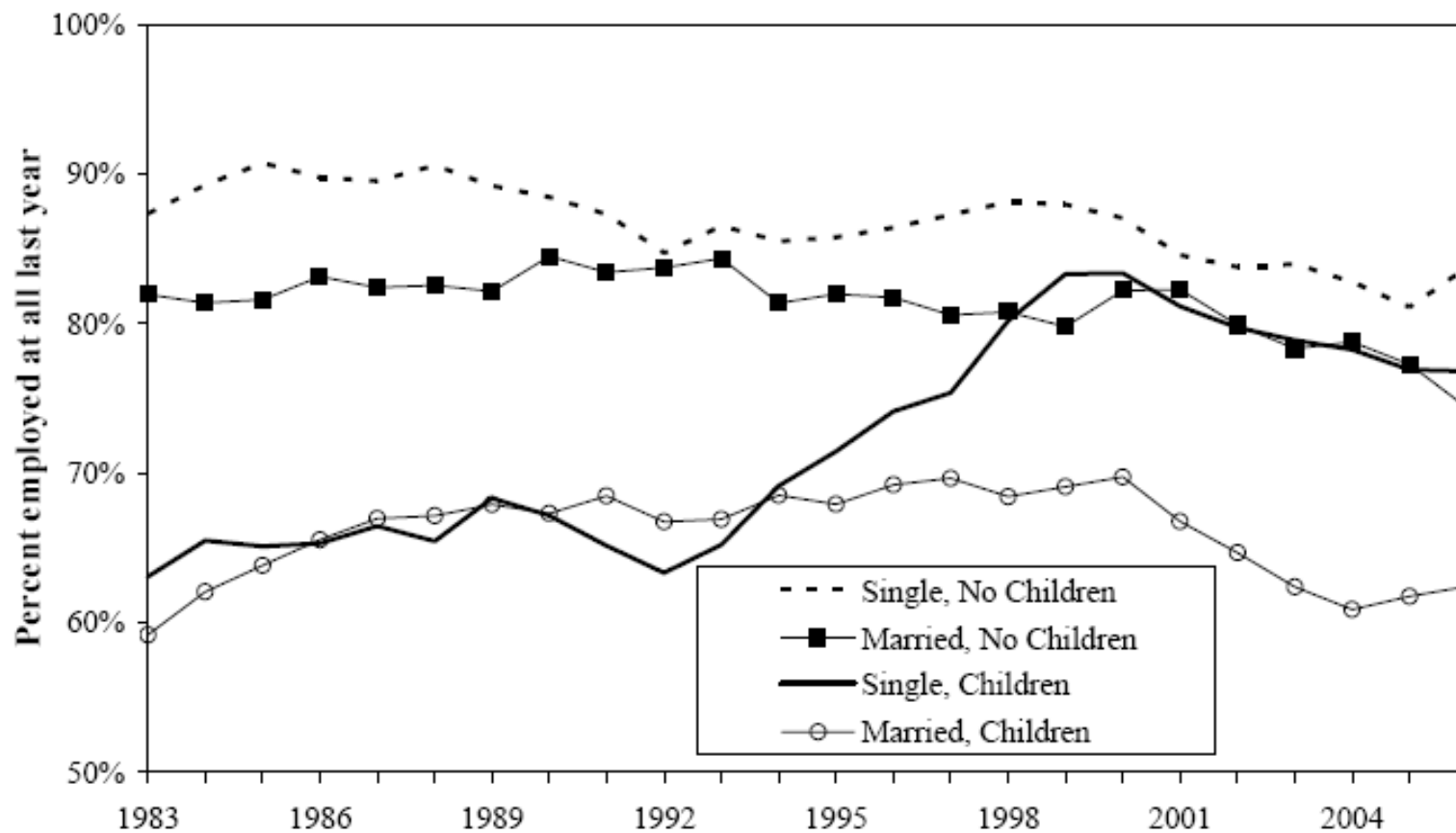
Source: Tax Policy Center, Tax Facts: "Historical EITC Recipients"
<http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=37&Topic2id=40&Topic3id=42>.

Figure 5: Female Annual Employment Rates by Marital Status and Presence of Children



Source: Author's tabulation of the 1984-2007 March Current Population Survey

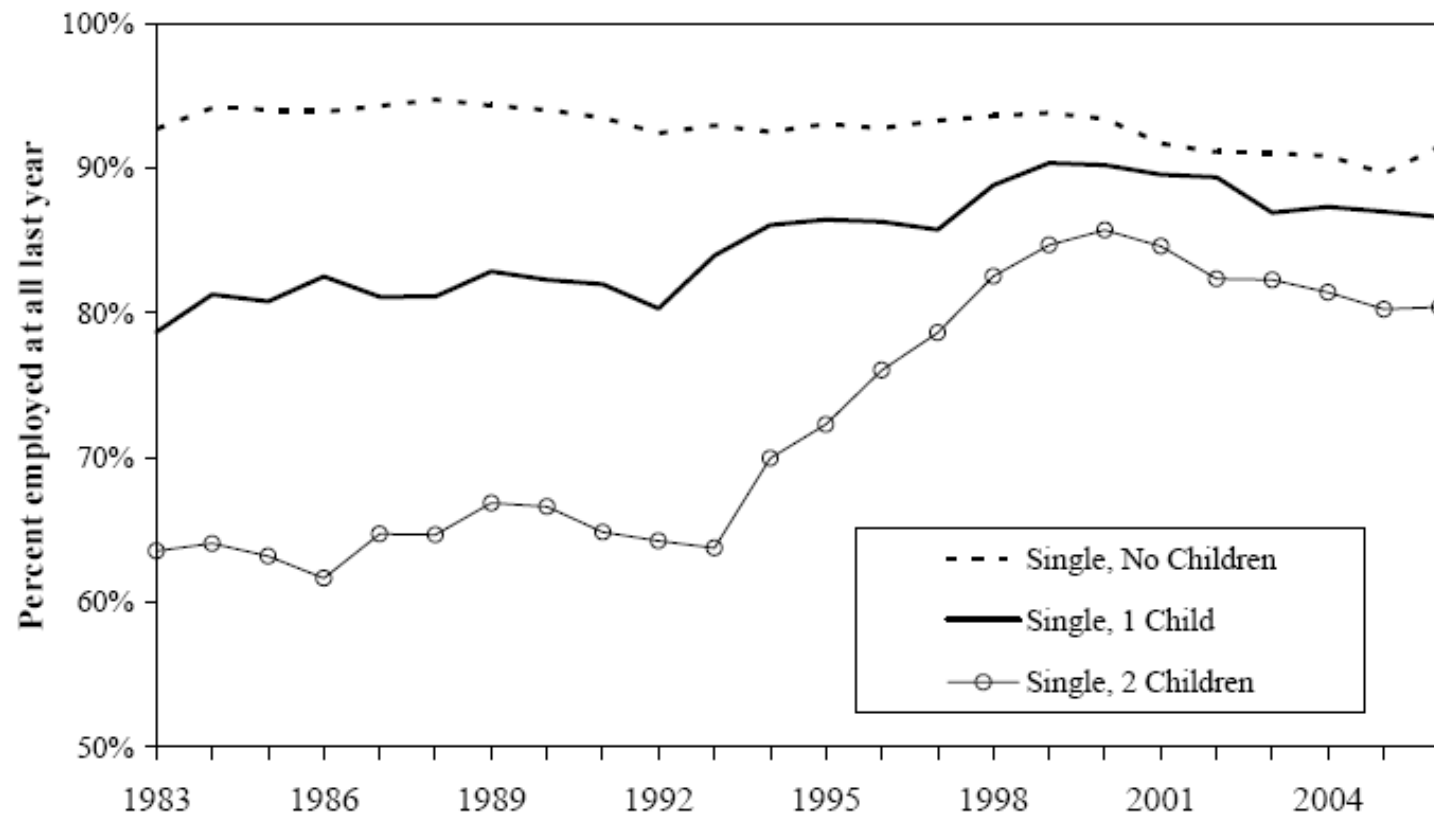
Figure 6: Annual Employment Rates by Marital Status and Presence of Children
 Women with a High School Education or Less



Source: Author's tabulation of the 1984-2007 March Current Population Survey

Source: Hilary Hoynes (2009) *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*,

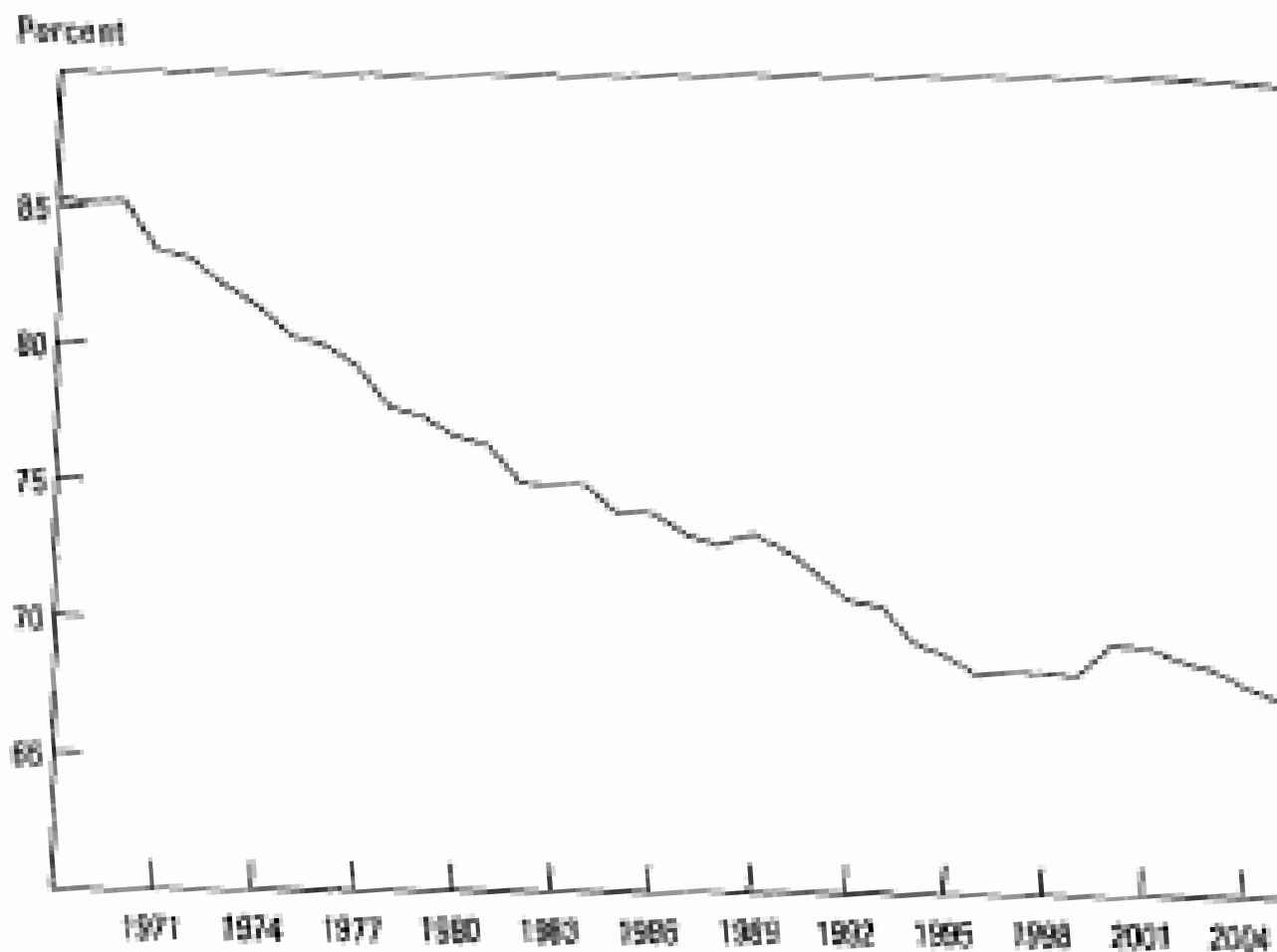
Figure 7: Annual Employment Rates for Single Women, by Number of Children



Source: Author's tabulation of the 1984-2007 March Current Population Survey

Source: Hilary Hoynes (2009) *The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers*, Upjohn Press,

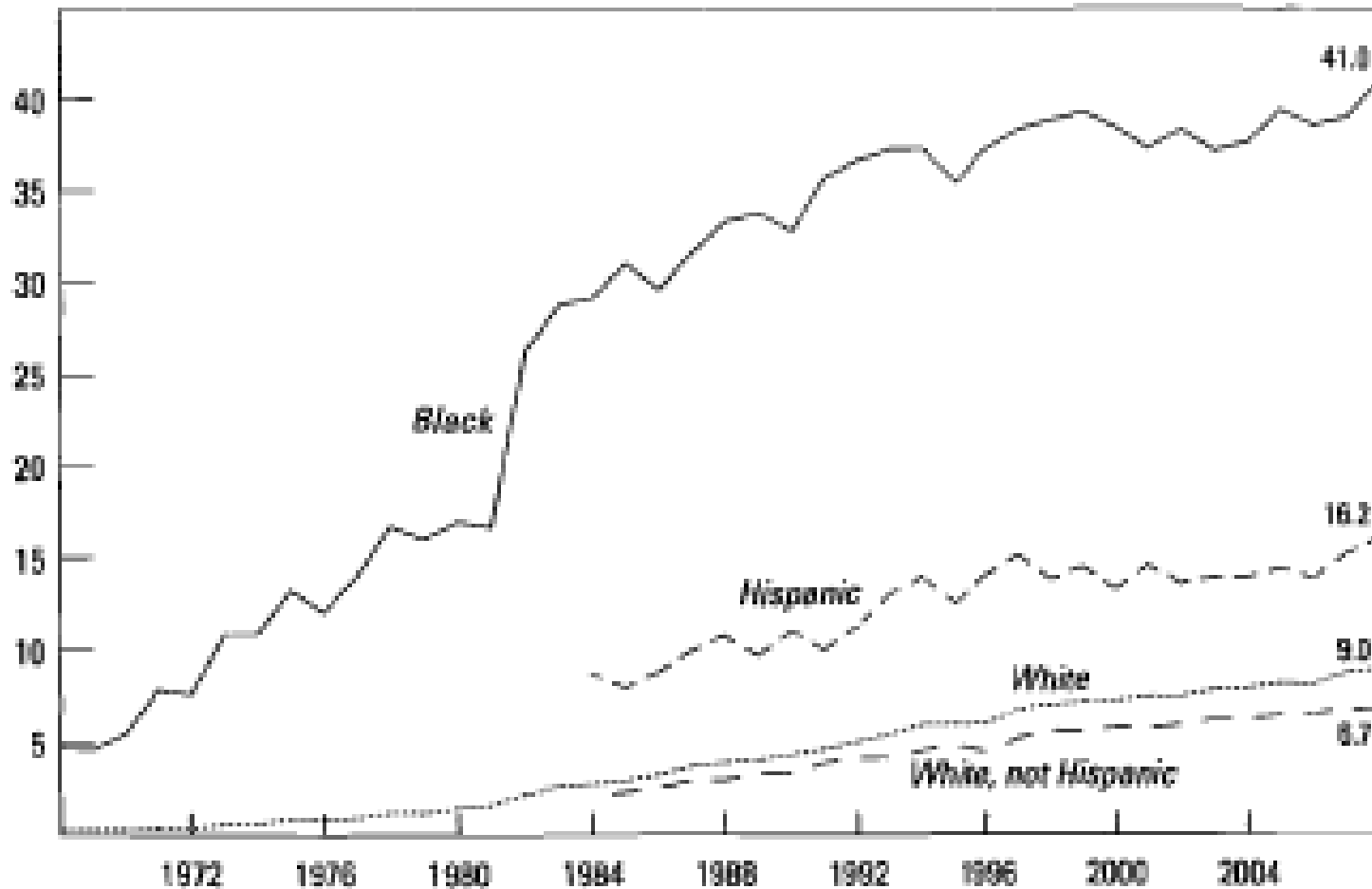
Figure 10-1. Children in Two-Parent Households, 1968-2007



Source: U.S. Census Bureau, *Families and Living Arrangements, Historical Time Series* (various years table CH-1).

Figure 10-2. Never-Married Mothers by Race and Ethnicity, 1968–2008

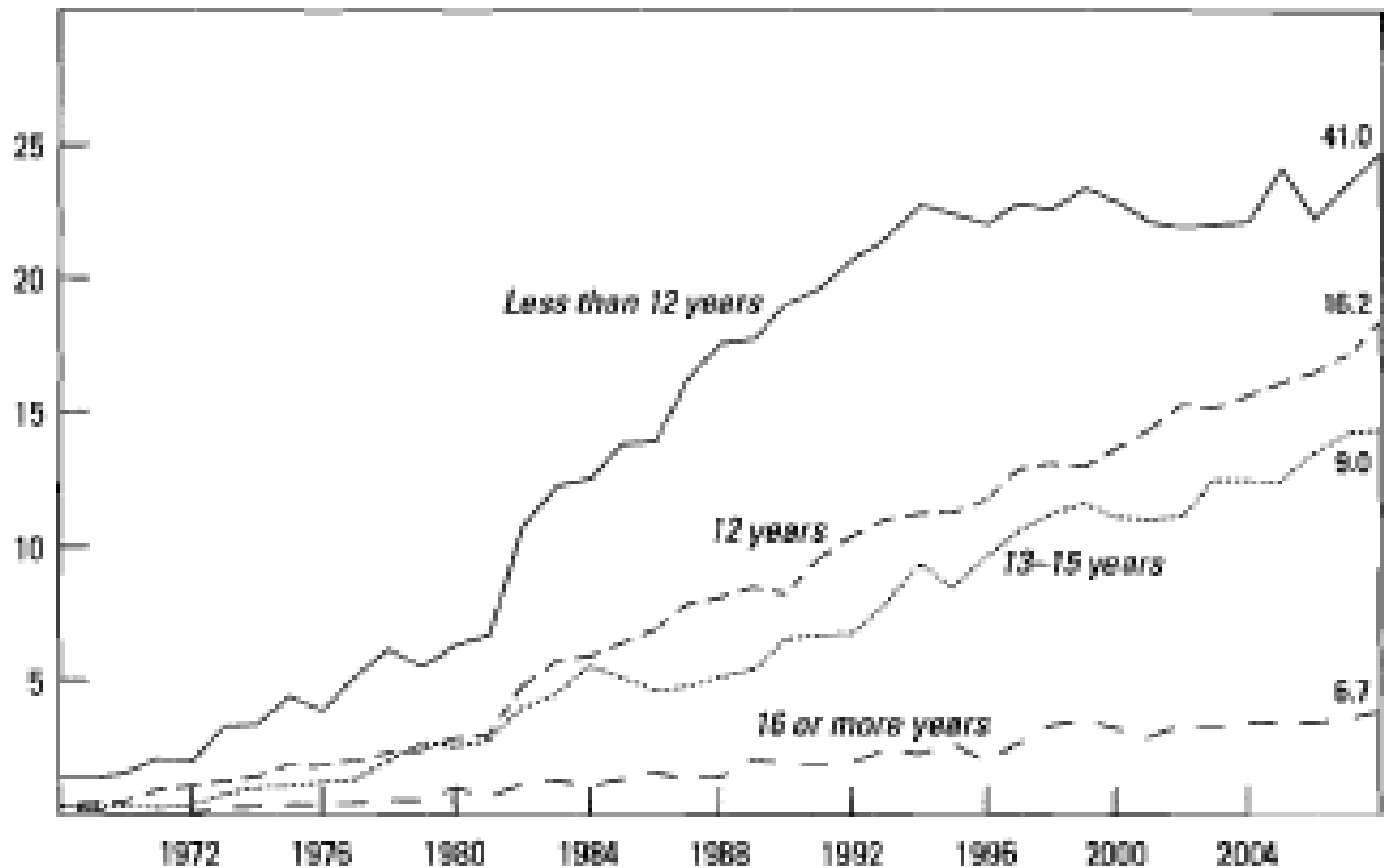
Percent



Source: Authors' calculations based on U.S. Census Bureau, *Current Population Survey: Annual Social and Economic Supplement*.

Figure 10-3. Never-Married Mothers by Years of Education, 1968–2008

Percent



Source: Authors' calculations based on U.S. Census Bureau, *Current Population Survey: Annual Social and Economic Supplement*

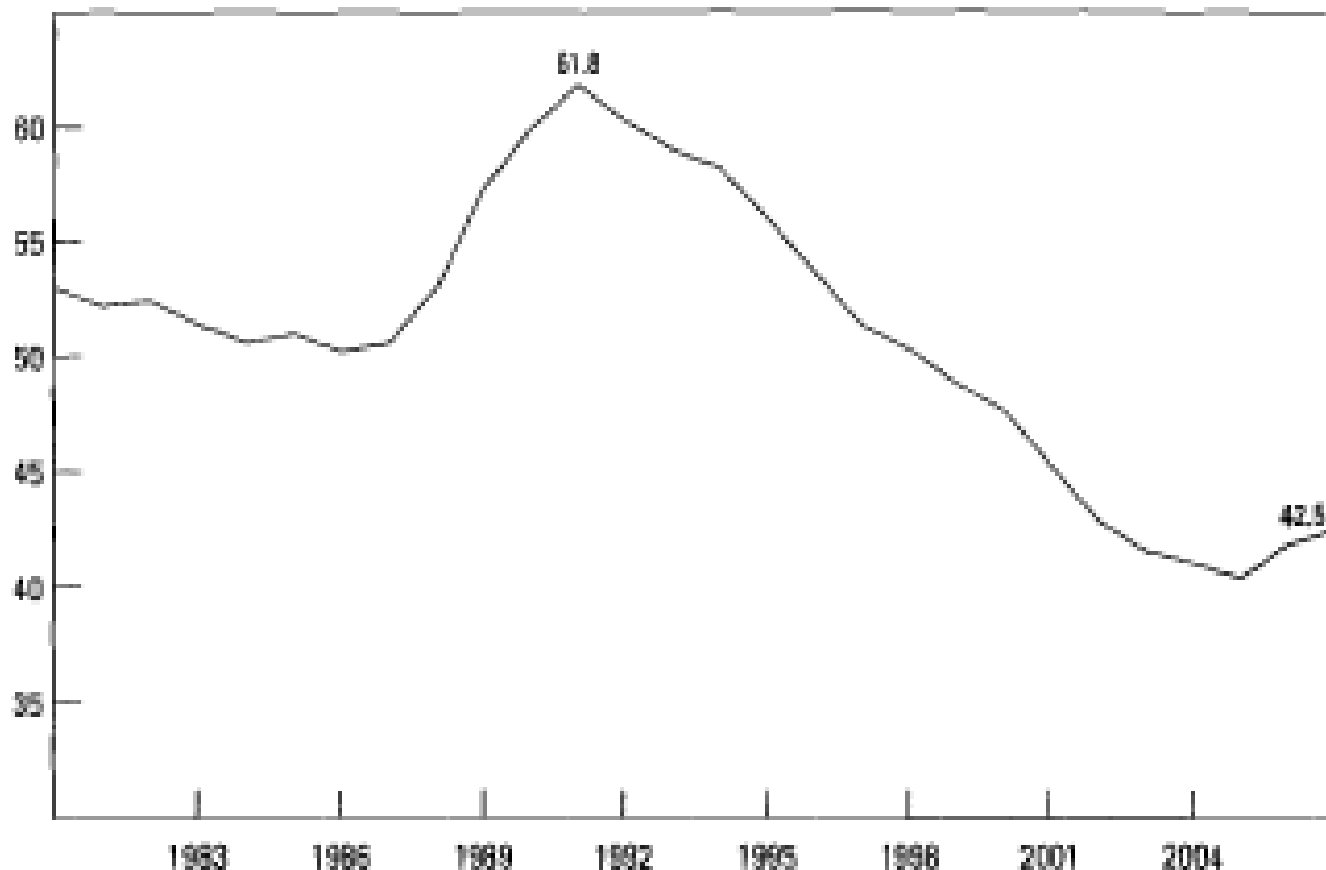
Table 10-1. 1996 Welfare Reform Law, Provisions to Reduce Nonmarital Births

<i>Provision</i>	<i>Explanation</i>
Block grant	States to use funds to pay for any policy designed to reduce teen or nonmarital births
States-set goals	States to set goals and take action to prevent and reduce nonmarital pregnancies, especially teen pregnancies; states to set explicit goals for reducing the ratio of nonmarital to marital births for each year between 1996 and 2005
Bonus for reducing non-marital births	Bonuses of \$25 million for up to five states that lead the nation in reducing the number of nonmarital births while decreasing abortion rates
Performance bonuses	Bonuses of \$1 billion over five years for overall performance in encouraging work, reducing nonmarital births, and strengthening families
Abstinence education	States provided with \$50 billion to establish and conduct abstinence education programs
Family cap	States permitted to end the standard practice of increasing the welfare cash grant when mothers already on welfare have more babies
Welfare termination	States permitted to deny cash welfare to mothers who have babies outside marriage
Teens at home	Unwed teen parents must live at home or in supervised facilities to qualify for cash welfare
Teens in school	Unwed teen parents required to be in school to qualify for cash welfare
Child support	Child Support Enforcement Program strengthened
National strategy to reduce nonmarital births	Secretary of DHHS required to publish a national strategy to ensure that 25 percent of the nation's communities have programs designed to prevent teen pregnancy
State rankings	Secretary of the DHHS required to rank states on their ratio of nonmarital to total births and annual changes in this ratio

Source: Social Security Act, title IV-A, especially secs. 401, 402(a), 403(a)(4), 408(a)(4), 408(a)(5), 411(b)(1)(B)(i), and 413(e); title IV-D; title V, sec. 510.

Figure 10-4. Births to Women Ages Fifteen through Nineteen, 1980–2007^a

Per 1,000



Source: Joyce A. Martin and Others, "Births: Final Data for 2006," *National Vital Statistics Reports* 57, no. 7 (2009), table 4; and Brady E. Hamilton and others, "Births: Preliminary Data for 2007," *National Vital Statistics Reports* 57, no. 12 (2009), table 2.

a. Birth rate is births per 1,000 women in the specified age group.

References

Hoynes, Hilary (2009) “[*The Earned Income Tax Credit, Welfare Reform, and the Employment of Low Skill Single Mothers*](#)” in Strategies for Improving Economic Mobility of Workers: Bridging Research and Practice, Maude Toussaint-Comeau and Bruce D. Meyer, eds. Upjohn Press

(<http://gspp.berkeley.edu/research/selected-publications/the-earned-income-tax-credit-welfare-reform-and-the-employment-of-low-skill>)

[Hoynes, Hilary](#). “[*The Impact of Welfare Reform on Children's Living Arrangements*](#),” *Journal of Human Resources* Volume 41, Number 1, pp. 1-27, Winter 2006 (with Marianne Bitler and Jonah Gelbach).

Haskins, R and I Sawhill (2009) [*Creating an Opportunity Society*](#), Brookings University Press, Washington DC. Chapter 10, ‘Strengthening Families’ <http://www.fordham.edu/economics/mcleod/HaskinsSawhillChapter10F.pdf>
http://www.brookings.edu/~media/events/2009/10/27%20opportunity%20society/1027_opportunity_society_presentation.pdf