

## **Extended Abstract for PAA 2006**

**Title:** Welfare Policy and Poverty: A Study of Mothers and Children

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Child poverty rates in the United States fell from near record highs in the early 1990s to near record lows in 2000, and have since increased again. Many political leaders point to the decline in poverty coupled with increases in employment and falling welfare caseloads that occurred in the late 1990s as evidence that the 1996 federal welfare reform--which fundamentally changed the nature of the safety net for poor children and their families--has been a success. However, there is no clear evidence that welfare reform improved the economic status of low-income families. Further, no evidence exists on the effect of specific welfare policies on poverty.

This paper provides a picture of the poverty status of children and their families over the last decade and evaluates the relationship between specific welfare policies and poverty. The paper addresses the following research questions:

- (1) How have poverty and poverty flows among children and their mothers changed over the past decade?
- (2) What factors contributed to changes in poverty and deep poverty among children and their families? Has welfare reform as a whole played a role? What are the effects of specific welfare policies on poverty and deep poverty?

We answer the research questions with a conceptual model to motivate the variables included in our empirical model; monthly, longitudinal data from the Survey of Income and Program Participation (SIPP) and the Urban Institute's Welfare Rules Database; and an empirical analysis that identifies a key primary study population and controls for unobserved heterogeneity. A key contribution of this paper is that we examine the effect of specific welfare policies rather than measuring welfare with simple indicators of whether welfare waivers or TANF was implemented.

### ***Study Population***

Our use of the longitudinal SIPP data, rather than the Current Population Survey (CPS) data used by most researchers, allows us to define a primary study population that is likely to be affected by welfare reform but is a less select population than those examined in other analyses, setting our analysis apart from other studies of welfare reform. Rather than examining mothers and children based on current marital status, we use the SIPP marriage and fertility topical modules to define our primary study populations to be (1) women who were *ever* a single mother and (2) the children of women who were *ever* a single mother. Defining our primary study

populations based on ever-single mother status, along with the literature's findings that welfare reform's effects on marriage and fertility are, at most, modest, suggests that our analysis will be carried out on similar populations in the pre- and post-welfare reform periods. To ensure that our results do not suffer from selection bias, we will also estimate our models on broader secondary populations, which are similar in the pre- and post-welfare reform periods, are (1) all women and (2) all children.

### ***Empirical Model***

Identifying the effect of welfare reform on poverty requires disentangling the effect of state and federal welfare policies from other factors that affect poverty, such as other social policies (e.g., minimum wage), economic conditions (e.g., unemployment rate), and demographic shifts in the population (e.g., changes in marital status). Our first empirical model includes state fixed effects, time fixed effects, and a state-specific time trend to control for unobservable state and time differences. States implemented changes to their welfare program at different times throughout the early to mid-1990s, and we use this variation across time, as well as the variation across states, to identify the effect of welfare reform on poverty. Also, having multiple years of monthly data prior to the implementation of welfare reforms in the early to mid 1990s aids in the identification by allowing us to control for trends in poverty and the economy over time.

Our second empirical model includes individual fixed effects to control for unobserved individual characteristics that are fixed over time. It allows us to examine whether welfare reform policies differentially affect children based on whether they live in a single-mother family (more likely eligible for welfare) or a two-adult family, a potentially endogenous variable controlled for with individual fixed effects.

### ***Contributions to the Literature***

A review of the literature finds that the few studies that describe the relationship between welfare reform and poverty suggest that more research is necessary to understand the role that welfare reform played in changing the poverty status of low-income children and families. We know little about the effect of welfare reform on the poverty rate, not to mention its effect on additional poverty measures. The current literature leaves several gaps in our understanding of the effect of welfare reform on poverty. This paper fills these gaps in five ways: (1) by using five poverty measures to provide a comprehensive view of poverty and how it has changed since welfare reform; (2) by using state-level longitudinal data to measure the effects of specific welfare policies; (3) by using a largely constant study population of ever-single (unmarried) mothers who are both comparable in the pre- and post-welfare reform periods and vulnerable to welfare receipt and poverty; (4) by using individual-level, nationally-representative longitudinal data; and (5) by using an innovative statistical method with fixed effects to control for unobserved heterogeneity across states, individuals, and time. As a result, this study will provide a better and more comprehensive measure of the effect of welfare reform on poverty, and will be the first to measure the effects of specific welfare policies on poverty using nationally representative data.