Cash-Based Welfare Programs Making a Difference for Poor Children

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New research finds significant long-term benefits to poor children receiving cash-based welfare in early life.

Researchers and policymakers have long wondered what effect cash-based welfare programs have on the lives of children whose families have relied on the benefits. Do the children live longer than poor children whose families don't use the benefits? Do they stay in school longer? Earn more money? Or do they turn out worse because early life exposure to welfare generates future dependency on public assistance?

Until recently, there had been no means of answering this question because of a lack of data that could permit following welfare recipients over their lifetime. Now a new dataset allows researchers to look at the impact of welfare receipt in childhood on long-term outcomes, including longevity, school attainment, and earnings in adulthood.

Income is a powerful predictor of mortality rates among adults, particularly for men.[1] Parental income, in turn, is a strong predictor of children's well-being as measured by educational attainment and health in adulthood.[2] More than one in five US children were living in poverty as recently as 2010, and the existing research suggests that these children are likely to grow up to be poor, unhealthy adults. [3]

In the United States and elsewhere, welfare programs—broadly defined as cash transfers to poor families—were established primarily to help children. The Mothers' Pension program, established in 1911, was the first US government-sponsored welfare program. It was replaced in 1935 by the federal Aid to Dependent Children (ADC). ADC then became Aid to Families with Dependent Children (AFDC) and is now called Temporary Aid to Needy Families (TANF).

In the past, we didn't know whether cash transfers to poor families improved children's lifetime outcomes.[4] But in the recent study "The Long-Term Impact of Cash Transfers to Poor Children," researchers examined the long-term effects of cash transfers, with a particular focus on children's longevity, an overall measure of lifetime well-being. In particular, we asked whether cash transfers make a difference for poor children.[5]

The Research

The answer is yes. We found that the male children of mothers who received cash through the Mother's Pension program lived one year longer, received one-third more years of schooling, were less likely to be underweight, and had higher income in adulthood than children whose mothers applied for but did not receive cash benefits. To appreciate how large these benefits are, consider that life expectancy at age 10 (the number of years you could expect to live if you make it to age 10) increased by 15 years in the last century (it was about 50.5 in 1900 and increased to 65.5 by the year 2000), and average educational attainment increased by about five years over the same 100 years.

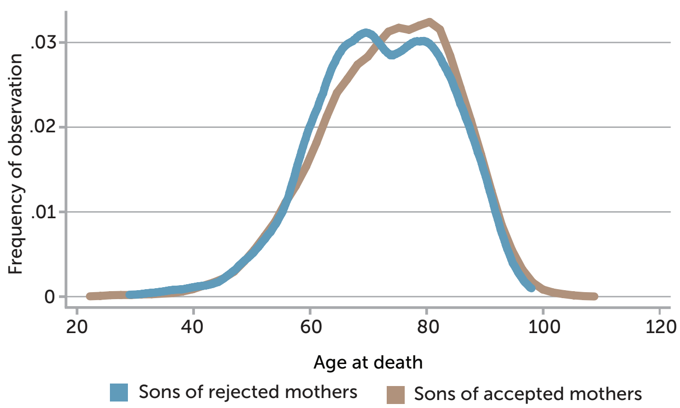
The sample for the analysis was about 16,000 males in 60 US counties from 11 states. We collected individual-level administrative records of applicants to the Mothers' Pension program and matched them to census records, WW II records, and death records. The Mothers' Pension program data are available in large numbers and include both accepted and rejected applicants, so we could compare similar families. There was identifying information, allowing us to link the children with other datasets to trace their outcomes, as well as information on children who were born sufficiently long ago that we could measure their longevity. (We limited our analysis to males because trying to match females on the basis of names is substantially more difficult given that most women change their names upon marrying.)

One of the main challenges in evaluating whether cash transfers (or any public program) improve outcomes is identifying a plausible counterfactual: what would children's lives have been like in the absence of receiving transfers? We used as a comparison group the children of mothers who applied for transfers but were denied.[6] This strategy has been used successfully in studies of disability insurance.[7] Its validity depends on the extent to which accepted and rejected mothers and their children differ on unobservable characteristics.

We document that rejected mothers were on average slightly better off in terms of observable characteristics at the time of application and were most often rejected because they were deemed to have sufficient support. Under the assumption that accepted and rejected applicants are otherwise similar, the outcomes for boys of rejected mothers provide a best-case scenario for what could be expected of beneficiaries in the absence of cash transfers. (See "Distribution of Age at Death.") Thus our estimates are, if anything, likely to understate the benefits of the program.

Distribution of Age at Death

Male children of mothers who were accepted or rejected for the Mother's Pension program.



Source: Author's calculation.

Maintaining the Improved Outcomes

Cash transfers to mothers of poor children substantially increased children's longevity. We also find that transfers improved underlying nutrition, educational attainment, and income in adulthood, all factors that are likely to improve health and measures of well-being themselves.

Can we learn from the past? While conditions today differ significantly from those at the beginning of the twentieth century, three important similarities remain. First, then and now, women raising children alone represent the most impoverished type of family. In fact, the income gap between children in two-parent versus single-mother families has only grown over time.

Second, income is still a key determinant of education and a large predictor of outcomes. Using census data from 1915, 1940, 1960, 1980, and 2010, we estimated the relationship between real family income and child grade in school for all children ages 7 to 14. More years of education increase the child's human capital, or potential for performing labor and producing economic value. The relationship between parental income and a child's human capital in 2010 is remarkably similar to what it was in 1915.[8]

Finally, our findings on outcomes in adulthood are consistent with estimates of the impact of contemporary antipoverty programs on short- and medium-term outcomes. Thus it is likely that the short- and medium-term improvements observed in contemporary programs will generate large benefits over the lifetime of the recipients.

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Endnotes

1 Angus Deaton, "Policy Implications of the Gradient of Health and Wealth," *Health Affairs* 21, no. 2 (2002): 13–30.

2 See Lisa Barrow and Diane Whitmore Schanzenbach, "Education and the Poor," in *Oxford Handbook of the Economics of Poverty,* ed. Philip N. Jefferson (Oxford: Oxford University Press, 2012); Sean F. Reardon, "The Widening Socioeconomic Achievement Gap: New Evidence and Possible Explanations" in *Social Inequality and Economic Disadvantage* (Washington: Brookings Institution, forthcoming); and Anne Case, Darren Lubotsky, and Christina Paxson, "Economic Status and Health in Childhood: The Origins of the Gradient," *American Economic Review* 92, no. 5 (December 2002): 1308–1334.

3 See http://www.census.gov/prod/2011pubs/acsbr10-05.pdf.

4 Janet Currie, "The Effect of Welfare on Child Outcomes: What We Know and What We Need to Know," in *Welfare, the Family, and Reproductive Behavior: Research Perspectives,* ed. Robert Moffitt (Washington, DC: National Academy Press, 1998): 177–204.

5 Anna Aizer, Shari Eli, Joseph P. Ferrie, and Adriana Lleras-Muney, "The Long-Term Impact of Cash Transfers to Poor Children" (working paper no. 20103, National Bureau of Economic Research, Cambridge, Massachusetts, 2014), http://www.nber.org/papers/w20103.pdf.

6 John Bound, "The Health and Earnings of Rejected Disability Insurance Applicants," *American Economic Review* 79, no. 3 (1989): 482–503.

7 Till von Wachter, Jae Song, and Joyce Manchester, "Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program," *American Economic Review* 101, no. 7 (2011): 3308–3329.

8 William Dow and David Rehkopf, "Socioeconomic Gradients in Health in International and Historical Context," *Annals of the New York Academy of Science* 1186 (February 2010): 24–36. Dow and Rehkopf estimate that the relationship between income and mortality was high at the beginning of the 20th century, declined over the course of the middle of the century, and has risen steadily since then.