

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%
Second	-16%	-7%		-4%	-2%	18%	11%
Middle	-10%	-7%		-2%	5%	17%	9%
Fourth	-6%	-5%		-1%	10%	19%	9%
Highest	0%	-6%		-11%	20%	49%	34%
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%
Second	-14%	-4%		-8%	-7%	31%	20%
Middle	-14%	-4%		-3%	-3%	32%	20%
Fourth	-12%	-3%		-1%	1%	27%	14%
Highest	-7%	-7%		-1%	14%	28%	19%
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

Difference in Earnings-Lone Mothers with Children							
	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

Difference in Income-Lone Mothers with Children							
	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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