

## It Was Primarily The Economy and The EITC, Not Welfare Reform

### All Households with Children

Quintile	Recessionary Periods			Peak to Peak		Pre and Post Welfare	
	79-83	89-92	00-03	79-89	89-00	92-96	96-00
All Individuals							
Lowest	-20%	-6%	-9%	-5%	21%	17%	11%
Second	-16%	-7%	-4%	-2%	18%	11%	15%
Middle	-10%	-7%	-2%	5%	17%	9%	15%
Fourth	-6%	-5%	-1%	10%	19%	9%	14%
Highest	0%	-6%	-11%	20%	49%	34%	19%
Average	-7%	-6%	-7%	10%	31%	20%	16%

### Change in Poverty Rate of Children (Percentage Point)

	79-83	89-92	00-03	79-89	89-00	92-96	96-00
Pre- Transfer	6.7	3.5	2.6	2.0	-5.6	-3.6	-5.5
Post Tax/Transfer	8.3	2.4	2.3	2.1	-7.4	-5.5	-4.3

### Change in Poverty Gap ( in Billions of dollars)

Pre- Transfer	\$18.8	\$11.0	\$8.3	\$7.8	-\$19.6	-\$13.3	-\$17.6
Post Tax/Transfer	\$13.7	\$4.8	\$4.6	\$3.7	-\$9.4	-\$10.0	-\$4.2

### Lone Mothers with Children

Quintile	Recessionary Periods			Peak to Peak		Pre and Post Welfare	
	79-83	89-92	00-03	79-89	89-00	92-96	96-00
All Individuals							
Lowest	-11%	0%	-9%	-6%	21%	21%	0%
Second	-14%	-4%	-8%	-7%	31%	20%	15%
Middle	-14%	-4%	-3%	-3%	32%	20%	15%
Fourth	-12%	-3%	-1%	1%	27%	14%	15%
Highest	-7%	-7%	-1%	14%	28%	19%	15%
Average	-11%	-5%	-2%	4%	28%	18%	14%

- Amazing turnaround in household economic growth between peak years in the last two economic cycles.
- Why this happened is the most important question to answer:
  - Is true for All Households with Children as well as Lone Mothers with Children
  - Reason for Turnaround: EITC, economic growth (real wage gains, high labor force participation rates, low unemployment), minimum wage increase, more child care funding, falling teen birth rates, more children in 2-parent families, child support enforcement, state welfare reform efforts, federal welfare reform
- No income growth for poorest quintile of lone mothers with children between 1996 and 2000. Substantially more income growth in the 1992 –1996 period (as EITC was increasing) than in the post-welfare reform era.
- Income loss greater in this last recession than after the 1990- 91 recession in bottom two quintiles of lone mothers and bottom quintile of all households with children

<b>Difference in Earnings-Lone Mothers with Children</b>							
	Recessionary Periods			Peak to Peak		Pre and Post Welfare	
Quintile	79-83	89-92	00-03	79-89	89-00	92-96	96-00
All Individuals							
Lowest	0.00	-0.02	0.00	0.00	0.03	0.02	0.02
Second	-0.05	-0.02	-0.10	-0.05	0.33	0.07	0.28
Middle	-0.15	-0.07	-0.06	-0.03	0.43	0.24	0.25
Fourth	-0.06	-0.11	0.02	0.09	0.36	0.23	0.23
Highest	-0.04	-0.11	0.03	0.39	0.71	0.34	0.49
Average	-0.06	-0.07	-0.02	0.08	0.37	0.18	0.26

<b>Difference in Income-Lone Mothers with Children</b>							
	Recessionary Periods			Peak to Peak		Pre and Post Welfare	
Quintile	79-83	89-92	00-03	79-89	89-00	92-96	96-00
All Individuals							
Lowest	-0.04	0.00	-0.04	-0.03	0.08	0.08	0.00
Second	-0.10	-0.03	-0.07	-0.05	0.21	0.13	0.11
Middle	-0.14	-0.04	-0.04	-0.03	0.30	0.18	0.16
Fourth	-0.17	-0.05	-0.01	0.02	0.36	0.18	0.23
Highest	-0.15	-0.17	-0.02	0.32	0.72	0.46	0.44
Average	-0.12	-0.06	-0.04	0.04	0.34	0.20	0.19

### **Income Expressed as a Multiple of Poverty ( Weighted Poverty is approximately \$18,000)**

#### **Conclusions:**

- Clear evidence that welfare reform increased earnings
- Those increased earnings did not translate into increased income
- A significant group of families would have done better without welfare reform and the bottom rung of lone mother families had no increase in earnings
- TANF is not as counter-cyclical as it once was
- Welfare reform must be evaluated in the context of the 1990s which was an excellent period for income growth among low-income families.

#### **Methodology Using CPS Data**

- Comprehensive definition of income including near-cash benefits (food stamps, housing, school lunch) plus EITC minus other federal income and payroll taxes and work expenses (but not child care) expressed as percent of poverty line.
- Poverty line increased by 15 percent for a family of four in 2000 (roughly \$20,000) and adjusted for prices using CPI-U-RS. Household size adjustor follows CBO.
- Household income
- Person-weighted and quintiles formed on basis of income to needs. Each quintile contains 20 percent of population. Earnings quintiles contain the same households as the income quintiles.
- Income and earnings growth examined by economic cycle (79 to 89 compared with 1989 to 2000); by recessionary periods (79 to 83, 89 to 92, and 2000 to 03) and by pre and post welfare reform (92-96 compared to 96 to 00)

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