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Material Well-Being

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Part of a forthcoming monograph

Family Well-Being After Welfare Reform

Douglas J. Besharov, Editor

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Material Well-Being

Richard Bavier[*]

This paper attempts to piece together a coherent picture of recent developments in the economic well-being of children, presenting data from several household surveys that tell us about the income and expenditures of families with children. The paper mostly focuses on the period of the greatest change in welfare programs, from the last peak in the poverty rate in 1993. It is also important, however, to have some sense of whether of not recent directions and magnitudes of change are in line with longer-term trends.[1]

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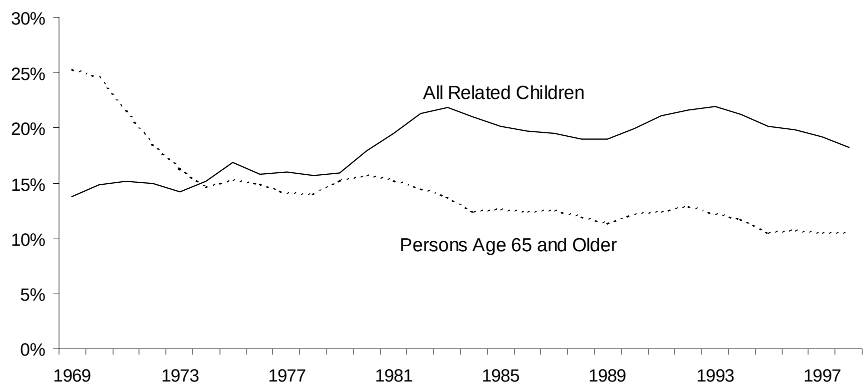
[*]Richard Bavier is a policy analyst at the Office of Management and Budget (OMB). The paper expresses the author's personal views, which do not represent the views of OMB or the Administration.

[1]Author's note: Since the December 1999 conference, data have been released from the March 2000 Current Population Survey (CPS) and all remaining waves of the 1996 panel of the Survey of Income and Program Participation (SIPP) for months through calendar year 1999. The apparent inconsistency in the pictures of economic well-being of the bottom of the income distribution and the bottom of the spending distribution noted in this paper is not resolved by the more recent data. However, incomes of the poorest female family heads with children turned up in 1999 in SIPP. A number of income measures returned to post-1993 peaks, in constant dollars. In both surveys, a pattern of increasing earnings and decreasing means-tested transfers noted here continued in 1999. However, in a reverse of the trend in recent years, earnings increases among the poorest fifth of families more than offset declines in their means-tested transfers. The recent SIPP data also tend to confirm in national data some of the key findings of the state-level "leavers studies" summarized elsewhere in this volume. A little over half of Aid to Families with Dependent Children (AFDC)/Temporary Assistance for Needy Families (TANF) leavers in SIPP were employed in their exit month, and about one-fourth returned to TANF within a year of exit. About two-thirds of leavers reside with other household members who have some income, and only around 4 percent of leavers in SIPP had no household income in their exit month. While most leavers experienced gradual post-exit income gains, one-third or more appear to have lower household incomes after they leave welfare. Overall, these perspectives on the economic well-being of female family heads and welfare leavers in SIPP are encouraging. However, two cautions should be kept in mind. First, sample loss and item nonresponse are growing problems in SIPP, as in other household surveys, and there is some evidence that families lost to the sample tend to be among the least successful. If so, the experience of

Trends in Poverty among Children and the Elderly

Figure 1 provides a familiar picture that illustrates a common observation. In the 1970s, children replaced those aged sixty-five or older as the poorest age group. These are official poverty rates, meaning the poverty thresholds are the official statistical measures and the income counted is the official income measure, that is, regular pre-tax money income, including cash government transfers. The data come from the March annual demographic supplement to the Current Population Survey (CPS). The main purpose of this monthly survey of around 50,000 households is to provide monthly employment and unemployment statistics. But once a year respondents are asked a wide array of questions about their income and program participation in the preceding calendar year. In figure 2, official poverty rates of children are disaggregated into children residing with couples, and those residing with female family heads. Official poverty rates among children with female householders have remained well above the poverty rate of the aged, and rates for children living with couples have remained just below.

Figure 1. Official Poverty Rates for Children and Elderly, 1969-1998



Source: U.S. Bureau of the Census, March Current Population Survey.

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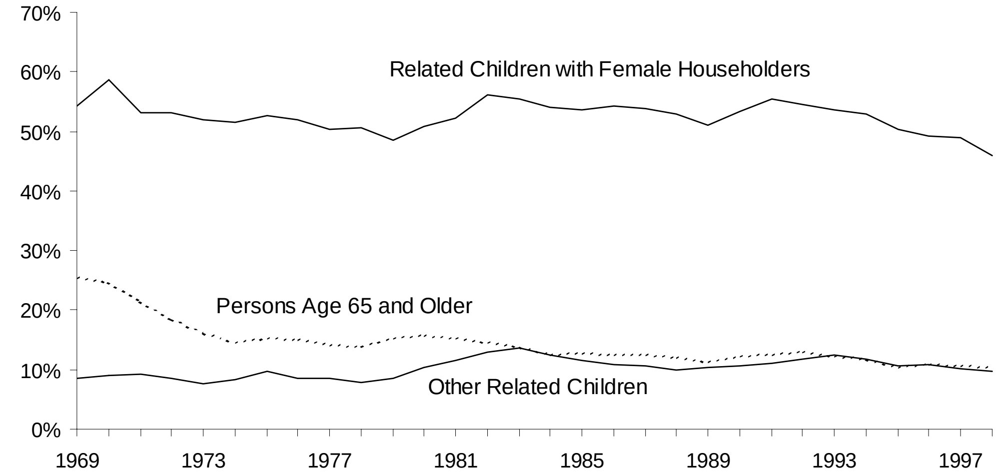
more successful families is unduly inflated in the analysis here. Second, it remains to be seen whether the combination of sharp declines in both the welfare rolls and child poverty can be sustained if the economy slows significantly.

Figure 2. Official Poverty Rates for Elderly, Children with Female Householders, and Other Children, 1969-1998



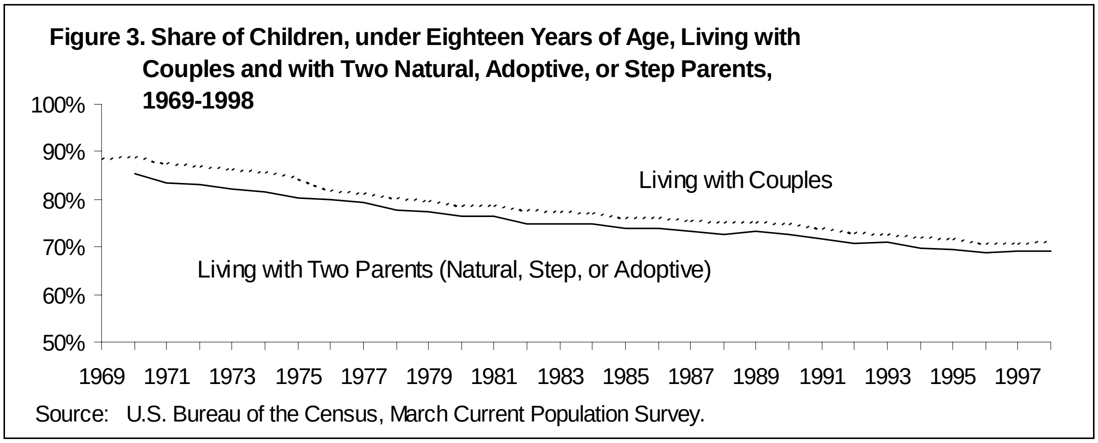
Source: U.S. Bureau of the Census, March Current Population Survey.

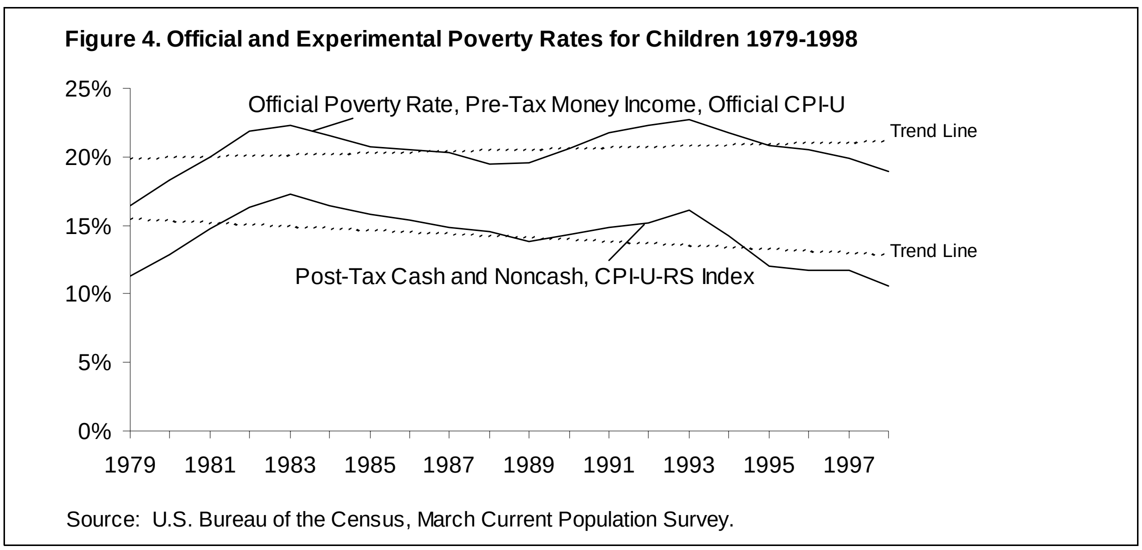
However, as figure 3, shows, the share of children living with couples and with two parents—including stepparents—has been declining steadily. When thinking about the well-being of children, therefore, it is often helpful to track measures separately by family type.

Even with family composition trends, the trend in child poverty over the last two decades is downward when a broad income measure and a consistent inflation adjustment are employed.

Figure 4 displays poverty rates for all children combined again, this time for the period from 1979 to 1998, to illustrate two other points to keep in mind about the familiar image in figure 1. The top solid line tracks official poverty rates. A trend line overlays the cyclical ups and downs. Even with improvements in the official poverty rate of children over the last several years, the trend from a low point in 1979 has been slightly upwards.

The bottom lines illustrate two experimental efforts at improvements in the poverty measure. A broader range of income is counted—including noncash food and housing benefits (but not Medicare or Medicaid) and the effects of direct taxes. Also, a more consistent inflation index is used to adjust the poverty thresholds forward each year from the late 1960s. Each year, the official poverty thresholds have been increased by the Consumer Price Index for Urban Consumers (CPI-U) to account for inflation and keep thresholds representing a constant level of economic well-being. It is widely recognized now that the official CPI-U overstated inflation in several respects. The poverty thresholds underlying the dotted line on figure 4 were inflated each year from 1967 using the experimental (research series) index—CPI-U-RS—published by the





Bureau of Labor Statistics.[2] It has the effect of applying later improvements consistently across the whole period.

As can be seen, when a broader definition of income and a more consistent inflation adjustment are used, the trend of poverty among children is not up but down since the late 1970s. This is not widely noted, and two qualifications need to be mentioned.

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[2]See Kenneth J. Stewart and Stephen B. Reed, "CPI Research Series Using Current Methods, 1978-98," *Monthly Labor Review* 122 (6) (1999): 9–38.

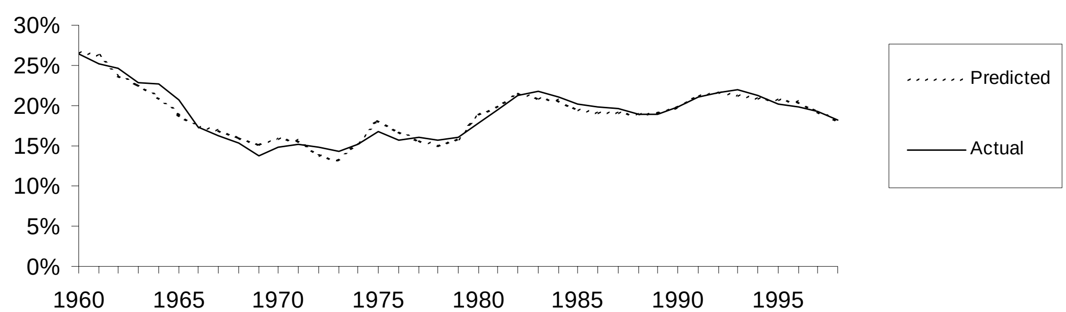
First, not all this progress was intentional. During this period, some types of income, such as social security benefits, food stamps, and some wages, were indexed each year by the CPI-U. The intention was to protect these types of income against erosion by inflation. But because the CPI-U overstated inflation, indexed income actually increased in real terms.

Second, the National Research Council (NRC) has recommended a new measure of poverty that would change the poverty thresholds as well as make adjustments to the definition of income. If the NRC proposal or other major changes were adopted, the trends in child poverty might look different. So underneath ups and downs of the business cycle, the long-term trend in poverty among children appears to be gradually downward despite the increase in the share of children living in family types characterized by higher poverty.

Has Welfare Reform Changed This Trend?

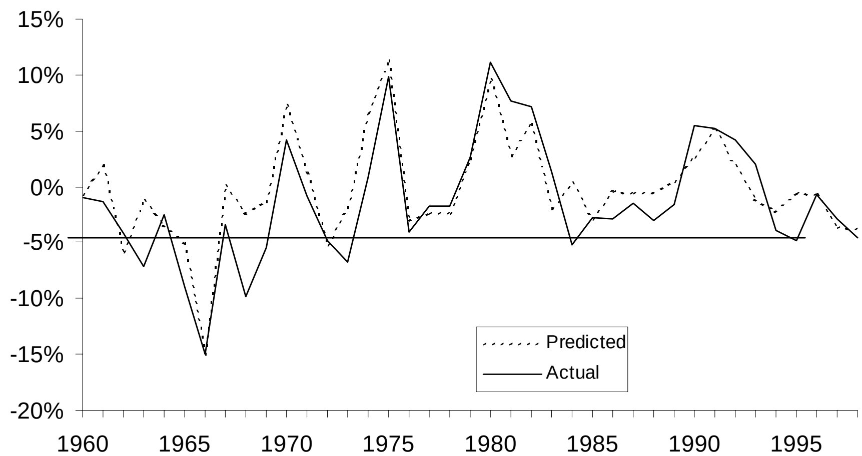
We can ask, now, whether the years of the greatest change in cash welfare programs for families with children have seen changes in income and poverty that in any way depart from these longer-term trends. Figure 5 and figure 6 suggest that official child poverty rates, at least, are about what we would expect based on historical relationships with civilian unemployment rates and real wage levels. Figure 5 displays the familiar official rate in the solid line and rates that would be predicted from an ordinary least-squares regression model in the dotted line. Figure 6 tracks actual and predicted annual *changes* in the official child poverty rate. Change models help deal with the fact that the poverty rate this year is correlated with what the rate was last year. The models are not very sophisticated, but they do a reasonably good job and suggest that recent declines in child poverty are generally consistent with past experience.

Figure 5. Actual and Predicted Child Poverty Rates, 1960-1998



Note: Actual official poverty rates for related children and rates predicted based on unemployment, real wages, and the share of workers in the agricultural sector.
Source: U.S. Bureau of the Census, Current Population Survey and author's calculations.

Figure 6. Actual and Predicted Change in Child Poverty Rates, 1960-1998

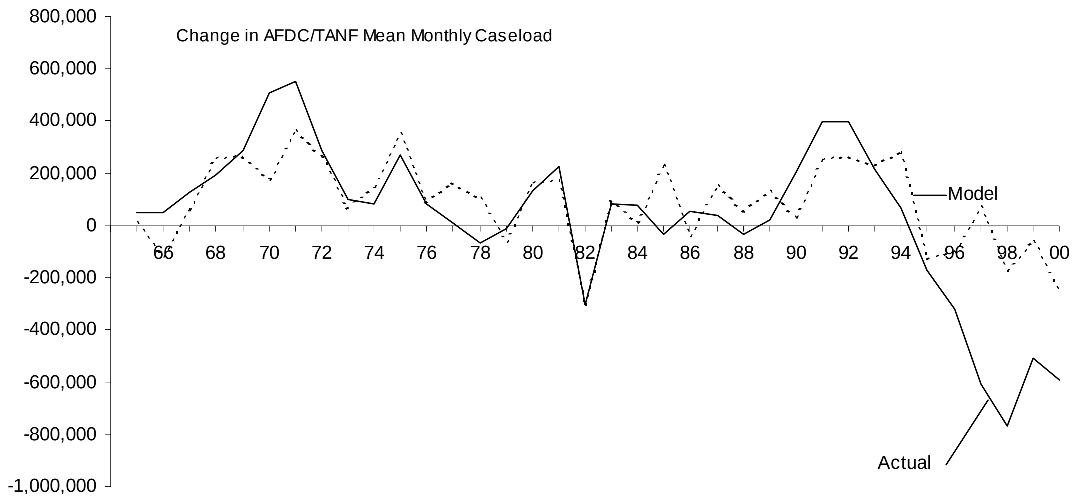


Note: Figure shows change in actual official child poverty rates and change predicted by change in civilian unemployment rate, change in real weekly wages of nonsupervisory and production employees, and a 1966 dummy for CPS allocation and imputation changes.
Source: U.S. Bureau of the Census, Current Population Survey and author's calculations.

How Can Welfare Participation Depart from Trend While Child Poverty Does Not?

As figure 7 shows, unlike child poverty rates, the welfare rolls certainly have departed from long-term trends. Again, the solid line shows the actual year-to-year changes in the average monthly number of families receiving Aid to Families with Dependent Children (AFDC), and now Temporary Assistance for Needy Families (TANF), as reported by the states. The dotted line is the prediction of a model based on pre-1993 relationships between caseload, the number of female house-holders with children, their employment rate, and the level of welfare benefits. Beginning with 1996, the factors that did a reasonably good job at predicting annual caseload changes over a long period that included sharp cyclical swings and major program changes suddenly lost their power.

Figure 7. Actual and Predicted Change in AFDC/TANF Caseload, 1965-2000



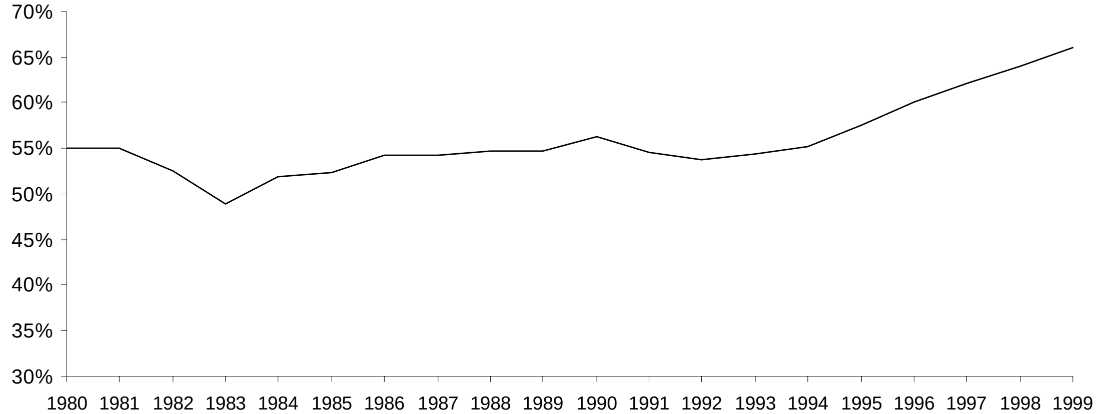
Note: Figure shows modeled change in caseload through 1993 = (.84526 * change in number of female householders w/children) - (4,955,127 * change in employment rate of female householders with children) + (1,324 * real dollar change in combined AFDC and food stamp benefits) - (495,299 due to OBRA81).
Source: U.S. Department of Health and Human Services, Administration for Children and Families and author's calculations.

We have a paradox. On one hand, something very different has been going on with the welfare rolls. They have declined by more than 2 million families in a way that is not explained by long-term relationships between caseloads and the employment of female family heads. On the other hand, official child poverty rates do not show any radical departure from long-term trends. How is this possible?

First, the relationship between employment rates of female family heads and welfare caseloads may have changed. As employment rates among female family heads continue to rise, they are likely to include an increasingly rich mix of mothers who otherwise would be on welfare. As figure 8 shows, throughout the 1980s and as late as 1994, the share of female family heads employed when the March CPS was taken remained a little over half. In the last six years, it has risen to nearly two-thirds. An employment rate increase from 60 to 65 percent may involve more welfare mothers than an increase from 50 to 55 percent.

The second reason that welfare rolls can drop radically while child poverty stays in line with long-term trends is that poverty rates are not fine-grained enough to provide a full picture of what is happening.

Figure 8. March Employment Rate of Female Family Heads with Children, 1980-1999



Source: U.S. Bureau of the Census, March Current Population Survey.

One example of a finer-grained measure is present in analysis by the Children's Defense Fund.[3] This study tracked the rates at which female family heads with children, the group arguably most affected by welfare reform, had incomes below 50 percent of their poverty level. They found an increase in this severe income poverty in the March CPS from calendar 1996 to 1997. There appears to be no change from 1997 to 1998, the latest year for which we have data.

Rather than focusing on the percentage of families below a line, I think we understand more from a picture of the whole income distribution of such families, and how it has changed recently. This paper will not say much about the income of couples with children or the small but growing share of children living with unmarried male family heads. We will just note that income among these groups appears to be rising all along the distribution. Another very interesting question will not be addressed here. That is, could welfare reform be having an effect on family composition? Rather, this paper focuses on the group most affected by the replacement of AFDC by TANF, female family heads with children.

Family and Household Income in the Current Population Survey: Good News Except at the Bottom

The top of table 1 shows the mean *family* income of each fifth of female-headed families with children for years since 1993. Families were ranked from those with the lowest incomes to those with the highest. This distribution was divided into fifths (quintiles), and the average income for each fifth was calculated for each year, then all years were expressed in 1998 dollars.

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[3]See Arloc Sherman, *Extreme Child Poverty Rises Sharply in 1997*, Children's Defense Fund, August 22, 1999.

Table 1. Family and Household Income for Female Heads of Primary Families, Related Subfamilies, or Unrelated Subfamilies with Children, 1993–1998, in Dollars

	1993	1994	1995	1996	1997	1998	Change 1993–1995	Change 1995–1998
Family income[a]								
Bottom quintile	6,566	7,275	7,644	7,340	7,046	7,076	1,077	(567)
Second quintile	12,916	13,858	14,641	14,336	14,530	15,256	1,725	614
Third quintile	18,292	19,464	20,372	20,428	20,391	21,655	2,080	1,283
Fourth quintile	27,625	28,460	29,566	28,857	29,556	30,982	1,941	1,415
Top quintile	52,821	52,805	56,169	58,326	57,962	59,632	3,348	3,463
Household income[b]								
Bottom quintile	7,849	8,447	8,925	8,708	8,676	8,678	1,076	(248)
Second quintile	14,175	15,378	16,984	15,862	16,182	16,844	1,909	760
Third quintile	20,534	22,023	22,876	22,538	22,898	24,008	2,343	1,132
Fourth quintile	31,078	32,259	33,405	32,339	33,593	35,167	2,328	1,762
Top quintile	57,158	58,061	62,681	64,760	63,969	65,717	5,523	3,036

Source: U.S. Bureau of the Census, March Current Population Survey.
Note: Due to top coding, top quintile values are not strictly comparable.
[a]Post tax, *family* money income plus food and housing benefits (1998 dollars).
[b]Post-tax *household* money income plus food and housing benefits (1998 dollars).

There are several reasonable ways to calculate these kinds of distributional numbers, so let me take a minute to be clear about how these were done. Table 1 counts all female family heads with children and no spouse present, whether they be heads of primary families or what the Census Bureau terms related or unrelated subfamilies. The income concept is the same comprehensive definition mentioned before—regular money income, plus noncash food and housing benefits and the effect of direct taxes.

These tables also include estimates by the Census Bureau of net capital gains. I think Census staff would agree that their capital gains estimates are not the strongest part of their experimental income data. However, because I want to show post-tax income, and because the capital gains estimates are used in the Census tax calculations, I decided it was inconsistent to use the tax estimates that reflect capital gains income but not include the income. Including capital gains has a negligible effect on the distribution of female family heads.

Other adjustments can reasonably be made to the Census data when calculating income distributions. Some analysts do not count families that show up with negative income. Some make adjustments to minimize the effects of top-coding, a privacy measure that the Census Bureau takes when it releases family-level data for public use. Some adjust dollar income for family size. In producing these data in table 1, I made some adjustments for top-coding, but not the other kinds of adjustments. Rather than taking time to explain all my choices, let us see what questions come up later.

One more caution about year-to-year comparisons with CPS. Significant changes in CPS methods were made with the March 1994 CPS (1993 data), and the Census Bureau cautions about making precise comparisons with earlier years. A new sample design was implemented over a period affecting March 1994 and March 1995, as well.

Income was rising all along the distribution from 1993 to 1995 in CPS. In fact, although dollar income increased more for the top quintile, the greatest proportional increases were in the bottom quintiles. Then, from 1995 to 1997, the pattern reversed.

To add a little texture to this picture, employment and earnings rose both before and after 1995, all along the distribution. And the maximum value of the Earned Income Tax Credit (EITC) was growing at the same time that more female family heads were becoming eligible for it. Reported receipt of other means-tested benefits generally declined. After 1995, the decline was sharper. For the bottom quintile, it was greater than the earnings increase. (Although keep in mind that individual families may move up and down the distribution from year to year.)

Now $7,076, including food stamps and rental assistance, is not much for a family of three to live on for a year. And it has been noted that a significant proportion of female family heads with children in the bottom quintile lived with other adults, and that when the income of these others is counted, their economic status looks much better. That is true.

However, if we want to look at the whole income distribution of female family heads with children, and we want to include the income of unrelated adults, then we have to reorder all the families based on this more inclusive income measure. The bottom set of rows on table 1 does this. The families are the same, and the income concept is the same, but instead of counting only the *families'* income when creating the quintiles, those bottom rows count the income of everyone in the *household*, whether related or not. As you can see, the pattern remains the same, but the 1995–1998 income decline in the bottom quintile is smaller than when only family income is counted.

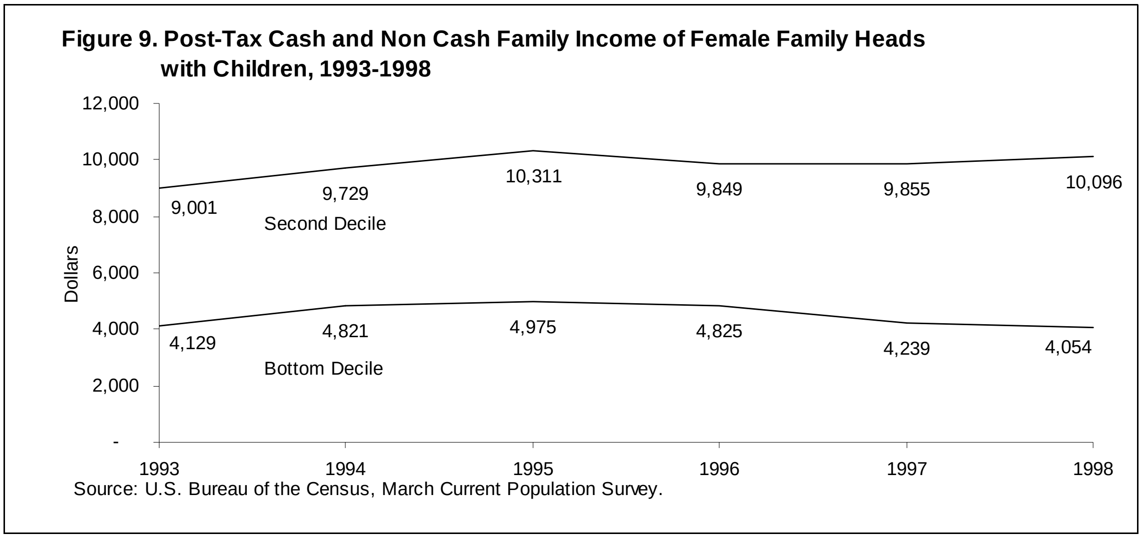

Figure 9 provides a more detailed look at what is going on, at least in the CPS. The lack of change in the bottom quintile from 1997 to 1998 in table 1 is the net effect of an apparent small income gain in the second decile and an apparent small income loss in the bottom decile. Neither change from 1998 was statistically significant. But income of the bottom decile of female family heads with children appears to continue on a downward track from a 1995 peak.

To summarize the CPS data, female family heads all along the income distribution have seen gains since 1993. In the period from 1995 to 1997, progress in the middle quintiles halted and the bottom quintile lost income. However, 1998 saw gains by the middle quintiles and continued gains by the top. The bottom quintile's income was unchanged. However, that quintile's average masks apparent divergence between the first and second deciles.

The next question is how much confidence we should put in this picture. Analysts have noted that the bottom of the income distribution includes families with zero or negative incomes, and that CPS seems to be missing more welfare recipients than it was only a few years ago.

- The bottom decile of female family heads in CPS includes around 500 sample families, several with negative family incomes, and around thirty reporting zero income. About twice that number report annual incomes of less than $1,000. When household income is counted, the numbers are similar. Families don't go through a whole year with zero consumption, so zero or negative incomes must be only part of the story.

  On the other hand, these sample anomalies are present every year. Unless we have reason to think that the negative incomes and zero incomes are especially unstable, then year-to-year comparisons in the bottom quintile and decile should tell us something useful about the direction of change.

- Data reported by states to the U.S. Department of Health and Human Services (HHS) show that TANF caseloads have been declining rapidly. The number of persons reporting that they received AFDC/TANF in the March CPS has been declining even faster. So it appears that the March CPS is capturing a shrinking share of cases that remain on the TANF rolls.

Household surveys usually find fewer recipients and fewer benefit dollars than welfare program administrative data benchmarks indicate they should. However, after holding at around four-fifths through the late 1980s and early 1990s, the ratio of AFDC/TANF families in the March CPS versus administrative data has declined to around two-thirds.

At this point, no one has come forward with a good explanation of this increase in what is called *underreporting* or *failure to report.* Some research is underway. For the present, we have to wonder how table 1 would look if there had been no increased failure to report.

Some analysts have sought to correct for this apparent loss of income by adding income back.[4] The difficult part is knowing who is failing to report TANF and so should be credited with additional welfare income. Table 1 does not make any adjustment of this kind. I will observe, however, that if all the increased under-reporting of welfare income of the last few years were attributed to the bottom quintile, their post-1995 income loss would no longer be statistically significant. On the other hand, earlier research on underreporting found that the people most likely to fail to report welfare were those who were married when the survey was taken, or who were no longer receiving the benefits or were working.[5] We are more likely to find those in the middle and upper quintiles of the distribution, rather than the bottom quintile.

It is also worth noting that we do not know for sure that the welfare income is not included in table 1. Some TANF benefits may be misreported rather than unreported. For example, recipients may report wage subsidies and even workfare benefits as "work for pay"

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[4]See Wendell Primus, Lynette Rawlings, Kathy Larin, and Kathryn Porter, *The Initial Impacts of Welfare Reform on the Economic Well-Being of Single-Mother Families With Children,* Center on Budget and Policy Priorities, August 22, 1999.

[5]See Kent H. Marquis and Jeffrey C. Moore, "Measurement Errors in the Survey of Income and Program Participation (SIPP) Program Reports," Proceedings of the 1990 Annual Research Conference, U.S. Bureau of the Census, 1990.; and Karen Goudreau, Howard Oberheu, and Denton Vaughan, “An Assessment of the Quality of Survey Reports of Income From the Aid to Families With Dependent Children (AFDC) Program.,” *Journal of Business and Economic Statistics* 2 (2) (1984): 179–186.

rather than cash welfare. However, given state reports about the number of families participating in these kinds of activities, it does not seem likely that such misreporting could account for much of the apparent increase in failure to report. Fortunately, there are other sources of information that can support or correct the picture in the March CPS.

Expenditures in the Consumer Expenditure Survey: All Good News

Table 2 shows information about *expenditures* by female unit heads with children from the Consumer Expenditure (CE) survey.[6] The CE is an ongoing survey of around 5,000 sample households that gathers detailed quarterly information about household spending, as well as demographic, employment, and income information. The data in table 2 are from the interview part of the survey.

Table 2. Expenditures of Female Unit Heads with Children, CE, 1991–1998

	1991	1992	1993	1994	1995	1996	1997	1998
Quarterly **expenditures** in 1998 dollars	5,603	5,744	5,548	5,490	5,485	5,768	6,104	5,912
Bottom decile	1,553	1,637	1,588	1,655	1,648	1,718	1,699	
Second decile	2,393	2,441	2,380	2,447	2,381	2,525	2,565	
Bottom quintile	1,969	2,040	1,987	2,056	2,009	2,126	2,134	2,197
Second quintile	3,215	3,271	3,281	3,414	3,175	3,380	3,485	3,486
Middle quintile	4,436	4,524	4,554	4,592	4,330	4,567	4,746	4,734
Fourth quintile	6,273	6,322	6,196	6,311	5,957	6,402	6,661	6,487
Top quintile	12,002	12,467	11,690	10,993	11,810	12,310	13, 416	12,606

Source: Consumer Expenditure survey, interview data.

There are some definitional differences, and the recall period for the CE is a quarter of a year, rather than a whole year as in CPS. However, we would expect that the picture of income in the two surveys to be generally consistent with each other. Unfortunately, they don't seem to agree when it comes to what is happening to the poorest female family heads with children.

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[6]These expenditure data differ from a similar display in a May 27, 1999 House Republican Leadership paper, "Welfare Reform Has Already Achieved Major Successes: A House Republican Assessment of the Effects of Welfare Reform," in two principal ways. First, Table 2 includes only female consumer unit heads with minor children. Second, the distribution is based on expenditures, rather than on income. Income data in CE are less complete than in CPS or SIPP.

Table 2 shows no decline at the bottom of the spending distribution, even in the bottom decile. The bottom quintile appears to increase fairly steadily. I do not know how to reconcile the CE expenditure data with the CPS income data. The surveys have different strengths and weaknesses that people may want to discuss in the comments or question period. I will just note a few facts that seem to me to make the puzzle even more interesting.

Only a Partial Explanation of Differences

As table 3 shows, the characteristics of female unit heads with children in the CE are really quite similar to the characteristics of female householders with children in the CPS. Some differences are just what would be expected between a survey with a three-month recall and another with an annual recall.

Table 3. Characteristics of Female Unit Heads with Children, March 1998 CPS and 1997 CE

	CPS March 1998	CE 1997
Number of householders	8,822,007	8,400,957
White	62%	58%
Black	35%	39%
Family size	3.3	3.5
Number of children	1.8	1.9
With non-SSI cash welfare	23%	18%
With food stamps	33%	31%
With rental assistance	18%	17%
With earnings	82%	65%
Age of head	38 years	39 years
Martial status		
Widowed	9%	11%
Divorced	37%	37%
Separated	15%	18%
Never married	35%	34%

Source: March 1998 Current Population Survey and 1997 Consumer Expenditure Survey.

By contrast, table 4 displays the characteristics of those in the bottom quintiles, showing significant differences. The African-American share of the bottom quintile of spenders is much larger than their share of the bottom income quintile. The bottom group of spenders are a little older. They are less likely to report earnings, although some of the difference reflects the fact that CPS shows any earnings during a year, while CE shows any earnings during a quarter. CE householders are about as likely to report cash welfare, but *much* more likely to be receiving food stamps and especially public housing or Section 8 assistance.

Table 4. Characteristics of Female Unit Heads with Children, Bottom Quintile of Income, March 1998 CPS and Bottom Quintile of Expenditures, 1997 CE

	CPS March 1998	CE 1997
White	61%	47%
Black	36%	49%
Family size	3.0	3.2
Number of children	1.8	1.9
With non-SSI cash welfare	40%	35%
With food stamps	42%	63%
With rental assistance	15%	43%
With earnings	50%	38%
Age of head	35 years	37 years
Martial status		
Widowed	7%	9%
Divorced	25%	20%
Separated	17%	23%
Never married	49%	47%

Source: March 1998 Current Population Survey and 1997 Consumer Expenditure Survey.

It appears that the female householders with the lowest incomes are not necessarily those with the lowest expenditures. Or, if that seems to beg the question, that those with the lowest expenditures are not necessarily those with the lowest incomes.

One contributing factor is rental assistance. Both surveys show a little under one-fifth of female family heads receiving rental assistance, such as public housing or Section 8 certificates and vouchers. CPS asks about rental assistance as of the time of the survey, unlike other program benefits, for which the reference period is the preceding calendar year. So we would expect counts of rental assistance to be fairly similar in the two surveys.

CE counts all consumer unit expenditures during a quarter, including expenditures using food stamps. Housing expenditures by families in public housing or with Section 8 certificates will reflect spending by the unit out-of-pocket, but not the rental subsidy paid by the local housing agency. This means that nearly half the units in the bottom spending quintile do not reflect total costs for what is, on average, the largest single expenditure category.

So it is not surprising that those with subsidized housing are more apt to end up in the bottom quintile of total spending. Nonetheless, they are among those with the lowest out-of-pocket expenditures each quarter. So it appears that declines in the bottom income quintile may not be inconsistent with no declines in the bottom spending quintile.

Now I would like to be able to tell you that leaving units with rental assistance out of the underlying distribution and the expenditure means results in a pattern like the one in CPS. However, leaving subsidized housing units in CE out of the calculation does not change the basic pattern in table 2.

In any case, we are left with a good deal of uncertainty about what is going on among the poorest female family heads with children. However, as time goes by, more sources of information become available. Now I'll mention a third survey that, eventually, will be one of our best sources of information about how children are faring under welfare reform.

Monthly Income Data from SIPP: Income Losses at the Bottom

The Survey of Income and Program Participation (SIPP) is a panel survey that returns to the same sample households every four months and asks questions about monthly demographic, labor force, income, and program participation. In addition to core questions asked with each visit (or *wave*), modules devoted to different topics on different waves gather detailed information on a wide variety of other subjects.

SIPP started a new panel in 1996, its first since 1993. The 1993 panel started with nearly 20,000 households and the 1996 panel with more than 37,000, or nearly the size of the March CPS. As is discussed in another paper, a major problem for panel surveys is attrition, and this is the case with SIPP as well. On the other hand, the recall period is shorter with SIPP than with CPS, and there is less underreporting of transfers, but some remains. The data presented first are monthly averages over a wave of four months. Data for 1993 are from wave 1 of the 1993 panel.

Data for 1994 and 1995 are from waves 4 and 7, respectively. Data for 1996 are from the first wave of the 1996 panel, and data for 1997 are from wave 4 of the 1996 panel.

Spells of unemployment and other income interruptions mean that monthly data will tend to have a higher proportion of very poor families than annual data. Whatever the income measure, poverty rates that result from testing monthly income against one-twelfth the annual poverty threshold tend to be higher than rates testing annual income against the annual threshold.

A major limitation for our purposes is that the Census Bureau does not yet include estimates of the value of rental assistance or the effect of direct taxes on SIPP public use files. As you can imagine, monthly estimates of income taxes and refundable credits involve difficult conceptual issues. However, with increased employment and increases in the real value of the EITC, the absence of taxes from SIPP data is a serious limitation when it comes to trying to understand what has been happening to the economic well-being of female family heads.

Keeping cautions about the effects of attrition and the absence of rental assistance and taxes in mind, we observe that table 5 shows a steady decline in monthly money income plus food stamps in the bottom quintile of female family heads in SIPP. As in CPS, employment increased all along the distribution during this period. In the bottom quintile, transfer declines exceeded earnings increases.

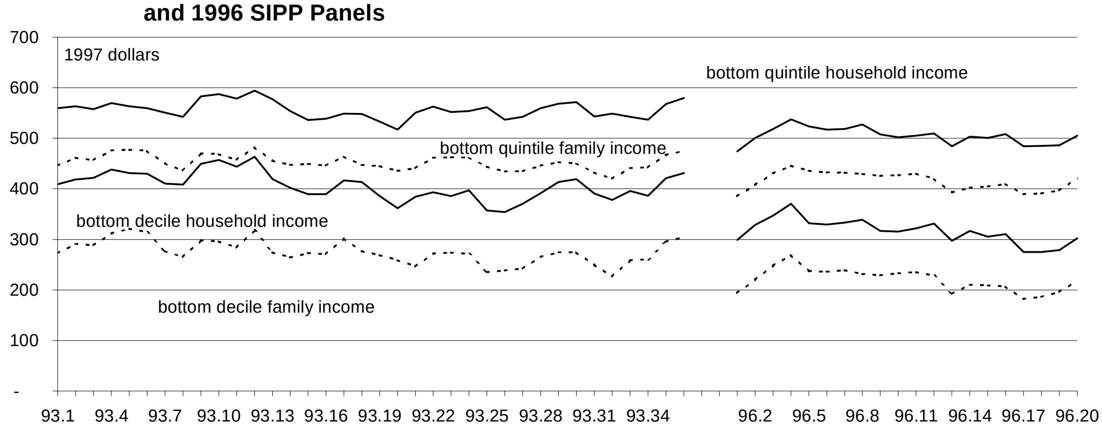
SIPP is not an easy survey to use. To compare with other survey data presented here, Table 5 constructs income averages from a SIPP wave of four months. A simpler measure is presented in figure 10. This is the month-by-month track of pre-tax money income plus food stamps of female family heads in the bottom quintile and decile of family income and household income from SIPP. The notation on the bottom axis shows the SIPP panel and month of that panel.

Table 5. Quintiles of Monthly Pre-tax Money Income Plus Food Stamps, 1993–1997, SIPP (1998 Dollars)

	1993	1994	1995	1996	1997
Family income					
Bottom quintile	457	446	433	416	402
Second quintile	883	881	911	916	959
Middle quintile	1,318	1,288	1,333	1,442	1,497
Fourth quintile	2,025	1,981	2,043	2,207	2,293
Top quintile	4,115	3,994	3,944	4,496	4,443
Household income					
Bottom quintile	558	546	540	506	499
Second quintile	970	981	1,011	1,033	1,046
Middle quintile	1,440	1,402	1,469	1,567	1,584
Fourth quintile	2,135	2,027	2,088	2,161	2,337
Top quintile	3,697	3,635	3,556	4,109	4,129

Source: 1993–1995 from waves 1,4, and 7 of 1993 panel of the Survey of Income and Program Participation; 1996–1997 from waves 1 and 4 of 1996 panel.

Figure 10. Monthly Pre-Tax Money Income Plus Food Stamps of Female Family Heads in the Bottom Quintile and Decile, From the 1993 and 1996 SIPP Panels



Source: Survey of Income and Program Participation.

Not a Consistent Picture

Table 6 provides a recap. It displays some key points of comparison for the three major household surveys. The March CPS is represented in the first and last columns. The last column displays values when the CPS income measure is pre-tax money income plus food stamps, like SIPP and the expenditure measure in CE.

- Sample sizes are approximate, but it is clear that the Consumer Expenditure Survey is by far the smallest.

- CE expenditures are much greater than income on the other surveys. Both expenditures and income are under-reported on household surveys, but near the bottom of the distribution, reported expenditures have been greater than reported income.

- In general, the longer the reference period, the more likely any event should be. So the shares with earnings are highest in the CPS, with its annual reference period, lower in CE, with a quarterly reference period, and lowest in SIPP's monthly data.

Table 6. Bottom Quintile of Income (CPS and SIPP) or Expenditures (CE)

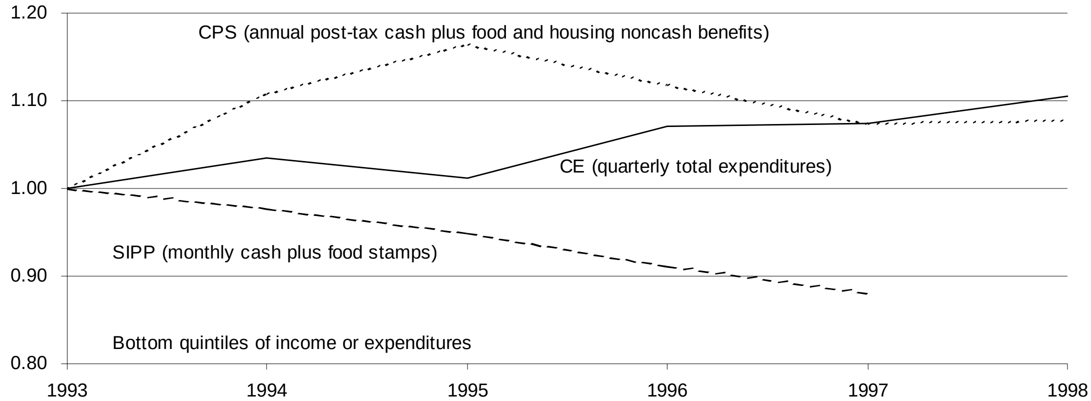
	March 1998 CPS Post-tax, Cash and Noncash	1997 CE, Total Expenditures	Wave 4, 1996 Panel SIPP, Cash Plus Food Stamps	March 1998 CPS, Cash Plus Food Stamps
Sample size	900	120	650	900
Monthly income or expenditures	572	711	402	418
With non-SSI cash welfare	40%	35%	35%	38%
Rental assistance	15%	43%	29%	32%
With earnings	50%	38%	25%	51%

Sources: Current Population Survey, Survey of Income and Participation, and Consumer Expenditure Survey, various years.

Since the most recent poverty crest in 1993, and during a period of great welfare changes and dropping caseloads, income improved for the type of families most affected by the new policies. I think the combined picture of increased employment, declining caseloads, and falling child poverty is more favorable at this stage than anyone was predicting in 1996.

Another year of data, however, has not cleared up one disturbing issue. What is happening at the bottom of the distribution of female family heads with children? Figure 11 does not present a simple answer.

Figure 11. Income and Expenditures of Female Family Heads with Children, Bottom Quintiles: CPS, CE, and SIPP, 1993-1998



Source: March Current Population Survey, Consumer Expenditure Survey, and Survey of Income and Program Participation.

In CPS, the top four quintiles seem to be moving in the right direction. The bottom fifth was unchanged from 1997. This lack of change masks apparent progress even by the second decile, but the bottom tenth—around 1 million families and 2 million children—appears to be continuing a downward trend.

The Consumer Expenditure Survey continues to provide good news all along the distribution. However, the CE sample is small, and reconciliation of spending numbers with the income numbers remains elusive.

We are beginning to see data from the 1996 panel of the Survey of Income and Program Participation. Eventually, SIPP's detailed monthly data may be our best source of national data about what has been happening. However, panel surveys have their own limitations, and an apparent steady decline in a less than comprehensive income measure lags the other surveys by a year and looks at odds with both the CPS income profile and spending in CE. Part of the difference in the CPS and SIPP tracks in figure 11 may be due to the difference between annual and monthly perspectives. In any case, SIPP does not show the 1993–1995 increase at the bottom that we see in CPS.

Questions about cross-year comparability can be raised about both surveys. Attrition bias is always a concern in longitudinal surveys. Moreover, the 1993 panel apparently had much less underreporting of welfare income than earlier panels, and other differences have been noted as well. On the other hand, a lot of the 1993–1995 improvement in the bottom in CPS occurred in 1994, the year a new sample design was being introduced in CPS.

The track of average income and expenditures for quintiles of the distribution of female family heads with children looks something like the fingers of a hand. I think all three household surveys show at least four fingers pointed up. Where the bottom finger is pointing is unclear. That is one caution while we celebrate widespread progress.

The other, of course, is that progress so far has been made in an historically favorable, and maybe not everlasting, economic climate, and federal welfare time-limits have not yet started to bite.

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Discussion

Material Poverty

Ron Haskins: The presentations show that we know a tremendous amount. If you could pick the things that you would most want to know after making a major change in our nation's welfare system, it would be family income, especially at the bottom; it would be poverty; and it would be family consumption. The data show absolutely that there is probably a problem. I note the similarity between the number that Sheldon Danziger produced in his studies and Richard Bavier's assertion that it is about the bottom 10 percent that are worse off.

The political system has already used this information. We have a bipartisan agreement, at least on the House side, that this is a problem at the bottom 10 percent. Republicans say that it shows that welfare reform has been a glorious success and Wendell keeps saying, no, it has not. Nonetheless, we admit that there is a problem at the bottom and we need to do something about it. Part of the problem is food stamps and Medicaid, which we also have admitted, but a more important part of it is that we need to learn more about how to help the families at the bottom.

The poverty data actually understate the case. In the years that we have had these tremendous declines in the welfare caseloads, such as the 20 percent decline in the welfare caseload in 1997, which was totally unprecedented in the history of welfare in this country, we have had declines in poverty and child poverty every single year. In 1997, we had the biggest percentage decline in black child poverty on record.

My last point is that if you take the broad measures of poverty—again, these are Richard Bavier's data—in six years of recovery during the 1980s, child poverty declined 18 percent. In the first four years of the recovery in the 1990s, according this broader measure, child poverty declined 25 percent, which implies that we have hit on a much better strategy. We are not just going to depend on taxpayers to give money to families to get them out of poverty. They are going to work. They are going to have a lot of income—even Wendell shows that they have a lot more income—and then we are going to supplement that income.

We can see from these data that the strategy is working well. We should not minimize the problems, but the overall strategy is successful.

Robert Rector: I want to make a broadly generic remark, while we're lauding the CPS. Since the early 1950s, the CPS has underreported aggregate income by 30 percent, compared with the gross domestic product (GDP) in personal income. Over time, that is a remarkable $2 trillion of underreporting in the normal cash figure. It is 18 percent when you throw in all the noncash. That is an enormous level of underreporting. Although it remains consistently at 30 percent, the type of income that is underreported has changed over time.

In 1950, less than 1 percent of the GDP was in means-tested aid. By the time you get to 1997, 5 percent of the total economy is means-tested assistance of one form or another, most of which does not show up in the normal CPS count of money income. Even when you add in the noncash income, it is still underreported.

In this analysis, if you're just looking at a four- or five-year interval, that kind of broad loss of income and change in the measurement of income is probably not that important. But at its foundation, these data are extremely shaky.

It is important to look at the aggregate. If we look at the aggregate picture, we see that over the past three or four years, the AFDC caseload has been cut in half and the child poverty rate in the United States, measured using EITC and food stamps as part of income, is now at the lowest level since the late 1970s. The black child poverty rate is almost certainly at the lowest level, no matter how you measure it, in the nation's history.

How many advocates of the welfare system would have said prior to this reform, "We're going to cut the AFDC caseload in half, and child poverty is going to decline." It is a striking change, and we have to look at a very small part of the population in order to find the shadow within this larger picture.

Now, let us look at that small part, the bottom decile or the bottom quintile. The essence of welfare reform is to make people accountable, to say that welfare is no longer a one-way handout. It is not an open-ended entitlement. You must behave in a constructive way, and if you do that, you will get rewards. You will continue to get aid. And if you do not behave in the manner we require, you will not continue to get that assistance.

By definition, if you do that, you have to expect a spread in the distribution of rewards. It has to occur if the reform has any sincerity whatsoever. You also must expect that there was a fairly significant population who, when told that they had to do constructive things or do anything as a condition of receiving aid, would turn around and walk out and say, "I have other things to do with my life." Those things are not things that most people in this room would necessarily approve of, but I don't see how anyone could not expect that response.

As we move into the further stages of reform, we want to go to that population and find ways to re-engage them, but not in the same old way. If you look at the population that is basically dropped out and said, "We don't want welfare. We're not going to work for our benefits, we're not going to do job search, and we are going to suffer a decline in income over it," what is the answer to that? Renewing the entitlement system? Let's push some unconditional entitlements at them? My heavens, we have done that for thirty years. That is exactly the response I would think that you don't want for this population. You want to get them. You want to find them. But you are going to have to engage them in a conditional way.

Finally, let us look at the same point I made in the previous discussion. What we are talking about here is a decline in average income of between $250 and $500 in the bottom quintile or the bottom decile of single-parent households. If we were to look at this over twenty years and say, gee, what bearing does that decline of $250 to $500 have on the outcomes of the children in those families, the answer is, "None," whatsoever.

It is absolutely irrelevant, but you really have to strain to find its relevance. So many other things are going on in those households that are absolutely crucial to whether that child is going to go on drugs, how they're going to do in school, whether they're going to end up in juvenile incarceration, whether they're going to marry, how many children out of wedlock they're going to have.

Two hundred and fifty dollars is completely irrelevant to all of those things, yet for forty years that is exactly the kind of measure that we focused on in the war on poverty, and it is exactly why the underclass, in my mind, has grown. The living conditions for these children and their life prospects have gone the wrong way because we are not focusing on anything that actually matters.

Isabel V. Sawhill: I also have a hard time believing that $250 to $500 a year of income is going to make a huge difference in terms of the well-being of children. I would remind all of us of Susan Maye's interesting book, which tried to look at the relationship of family income to child outcomes. Her results suggest that after a certain threshold of income has been reached, the effects are probably tiny. A change of $250 or $500 probably doesn't meet the test of having substantial effects.

That doesn't mean we shouldn't look at these income figures. Richard Bavier's and Wendell Primus's work and all the work that has been done on income is terribly interesting, and we should have done it. We may care about the income of those families for reasons other than the well-being of their children, just because it's of interest in its own right. I just question whether that really is relevant to what we think the children's lives are going to be like.

Richard Bavier: I don't know whether $250 to $500 is important or not. I am a great admirer of Susan Mayer's book, *What Money Can't Buy*. It is a good analysis and an important book. There also is something about the quality of life as well as child outcomes that might be considered in that kind of analysis.

But my main point is that we don't know that those who seem to be at the very bottom on a somewhat downward trend with income have made the kind of choice that Robert Rector suggests, that they have decided they are not going to comply with the employment requirement or they are just going to take the $250 to $500 income hit rather than come up to some standard of behavior that has recently been imposed. We cannot rule out issues about the level of competence, the level of productivity of the people who are near the bottom, the special needs of people who are near the bottom with respect to all sorts of barriers, or special child care needs that are not being satisfied. We just do not have that kind of information yet, and until we do, it is probably acting or judging too quickly to say that this is simply a choice that will have to be made whatever kind of policy is imposed.

Judith M. Gueron: With regard to the average—we have to remember that when people talk about averages of $250 and $300, people are not at the average. The average reflects people all over the place. At MRDC, we used to struggle with this when we were talking about welfare-to-work programs increasing earnings by $500 per year. That average impact is probably the result of no change for 90 percent of the people and $5,000 per year changes for 10 percent of the people. So there are huge effects on some people, not much impact on others. That is what the average is made up of.

That is why getting beyond the average to try to look at the subgroups is so important, because you are not going to see the real effect in the average. We do have some opportunities to do this and we ought to be pushing ourselves hard to exploit them to get some of those answers.

Robert Greenstein: Judith Gueron hit the nail on the head in suggesting that we not be too dismissive of the average income losses. What you want to know in part is, Does that average mean that there has been an increase in the incidence, for example, of families that are very far below the poverty line, and if so, what are the consequences of that for the children in question?

The other point that is relevant here is that this room is primarily full of economists. What we normally say we want to do is have significant income gains for poor families during strong recovery periods because there are going to be average income losses for those families during the economic downturn.

That there has been any average loss for this group during a period when we have the lowest unemployment rate in thirty years should be of some concern, because it suggests that when you get to the bottom part of the business cycle—or, for that matter, when you measure over the full cycle as a whole, the average loss would presumably be significantly larger than it has been during the period when we're just going up.

Douglas Steiger: Although it is halfway through World War II, the nuclear bomb has not dropped. The two central changes here are the time limits and the devolution, and we devolved in an incredibly strong economy.

How states will respond in a recession is an important question, which we are completely unable to answer right now. We do not know what will happen when the federal five-year time limit has run. These may be early warning signs, or they may be completely irrelevant, or they may be great news, but we are very early to be judging things. We will have a lot of fun doing TANF reauthorization right when the time limits are hitting, and we'll see then.

It is nice that Ron Haskins has acknowledged that there is a problem for 10 percent of the people, but we can't address the central question of the political debate very well right now. We can say things are going well, but we don't know the answers to what people were most concerned about.

Irv Garfinkel: As a person who for twenty-some years has advocated that we reduce welfare and aid people outside welfare, I have a lot of empathy for Ron Haskins's statement that we have moved in the right direction. I would not have done it the way we have done it, but that is what we have done.

But I would not leap to the conclusion that it is an obvious success. I think it may be, but the ultimate test goes back to Gene Lewit's question: What is the effect on children? And behind the assumption that it is better to rely less on welfare and to supplement earnings outside welfare is the assumption that it is good for children if the mothers work, which is a diametrically opposed assumption to the one that framed AFDC and mothers' pensions before that.

The truth of the matter is, this is not three years into the war or whatever. We don't have good evidence on the effects mothers' working has on children, and if you think we do, I do not see it. We have some cross-sectional evidence on mostly white, middle-class mothers concerning the effects on their children if they work. If we really believe the gold standard is experiments (and I could quibble with that, too), we do not have that gold standard. We do not even come close. And we certainly don't have the evidence with respect to lower income and black and Hispanic populations as to what the effects mothers' working has on these children. I am optimistic, but to claim that we have the evidence is not right.

Ann Segal: I agree with Irv Garfinkel. I don't think that we know enough about what is happening to the children. The poverty issue is an indicator of well-being, and we have always taken it as that, but we honestly do not know what has changed in the children's lives and whether they are better off.

Judith M. Gueron: I don’t know of any policy that you could put into place that is not going to create winners and losers in the process. There are few policies that we could come up with as a society that we have not adopted a long time ago that do not involve some winners and some losers, and we would like to hope that the winners exceed the losers by quite a large proportion.

Mother’s Work and Child Well-Being

Isabel V. Sawhill: The key question in terms of the well-being of children is not so much whether their mothers work or not. The research is pretty clear that there is no answer, on average. Some children probably are going to be better off if their mothers work and they are in good substitute care, and some are going to be worse off. I do not think we can generalize. What matters is whether we can somehow improve the environment of children by putting them in a substitute care arrangement that is, on average, better than what they have at home.

We do not know very much about the substitute arrangements. I hear stories all the time, including at several other meetings I have been to recently, that there are waiting lines out there, that there are children of people, of welfare leavers, who are in absolutely terrible, inadequate care. I had some of them described to me last week.

But I have not seen anything very systematic about this. I want to make a plea that we do more careful research on what is happening to these children in terms of the alternative care arrangements and spend a little less time, energy, and funding on what is happening to the mothers and their incomes. Certainly, nobody wants to argue that the mother’s well-being is not going to affect the child, but I do not think it is getting at the heart of what will matter for those children.

Wade F. Horn: The question of what is good for child well-being is always in the context of “compared to what,” and it is helpful to remind ourselves that it is not just the welfare law that has changed since 1935. The context has changed quite dramatically as well.

In 1935, the focus of the law was on helping widows stay out of the paid labor force during a time of economic crisis. All the data that we see about the impact of the death of a father on the well-being of children suggests relatively short-term effects.

In that context—paying women to stay home and freeing up a job for a guy in an economic downturn—you would expect to see positive effects on child well-being. Gradually, the context changed. In the 1950s and the early 1960s, it became much more focused on divorced and separated mothers and, eventually, on unwed mothers.

One thing we know for sure—and I do not think there is anybody here who would argue with it—is that long-term intergenerational welfare dependency is bad for children, and that is what we have, a system that supported long-term intergenerational welfare dependency. The question is not, in some ideal situation, "What is good for the children?" It is, “compared to what?”

It seems to me that the data at least suggest that compared with a system that perpetuated long-term intergenerational welfare dependency, the system we have now is better for children and child well-being. Clearly, one has to demonstrate that through studies and so forth, but it is sometimes helpful to remind yourself that the context has changed quite dramatically. It is not just that we decided in 1935 that it was wonderful for mothers to stay home with their children. We were dealing with a different population of mothers.

Judith M. Gueron: Irv Garfinkel said that we do not know whether it’s good for children if parents are working and that we’re not going to know because we don’t have random-assignment studies in place. I just want to say that we do have some studies in place that are going to allow us to say more about them, in this country and even in Canada.

For example, a large social experiment going on in Canada that doubled the full-time employment rate of long-term income assistance recipients there has a companion piece that will look at the effects on children. Those data are going to be coming out in the next few months and over the coming years, and they will speak directly to that issue. So there are experiments in place in this country and nearby.

Kristin Moore: The question is, Is it good for the children of low-income mothers to work? I think we have acknowledged that, yes, subgroups are critical. But there is another issue: offsetting effects. I argued earlier that we need to know about child outcomes *per se,* and we do not. But there is another use for all these family process and other measures, and that is to study the pathways that lead to various child outcomes.

Those pathways are things like attitudes, income, monitoring, and supervision. There are multiple pathways. Some of them might be positive, and some of them might be negative. We have to look at those various pathways. You might get no aggregate effect at all for the whole population. You might not even get an impact for a subgroup.

But that doesn’t necessarily mean that a negative effect through one pathway would not offset a positive effect through another pathway. That is one of the reasons we need to do all of these subsequent analyses and create much more complicated models of what affects child well-being than just the simple effects.

Douglas J. Besharov: The time line for these changes for children, it seems, is longer than many of the studies, and that just scares me about the findings we will get. The measures, whether they are attachment measures or whatever, are going to be very time sensitive. We just may get a distorted view of impact, since we cannot look out ten and fifteen years.

Kristin Moore: I have to agree with you, because like the Head Start findings and some of the studies, the long-term effects have been important. But that does not mean some of these samples cannot be followed for a longer period. The short-term effects are important, but some of the story does lie in the long term.

Douglas J. Besharov: The short term may well drive policy, though. That is what is a little worrisome.

Jerry Wiener: My first reaction when I heard the question posed about whether mothers working is good or bad for the children was, “What is the other side of the question? Is mother staying home and taking care of these children good for them?” You’re posing a kind of a duality there. Either one or the other is going to be good or bad. It may not have been very good for the children for the mothers to be at home, for example, in many of these instances. I say that because mothers working may be a proxy for a number of other issues that translate into a positive environment, and by that I mean the maternal environment for their children.

For example, does a mother working change her sense of herself as a competent parent? Does it change her sense of herself as someone who has something to offer that is positive and generative for her children, particularly as they get a little bit older? If it does, it is broadening the issue to a point beyond where it’s traditional and is difficult to study. If you transfer the question to what kind of alternative child care arrangements are made, you have another kind of study that once again eliminates what is happening with the mother one way or the other. I suspect that work may change a woman’s sense of confidence about what she has to offer her child as a parent; therefore, although money is not irrelevant, it is also a proxy for what she has to offer her child as a parent. Also, this is at least equally as true, if not more so, for fathers. So then the effect of work on mother’s sense of self may be the most important thing for the child’s outcome in terms of the mother’s working, because as long as she is not working and at home, she may have very little to offer her child as a parent. If she is working, she may have a great deal to offer in the time available at home.

So, I would study the effect of work on mothers’ or fathers’ sense of competence, self-worth, and self-respect, for whether you get a positive change at home, assuming some baseline. In terms of the stage of development, you can identify certain milestones, say, within every age epoch and see whether those milestones are better met for that group of children whose mother’s sense of self is improved. This will still leave questions in terms of the long-term outcome, but at least you’ll know whether you’re laying or undermining a good foundation in terms of the developmental milestones that are required for the next stage.