TANF, Childcare and Well-being in Sole Parent Families

Marianne Bruins

Motivation

- Welfare reform over past two decades (primarily welfare-to-work) focused on:
  - increasing work participation
  - discouraging welfare dependency
  - Ended an era of entitlement to cash welfare
- Growing evidence that unconditional cash transfers improve long-run outcomes for the children of sole mothers (Aizer et. al. 2016; Hoynes et. al. 2012)
- Cash welfare much more generous for families with children
  - Implicit (original) objective of cash welfare:
- Have welfare-to-work reforms in the US lost sight of this original objective?

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- Welfare-to-work reforms a response to:
  - increases in welfare caseloads
  - increased non-martial childbearing
  - perceived intergenerational culture of welfare dependence
- In the USA welfare reforms introduced:
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  - life-time limits
  - limits to federal expenditure on welfare
  - greater autonomy for states in designing welfare programmes

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Stylised facts post-welfare reform era

Sole mothers (no college education)

- Decline in welfare participation
- Modest increase in labour force participation
  - participation increased
  - hours worked increased
- Reduction in home production
  - decline in housework time-use
  - increase in expenditure on food away from home
  - decrease in expenditure on food at home

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Structural model

Household decision-making

- U_i is mother's utility:

$$U_i = u_i(c_i, l_i, q) + \delta_{iK} K(c_k, t_f, q) + \psi(x\beta)$$

  - mother allocates time between: market work h_i, housework a_i, time with children t_i, and leisure l_i.
  - K is children's utility
  - $q = q(c_q, a_f)$ is quantity of public good produced
  - ψ is the disutility from participating in the TANF/AFDC program

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Functional forms

- Parent's utility:

$$u(c, l, q) = \log c + \alpha_l \log l + \alpha_q \log q$$

- Children's utility:

$$K(c, t_f, q) = A\left(\gamma_c c^\eta + \gamma_t t_f^\eta + \gamma_q q^\eta\right)^{1/\eta}$$

- Public good production:

$$q(c_q, a_f) = (\delta_c c_q^\kappa + (1 - \delta_c) a_f^\kappa)^{1/\kappa}$$

- Disutility:

$$\psi(x\beta) = \exp(x\beta)$$

x – time dummies interacted with whether meet work requirement (periods: 1993-95, 1996-99, 2000-04 and 2005-08)

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Constraints

- Budget constraint

$$c_f + c_k + c_q + \text{cost of childcare} \leq AT(h_f; w_f) + y - s$$

  - $AT(\cdot)$ gives after-tax earnings
  - y is 'non-labour income', s is 'savings'

- Time constraints: for $i \in \{m, f\}$

$$a_i + l_i + t_i \leq T - h_i$$

- Budget set depends on h_f in a complicated way
  - to aid estimation, make hours choice discrete

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Data

Sources (1993–2008)

- Combine data from 5 disaggregated datasets on intra-household allocation:
  - Consumer Expenditure Survey
  - American Time-Use Survey / American Heritage Time-use Survey
  - Survey of Income and Program Participation
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Estimation

Simulated method of moments

- Household choices spread across two datasets:
  - CEX: (c_k, c_f, c_m, c_q) and x (exogenous household covariates)
  - ATUS: $(h_f, h_m, t_f, t_m, a_f, a_m)$ and x
- Model implies the 'demand functions'

$$c_i = c_i(x, \epsilon_i; \tau)$$
$$t_i = t_i(x, \epsilon_i; \tau)$$
$$h_i = h_i(x, \epsilon_i; \tau)$$

  - ϵ_i is a vector of unobserved disturbances (assumed Gaussian)
- Estimate parameters τ by simulated method of moments
  - Singles: 140 moments; 29 parameters

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Choice of moments

- Moments conditioned on: parents' education, age of youngest child, number of children, parents' average wage.

	t_f	a_f	h_f	c_f	c_k	c_q	c_{pr}
ATUS							
s.d.							
corr w/							
CEX							
s.d.							
corr w/							

$c_{\text{pr}} = c_f + c_m + c_k$, $\checkmark$ – exact data.
E – estimates obtained using Dunbar, Lewbel and Pendakur (2014).

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CEX			✓	*E*	*E*	✓	✓
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Estimation

Accounting for life-time limits

- Reasons not to take TANF:
  (a) ineligible (i.e. income too high)
  (b) disutility from taking TANF too high
  (c) life-time limits
- Extend Blundell and Walker (1987) to include lifetime limits
  - in first stage individual has some probability of not taking TANF if (a) and (b) hold
  - need to estimate probability
- Adopt approach from Grogger and Michalopoulos (2003)

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Accounting for life-time limits

- Approach from Grogger and Michalopoulos (2003):
- Estimate probit for receiving TANF with:
  - Dummy variable if mother never exposed to time-limits D_1
    - Youngest child over 12 when time-limits introduced in state
  - Dummy variable if mother only partially exposed to time-limits D_2
    - Youngest child already born when time-limits introduced in state
- Probability of not taking TANF due to life-time limits:

$$\left[\Phi\left(x_r'\hat{\beta}_r + \hat{\beta}_{D_1} + \epsilon_r > 0\right) - \Phi\left(x_r'\hat{\beta}_r + \hat{\beta}_{D_2}x_{D_2} + \hat{\beta}_{D_1}x_{D_1} + \epsilon_r > 0\right)\right]$$

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Poverty and cash welfare

- How has levels of child poverty changed over the last 20 years?

- No decline in child poverty in sole parent households since 1996 (Black 2002, Meyer et. al. 2003)
  - Estimates based on household level consumption and income
- Estimates don't account for:
  - home production
  - the value of maternal time
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Poverty and cash welfare

Intra-household allocation-based child poverty measures

- Children receive: private consumption (c_k); time with both parents (t_f, t_m); a home-produced public good (q)
  - Value goods at decentralised prices ($\tilde{w}_f, \tilde{w}_m, \tilde{p}_k$)
- Two measures of child's resources:
  - Consumption measure:

$$C_k := c_k + \tilde{p}_k q$$

    where $\{\tilde{p}_i\}$ denotes the Lindahl prices for the public good.

  - Full income measure:

$$\rho_k := C_k + \tilde{w}_f t_f + \tilde{w}_m t_m,$$

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- Calculation
  - Take two measures of child resources
  - Calculate the 30th and 50th percentiles of distribution in 1993-95
  - How many children under this threshold in 2004-08?

  - Answer: approximately 45% and 65% for the 30th and 50th percentiles respectively

Increase in child poverty of 15 percentage points in sole parent households

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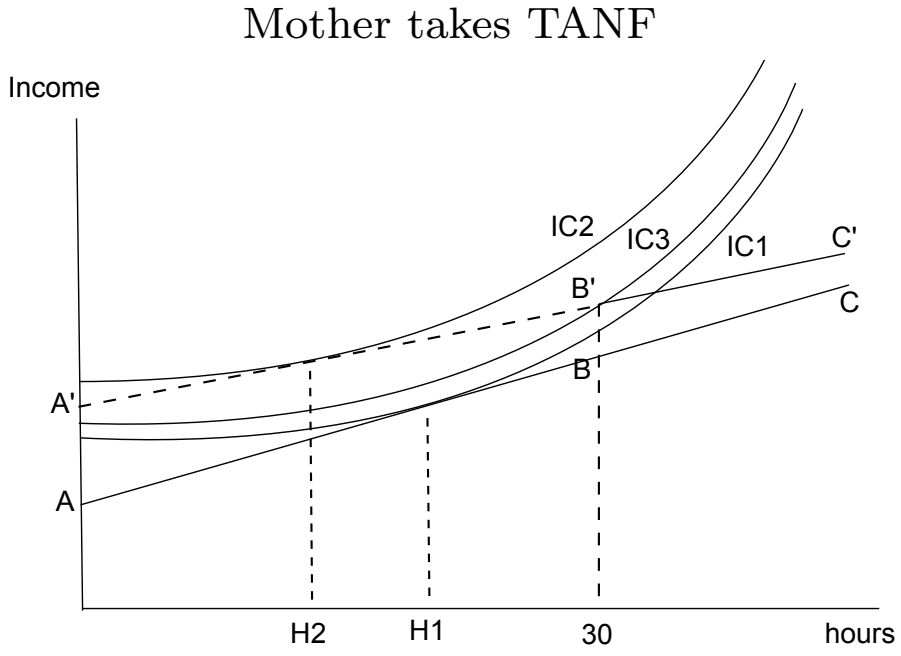
  - How many children under this threshold in 2004-08?

  - Answer: approximately 45% and 65% for the 30th and 50th percentiles respectively

Increase in child poverty of 15 percentage points in sole parent households

Model and estimates

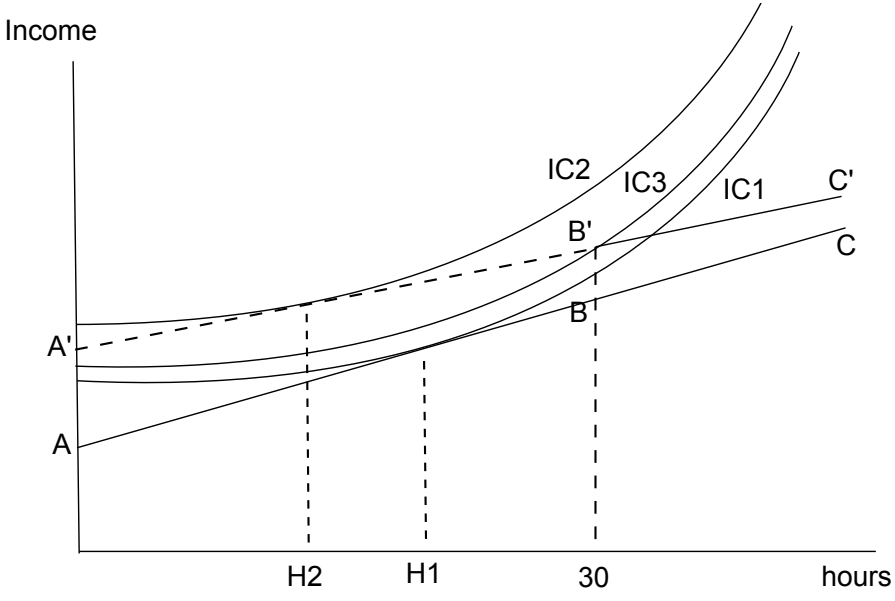


◊ Budget constraints: A'B'C' AFDC, ABB'C' TANF, ABC no welfare.

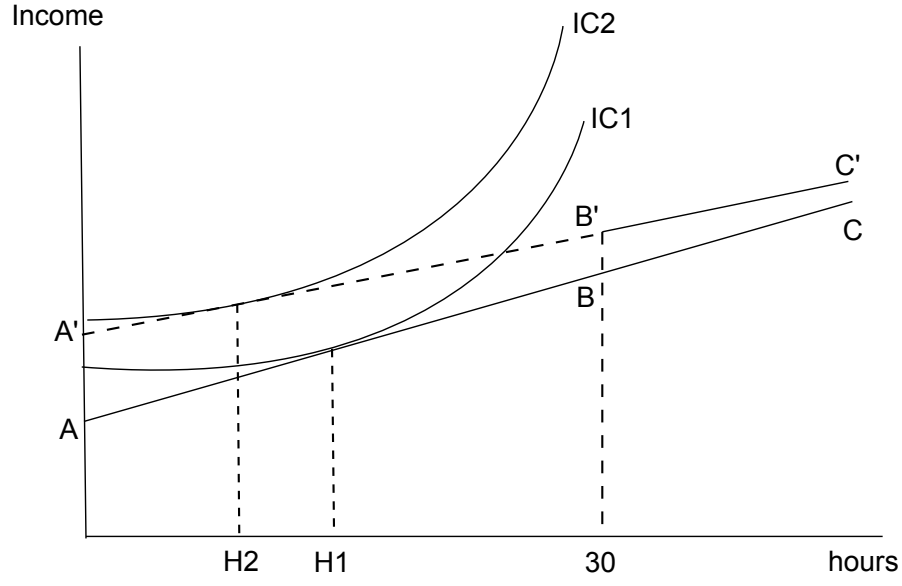
Model and estimates

-
-
-

Mother takes TANF



Mother doesn't take TANF

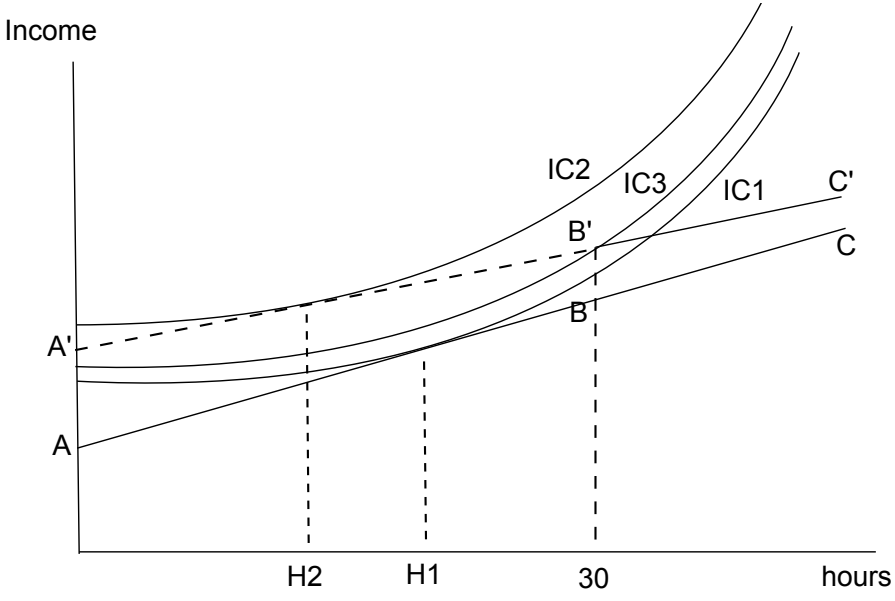


◊ Budget constraints: A'B'C' AFDC, ABB'C' TANF, ABC no welfare.

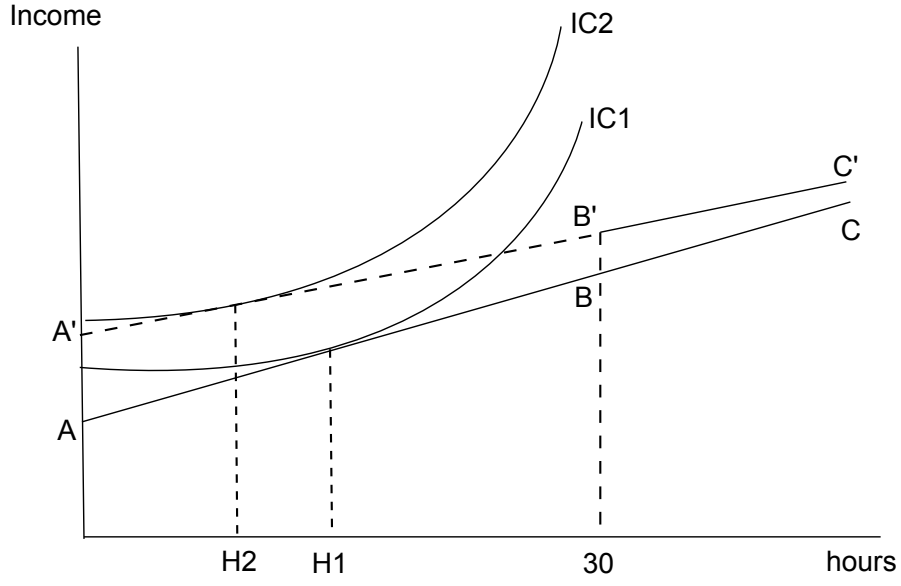
Model and estimates

- 20 per cent of sample on AFDC (1993-95)
-
-

Mother takes TANF



Mother doesn't take TANF

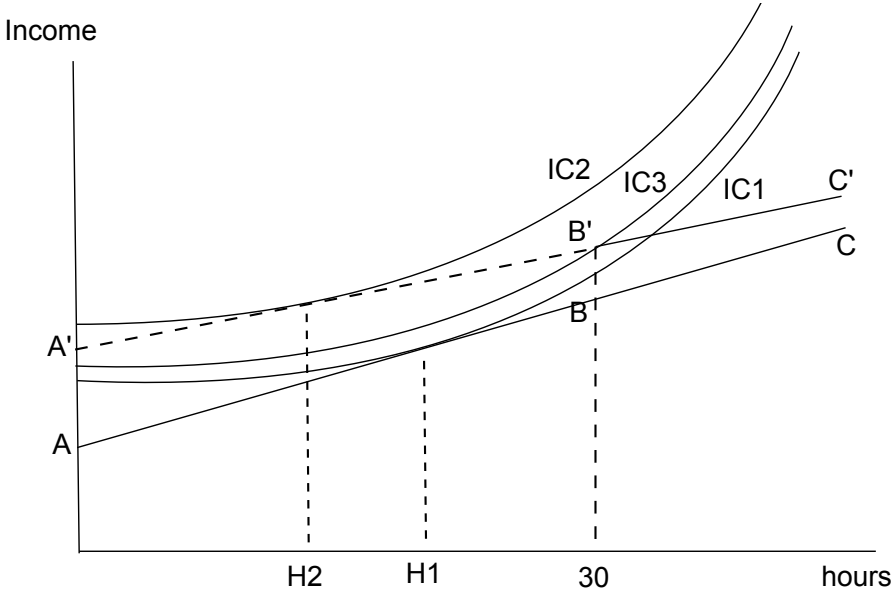


◊ Budget constraints: A'B'C' AFDC, ABB'C' TANF, ABC no welfare.

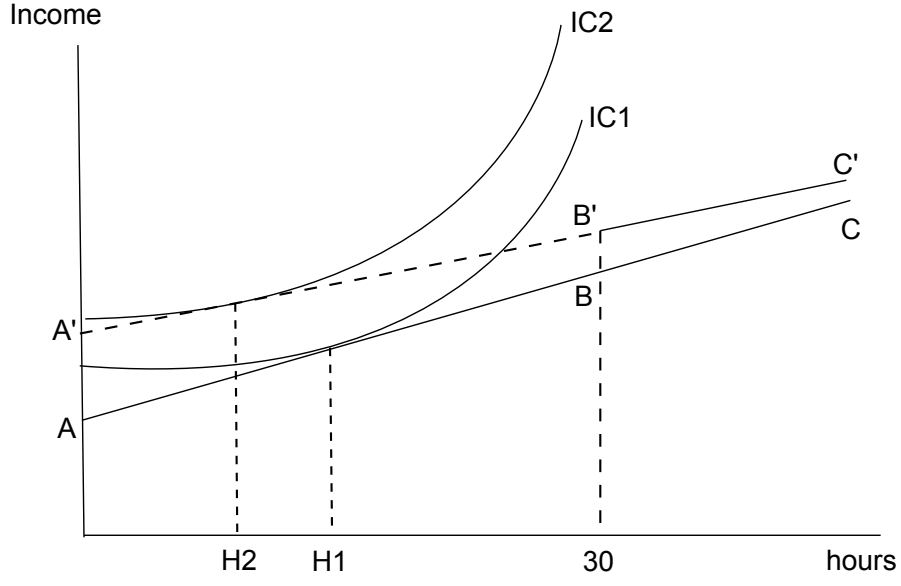
Model and estimates

- 20 per cent of sample on AFDC (1993-95)
- 9 per cent can get TANF while working 30 hours
-

Mother takes TANF



Mother doesn't take TANF

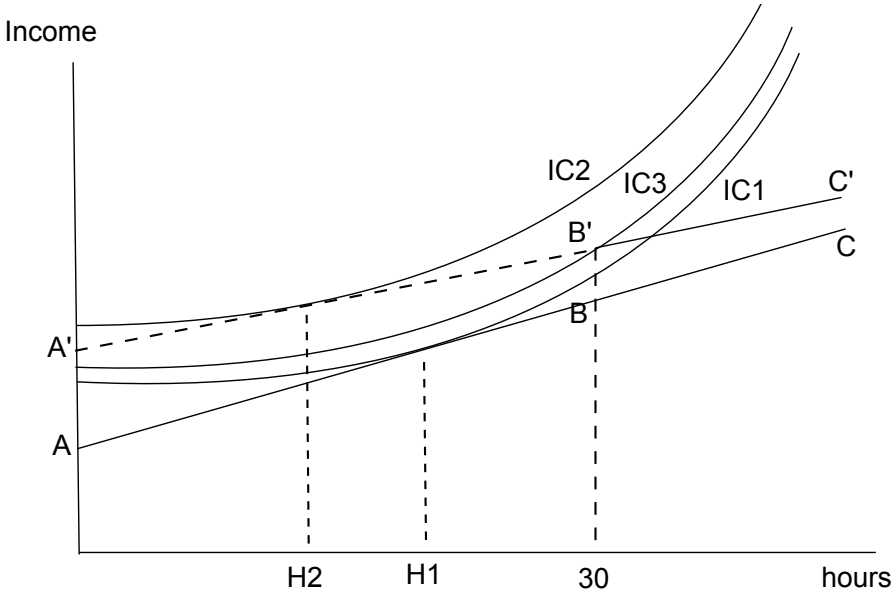


◊ Budget constraints: A'B'C' AFDC, ABB'C' TANF, ABC no welfare.

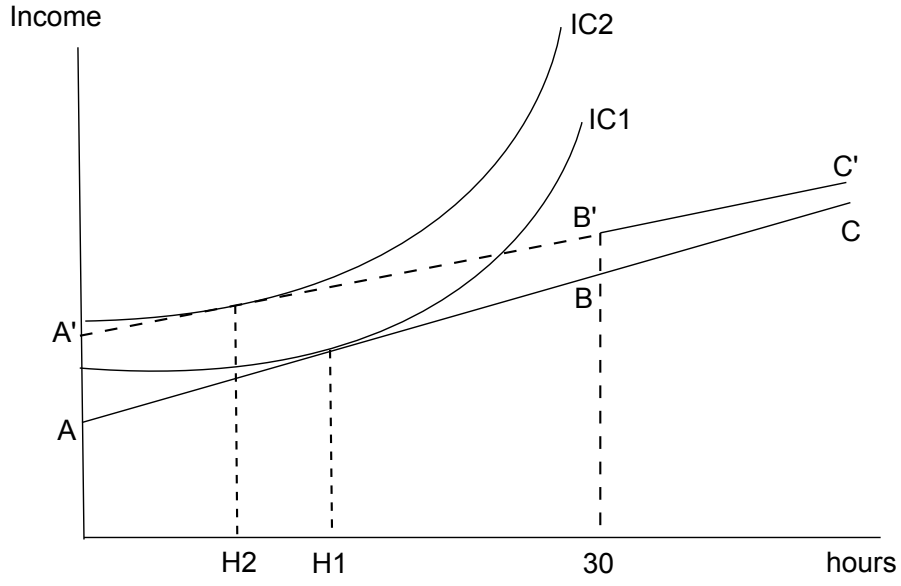
Model and estimates

- 20 per cent of sample on AFDC (1993-95)
- 9 per cent can get TANF while working 30 hours
- only 2 per cent do

Mother takes TANF



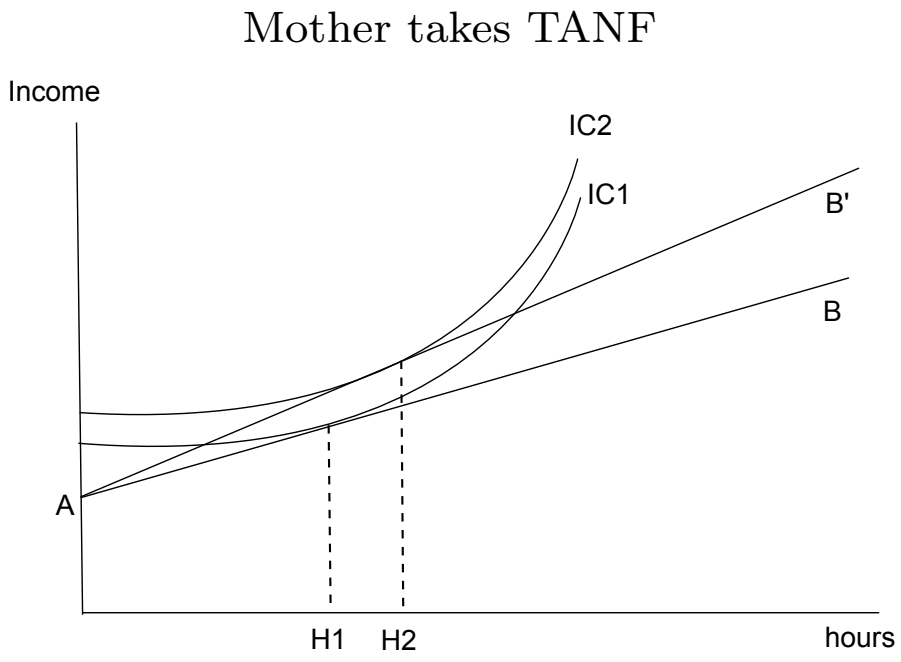
Mother doesn't take TANF



◊ Budget constraints: A'B'C' AFDC, ABB'C' TANF, ABC no welfare.

Model and estimates

- Alternative policies to encourage work, increase return from working (e.g. wage subsidy)



◊ Budget constraints: AB' wage subsidy, AB no wage subsidy.

Counterfactuals

- With the model we can:
  - Consider changes to welfare different from those observed historically
  - Value resources at decentralised prices
- To quantify the value of welfare we ask the following question:

How much money do we need to give the mother (child) to make them as well off under the counterfactual, when the baseline is in place.

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Methodology

- Counterfactuals considered (sample 1993-2008):
  - replace TANF with AFDC (1995 parameters in real values)
  - replace TANF with free childcare
  - replace TANF with wage subsidy ($1)
  - replace TANF with wage subsidy (wage floor $11.60)

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Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1				
AFDC only					
TANF and AFDC					

Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1	36.9			
AFDC only					
TANF and AFDC					

Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1	36.9	135.7		
AFDC only					
TANF and AFDC					

Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1	36.9	135.7	27.2	
AFDC only					
TANF and AFDC					

Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1	36.9	135.7	27.2	22.3
AFDC only					
TANF and AFDC					

Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1	36.9	135.7	27.2	22.3
AFDC only	62.6	41.1	163.3	25.2	17.5
TANF and AFDC					

Counterfacturals

- Those that switch from TANF to AFDC – 63% of additional spending goes to children

	CV_f ($/wk)	CV_k ($/wk)	net cost ($/wk)	pass thru. %	recipients %
Switch from TANF to AFDC					
Received benefits under:					
AFDC	59.1	36.9	135.7	27.2	22.3
AFDC only	62.6	41.1	163.3	25.2	17.5
TANF and AFDC	46.2	21.4	34.9	61.2	4.8

Alternatives to TANF

▶

	CV_f ($/wk)	CV_k ($/wk)	pass through %	recipients %	net cost %
Childcare:					
CDCTC	18.2	10.1	70.1	24.3	14.4
Free childcare					
Counterfactual:					
CA					
CB					
CC					

Full sample of recipients of either programme.

Alternatives to TANF

▶

	CV_f ($/wk)	CV_k ($/wk)	pass through %	recipients %	net cost %
Childcare:					
CDCTC	18.2	10.1	70.1	24.3	14.4
Free childcare	61.4	50.2	68.8	29.8	72.9
Counterfactual:					
CA					
CB					
CC					

Full sample of recipients of either programme.

Alternatives to TANF

- CA: TANF to free childcare.

	CV_f ($/wk)	CV_k ($/wk)	pass through %	recipients %	net cost %
Childcare:					
CDCTC	18.2	10.1	70.1	24.3	14.4
Free childcare	61.4	50.2	68.8	29.8	72.9
Counterfactual:					
CA	39.6	34.0	90.2	36.8	37.6
CB					
CC					

Full sample of recipients of either programme.

Alternatives to TANF

- CB: TANF to wage subsidy.

	CV_f ($/wk)	CV_k ($/wk)	pass through %	recipients %	net cost %
Childcare:					
CDCTC	18.2	10.1	70.1	24.3	14.4
Free childcare	61.4	50.2	68.8	29.8	72.9
Counterfactual:					
CA	39.6	34.0	90.2	36.8	37.6
CB	16.4	14.3	130.6	84.0	11.0
CC					

Full sample of recipients of either programme.

Alternatives to TANF

- CC: TANF to minimum wage.

	CV_f ($/wk)	CV_k ($/wk)	pass through %	recipients %	net cost %
Childcare:					
CDCTC	18.2	10.1	70.1	24.3	14.4
Free childcare	61.4	50.2	68.8	29.8	72.9
Counterfactual:					
CA	39.6	34.0	90.2	36.8	37.6
CB	16.4	14.3	130.6	84.0	11.0
CC	70.1	54.9	80.7	56.0	68.0

Full sample of recipients of either programme.

Conclusions

- Consider replacing TANF with AFDC (1995)
- Policy recipients:
  - mothers \$60 p/w better off
  - children \$40 p/w better off
- 30 per cent of spending on AFDC/TANF passes through to children

Conclusions

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Conclusions

- Work requirements distort allocation of mothers' time
  - reduce home production
  - hurts children who care a lot about home production
  - child poverty in sole parent families has increased by 15 percent
- Consider replacing TANF with alternativess: free childcare, wage subsidy, minimum wage
  - at least twice as much home production per dollar spent
  - higher rates of pass through to children e.g. minimum wage 100 per cent pass through

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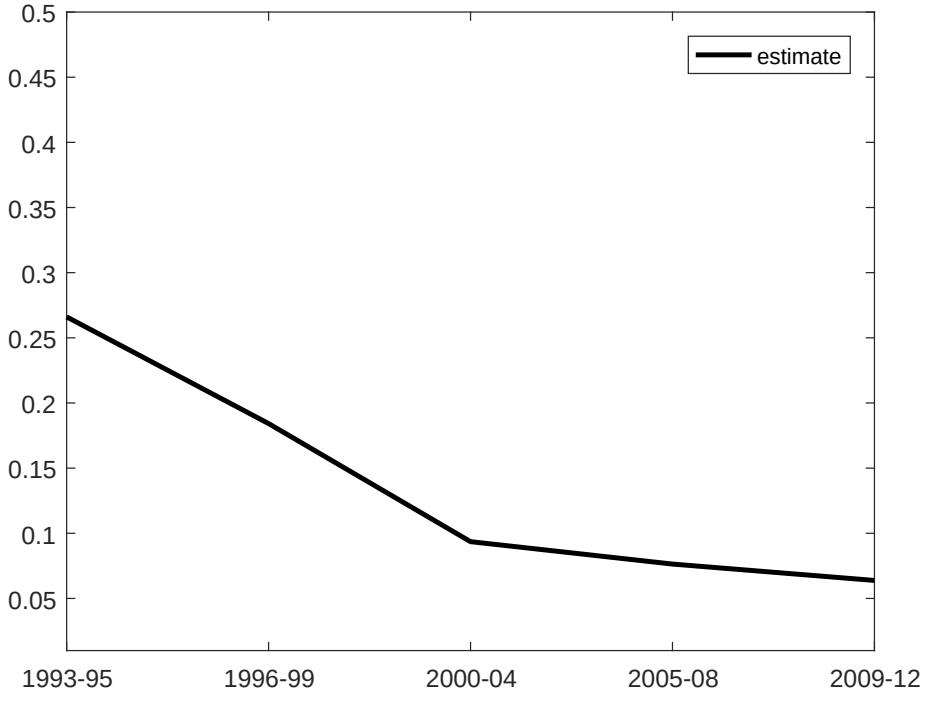
Decline in welfare participation

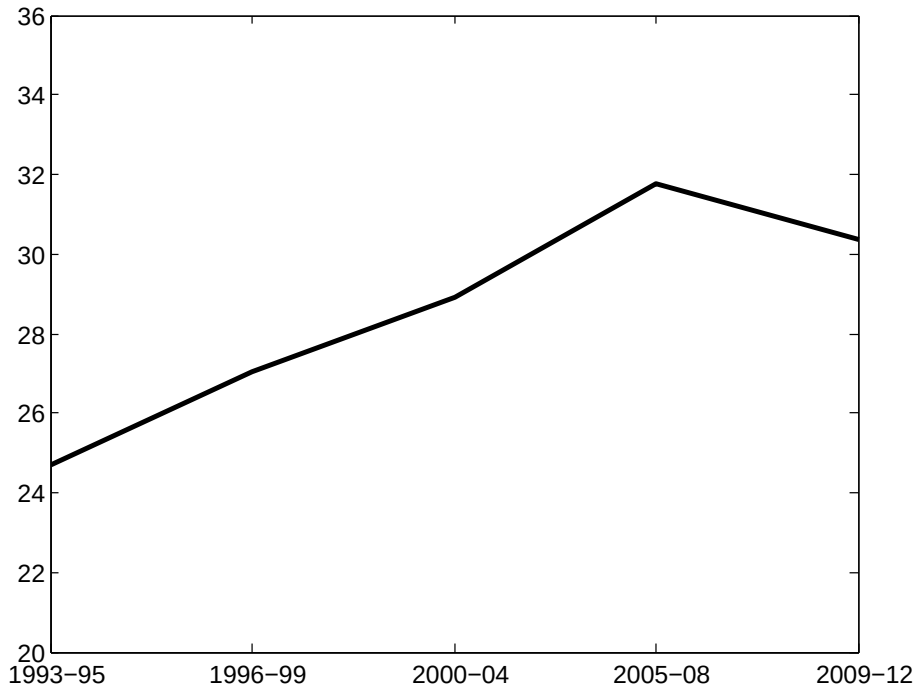


◊ Source: CPS. Sole mothers without a college degree.

▸ Back

Increase in labour supply

Hours worked per week



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Increase in labour supply

Participation

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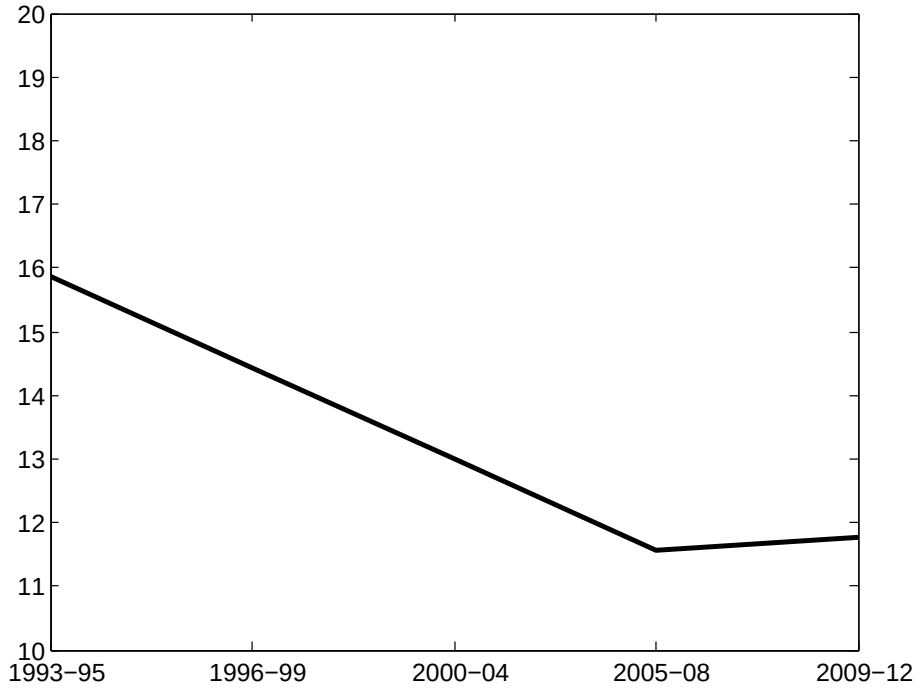
Back

Decline in home production

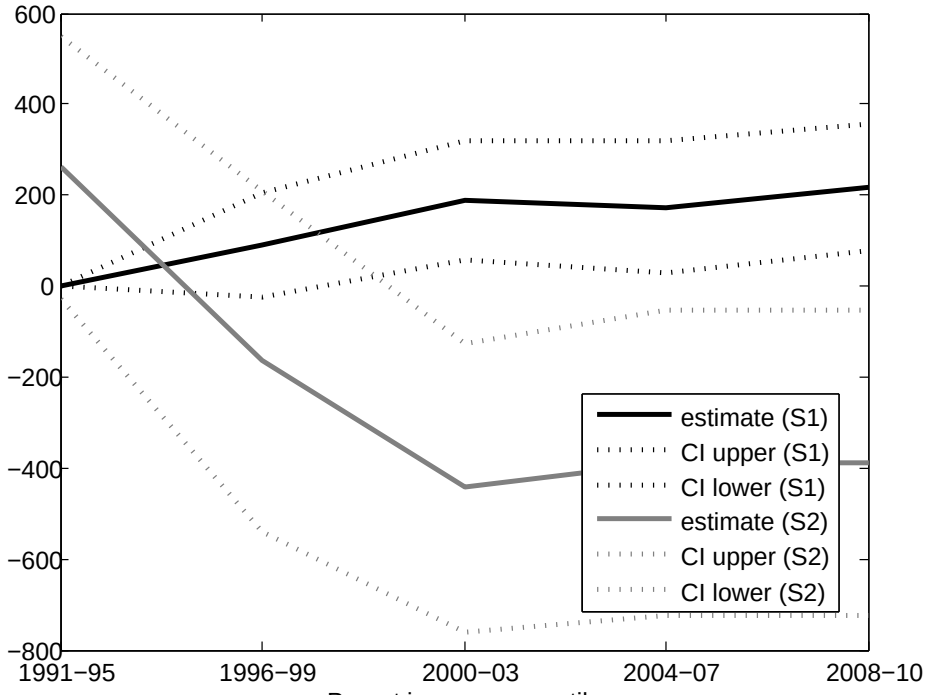
Housework



◊ Source: AHTUS/ATUS. Sole mothers without a college degree.

Decline in home production

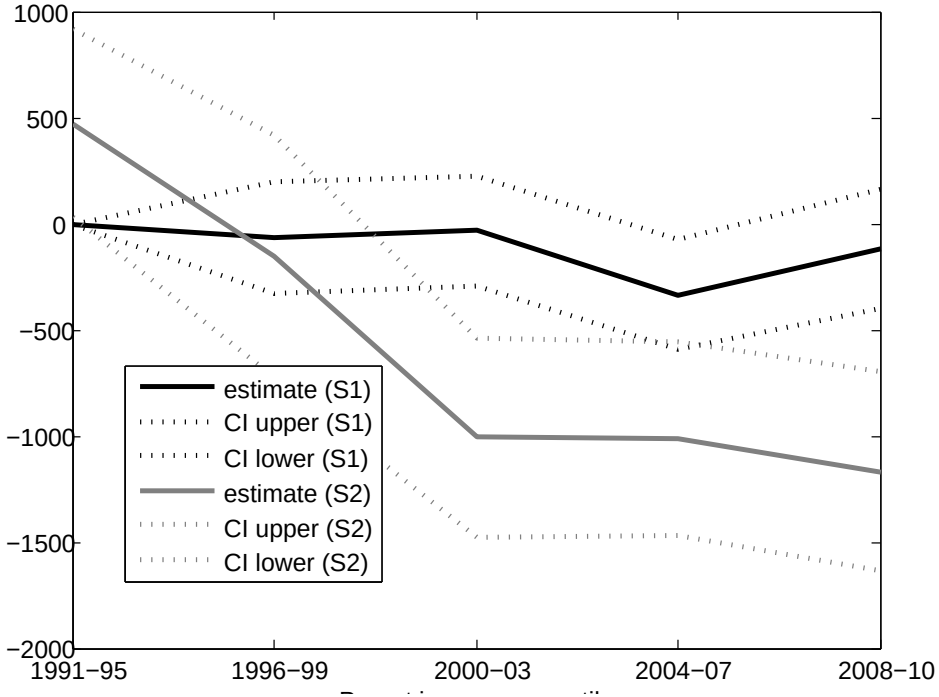
Food away from home



◊ Source: CE. Sole mothers without a college degree.

Decline in home production

Food at home



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Back