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## The Well-Being of Single-Mother Families After Welfare Reform

BRUCE D. MEYER AND JAMES X. SULLIVAN

Trends in income and consumption tell very different stories about the well-being of single mothers and their children in recent years. On the one hand, data suggest that income fell noticeably for single mothers well below the poverty line, while income grew significantly for single mothers with higher incomes. On the other hand, data on how much these two groups of mothers and children consumed suggest that the material circumstances of both groups improved during the 1990s. We argue that the consumption data better reflect well-being for several reasons. First, consumption is probably measured with less error than income for poor families, and is more strongly associated with other measures of well-being such as health and housing conditions. Second, there is overwhelming evidence that income is underreported by these mothers and that the underreporting, especially of income from welfare and other transfer programs, has increased in recent years.

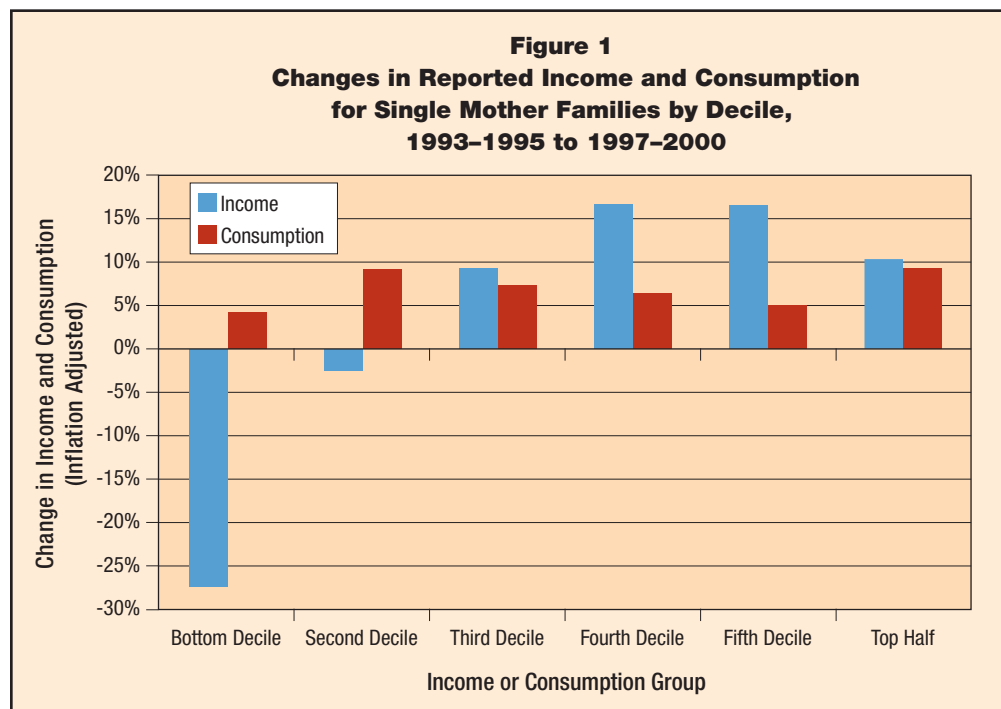
A further analysis of consumption suggests a complicated picture of changes for the most disadvantaged single mothers. Much of the increase in consumption seems to be directly tied to the fact that these mothers worked more during the 1990s. Over this period, housing expenditures rose, especially for those in public or subsidized housing. Because mothers in housing programs pay 30 percent of their income toward housing, as their income rose, so did their housing cost—sometimes for the same house or apartment. Expenditures on food away from home and transportation also rose. Both increases could be associated with the fact that single mothers were more likely to work or to work longer hours. Child care expenditures rose somewhat, but on average child care spending is small for this group. Another important consideration is that these mothers had less time available outside work hours and were away from home more. Single mothers spending more time apart from their children could affect child development and well-being.



The 1990s were years of considerable change for single mothers and their children. Congress implemented a series of tax and welfare reforms that encouraged work and discouraged welfare. These changes in welfare policy that “ended welfare as we know it” culminated with the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which mandated work requirements and time limits. The Earned Income Tax Credit (EITC) was sharply expanded in 1993, so that it raised after-tax earnings by as much as 40 percent and became the largest anti-poverty program for the non-elderly. Other programs that targeted single-mother families also expanded during this period, such as Medicaid, which nearly tripled

its expenditures. These changes, combined with a strong economy, led welfare caseloads to drop sharply and employment to rise. About half as many families were receiving welfare in 1999 as in 1994. After a long period during which employment for single mothers changed little, the fraction of single mothers who worked increased by more than 12 percentage points by the latter part of the 1990s. How did single-mother families fare in this dynamic environment? The answer to this question is more complicated than one might expect.

Recent studies that have examined income data indicate that the story is mixed. Although average after-tax income for single-mother families rose



Source: Bruce D. Meyer and James X. Sullivan, “Trends in the Consumption and Income of Poor Families.”

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by more than 6 percent during the 1990s after adjusting for inflation, the trends differ noticeably across families (figure 1). While reported income grew for many single-mother families, reported income fell for the poorest single-mother families. Single mothers in the bottom decile, or 10 percent, of the income distribution in the late 1990s—those with annual after-tax income below \$5,800—had incomes that were more than 25 percent lower after adjusting for inflation than those that were in the bottom 10 percent in the early 1990s. By contrast, reported income rose sharply for other single-mother families. For example, those in the fourth and fifth deciles of the income distribution reported a rise in income of more than 15 percent. Some experts have pointed to the loss in income at the bottom as evidence that welfare reform made the poorest families worse off. Others have downplayed the declines at the very lowest percentiles because of concerns about the accuracy of reported income at the very bottom, arguing that the substantial increases in reported income for other single-mother families suggest that welfare reform made many such families significantly better off.

Not only do the trends in income differ across families, but these trends also differ sharply from those for other

measures of well-being. For example, the trends for total consumption—what is spent on food, housing and other goods and services—for these same single-mother families tell a very different story. Consumption shows neither the pronounced drop for the bottom 10 percent nor the sharp increase at higher percentiles that one sees with income. Rather, we see small increases in consumption in every decile of the consumption distribution. In each of the bottom five deciles, consumption increases by between 4 and 9 percent.

#### EXPLAINING THE DIFFERENCES IN TRENDS

The difference in these recent trends for single-mother families is an anomaly. For other family types, recent trends in income and consumption track each other closely. Why do these trends differ so sharply only for single-mother families? One possible explanation is that these families are active savers and borrowers. For example, families may borrow or spend down their savings in order to increase their consumption by more than income. Conversely, if families are net savers, then income would increase more than consumption. However, analysis of data on assets and liabilities for these families indicates that the most disadvantaged single-mother families have minimal savings and debt. Fewer than 20 percent of all

*“A closer examination of income and consumption data for these [single-mother] families strongly suggests that income is underreported.”*

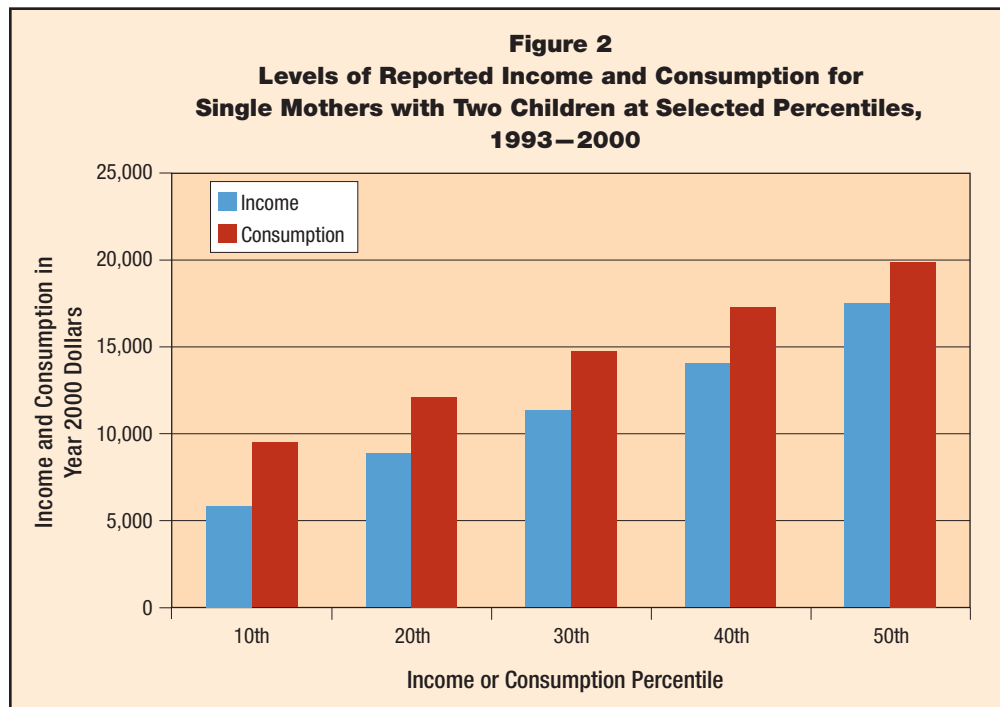
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*“Consumption appears to reflect better the material conditions of single-mother families.”*

single mothers without a high school degree have more than \$100 in a checking or savings account. Thus, it is unlikely that borrowing and saving can explain the differences in recent trends for income and consumption for this group.

Another possible explanation for these diverging trends is that either income or consumption is mismeasured in household surveys that collect these data. In fact, a closer examination of income and consumption data for these families strongly suggests that income is underreported. Consider the level of reported income and consumption for single mothers with two children shown in figure 2. Note that the 10th percentile of consumption exceeds the

10th percentile of income by more than 60 percent. Similar differences are evident at higher percentiles. Moreover, the difference is even more startling if one compares income and consumption for those in the bottom income decile (not shown), where average consumption exceeds average income by more than a factor of four. It is hard to believe that these poor families are able to outspend their incomes by such a large margin, particularly given the evidence of little savings or borrowing. This pronounced gap between consumption and income is unique to the most disadvantaged families. For the majority of families in the United States during this period, the level of reported income exceeds reported consumption.



Source: Bruce D. Meyer and James X. Sullivan, “Trends in the Consumption and Income of Poor Families.”

It is important to note that even though consumption exceeds income for disadvantaged families, the level of consumption implies significant deprivation. A typical single mother family with two children in the bottom consumption decile consumes about \$560 per month in food, housing, and other goods and services, a level which is less than half the poverty line. The poverty gap is even more severe for single mothers with more than two children.

Many argue that income is easier to report than consumption for most people. Typically, individuals receive summaries of their annual earnings on W-2 forms, and these earnings account for a substantial fraction of income. In fact, a substantial share of national survey respondents report earnings that are within a few percent of IRS earnings. In addition, income data are easier to collect and therefore are often collected for larger samples. These arguments are persuasive for many demographic groups and they are probably the main reason why most surveys rely on income measures.

However, there are several reasons why income may be particularly vulnerable to underreporting for families with few resources. For these families, income often comes from many other sources besides earnings from formal

employment—transfer income (which is consistently underreported in surveys) and off-the-books income (which is likely to be unreported in surveys) account for a substantial fraction of total income for single mothers. Ethnographic work by Kathryn Edin and Laura Lein for a sample of very disadvantaged, welfare-reliant single-mother families from the early 1990s has shown that at least 10 percent of income comes from each of four different sources: welfare, food stamps, unreported work, and partners or absent fathers. With many sources of income that do not appear on a W-2 statement, accurate reporting is much less likely. Consumption is also likely to have many components. However, this is less evident for more disadvantaged single-mother families for whom food and housing typically account for a substantial portion of total spending. Moreover, while there is some evidence of underreporting of consumption, consumption tends to exceed income for this population, so we might be more concerned about overreporting of consumption, of which there is little evidence.

In addition, there are reasons to believe that the nature of income underreporting has changed during the 1990s. First, there was a sharp increase in underreporting rates for transfer income. Comparisons of reported welfare receipt from several national surveys to administrative data on

*“Our findings favor the examination of consumption data when policymakers are deciding on appropriate benefit amounts for programs.”*



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government welfare payments indicate that the underreporting increased sharply during the 1990s, rising from approximately 20 percent of welfare receipt not reported to approximately 40 percent not reported. There is evidence that this increase in underreporting of transfer income explains, in part, the drop in income for the bottom decile that is shown in figure 1. Second, the changes in welfare and tax policies during the 1990s arguably had an important effect on income sources. Work requirements and tax credits for labor market earnings significantly increased the returns to work in the formal labor market. As a result, single mothers shifted away from sources that are not captured well in surveys, such as transfer income and informal work, and into labor market earnings, which tends to be well-reported in survey data. This shift could have led to an increase in reported income (as is evident in the fourth and fifth income deciles in figure 1) even if actual income did not change much.

Analysis of other hardships experienced by single-mother families provides additional evidence that consumption is a better measure than income for these families. For example, families with low consumption are more likely to experience bad health outcomes than families with low income. Also, those with low consumption are less likely than those with low income to have

access to amenities such as microwaves, washers and dryers, televisions, and air-conditioning. Low-consumption families also live in more cramped housing units than low-income families. Consumption appears to reflect better the material conditions of single-mother families.

### THE EFFECTS OF RECENT POLICY CHANGES ON WELL-BEING

We have shown that total consumption rose slightly during the 1990s for single-mother families. We would like to know what led to this increase in consumption. Perhaps the reforms in welfare and tax policy helped to improve well-being. Or, perhaps these reforms worsened the situation for these single mothers and their children, which was then offset by economic growth. One way to disentangle the effect of recent policy changes from the impact of the prolonged economic expansion is to compare trends in consumption for single mothers to those for other groups that were not significantly affected by the changes in welfare and tax policy. For example, several studies have compared outcomes for single mothers to those for single women without children. While these two groups are likely to respond to changing macroeconomic conditions similarly, single childless women generally are not eligible for welfare and they qualify for a much smaller EITC.



The data indicate that during the 1990s consumption increased at least as much for single mothers as for single women without children. This pattern is true for a wide range of percentiles of the consumption distribution. This evidence suggests that as a result of the changes in welfare and tax policy during the 1990s, consumption for single mothers and their children did not fall, and consumption increased slightly for many single-mother families. It is important to note, however, that this comparison does not allow us to determine which policies were effective in improving the material well-being of single mothers, only that the package of policies collectively led to a small increase in consumption.

While analysis of total consumption by single-mother families implies that the material conditions for these families improved during the 1990s, a detailed examination of the work and spending behavior of single mothers reveals a more complex story. At the same time that total consumption was rising, components of consumption changed noticeably. Much of the consumption increase in the bottom deciles, for example, was due to greater spending on housing and vehicles. And, increases in housing spending are particularly noticeable for those living in public or subsidized housing. Some of this increase in out-of-pocket housing expenditures may be due to reduced

subsidies and higher rents as a result of increased earnings for this group. Mothers in housing programs pay 30 percent of their income toward housing; as their income rose, so did their housing cost—sometimes for the same house or apartment. There was also a rise in child care expenses; but child care on average is only a small fraction of total consumption, so the rise does not have a very important effect on changes in total consumption. We also see a shift from food consumed at home to food consumed outside the home. In fact, in a recent working paper, Thomas DeLeire and Helen Levy argues that the entire increase in food expenditures can be explained by a shift from food at home to food away from home.

As mentioned earlier, participation in the labor market by single mothers increased sharply during the 1990s. Consequently, the availability of time outside work fell noticeably and the largest declines in non-market time are evident for single mothers with the fewest resources. For example, average hours worked per year more than doubled for single mothers in the bottom 20 percent of the consumption distribution. Little is known about the effects of this drop in non-market time on child well-being. Studies based on randomized social experiments suggest that work by low-skilled single mothers combined with income supports has

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**Recent Welfare Reform  
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“Individual Development  
Accounts: Policies to Build  
Savings and Assets for the Poor”  
WR&B Brief #32  
Ray Boshara  
(March 2005)

“Federal Policy for Immigrant  
Children: Room for  
Common Ground?”  
Future of Children Brief  
Ron Haskins, Mark Greenberg,  
and Shawn Fremstad  
(December 2004)

“The Challenge of Achieving  
High Work Participation in  
Welfare Programs”  
WR&B Brief #31  
LaDonna Pavetti  
(October 2004)

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favorable effects on the test scores and  
behavior of young children, but that  
work may have detrimental effects on  
these outcomes for teenagers.

**POLICY IMPLICATIONS**

Comparing the recent trends in  
consumption for single-mother families  
to those for other groups indicates that  
relative consumption did not fall,  
suggesting that recent policy changes  
did not worsen the economic well-being  
of single-mother families. In fact, there  
is some evidence that consumption  
increased more for single mothers than  
for other single women.

Even though the ease of reporting  
income favors its use as the main  
eligibility criteria for transfer programs  
such as food stamps and Temporary  
Assistance for Needy Families, our  
findings favor the examination of  
consumption data when policymakers  
are deciding on appropriate benefit  
amounts for programs such as food  
stamps, just as consumption standards  
were behind the original setting of the  
poverty line. Similarly, the results favor  
using consumption measures to  
evaluate the effectiveness of transfer  
programs and general trends in poverty  
and food spending. **B**

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