Changes in the Distribution of Children’s Family Income Over the 1990’s

Recent research by University of Michigan faculty Rebecca M. Blank and Robert F. Schoeni addresses two questions: (1) Over the 1990’s, how did the economic status of children change at different places in the income distribution? (2) Is there any evidence that welfare reform contributed to the observed changes?

Changes in children’s family income over the 1990’s

The authors find that children’s family income increased at virtually all income levels over the 1990’s, with slightly higher increases among poor families than non-poor families. (See Figure 1) This was true both for poor children generally and for poor children living in families without both parents present (this is predominantly single-parent families). Only among the bottom 4 percent of children is there less than a 10-percent increase in income, and only among the bottom 2 percent does income decline.1

Most children in poor families appear to be doing substantially better by the late 1990’s.

The effect of welfare reform on these changes

The strong economy of the 1990’s provides one obvious explanation for the increases in children’s family income described above. In times of economic growth, earnings opportunities tend to increase for families throughout the income distribution. But what role did the policy changes associated with welfare reform play in the positive shift in children’s family income? The authors were particularly interested in whether low-income children in states that enacted strong work incentives for welfare recipients experienced larger or smaller income changes.
Blank and Schoeni find that states that adopted strong work incentives in the mid-1990's as part of their welfare-reform package appear to have produced greater increases in the income of children living in families without two parents present. This finding did not appear to be related to the overall economic health of individual states, as measured by unemployment rates.

The authors go on to compare the effects of two different types of welfare reform policies: (1) positive “cash incentives” to work, primarily earnings disregards, or the extent to which welfare benefits are reduced as earnings increase, and (2) negative “penalty incentives,” or sanctions and time limits.

Cash incentives
The analysis finds that states that implemented high cash incentives to work showed greater increases in income among the entire range of poor and near-poor children's families, compared to families in states with weaker cash incentives to work. This is consistent with other work, such as the results reported by MDRC from Minnesota’s Family Investment Program (MFIP) that suggest high earnings disregards can help reduce poverty and increase incomes.

1Incomes at the very bottom and at the very top of the distribution may be reported with substantial error in the CPS. The authors are therefore wary of conclusions based on observed movements in the bottom or top few percent of the distribution.
Penalty incentives
The authors report that poor children’s families who lived in states that implemented stricter sanction and time limit policies showed slightly higher income gains than families in states with more lenient penalties for not working. In contrast with the widespread effects of high cash incentives, however, most of the effects from strong penalties came from greater gains within a specific narrow income range among very poor families.

Policy implications
The findings of the analysis suggest that the welfare reform efforts of certain sets of states – especially those with higher earnings disregards, which provided positive economic incentives for women going to work – produced greater income gains among low-income families with children.

The authors note that the success of penalty incentives is perhaps surprising, since, contrary to many predictions, it was in the more lenient states with softer penalties where children’s income seems to have grown the least.

However, the authors issued strong cautions about drawing specific policy conclusions based on the results. Their caveats include the following:

First, the study provided a descriptive, not causal, analysis. The authors were unable to make any sophisticated effort to control for changes in the economy or in the state political environment that might be different in states with different policy changes.

Second, the paper compares data from 1992-95 and data from 1997-2000. This was a period of an extended economic boom. Even if these family income gains are directly caused by the policy changes that were implemented, it is not clear that the same policies would have similar impacts in the slower-growth, higher-unemployment economy of the early 2000’s.

Third, while time limits were in effect throughout the late 1990’s in almost all states, in very few places have a substantial number of families actually hit time limits. It is possible that the positive income effects of penalties aimed at forcing women into work will be reduced once a larger share of women actually hit time limits and are forced off welfare involuntarily.

Finally, the families that left welfare and went to work in the first few years after welfare
reform may also look quite different than the families that are currently on welfare. Hence, enforcing stricter sanctions on existing families on welfare may result in very different income effects than occurred for families at an earlier stage.

Data
The authors use data on children’s household income from the March Current Population Survey (CPS), averaging together information from 1992 – 1995 and information from 1997 – 2000. The analysis accounts for differences in family size by using the income-to-needs ratio rather than actual income levels. The income-to-needs ratio is defined as the cash income level of the child’s family divided by the official poverty line for that family.

The authors’ characterization of state policy post-1996 as “strong,” “mixed,” or “weak” with regard to work incentives was developed by Rebecca Blank and Lucie Schmidt for “Work, Wages, and Welfare,” in *The New World of Welfare*, The Brookings Institution Press, 2001, pp 70-102. ■