

Welfare Reform: The case of lone parents

Lessons from the U.S. Experience

Gary Burtless

Washington, DC [USA](#)

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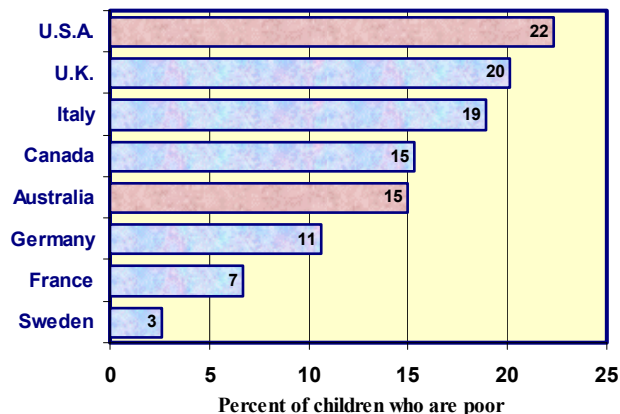
The U.S. situation

- Welfare reform in the US is aimed mainly at lone-parent families
 - Never-married mothers are most important family type among poor families with children
- US relies more than most OECD countries on self-help and families' own earnings to remove non-disabled parents & their children from poverty
- Transfers are too small to remove indigent parents from poverty
- Social assistance reform has increased reliance on self-help, but provided working families with additional earned income supplementation

The U.S. situation

- Self-help, even with earnings supplements is not enough
- U.S. child poverty rate remains high by OECD standards
- **Reform Has Affected Employment:** Job-holding rates among indigent lone parents rose dramatically after reform
- But poverty in lone-parent families -- although declining -- remains very high

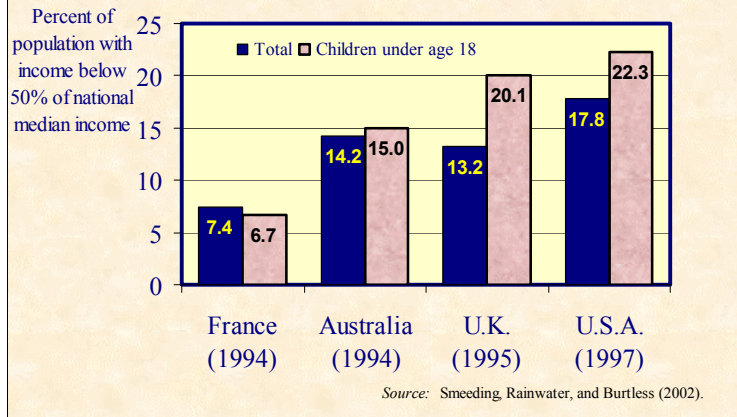
U.S. child poverty is high



* *Poverty threshold: 50% of country's median income.*

Source: Smeeding, Rainwater and Burtless (2002)

Total and Child Poverty Rates in France, Australia, the U.K., and the U.S.A. (Mid 1990s)



Reasons for high child poverty

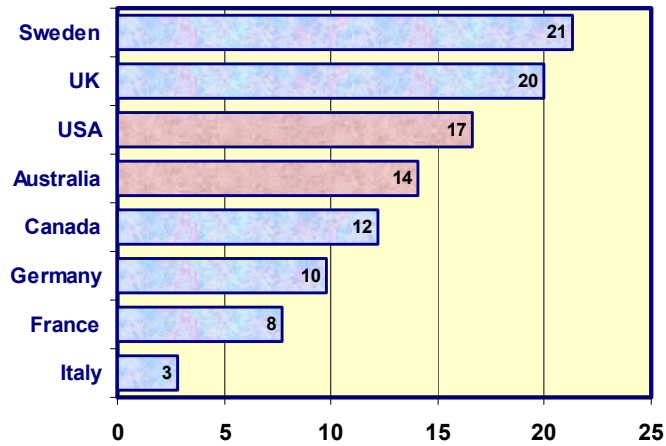
Family composition

- Many US children are members of lone-parent families
- Such families have few adult hours to divide between earning wages and child care
- Many lone parents have few skills & thus earn low wages

Labor market

- Big wage disparities in job market
- Many young and single parents earn wages at bottom of scale
- Those wages are too low to support a family above poverty line

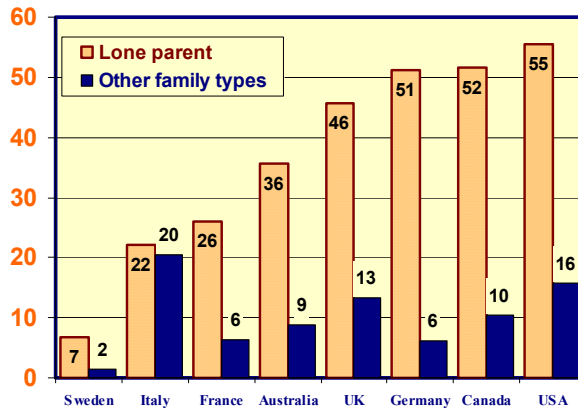
Share of all children in lone-parent families (1990s)



Source: UNICEF (June 2000).

Poverty is higher among lone-parent families in all industrial countries

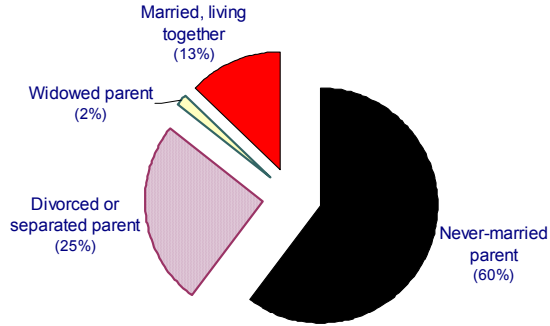
% of children who are poor



Source: UNICEF (2000).

The most dependent U.S. children are in lone-parent families with never-married parents

Marital Status of Parents of AFDC (cash public assistance) Children, 1996*

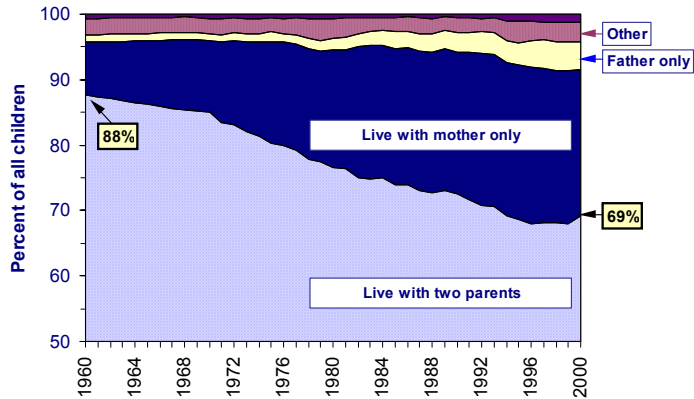


* Percent of all children receiving AFDC who live with parent.

Source: Committee on Ways and Means, 2000 Green Book.

Percent of U.S. children in lone-parent families has grown

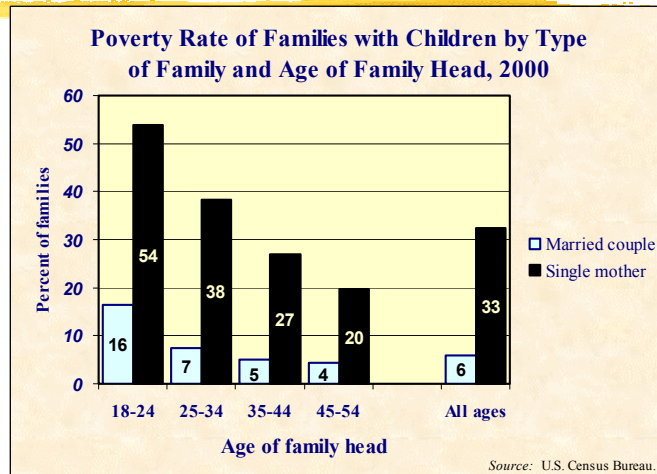
Living Arrangements of U.S. Children, 1960-2000



Source: U.S. Census Bureau.

Poverty is more common when American parents are young

* Official U.S. poverty rate.

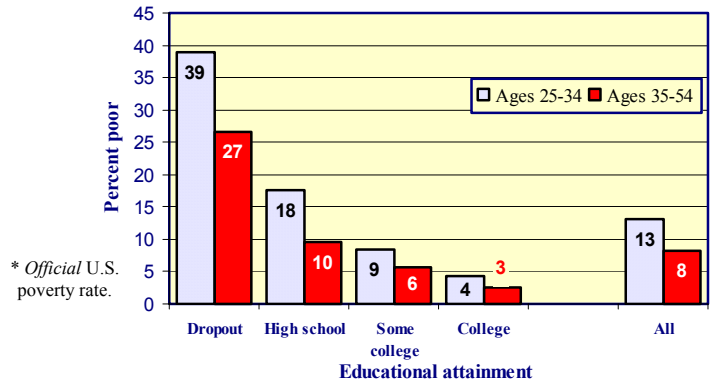


Lone parents have additional problems ...

- They tend to have below-average education
 - Qualify for few jobs
 - Typically earn low hourly wages
 - Intermittent unemployment
- Never-married mothers are also young
 - Have few social supports
 - Have accumulated little work experience
 - Even when they find unskilled jobs, they are at bottom of wage ladder

Education and poverty

Poverty Rates Among U.S. Women, by Age and Educational Attainment, 2000

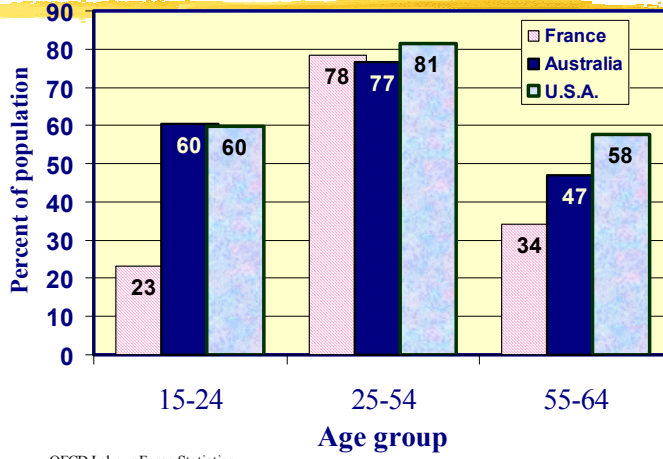


Source: U.S. Census Bureau.

One advantage of lone parents in U.S.: High employment rates

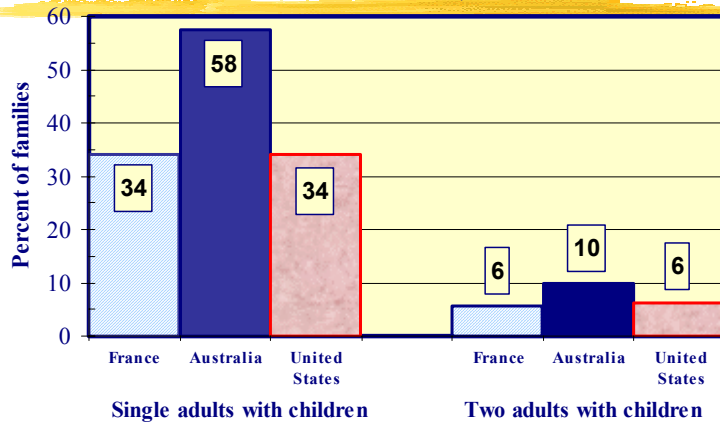
- Among working-age adults, the employment rate is almost the highest in the OECD
- It is 20 percentage points higher than low-employment-rate countries in Europe
- BUT ... the employment rate of 25-54 year-olds Americans is not exceptional
- And many lone parents are younger than 25 years old & find it hard to work steadily

Employment-to-Population Ratio in France, Australia, and U.S.A., by Age Group (2000)



Source: OECD Labour Force Statistics.

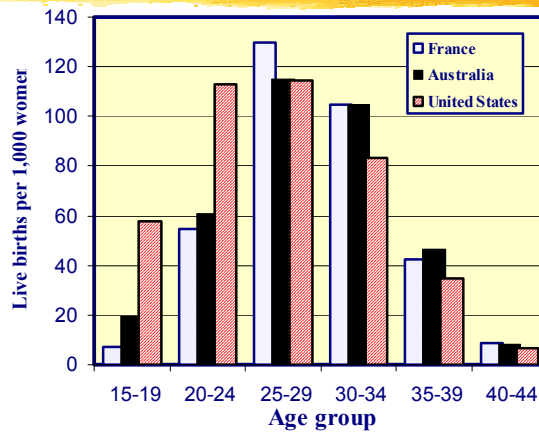
Rate of Non-employment among Working-Age Families with Children, 1996



Source: OECD Social Indicators (2001), p. 43.

Child-bearing among US women under 25 is common ...

Age-Specific Fertility Rates in France, Australia, and the United States, 1997-2000



Source: U.S. Census Bureau, International Data Base.

Transfers do little to remove US children from poverty

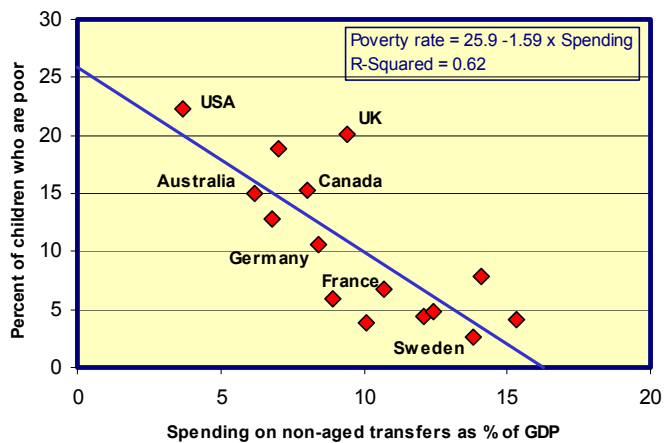
- Compared with other rich countries, the U.S. spends little on transfer programs aimed at the working-age population
- Only about one-half of poor children live in families that receive public assistance payments
- The maximum monthly benefit is well below the U.S. poverty threshold
- It is far below 50% of national median income (the usual international standard for poverty)

Table 6.
Poverty Rates and Public Redistribution in Fifteen Industrialized Countries
(1990s)

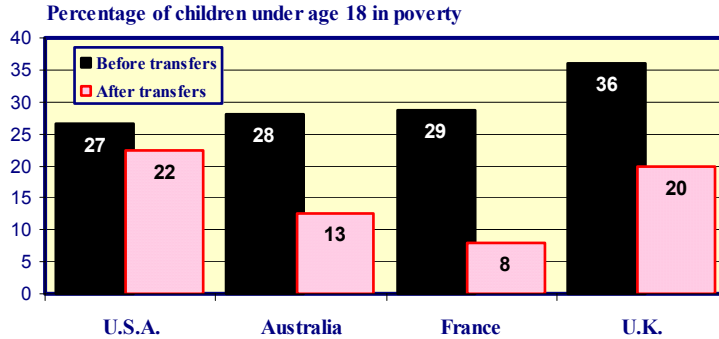
Percent

Country	Year	Percent of GDP spent on:			
		Poverty rate (% of population)		Total	Non-aged
		All persons	Children	Transfers /a/	Transfers /a/
Sweden	1995	6.5	2.6	22.0	13.8
Norway	1995	6.9	3.9	15.9	10.1
Finland	1995	5.0	4.1	23.3	15.3
Belgium	1992	5.5	4.4	19.3	12.1
Denmark	1992	7.1	4.8	18.9	12.4
Austria	1992	6.7	5.9	18.6	8.9
France	1994	7.4	6.7	21.0	10.7
Netherlands	1994	7.9	7.9	21.0	14.1
Germany	1994	7.5	10.6	18.4	8.4
Spain	1990	10.4	12.8	14.1	6.8
Australia	1994	6.7	15.0	9.3	6.2
Canada	1994	11.4	15.3	12.5	8.0
Italy	1995	13.9	18.9	18.0	7.0
U.K.	1995	13.2	20.1	16.0	9.4
U.S.A.	1997	17.8	22.3	9.2	3.7

Relation Between Child Poverty Rate and Public Spending on Transfers to the Non-aged Population (1990s)



Child poverty rates before and after transfers in four countries (mid-1990s)



Source: UNICEF (June 2000), p. 15.

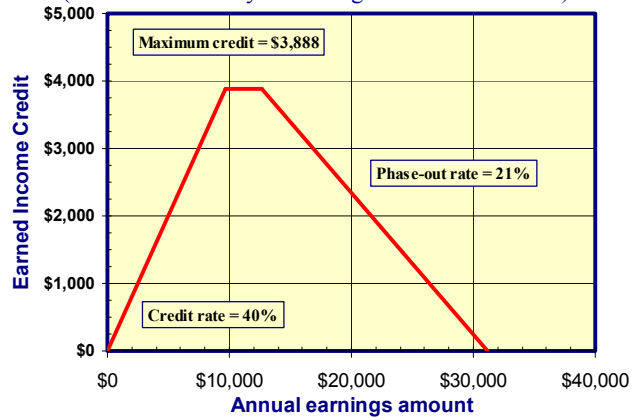
Reform in the U.S.

- Lower cash assistance for lone-parents who do not work
 - AFDC program eliminated
 - TANF program established
 - Cash aid can be limited to 5 years (or less at state option)
 - Cash aid recipients must work or participate in work-preparation activities (job search, training)
- More generous benefits for single & married parents who do work, but earn low wages
 - Earned income supplements through tax system (EITC)
 - Eligibility for free public health insurance for low-income children
 - More generous child care subsidies

EITC -- Earnings supplements for low-wage parents

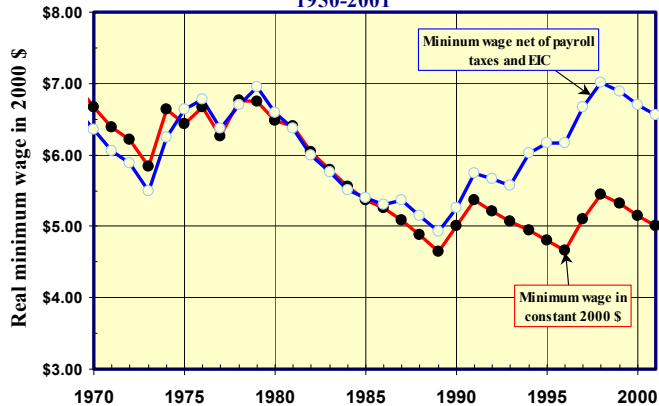
Earned Income Credit Schedule in 2000

(Schedule for family containing at least two children)



EITC improvements have offset drop in value of U.S. minimum wage

Purchasing Power of U.S. Minimum Wage, Including Payroll Tax Withholdings and EITC 1950-2001



Note: Wage earner is assumed to have two child dependents.

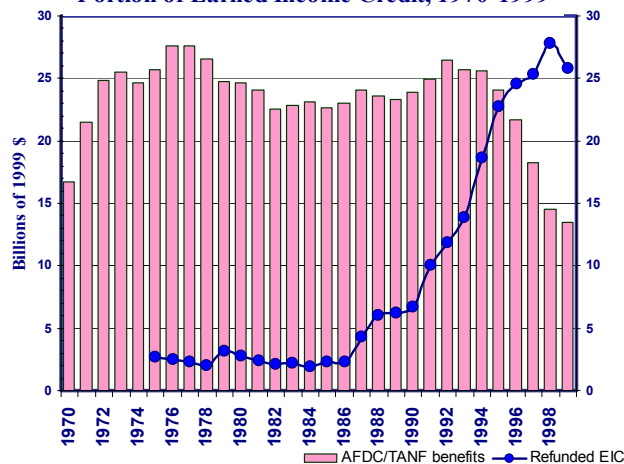
Source: Author's calculations.

Big increase in work incentives for lone parents

- Much tighter restrictions on cash aid for parents who do not work
- Declining minimum wage -- fell one-quarter in purchasing power, 1979-2001
- Supplements equal to 25% - 40% of wages for minimum-wage workers with child dependents
- Cheaper for employers to hire a minimum-wage worker
- Easier access to health insurance & subsidized child care for youngsters
- The net wage received by minimum wage worker is unchanged

Cash social assistance payments have dropped **45%** since 1994 ;
EITC payments have jumped by a factor of **four** since 1990

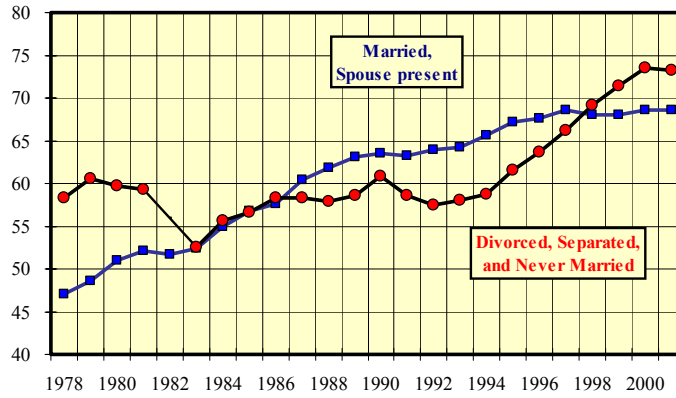
AFDC/TANF Benefit Payments and Refunded Portion of Earned Income Credit, 1970-1999



Source: U.S. DHHS and Committee on Ways and Means, 2000 Green Book .

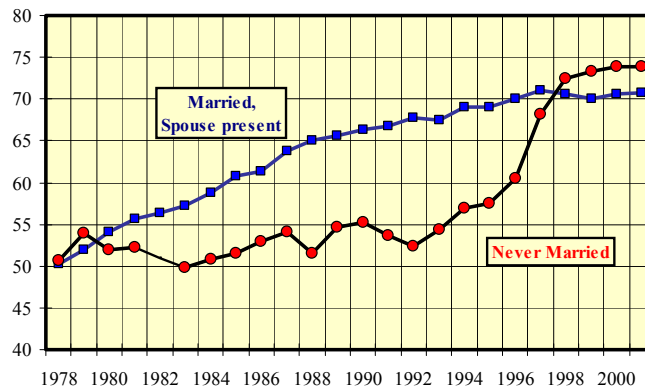
New incentives produced jump in single mothers' employment rate, 1995-2001

Employment / population ratio (%)



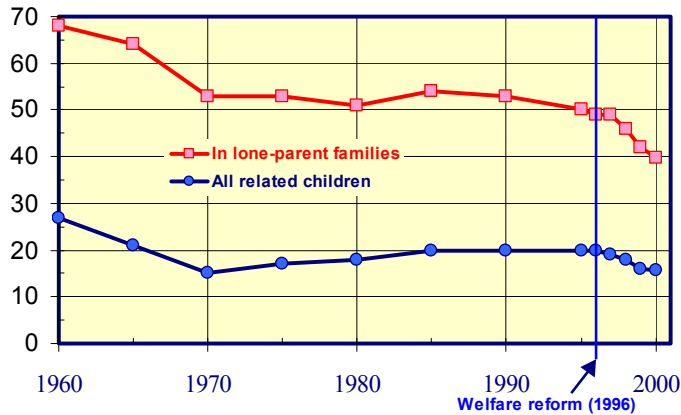
... and an even more dramatic rise in never-married moms' participation rate, 1995-2001

Labor force participation rate (%)



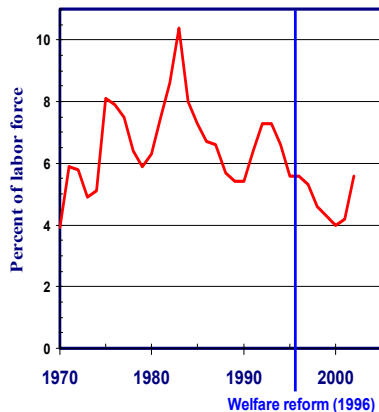
US child poverty rate has fallen ... but remains high.
In lone-parent families, poverty rate dropped 10 percentage points, 1995-2000

% of children in poverty (official U.S. definition)



Tough reforms coincided with strong job market

U.S. unemployment rate (January)



- Unemployment rate fell to 30-year low in 2000-2001
- Real wages for unskilled workers rose 5%-8% 1995-2001
- After-tax wages climbed even faster because of EITC
- A benign environment for harsh reforms

Summary

- USA has limited the duration of cash assistance to lone-parent families
- Compelled lone parents into jobs (or more rarely, into training) as a condition for receiving assistance payments
- Offered new earnings supplements to low-wage workers
- Increased lone parents' employment rate & net earnings
- BUT ... the drop in lone parents' poverty rate is due to stronger job market rather than reform
- The long-term impact of reform on child bearing & family formation is uncertain
- No social disaster, but *worst off* lone parents are worse off