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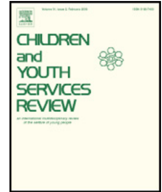

Fragile families in the American welfare state

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ABSTRACT

The proportion of children born out of wedlock is now over 40%. At birth, about half of these parents are cohabiting. This paper examines data from the Fragile Families and Child Wellbeing study (N = 4271) to describe for the first time the role of welfare state benefits in the economic lives of married, cohabiting, and single parent families with young children. Surprisingly, total welfare state benefits received by the three family types are relatively similar. Nearly half of the full incomes of fragile families come from welfare state transfers. For single parent families the proportion is slightly more than two thirds. Though aggregate welfare state transfers are approximately equal across family type and thus change very little as marital status changes, these transfers and the taxes required to finance them cushion family status changes and substantially narrow the gap in full income between married and fragile families.

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1. Introduction

In 1960, only 5% of all births were to unwed parents, whereas today, the proportion is over 40% (Child Trends, 2012). "Fragile families", or unwed parents, are fragile both because the parents have low levels of human capital and because the bonds between the parents are weak (Mincy, 1994; Mincy & Pouncy, 1997). Fragile families are of increasing importance and policy interest because their prevalence has grown so dramatically. The Fragile Families and Child Well-being Study was funded to fill gaps in knowledge about: a) the capabilities and circumstances of unwed parents, especially fathers; b) the nature of parental relationships; c) the experiences and achievements of the children, and d) the role of welfare state benefits in the lives of fragile families. A large literature examines the first three aims and a few papers investigate the roles of particular welfare state programs, such as TANF, food stamps, and child care. This is the first paper to address the role of welfare state transfers taken as a whole in the economic lives of fragile families.

In all rich nations, including the United States, welfare state benefits—from free public education, child care, public housing and vouchers, tax subsidies for home ownership, publicly financed and publicly subsidized health insurance, survivors insurance, earned income tax credits, and public relief such as Temporary Assistance to Needy Families in the US—play an important role in the lives of all families with children, but an especially large and important role in those of the poorest quintile (Garfinkel, Rainwater, & Smeeding, 2010). We build on Garfinkel, Rainwater, and Smeeding (2006), Garfinkel et al. (2010), which extends and amends the comparative welfare state literature by including education and other in-kind benefits, tax benefits and tax subsidized employer health insurance benefits, and all taxes required to finance the benefits. This paper extends their work by describing the role of welfare state benefits for different family structures. We use the Fragile Families and Child Well-Being Study, which is particularly well suited to identifying different family structures—married, cohabiting, and single parent families—and to tracing the effects of changes in family type over time. We answer for the first time, the following questions: How do welfare state transfers differ by family type? How big a role do welfare state transfers play in the economic lives of different types of families with children? How big is the gain in full income to marriage among fragile families as compared to the loss from divorce? Do welfare state transfers cushion the effects of changes in family structure on full income? To what extent do welfare state transfers and the taxes required to finance them reduce inequality among family types?

The next three sections, respectively, summarize previous literature; describe the data and methods; and present answers to these questions. The paper concludes with a brief summary, discussion of limitations, suggestions for future research, and implications for policy.

2. Background and literature review

Many welfare state scholars have used the concept of "income packaging" to describe how families combine government income transfers with market income (Mavtre, Whelan, & Nolan, 2002; Rainwater & Smeeding, 1997; Rein & Stapf-Finé, 2001). In all rich nations, social insurance retirement benefits play a major role in the total income package of the aged. While no single transfer plays so dominant a role

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in the income package of families with children, taken together, a diverse set of cash transfers, including unemployment insurance, paid parental leave, paid sick leave, child allowances, cash housing allowances, and public relief play a huge role in many rich nations in the income package of low income families with children. As compared to other rich nations, the U.S. has an unusually small cash benefit package. Unemployment insurance benefits cover only a small proportion of the unemployed, Temporary Assistance for Needy Families (TANF), and Aid to Families with Dependent Children (AFDC) before it, limit benefits to primarily single parent families, and benefit levels of both unemployment insurance and TANF and General Assistance, compared to average earnings, are lower than in other nations. The US has no paid family leave, paid sick leave, child allowance, and or cash housing allowance program (Adema, 2012).

There is also an extensive literature on the effects of the AFDC program on family structure which finds modest negative effects (See Garfinkel & McLanahan, 1986; Moffitt, 1992,1996) and a more limited literature on the combined effects of all cash benefits and income taxes on differences in incomes when families marry, cohabit, or divorce (Carasso & Steuerle, 2005; Thomas & Sawhill, 2005). Thomas and Sawhill find substantial income gains from marriage, while Carasso and Steuerle find that pervasive income testing of benefits at the bottom of the income distribution substantially reduces gains from marriage.

The focus on cash transfers in the income packaging and family structure disincentive literatures is too narrow. The US, for example, provides Medicaid, food stamps, and public housing and housing vouchers. Indeed, expenditures on each of these in kind government benefits for the poor are all much larger than TANF expenditures (Rice, 2010; U.S. Census Bureau, 2012). The US federal income tax also has numerous tax credits, deductions, and exclusions that are economically equivalent to cash and in-kind transfers. These include the Earned Income Tax Credit (EITC), a partially refundable child tax credit which approximates a child allowance, a tax credit for child care expenditures, a homeowner deduction of mortgage interest and property taxes, and the exclusion of employer provided health insurance from the tax base. Howard (2007) and Hacker (2002) refer to these often overlooked benefits respectively as the "hidden" and "divided" American welfare state. Garfinkel et al. (2010) provide evidence that ignoring in-kind benefits and tax benefits seriously mismeasures the economic wellbeing of different groups..

To incorporate in-kind benefits and the taxes required to finance welfare state benefits, Garfinkel et al. (2006, 2010) develop a new measure of family resources, which they call "full income." Full income equals market income, plus cash and the value to recipients of in-kind and fringe benefits, minus the taxes required to pay for these benefits. Economists who study income distribution agree that as compared to disposable income, full income is a conceptually superior measure of a household's command over economic resources (Smeeding, 1982). Garfinkel, Rainwater, and Smeeding find that when in-kind and fringe benefits are valued at full government or market cost, differences in inequality at the bottom of the income distribution between the US and other rich nations shrink dramatically. They also show that the US results are quite sensitive to valuations of in kind benefits—in particular to the value of Medicaid to recipients.

The two most controversial elements of the Garfinkel, Rainwater, and Smeeding measure of welfare state transfers are the inclusion of public education and of employer provided benefits. We explain briefly the rationale for including each. Even though most quantitative cross-national comparative welfare state analyses omit education, the conceptual definitions of welfare states put forth by the leading scholars in the field include education. Within economics, the authoritative collection of classic readings on the welfare state designed for graduate students in economics, *Economic Theory and the Welfare State* (Barr, 1993), has a large section on education, consistent with its operational definition of the welfare state: "For the purposes of these volumes the term 'welfare state' is used for the state's activities in three broad areas: income transfers, health and health care, and education." In *Fighting poverty in the US and Europe: A World of Difference* (Alesena and Glaeser, 2004), Alberto Alesina and Edward Glaeser, two of the most influential welfare state scholars in economics, define welfare state programs as "the redistributive side of government policies" but include only cash transfers and health transfers in their analysis. Oddly—since most economists agree that elementary and secondary education are redistributive (Lindert, 2004) and some believe that even public financing of higher education is redistributive (Pechman, 1970)—they do not explicitly address the issue of whether public education is redistributive. In perhaps the most influential book on the welfare state in the sociology and political science literatures, *The Three Worlds of Welfare Capitalism* (Esping-Anderson, 1990), Gosta Esping-Anderson first defines the welfare state as: "… state responsibility for securing some basic modicum of welfare for its citizens." He goes on to say, "What then constitutes salient dimensions of welfare state stratification? … The education system is an obvious and much studied instance…. At this point, we confine our attention to the welfare state's traditional and still dominant activity, income maintenance."

Most studies of welfare state benefits also ignore employer provided health insurance. Some economists count the tax subsidy that comes from excluding employer provided health insurance from the federal income tax base. Building on the work of Lampman (1978) and Hacker (2004), Garfinkel et al. (2006, 2010) count the full value of employer provided health insurance as a welfare state transfer. Though employer provided health insurance, unlike tax financed health insurance, fails to redistribute on the financing side, it does involve socialization of the risk of ill health and redistribution from the healthy to the sick, at the firm rather than the national level. Failing to count the full value of employer provided health insurance understates both the aggregate benefits and costs and the distribution of both benefits and costs of the US model of providing health insurance. Most important, in the context of this paper where we are interested in how transfers and full incomes change as family status changes, just as in-kind government benefits must be counted as part of a family's full income so too must the full value of health insurance be counted. A mother who divorces and loses private health insurance, but gains Medicaid loses the full value of private health insurance, not just the tax-subsidized portion.

While there is much that we have learned from Garfinkel, Rainwater, and Smeeding, they do not examine differences in welfare state transfers or full incomes between different types of families with children, or the effects of changes in family structure on transfers and full income, or the effect of welfare state transfers and taxes on inequality among family types. Nor, do they illustrate so clearly why the full value of employer benefits needs to be included in welfare state analyses. The few papers to date that have used the Fragile Families data to analyze income transfer programs have focused on TANF and some in-kind transfer programs (e.g. WIC, Medicaid, and housing subsidies) (Chatterji & Brooks-Gunn, 2004; Reichman, Teitler, & Curtis, 2005; Teitler, Reichman, Nepomnyaschy, & Garfinkel, 2009) and examined the determinants or consequences of transfer receipt, but did not make any attempt to add the values of different benefits together to examine the role of income transfers as a whole. This paper contributes new knowledge by utilizing the same methodology as Garfinkel, Rainwater, and Smeeding with data from the Fragile Families and Child Well-being Study to construct estimates of welfare state transfers and full income for different types of families with children in order to address these questions and to strengthen the case for including the full value of employer provided benefits.

3. Method

3.1. Data

The Fragile Families and Child Wellbeing Study (FFS) follows a cohort of parents and their newborn children in 20 large U.S. cities

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