The effect of lowering welfare payment ceilings on children's risk of out-of-home placement☆

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A B S T R A C T

Although much research considers the relationship between family income and child maltreatment, contact with child protective services (CPS), and out-of-home placement, little research provides a strong causal test of these different relationships. And, as such, it remains unclear how increasing or decreasing the generosity of social welfare programs could affect children's risk of experiencing maltreatment, CPS contact, and out-of-home placement. In this article, we use Danish registry data and a 2004 policy shock to estimate the effect of a substantial decrease in welfare generosity—a monthly reduction in disposable income of 30% for those who were on a specific form of welfare for six consecutive months or more—on children's risk of out-of-home placement. Our results indicate that this decrease in welfare generosity increased children's risk of out-of-home placement by about 1.5 percentage points in any given year, representing an increase of about 25% in the annual risk of out-of-home placement. The results also indicate that in a similar group of welfare-dependent individuals who were not affected by the policy shock, there is only a negligible increase in the risk of out-of-home placement, further buttressing the case for causal effects. Taken together, this article shows that substantial changes in the economic conditions of the poorest families can have a substantial effect on the probability that their children will be placed in out-of-home care.

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1. Introduction

Children whose families are poor are at higher risk of maltreatment, child protective services (CPS) contact, and out-of-home placement than are children whose families have more resources (e.g., Berger, Paxson, & Waldfogel, 2009; Gilbert et al., 2009; Paxson & Waldfogel, 2002, 2003; Swann & Sylvester, 2006; Waldfogel, 2004; Wildeman & Waldfogel, 2014). Unfortunately, because poverty is also associated with a host of risk factors for child maltreatment, CPS contact, and out-of-home placement (for relevant theoretical models demonstrating why this is the case, see Belsky, 1993; Garbarino, 1977), a strong research design is necessary to determine the effects of economic conditions on child welfare events. And such designs have been largely, although not entirely, absent from research in this area (for an example, see Cancian, Yang, & Slack, 2013). This gap in research is especially pressing in light of the substantial decreases in welfare generosity that have taken place over roughly the last 25 years in many advanced industrialized democracies (e.g., Grogger, 2003; Mogstad & Pronzato, 2012; Huynh, Schultz-Nielsen, & Tranæs, 2007).1

In this article, we help fill this research gap and advance knowledge on the causal effects of economic conditions on child welfare events using unique administrative data and a difference-in-differences framework to show how a 2004 Danish welfare benefit reform affected the risk of out-of-home placement for affected Danish children. The Danish welfare state has its root firmly planted in the Social-Democratic tradition (Esping-Andersen, 1990). All citizens have access to public benefits given they have insufficient means, with “insufficient means” defined as being unemployed, without personal savings, and not a homeowner. There is also no time limitation on eligibility, unlike the U.S. and many other advanced industrialized democracies. The Danish Employment Services groups people receiving social assistance into two broad

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categories: those whose only problem is employment and who therefore must seek employment or partake in workfare programs to remain eligible for social assistance; and those who have additional problems besides unemployment (such as mental health or substance abuse issues) and therefore do not face workfare requirements. To further secure income in case unemployment does occur, individuals can also opt in for unemployment insurance (UI), where individuals make monthly payments to the UI fund. UI payments are higher than social assistance payments and not means-tested, but are time-limited and depend on a host of other factors (Clasen & Viebrock, 2008; Parsons, Tranaes, & Lilleør, 2015). On average, UI members in Denmark have higher educational levels, better labor market attachment, higher income, and lower crime rates than non-UI members (see Fallesen, 2014 for a relevant recent discussion).

Starting in January 2004, the Danish government introduced time-dependent welfare payment ceilings for individuals who had received social assistance for an unbroken spell of six months, and it is this dramatic shift in welfare generosity that we exploit (Danish Employment Act, Law No. 419; Graversen & Tinggaard, 2005; Hansen & Hussain, 2009). The ceiling imposed severe budget constraints on families, making it an especially appealing policy intervention to analyze, as it could induce substantial changes in family life. For example, a family with both adult members receiving social assistance would experience a decrease in income of around USD $350 to $470 a month (measured at 2014 levels), and a single adult would experience a decrease of around $160 a month. Studying a sample of families affected by the reform, Hansen and Hussain (2009) showed that for a couple with children affected by the reform the median equalized monthly disposable income after housing expenses was $940, whereas it was $1340 for those couples with children where both received normal social assistance, amounting to a 30% decline in disposable income. An early study of the impact of the reform found no employment effects, but that affected families had a harder time making ends meet financially (Graversen & Tinggaard, 2005). Later research corroborated these findings (Hansen & Hussain, 2009), in that affected families became less likely to go to the dentist, buy new clothes, and have home and liability insurance. They also had a harder time paying rent and utilities.

The results from our analysis suggest that this sharp decrease in welfare generosity also dramatically increased children’s risk of out-of-home placement. Specifically, we find that the children of those affected by the shock saw their annual risk of out-of-home placement increase by 1.5 percentage points, representing an increase of about 25% relative to their counterparts who were not affected by the policy shock. Because the policy shock reduced monthly income by roughly $400 on average, this means that in this context (conservatively), each $250 decrease in monthly income for high-dependency mothers without unemployment insurance would have increased their children’s risk of out-of-home placement by 1 percentage point, indicating that there are likely to be substantial negative externalities for child welfare associated with decreasing welfare generosity.

1.1. Child protective services in Denmark

Child protective services in Denmark differ from their U.S. equivalent in a number of ways. First, in Denmark, CPS rarely terminates parental rights when putting children in out-of-home care. Instead, the system favors long-term foster or residential care over permanency options (such as adoption) when reunification is not seen as immediately possible (Hestbaek, 2011). Second, Denmark has also historically had relatively high out-of-home care rates, with about 1 in 100 Danish children in out-of-home care on any given day since the early 1990s (Andersen & Ebsen, 2010). Recent work has documented that this is still the case, although the cumulative risk of ever entering foster care has decreased 50% since 2010 (Fallesen, Emanuel, & Wildeman, 2014), indicating that fewer children enter care but that children’s average length of stay in care has increased. Third, Danish children are most likely to enter care as teenagers. This is similar to children in England (Department of Education, 2013), but in stark contrast to the U.S., where first-time entry rates are highest at very young ages and drop off quickly (Wildeman & Emanuel, 2014). Fourth, the types of care children enter also differ greatly from the types of care children enter in the U.S. Although most Danish children enter family care settings, residential and congregate care are oft-used, as well (Fallesen, 2014; Frederiksen, 2012). Moreover, Danish CPS has until recently not used kinship care as extensively as the U.S., with ~4% of Danish children in out-of-home care being placed with kin in 2006, but over the last decade the share has risen to nearly 10% of Danish children (Andersen & Fallesen, 2015). Last, although low inequality (Lancee & Van de Werfhorst, 2012) and a generous welfare state (Esping-Andersen, 1990) characterize Danish society, the risk factors predicting out-of-home care entry in Denmark are similar to those found in other Western nations (for recent empirical work in this area, see especially Andersen & Fallesen, 2010; Egelund, Hestbaek, & Andersen, 2004; Ejrnaes, Ejrnaes, & Frederiksen, 2011; see Simkiss, Stallard, & Thorogood, 2013 for a recent systematic review).

Because of how strongly the risk factors for out-of-home placement in Denmark overlap with the risk factors for out-of-home placement in the U.S., it should come as little surprise that the Danish children most likely to experience out-of-home placement come from households with few economic resources and high welfare dependency. For such households, a $150 to $450 cut in benefits is a sharp decrease in income. Prior work links income drops to higher child maltreatment risk, positing stress and overtaxed coping capacity as some of the key mechanisms behind this increased risk (Belsky, 1993; Berger et al., 2009; Lee & Goerge, 1999; Shook, 1999; Slack, Lee & Berger 2007). A recent study documents that increasing child support payment pass-through dollars to parents receiving Temporary Assistance for Needy Families (TANF) lowers children’s risk of experiencing CPS involvement (Cancian et al., 2013). And, thus, we might expect shifts in welfare generosity (and, as a result, income) to affect children’s risk of out-of-home placement. In spite of Denmark’s high welfare payment levels, the 2004 welfare ceiling made it harder for affected families to make ends meet (Graversen & Tinggaard, 2005; Hansen & Hussain, 2009). Besides affecting families’ level-of-living, which in and of itself may increase risk of harm to a child, this could also cause changes in parents’ coping capacities and increased levels of stress, which could indirectly affect child risk. The introduction of a welfare ceiling could increase children’s risk of experiencing maltreatment, thereby increasing their risk of entering out-of-home placement.

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2 Research estimates that during our study period ~50% of people with long-term social assistance dependency struggled with additional problems beyond lack of employment (Graversen & Tinggaard, 2005).

3 Some municipal governments reported problems with the IT systems used to introduce and monitor the reform, likely leading to differences in timing of implementation across Danish municipalities (Graversen & Tinggaard, 2005).

4 See also Fallesen and Wildeman (2015) for a more recent review of this literature.
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