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The effects of welfare and tax reform: the material well-being of single mothers in the 1980s and 1990s

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Abstract

The tax and welfare programs that provide income and in-kind benefits to single mothers have changed dramatically in recent years. These changes began as far back as the mid-1980s and culminated with the 1996 welfare law that ‘ended welfare as we knew it.’ These tax and welfare changes have sharply increased the employment of single mothers and cut welfare rolls. However, little is known about the effects of these policy changes on the material well-being of single mothers and their children. Studies of those leaving welfare have found that a substantial percentage have problems paying rent, purchasing enough food, and paying utility bills. Other studies found a decline in income among the worst-off single mothers after 1994 or 1995. The goal of this paper is to examine the material well-being of single mothers and their families before and after recent welfare and tax reforms. Using data from two nationally representative household surveys we examine the consumption patterns of single mothers and their families from 1984–2000. We find that the material conditions of single mothers did not decline in recent years, either in absolute terms or relative to single childless women or married mothers. This pattern holds for the average single mother as well as for low-educated single mothers at both the 15th and 25th percentiles of the consumption distribution. In most cases, our evidence suggests that the material conditions of single mothers have improved slightly.

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1. Introduction

Recently, state and federal policy makers dramatically changed tax and transfer programs for single mothers. The changes encouraged work and discouraged welfare receipt. Welfare and tax reform began in the mid-1980s and had many elements, culminating with the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) that ‘ended welfare as we knew it.’ By 1999, welfare caseloads were about half their peak levels of March of 1994, and the increases in employment and earnings of single mothers sharply accelerated after 1993.

Two recent studies found that total family income (including transfers) fell shortly after 1994 for single mothers near the bottom of the income distribution. Moreover, studies of those leaving welfare have found that a substantial percentage of leavers have problems providing enough food, paying utility bills, and paying rent. The goal of this paper is to examine the material conditions of single mothers and their families before and soon after welfare and tax reform in order to assess the net effect of recent policy changes on the well-being of these families. Using data from the Consumer Expenditure Survey and the Panel Study of Income Dynamics we examine the consumption patterns of single mothers and their families from 1984–2000. We examine both absolute changes in the consumption of single mothers and changes relative to those for single women without children and married mothers.

We focus on consumption for two main reasons. First, economic theory suggests that consumption is usually a better measure of well-being than income. Consumption captures long-term income prospects, while current income is likely to be disproportionately influenced by transitory fluctuations. Consumption is a more direct measure of well-being and includes the effect of in-kind transfers that income misses. Second, income tends to be under-reported. A substantial ethnographic literature indicates extensive under-reporting of earnings and private transfers by welfare recipients. Other research indicates that there has been substantial under-reporting of government transfers and that this under-reporting has increased in recent years in key survey datasets. These observations are supported by direct comparisons from survey data that show consumption sharply exceeding income for those near the bottom. Of particular importance for evaluating welfare reform is the likelihood that under-reporting is different for single mothers than other groups, partly due to program incentives, and that this difference has changed over time.

By looking at single mothers we concentrate on the at-risk population that is most likely to be affected by the recent reforms. Single mother families account for about 90 percent of the cash assistance caseload, they receive about 60 percent of the credit dollars distributed through the EITC, and they are also the primary beneficiaries of many of the in-kind transfer programs. A large percentage of all single mothers benefit directly from tax and welfare programs. For example, in 1996 more than one-third of all single mother families received means-tested cash transfers. In this paper, we concentrate on two groups that are likely to be affected by recent reforms, all single mothers and low-educated single mothers. We choose these groups because current welfare recipients or those leaving the

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