



UNIVERSITY OF KENTUCKY
CENTER FOR POVERTY RESEARCH

Welfare Reform and the Intergenerational Transmission of Dependence

Robert Paul Hartley
Carlos Lamarche
James P. Ziliak

University of Kentucky

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OVERVIEW

- We provide the first estimates of whether the 1990s welfare reform reduced the transmission of welfare participation from parent to child, as well as spillover effects on adult outcomes of children such as employment, earnings, and education
- We attempt to separate the “poverty trap” from the “welfare trap” and thus to provide causal estimates of transmission
 - Endogenous selection into welfare; life-cycle factors; misclassification error; cross-state mobility
- Also examine heterogeneity in transmission by duration of exposure, race, welfare aggressiveness

OVERVIEW

- We find strong evidence of causal transmission from mother to daughter of about 30 percentage points
- Welfare reform attenuated the level of this transmission by at least 50% (30% over baseline probability)
- However, transmission does not change after welfare reform using a broader definition of daughter's welfare participation to include SNAP and SSI, or for wider economic outcomes
- Likely because persistence in intergenerational poverty status remains after welfare reform



BACKGROUND

- The primary federal program for (cash) assistance to needy families in the 20th Century U.S. was Aid to Families with Dependent Children (AFDC)
- Eligibility was restricted to those families meeting income and asset tests, and with dependent children under age 18. Over 90% of the caseload was single-mother families
- Funding was via a progressive federal-state matching grant
- States had some control over program rules under AFDC, but with substantial federal oversight



BACKGROUND

- A longstanding concern of some policymakers and commentators was a “culture of welfare” across generations
 - dependence on AFDC was transmitted from parent to child through knowledge and values
- There was an empirical consensus of a positive intergenerational correlation of AFDC participation
 - Duncan, Hill, Hoffman 1988; McLanahan 1988; Solon, et al. 1988; Gottschalk 1990, 92, 96; Levine and Zimmerman 1996; Borjas and Sueyoshi 1997; Pepper 2000; Page 2004
- Whether this channel reflected a causal “welfare trap” or a spurious “poverty trap” was less settled in the literature

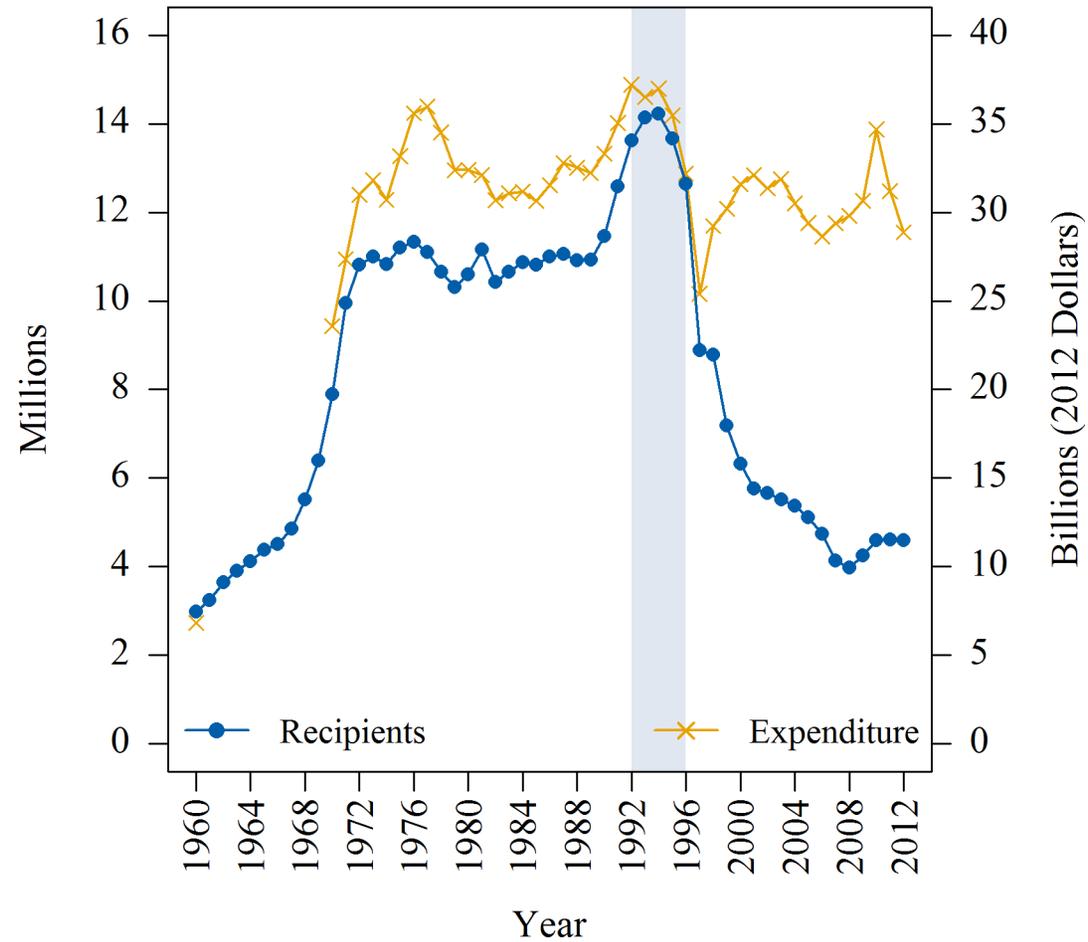


WELFARE REFORM

- States began to aggressively experiment with AFDC in the early 1990s by applying for waivers from federal rules
 - 43 states had waivers implemented by 1996
 - Included time limits, work requirements, family caps, expanded asset limits and earnings disregards
- In August 1996, the AFDC program was replaced with Temporary Assistance for Needy Families (TANF)
 - Funded with a federal block grant to states
 - States given more authority on program eligibility and design, e.g. mix of cash vs in-kind

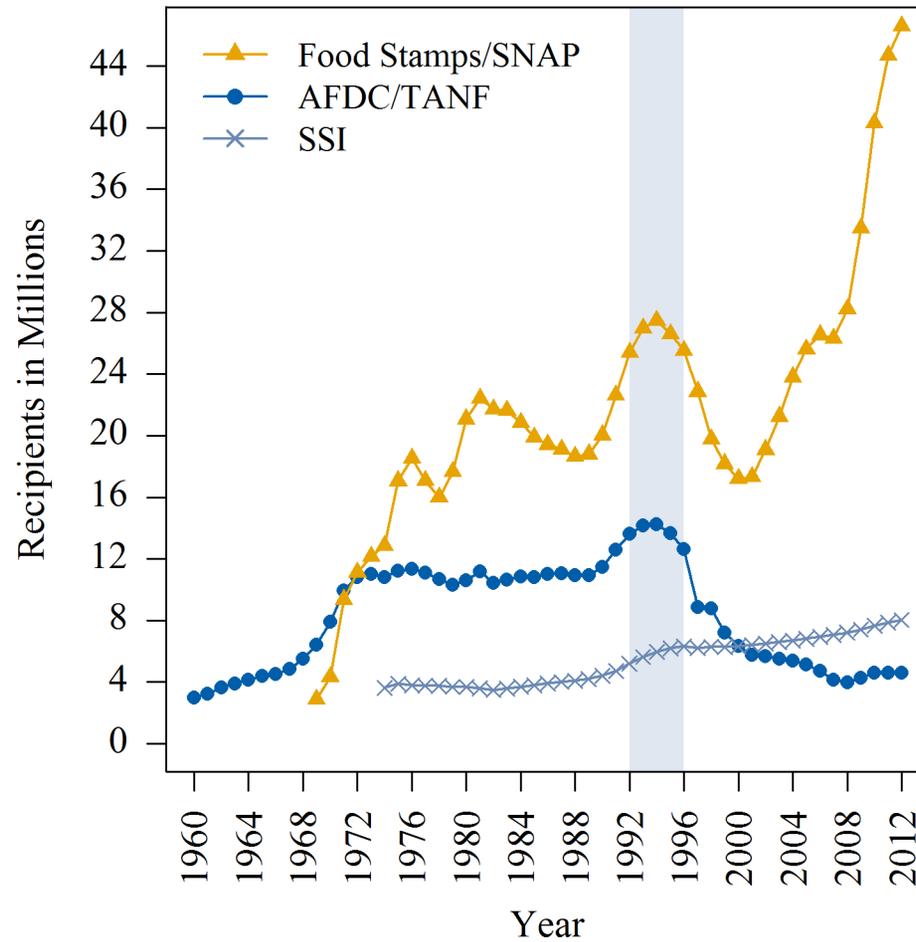


Trends in AFDC/TANF Recipients and Expenditure





Trends in Welfare Participation More Broadly



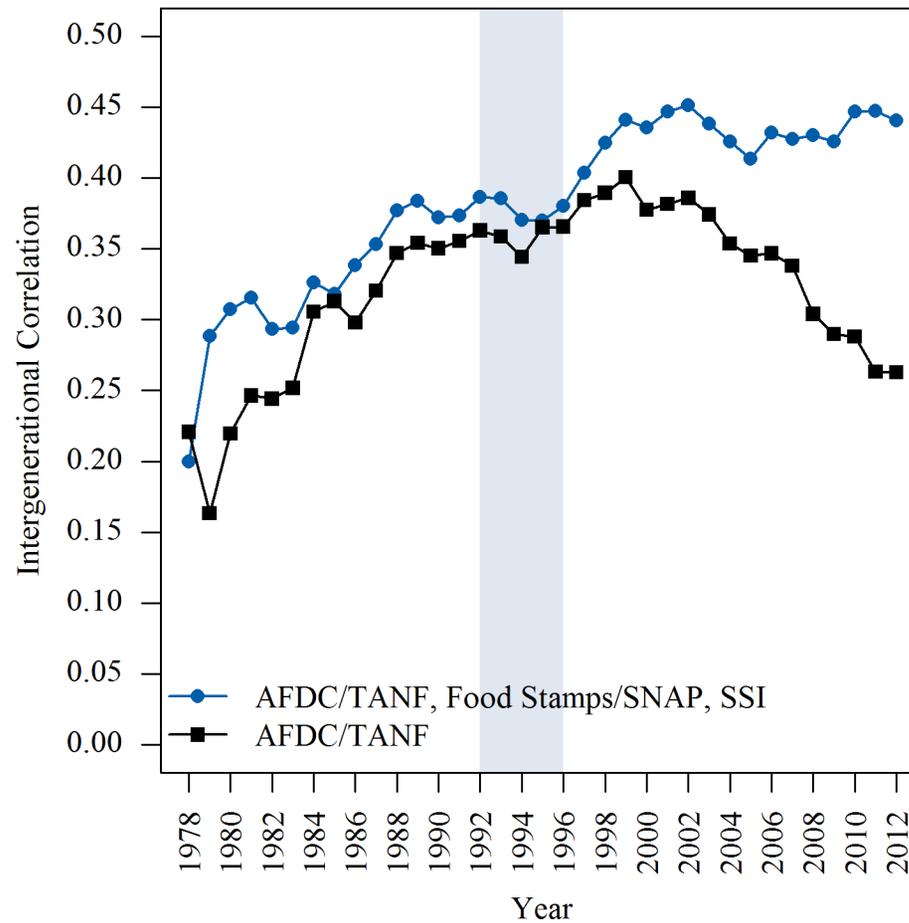


WELFARE REFORM

- Large literature on effects of welfare reform on participation, labor supply, family structure, health, consumption, saving
 - Surveys in Blank (2002); Moffitt (2003); Grogger and Karoly (2005); Ziliak (2016)
- Missing is research on whether welfare reform achieved one of its main goals of eliminating transmission across generations



Trends in Intergenerational Correlation of Welfare Participation among Mothers and Daughters



INTERGENERATIONAL TRANSMISSION

- Our framework relies on the standard intergenerational transmission model of Becker and Tomes (1979, 1986)
 - See surveys in Solon (1999) and Black and Devereux (2011)
- The canonical model involves regressing an outcome of interest of the child on the corresponding outcome of the parent
- We extend the basic model to allow the transmission channel to differ pre- and post-welfare reform by using quasi-experimental variation across states and over time

IDENTIFYING A CAUSAL PATHWAY

- Selection Bias within welfare regimes
- Misclassification Bias
- Life-Cycle Bias/Windows Problem
- Cross-State Mobility

DATA

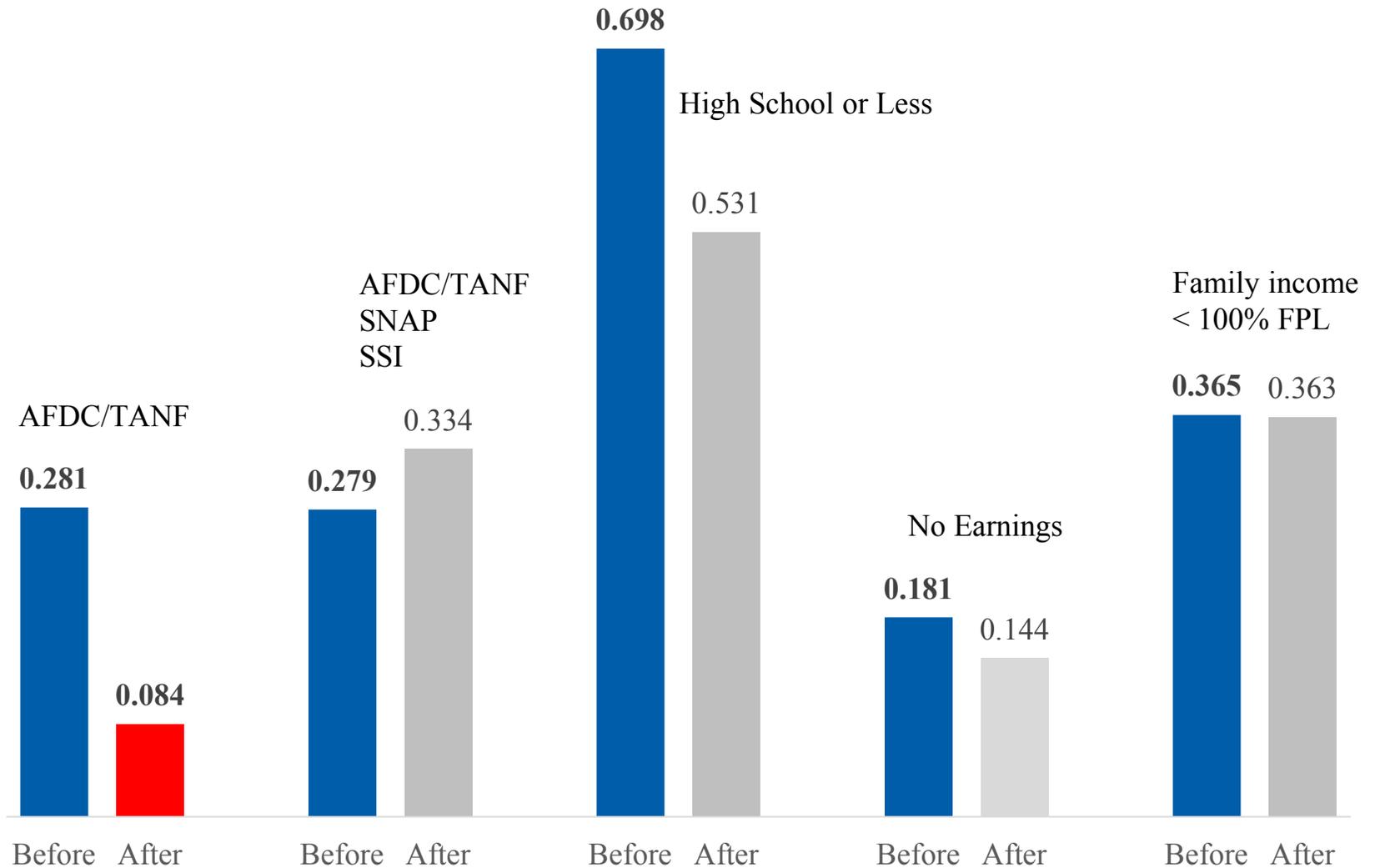
- Panel Study of Income Dynamics (PSID), 1968-2013
- Baseline restrictions:
 - Mothers and daughters living in same family unit at least 5 years when daughter aged 12-18
 - Daughters observed at least 5 years as an adult (upon first childbirth or formation of new family unit if at least age 14)
- 2,967 mother-daughter pairs with 56,068 total observations
 - Observe mother-daughter pairs for 14 yrs on average, and daughters as adults for 25 yrs on average

Table 1. Descriptive Statistics: Sample Means

A. DAUGHTER'S CHARACTERISTICS	<i>Before Reform</i>	<i>After Reform</i>
<i>Currently Receiving?</i>		
AFDC/TANF	0.080	0.025
AFDC/TANF, Food Stamps/SNAP, SSI	0.132	0.112
B. MOTHER'S CHARACTERISTICS	<i>Before Reform</i>	<i>After Reform</i>
<i>Ever Previously Received?</i>		
AFDC/TANF	0.269	0.066
AFDC/TANF, Food Stamps/SNAP, SSI	0.428	0.190
Total Observations	25,331	30,737



IV Estimates of Effect of Mother's AFDC/TANF Participation on Adult Daughter's Outcomes





SENSITIVITY ANALYSES ON AFDC/TANF TRANSMISSION

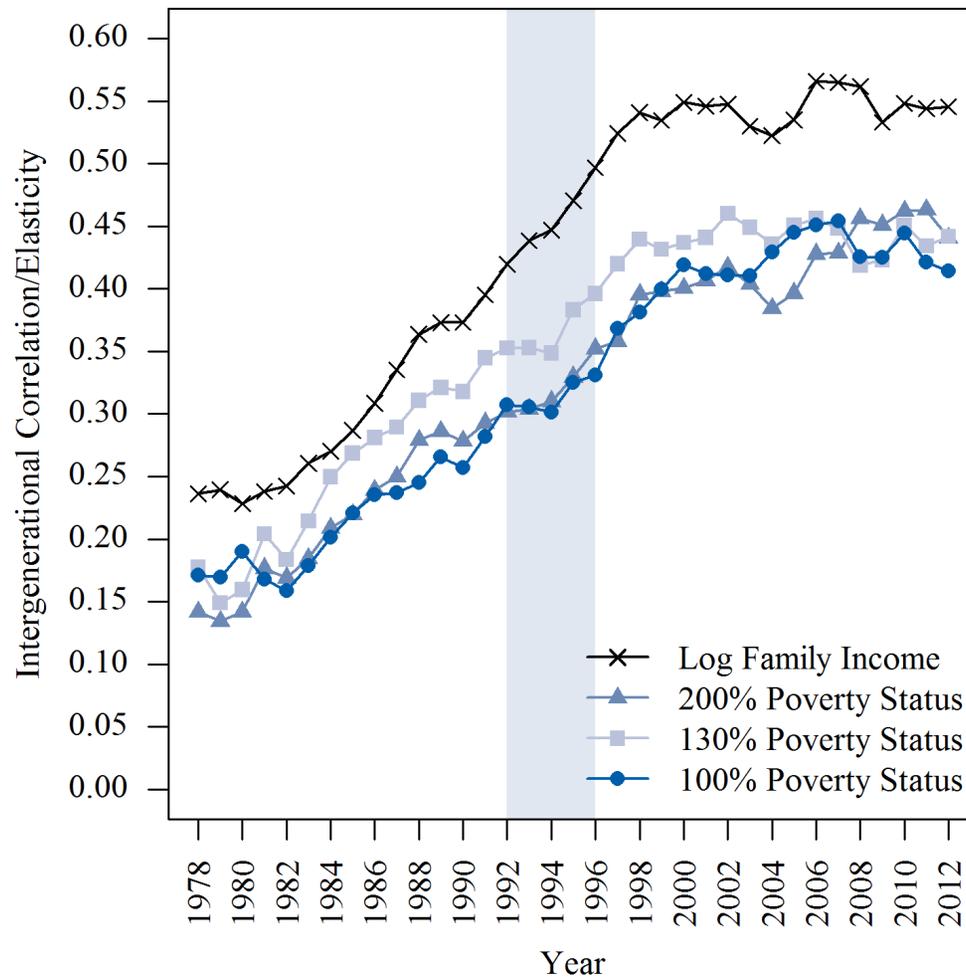
- Alternative Instruments
- Mothers Characteristics
- Timing and Duration of Exposure
- Black-White Differences
- Welfare Reform Aggressiveness

Did reform affect transmission of poverty status?

- We examine correlations in mother-daughter income and poverty status over time
- If anything economic mobility stagnated



Intergenerational Transmission of Income/Poverty Status





CONCLUSION

- A focal aim of the 1990s welfare reform was to end dependence on welfare, and we find strong evidence that AFDC/TANF transmission decreased by 50 percent
- Causal transmission is identified robustly across a variety of specifications addressing major identification threats including selection bias, life-cycle bias, and misclassification bias
- However, when welfare is defined more broadly, the post-reform correlation is unchanged. Economic mobility of daughters stagnated after reform



CONCLUSION

- It is not obvious, however, what is the socially efficient intergenerational correlation of welfare outcomes.
- Positive attributes to intergenerational transmission of welfare knowledge may arise if take-up rates are low and learning helps needy recipients (Currie 2006).
- Future theoretical and empirical research is warranted for optimal transfer program design that incorporates knowledge spillovers across generations.