

WELFARE REFORM AND NEW YORK CITY'S LOW-INCOME POPULATION

I. INTRODUCTION

The goal of this paper is to evaluate the effects of welfare reform on the economic well-being of low-income families in New York City. To do so, it is important to examine changes in both the social safety net and the income and earnings of vulnerable households and families. For families with low earnings capacity, programs providing cash and/or in-kind assistance may be the source of all or most of the economic resources available, or they may provide vital supplements to earnings. To investigate the extent to which the safety net is still in place in New York City, we use the New York City sample of the Current Population Survey (CPS) to compare program receipt before and after the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). We use the income and earnings data from the CPS to compare economic status.

Cities around the country have benefited from the strong economic growth in the 1990s. The most recent data show that for the nation as a whole, between 1998 and 1999, the number of central-city residents in poverty fell by 1.8 million and household income of central-city residents, although still substantially lower than in the rest of the country, grew faster than elsewhere (U.S. Census Bureau 2000). Job growth has also been strong in New York City in this period, actually surpassing the national rate in the most recent years. From 1997 to 1999,

New York City job growth exceeded 2 percent each year, outperforming any equal span of time during the past three decades. The expanding New York economy has increased demand and possibly wages for low-skilled workers. Increases in the earned income tax credit (EITC) and the minimum wage have also made work more attractive to low-skilled individuals in recent years, and New York State supplements the national EITC with its own refundable credit.¹

It is difficult to disentangle the effects of welfare reform from the influence of these other factors on welfare receipt and incomes of the vulnerable groups in a single city. Moreover, without longitudinal data, it is not possible to trace the flows between work and benefits programs in detail. We can only observe net changes in program receipt, employment, and income. Our goal in this paper is therefore more modest: to compare public transfer program participation and economic status among New York City households before and after the 1996 welfare reform. We also investigate the extent to which the economic good news has translated into higher earnings and household income for families with low levels of education or single mothers. For those in the groups that have lost public assistance, we ask to what extent earnings have replaced the lost income. Are such families doing better, or about the same? Are more families able to combine public benefits programs with earnings, and how much has their household income changed?²

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The authors would like to thank Swati Desai and Kathryn Edin as well as their discussant, Gary Burtless, for excellent comments. They would also like to thank Makada Henry for research assistance. The views expressed are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.

Although our analysis compares outcomes before and after PRWORA, it should be made clear that because the formal state plan for welfare reform did not take effect until 1999, we are not really evaluating welfare reform in New York City. Instead, our results primarily reflect the net effect of changes in city administrative policies—characterized as push factors—and the pull of economic growth on the receipt of public assistance.

The plan of the paper is as follows. Section II discusses the changes in welfare law and administrative policy in New York and their potential effect on public assistance recipients. Section III describes the data source. Section IV addresses the issue of the packaging of programs and the extent to which the social safety net has been preserved. Section V considers differences among ethnic groups in changes in public assistance receipt. Section VI describes the changes in income and earnings among New Yorkers at risk of needing public assistance. The final section summarizes our findings and highlights the most striking results.

II. LEGAL AND ADMINISTRATIVE CHANGES TO PROGRAMS

The major cash programs in the social safety net are Aid to Families with Dependent Children (AFDC) and Temporary Assistance for Needy Families (TANF)—known in New York as Family Assistance—and Supplemental Security Income (SSI). General Assistance, previously known as Home Relief and now called Safety Net Assistance, has also been very important, particularly in New York City. As we use the terms in this paper, “public assistance” or “welfare” includes both AFDC/TANF and Home Relief/Safety Net Assistance, but not SSI. In New York City, a nontrivial number of households get both public assistance and SSI. The major in-kind programs are food stamps and Medicaid.

Since the public assistance rolls hit a peak in 1995, New York City has been engaged in a vigorous program to reduce the number of public assistance recipients. According to monthly caseload data from the New York City Human Resources Administration (HRA), the number of public assistance recipients—including both Family Assistance and Safety Net Assistance—dropped by 50 percent, from 1,160,593 in March 1995 to 576,723 in May 2000. New York City has one of the largest mandatory workfare programs in the country, with 32,771 cases engaged in the Work Experience Program (WEP) in June 2000.

PRWORA severed the automatic eligibility link between public assistance, food stamps, and Medicaid. The entitlement

to welfare under the TANF program was ended, with a lifetime limit of five years of welfare receipt, and states were given considerable discretion in designing programs that substituted work for cash assistance. In general, the intention of the law was not to reduce eligibility for, or participation in, food stamps and Medicaid. In fact, there has been a concerted effort to expand Medicaid participation. The exception to this statement is that the eligibility of immigrants (noncitizens) for the various programs was restricted.

Immigration is very important in New York City, and our results may be driven by differences between citizens and noncitizens. Therefore, we briefly describe the changes in the law regarding immigrant eligibility for public benefits programs. Historically, naturalized citizens and refugees have been eligible for the same benefits as native-born citizens, but legal permanent residents have been subject to “deeming” and “public-charge” restrictions, and temporary and undocumented immigrants have been ineligible for benefits.

Under PRWORA, undocumented immigrants and those on temporary visas remain ineligible for benefits (other than Medicaid emergency services). Except for refugees and asylees, legal immigrants arriving *after* August 22, 1996, are barred from *all* federal means-tested benefits (other than Medicaid emergency services) for at least five years, and effectively until they naturalize. For legal immigrants who were in the United States *before* August 22, 1996, the sponsor-income deeming period was extended for up to ten years for most types of benefits.

PRWORA also barred noncitizen immigrants who were in the United States *before* August 22, 1996, from food stamps unless they had worked in the United States for ten years. Some states, including New York, have at least partially replaced the federal food stamp program with their own food subsidy programs. However, state replacement in New York is limited to those under eighteen, over sixty-five, and/or disabled. Subsequently, the federal government restored eligibility for this same population.

Another federal law enacted in 1996, the Illegal Immigration Reform and Immigrant Responsibility Act, tightened the requirements for sponsors to support immigrants. It requires sponsors to sign a legally enforceable affidavit to support the immigrant, if necessary, and authorized government-funded agencies to sue for reimbursement of means-tested benefits.

Given the changes in the law, and the increased administrative hurdles that the city has raised to getting public assistance, our expectation was that New York City would show a reduction in the number of families getting the full package of programs—public assistance, food stamps, and Medicaid. Nationally, the intent of the law was to reduce the receipt of public assistance, with less reduction in food stamps and

perhaps an expansion in Medicaid coverage. However, food stamps might be expected to decline more in New York than nationally because many new immigrants arrived in New York after 1996 and most of them are ineligible for food stamps until they become citizens.

The receipt of public assistance depends both on eligibility rules and on the way in which the intake process is administered. The city has tried to rename its welfare offices “job centers,” with a change in goals from determining eligibility in a relatively straightforward way to actively discouraging applicants by “diverting” them into employment. Advocates for the poor have argued that in fact the way diversion works is that applicants are frequently misinformed about their eligibility and are improperly sent away from the welfare office with only minimal help finding jobs (Sengupta 2000). As evidence that diversion has been important, we note a sharp rise in the number of applicants who were rejected for public assistance, from 26 percent to 56 percent, and a 77 percent increase between 1993 and 1998 in the number of fair-hearing complaints by applicants who were denied access to public assistance (City of New York, various years). In the vast majority of these hearings, the city’s actions have been overturned and applicants have been declared eligible for public assistance.³

In response to complaints by advocates, the City of New York has been investigated by the U.S. Department of Agriculture for illegally denying potentially eligible persons the opportunity to apply for food stamps, and a federal judge has ordered the city government to cease the conversion of welfare offices into job centers (Welfare Law Center 2000). These administrative and legal developments suggest that the food stamp rolls might be dropping in tandem with (or at an even greater rate than) the public assistance rolls. By contrast, New York City has made active efforts to enroll eligible persons in Medicaid, particularly low-income women during pregnancy and when they enter the hospital to give birth.

III. ACCURACY OF THE CURRENT POPULATION SURVEY

Our data source is the March Current Population Survey. To conform to most other studies, our unit of observation is the household. Because the questions about receipt of most program benefits are asked about the household rather than the person, a household is treated as participating in a particular program if anyone in the household receives benefits from that program. The New York City sample of the March

CPS consists of 2,123 households in 1995, 1,579 in 1996, 1,586 in 1998, and 1,568 in 1999. To increase our sample sizes before and after welfare reform, we pooled 1995 and 1996 (“before”) and 1998 and 1999 (“after”). This gives us 3,702 households in 1995-96 and 3,154 households in 1998-99. Because the March CPS asks about income and program participation in the previous year, we refer to the “before” period as 1994-95 and the “after” period as 1997-98. Due to the sample rotation pattern in the CPS, there is approximately a 50 percent overlap in our sample for two adjacent years; consequently, the standard errors of our estimates are biased downward. Because we are dealing with the low-income population, we ignore the topcoding of income data in the CPS. We use the March CPS household weights throughout, with Passel’s corrected weights and race codes for 1995 (Passel 1996).

It is well known that the CPS underreports welfare receipt compared with administrative records. Throughout the late 1980s and early 1990s, estimates of AFDC receipt from the March supplement to the CPS were about four-fifths the number of AFDC cases found in program records nationwide (Bavier 2000). After 1994, CPS underreporting became more severe, so that by 1998 the CPS estimates were only about two-thirds the actual number of AFDC/TANF cases.

In New York City, the CPS indicates that in 1994-95, on average 325,863 households per year received public assistance in at least one month. By contrast, New York City’s welfare agency, the HRA, reports an average of 472,177 public assistance households for December 1994 and December 1995. The 1997-98 average for the CPS is 252,718. The HRA numbers for December 1997 and December 1998 average 314,946.⁴ The ratio of CPS households to administrative households goes from 69 percent in the earlier period to 80 percent in the later period. The HRA reports a 33.3 percent decline in the caseload between December 1994-95 and December 1997-98, while the CPS indicates a 22 percent decline in households getting public assistance. Thus, while underreporting of public assistance receipt in the CPS was somewhat greater in New York City than nationally before welfare reform, in the later period there was less underreporting in New York than nationally.

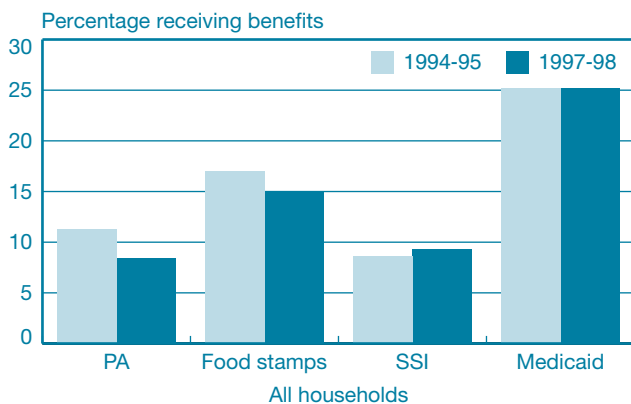
We have no explanation for the decrease in underreporting in the CPS in the later period. If caseloads were declining more rapidly in the later period than in the earlier period, then one might expect that the end-of-year administrative measure would be smaller relative to the “ever-on” measure in the CPS. However, the rates of caseload decline were very similar between 1994 and 1995 (14.1 percent) and 1997 and 1998 (15.2 percent). One possibility is that changes in the CPS sampling frame caused the changes. However, experts at the Bureau of Labor Statistics say that the changes in the CPS

sample in New York during the period were normal ones that were unlikely to cause a sharp change in reported rates of benefits receipt.^{5,6}

When we look at the number of persons living in households with at least one public assistance recipient, the CPS shows 1,105,000 in 1994-95 and 884,000 in 1997-98. These numbers are very close to the administrative counts of recipients, which were 1,115,000 in February 1994 and 792,000 in February 1998.⁷ This close correspondence does not mean that the CPS correctly counts all those getting public assistance. Person-weighting counts every person in the household as getting public assistance. This leads to an overcount of the number of persons, since in some households not all members receive public assistance—for example, child-only cases or cases where the adult gets SSI. Nonetheless, we take it as reassuring that the CPS count of the total number of persons benefiting from public assistance is close to the total number of actual recipients in New York City.

Because the program definition of a food stamp household is much closer to the census definition of a household than is the case for public assistance, we expected food stamp receipt by households to be reported more accurately than public assistance. The CPS reports between 76 and 80 percent of the number of food stamp households reported by the HRA. Hence, while there is less underreporting of food stamps than public assistance in the “before” period, the degree of underreporting is similar in the “after” period.⁸

CHART 1
Public Benefits Receipt in New York City
1994-95 and 1997-98



Note: PA = AFDC/TANF or Home Relief/Safety Net Assistance; SSI = Supplemental Security Income.

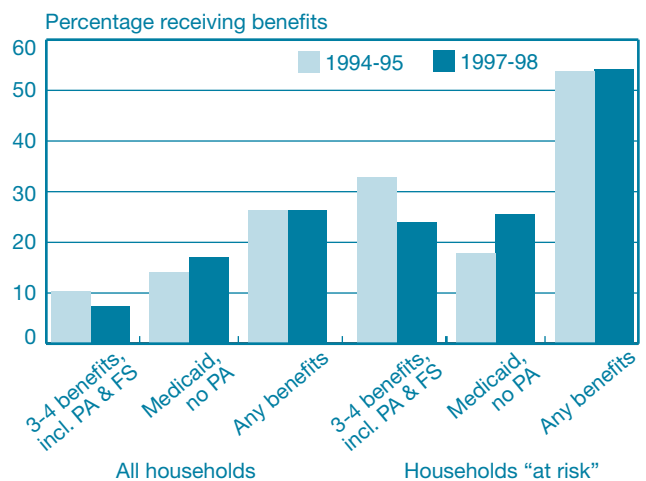
IV. PACKAGING OF PROGRAMS

To examine multiple program receipt, we look at both the overall population and that part of the population at risk of receiving public assistance (AFDC/TANF or General Assistance). “At-risk” households are defined as those that, by virtue of education or family structure, are likely to have low earnings capacity. We include all households whose head is under age sixty-five and has less than a high-school education, plus all female-headed households with children under age eighteen.⁹

Chart 1 shows the rate of receipt among all households for each of the programs separately. Between 1994-95 and 1997-98, there was a drop in public assistance receipt from 11.3 to 8.4 percent of households. Food stamp receipt also went down, from 17 to 15 percent. Medicaid receipt remained constant at 25.2 percent. By contrast, SSI receipt increased over the period, from 8.6 to 9.3 percent. Among the population at risk of needing public assistance, rates of program receipt are of course much higher (at least two times higher for public assistance, food stamps, and Medicaid). However, the pattern of changes in receipt across programs is very similar to that seen for the overall population.¹⁰

The “any benefits” bars in Chart 2 represent those households that participate in at least one of the four programs. They show that the proportions receiving some benefit stayed about the same over the period. Thus, even with the strong

CHART 2
Receipt of Public Benefits Packages
By New York City Households, 1994-95 and 1997-98



Note: PA = AFDC/TANF or Home Relief/Safety Net Assistance; SSI = Supplemental Security Income; FS = food stamps.

economy and the administrative push to get people off public assistance, we do not find a large drop in the number of households receiving at least some benefit from the social safety net in the immediate aftermath of welfare reform.

The fact that public assistance receipt declined by more than food stamp or Medicaid receipt, while the proportion participating in at least one program stayed the same, suggests that some of those who lost public assistance retained other program benefits. To examine this issue directly, we look next at changes in multiple program receipt and the degree of “packaging” of the various public assistance programs.

Chart 2 shows multiple program receipt for all households and for those “at risk.” Table 1 shows benefits packaging in more detail and the benefit combinations received by different ethnic groups. Households are grouped according to whether they did or did not get public assistance. The first pair of bars in each half of Chart 2 shows a substantial drop in the proportion getting the full package of public assistance and at

least two of the other three programs: Medicaid, food stamps, and SSI. Among all households, the drop is from 10.4 to 7.4 percent, while among households at risk the drop is from 32.9 to 23.9 percent. This drop closely parallels the decline in public assistance discussed above.

The second pair of bars shows that the proportion of those getting a package including Medicaid, but not public assistance, goes up by an approximately equal amount. On its face, this pattern would seem to suggest that most people losing public assistance retained their Medicaid benefits.

People losing public assistance can either exit the welfare system entirely or retain other program benefits. Longitudinal data, which track people on public assistance after they leave the rolls, would be required for a precise determination of the proportions in each group. However, our cross-sectional data suggest that both patterns occurred. For those getting public assistance, the most common pattern is also to get food stamps and Medicaid. Of the 8.6 percentage point drop in the

TABLE 1
Receipt of Benefits “Packages” by Households in New York City

Percentage receiving	All Households		“At-Risk” Households ^a		All Hispanic Households		All Black Non-Hispanic Households		All White and Asian Non-Hispanic Households	
	1994-95	1997-98	1994-95	1997-98	1994-95	1997-98	1994-95	1997-98	1994-95	1997-98
All four programs	1.5	1.0	4.0	2.8	2.9	3.0	2.2	0.7	0.5	0.2
PA+FS+MC	8.6	6.1	27.7	20.3	20.1	11.1	12.6	11.7	1.7	1.2
PA+MC+SSI	0.3	0.3	1.2	0.8	0.6	0.3	0.8	0.8	0.0	0.1
SSI+FS+MC	3.8	4.2	4.7	5.0	6.7	6.8	4.3	3.7	2.3	3.3
PA+FS	0.2	0.2	0.1	0.9	0.2	0.1	0.3	0.7	0.1	0.1
PA+MC	0.7	0.8	1.4	2.1	1.6	1.1	0.8	2.1	0.2	0.1
SSI+MC	2.9	3.8	3.1	4.8	5.1	6.5	2.9	4.1	2.0	2.5
FS+MC	2.0	2.5	3.0	5.4	3.4	4.1	3.4	4.5	0.8	0.9
PA only	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.2	0.1	0.0
FS only	0.9	1.0	1.4	1.6	1.5	1.9	1.1	0.9	0.6	0.7
MC only	5.4	6.5	7.1	10.4	6.0	10.5	7.4	8.6	4.2	3.8
None	73.6	73.6	46.2	45.8	51.9	54.6	64.2	62.1	87.6	87.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Three to four programs, including PA	10.4	7.4	32.9	23.9	23.5	14.5	15.6	13.2	2.3	1.5
Medicaid without PA	14.2	17.0	17.9	25.6	21.2	27.9	18.0	20.8	9.3	10.4
Any program	26.4	26.4	53.8	54.2	48.1	45.4	35.8	37.9	12.4	12.7
Sample size	3,702	3,154	1,095	925	1,255	1,117	727	603	1,720	1,434

Note: PA = AFDC/TANF or Home Relief/Safety Net Assistance; FS = food stamps; MC = Medicaid; SSI = Supplemental Security Income.

^aHead is a nonelderly high-school dropout or a female with children under eighteen.

proportion of at-risk households who were getting the full package of public assistance, food stamps, and Medicaid (and maybe SSI as well), about a third (2.7 percentage points) lost only public assistance. Moreover, the proportion of Medicaid-only households increases by 3.3 percentage points. If all of the increase in Medicaid-only receipt comes from households that have lost both public assistance and food stamps, then one could conclude that of those who have lost public assistance, about 70 percent $[(2.7 + 3.3)/8.6]$ have retained their Medicaid coverage. This would imply that at least 30 percent of those who got the full package before welfare reform and then lost public assistance have exited the public welfare system entirely. If Medicaid-only was expanding for reasons other than a shift from a package of programs to just Medicaid, then the proportion exiting the system would be correspondingly larger.

Finally, if exits from the public welfare system of this magnitude have occurred, why has the overall percentage of the population getting some benefit not gone down? The answer lies in the increase in SSI receipt. The proportion getting SSI without public assistance increased by 2 percentage points, and 100 percent of SSI recipients also get Medicaid. In other work, we have found that this increase in SSI is due almost entirely to an increase in program receipt among elderly noncitizens.

V. ETHNIC PATTERNS OF DECLINE IN PUBLIC ASSISTANCE

Flows off of public assistance are influenced by economic conditions, the characteristics of individual households, and changes in administrative rules and procedures. For example, the growth in low-skill, low-wage jobs in the New York economy could reduce the probability of being on public assistance more for those with less education. More stringent administrative procedures could impose a higher hurdle for those who are not fluent in English.

To investigate the question of which groups are more likely to have left public assistance, we first focus on ethnicity. We divide the population into three groups—black non-Hispanics, Hispanics, and all others (including non-Hispanic whites, Asians, and Native Americans)¹¹—and look at changes in the rate of receipt of public assistance. Next, we subdivide the Hispanic population by citizenship status and Puerto Rican or other origin. We then present a multivariate analysis of changes in public assistance receipt, which allows us to control for a number of demographic characteristics.

Chart 3 shows the change in the proportion of households receiving public assistance (AFDC/TANF and Home Relief/Safety Net Assistance) between 1994-95 and 1997-98. What

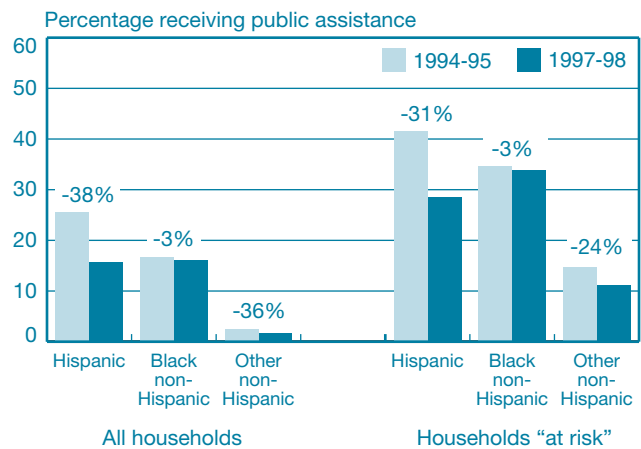
stands out is the large drop in the rate of receipt among Hispanics (9.8 percentage points) compared with blacks (less than 1 percentage point). In 1994-95, the rate of public assistance receipt is 50 percent higher among Hispanic households than among blacks, yet just three years later the rates are the same. The difference between the rates of decline for Hispanics and blacks is easily significant at the 1 percent level.

The percentage point decline among whites and Asians is also small. However, because the white and Asian population is large, the decline still represents a substantial number of persons. Since initial rates of receipt differ sharply among the three groups, in Chart 3 we also show the percentage drop in public assistance receipt. The rate of decline is 38 percent among Hispanics, 36 percent among non-Hispanic whites and Asians, but only 3 percent among blacks.

We next ask whether the drop among Hispanics affects only certain groups of Hispanics, or is similar for all Hispanics. In Chart 4, we divide Hispanics into Puerto Ricans (whether born in the mainland United States or in Puerto Rico), other Hispanic citizens, and other Hispanic noncitizens. The chart shows that the decline is substantial among all groups of Hispanics, but the biggest drop (42 percent) occurs among Puerto Ricans.

What explains the relatively large drop in rates of public assistance receipt among Hispanics compared with blacks? The greater decline could result from greater improvement in labor market opportunities, or from changes in the characteristics of households that put them at lower risk of receiving welfare, such as a greater decline in the proportion of female-headed families. Faster decline could also be due to increased

CHART 3
Receipt of Public Assistance
By New York City Households, 1994-95 and 1997-98



administrative barriers making it relatively more difficult for Hispanics to navigate the welfare bureaucracy.

To determine whether the greater decline in receipt rates among Hispanics remains statistically significant when we control for other factors that affect the probability of welfare receipt, we estimate a set of linear probability models of public assistance receipt. These models include ethnicity and the change from 1994-95 to 1997-98 for each ethnic group, plus various combinations of demographic controls. In some models, the effect of the controls is allowed to vary over time. The demographic controls are dummy variables for female headship, presence of children under age eighteen, whether the household head is under age sixty-five, whether he or she lacks a high-school diploma, and whether he or she is a citizen.¹²

The change from 1994-95 to 1997-98 for whites and Asians, and the changes for blacks and Hispanics relative to white and Asian non-Hispanics, are summarized in Table 2. The *t*-statistic offers a statistical test of whether the drop in receipt is significantly greater among blacks or Hispanics than these others.

Model 1 corresponds to the division of households into whites and Asians, blacks, and Hispanics (Chart 3). The results indicate that the greater decline in receipt among Hispanics remains statistically significant under all specifications. Without any controls, the decline is 8.8 percentage points greater for Hispanics than for whites and Asians (column 1). Including the full set of controls and allowing their effects to vary over time reduces this difference to 6.2 percentage points (column 9). Allowing the effect of family structure to vary over time (columns 6, 8, and 9) has the greatest impact on the probability of welfare receipt, because female-headed house-

holds with children experienced an above-average decline in welfare receipt since 1995, and Hispanics are more likely than whites and Asians in New York City to be single mothers.

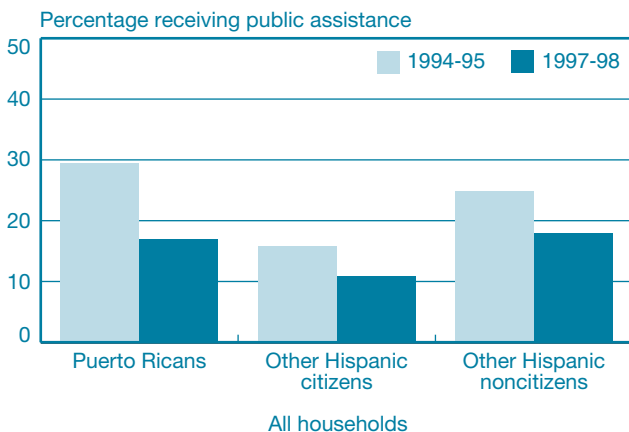
By contrast, the regression shows no significant change in the rate of welfare receipt among blacks.¹³ Among whites and Asians, the decline is at or close to statistical significance until the effect of age and education is allowed to vary over time. When simple controls for the household head's age and education are included, the decline for whites and Asians becomes significant at the 5 percent level. However, when we allow the effect of age and education to vary over time, the change for whites and Asians is always insignificant. This last result indicates that the effect of the household head's age and education on the change in the probability of household welfare receipt completely explains the change in the rate of receipt by whites and Asians.

Model 2, like Chart 4, divides the Hispanic group into Puerto Ricans, other Hispanic citizens, and Hispanic noncitizens. As expected, the results for whites and Asians and blacks are unchanged from Model 1. However, among Hispanics, only Puerto Ricans continue to show significantly greater drops in rates of welfare receipt when we allow the effect of being a single mother to vary over time. The differential rate of decline for Puerto Ricans is reduced from 11.6 to 8.3 percentage points by the full set of controls in column 8.

Among other Hispanics, the estimated declines are only about half as large as for Puerto Ricans, but the decline is measured more precisely for noncitizens than citizens. In fact, for Hispanic citizens, the decline between 1994-95 and 1997-98 is not significantly greater than for whites and Asians. For noncitizen Hispanics, the decline is significantly greater at the 6.5 percent level, even when we control for single motherhood, age, and education. However, when we control for the differential effect of single motherhood in the later year (columns 6 and 8 of Table 2), the decline for Hispanic noncitizens also becomes insignificant. This insignificance indicates that if a household is at risk of welfare receipt in 1997-98 because it is headed by a female, then there is no additional likelihood that non-Puerto Rican Hispanics lost public assistance. Thus, once we introduce controls for the characteristics that put families at risk of receiving public assistance, the greater decline for Hispanics seems to have occurred mainly among Puerto Ricans.

Given the greater rate of decline in public assistance for Hispanics, it is also of interest to see whether the change in the packaging of benefits differs for this group. Chart 5 (Table 1) shows for Hispanics only the grouping of programs according to public assistance receipt, Medicaid receipt, and any benefit. The pattern is similar to that seen for all groups in Chart 2, but the changes are greater. There is a bigger drop in the

CHART 4
Receipt of Public Assistance
 By New York City Hispanics, 1994-95 and 1997-98



proportion with three or four benefits, including public assistance and food stamps, and a bigger increase in the proportion getting Medicaid, but no public assistance. The only substantive difference between Hispanics and the overall population is that there is a slight increase (2.7 percentage points) in the proportion of Hispanic households getting no benefits.

We were surprised by the fact that the CPS shows virtually no drop in the rate of public assistance receipt among blacks.

Administrative records indicate a decline of 157,000 cases overall during the sample period, while the CPS shows a drop of 73,000 households of all ethnic groups. Because the black population of New York City increased slightly, the administrative records imply a decline in the rate of public assistance receipt among blacks. The question then becomes, why does this drop not show up in the CPS? Although it is possible that the patterns of underreporting of welfare receipt by different ethnic groups have changed since welfare reform,

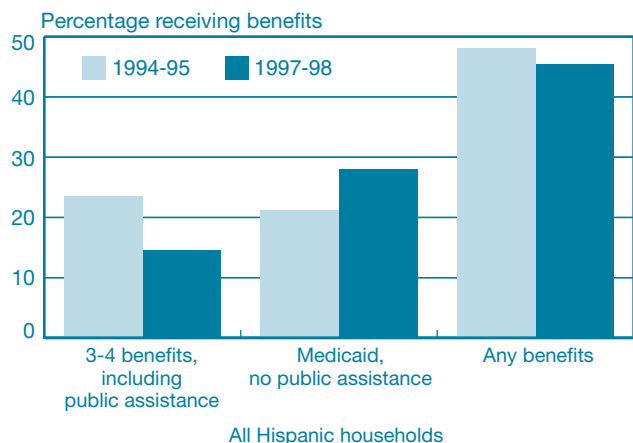
TABLE 2

Linear Probability Models of Public Assistance Receipt, by Ethnicity and Period Difference in Differences Relative to White and Asian Non-Hispanics, with Various Controls

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Model 1 (all Hispanics)									
Change from 1994-95 to 1997-98									
White and Asian non-Hispanics	-0.009	-0.009	-0.012	-0.012	-0.012	0.015	-0.001	0.008	0.007
<i>t</i> -statistic	1.76	1.71	2.25	2.16	2.17	1.72	0.13	0.62	0.56
Change from 1994-95 to 1997-98, relative to white and Asian non-Hispanics									
Black non-Hispanics	0.004	0.005	0.004	0.005	0.006	0.023	0.006	0.020	0.022
<i>t</i> -statistic	0.18	0.26	0.18	0.26	0.29	1.12	0.26	1.05	1.12
Hispanics	-0.088	-0.084	-0.079	-0.076	-0.076	-0.065	-0.077	-0.061	-0.062
<i>t</i> -statistic	4.98	5.06	4.54	4.62	4.66	3.90	4.10	3.43	3.49
Model 2 (Hispanics by citizenship)									
Change from 1994-95 to 1997-98									
White and Asian non-Hispanics	-0.009	-0.009	-0.012	-0.012	—	0.014	-0.002	0.008	—
<i>t</i> -statistic	1.76	1.71	2.24	2.15	—	1.67	0.17	0.57	—
Change from 1994-95 to 1997-98, relative to white and Asian non-Hispanics									
Black non-Hispanics	0.004	0.005	0.004	0.005	—	0.022	0.005	0.020	—
<i>t</i> -statistic	0.18	0.26	0.185	0.26	—	1.11	0.26	1.04	—
Puerto Ricans	-0.116	-0.105	-0.104	-0.095	—	-0.088	-0.103	-0.083	—
<i>t</i> -statistic	4.35	4.19	4.05	3.92	—	3.54	3.89	3.32	—
Other Hispanic citizens	-0.040	-0.053	-0.037	-0.048	—	-0.036	-0.036	-0.033	—
<i>t</i> -statistic	1.18	1.71	1.13	1.54	—	1.16	1.08	1.06	—
Hispanic noncitizens	-0.060	-0.054	-0.055	-0.050	—	-0.032	-0.053	-0.033	—
<i>t</i> -statistic	2.00	1.98	1.86	1.85	—	1.16	1.68	1.12	—
Controls									
Female head, children under eighteen	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Dropout, nonelderly	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Noncitizen	No	No	No	No	Yes	No	No	No	Yes
Interactions of controls and year	No	No	No	No	No	Yes	Yes	Yes	Yes

Note: Number of observations = 6,856.

CHART 5
Receipt of Public Benefits Packages
 By New York City Hispanics, 1994-95 and 1997-98



this seems unlikely. Further investigation of this puzzling result is clearly warranted. We are analyzing other data sets to see whether the same result is found.

VI. INCOME AND EARNINGS OF LOW-INCOME NEW YORKERS

The previous section showed that many, but not all, of those who were on welfare apparently continue to participate in other benefits programs, particularly Medicaid. We also found a particularly sharp drop in public assistance among Hispanics. We now turn to the broader question of how New Yorkers with low household earnings capacity are faring after welfare reform. For households with low education levels or headed by a female, how has the mix of income sources shifted between public assistance and earnings, and how have the levels of income and earnings changed? Given the differential decline in public assistance for blacks, Hispanics, and whites, are the changes in household income different for these groups?

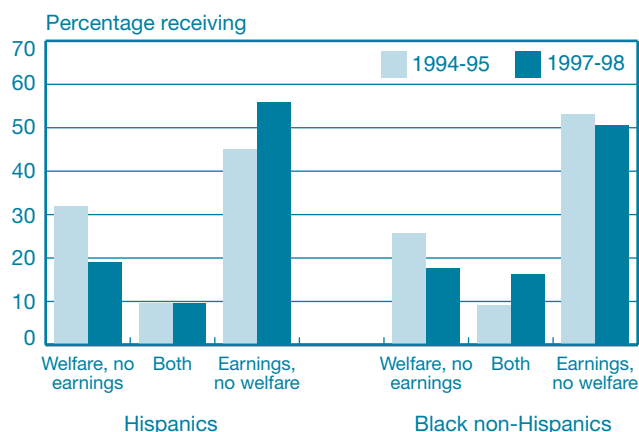
A second question focuses on public assistance recipients. An improving job climate in New York City, and increased sanctions for not working, might be expected to increase the proportion of public assistance recipients who are combining cash assistance and earnings. Are those who were still on public assistance in 1997-98 more likely to combine cash assistance and earnings than in 1994-95, and has total household income increased for this group?

We note at the outset that the March CPS asks whether anyone in a household got public assistance or earnings in any month during the previous year, but it does not tell us whether the two were received at the same time. Those reporting both public assistance and earnings may have received them at different times during the year.

Along with a number of other states, New York has raised the earnings disregard and lowered the benefit reduction rate for TANF recipients with earnings (New York State Office of Temporary and Disability Assistance 2000; Giannarelli and Wiseman 2000). Eventually, these changes should lead to an increase in the proportion of public assistance cases that also receive earnings. However, the changes in the disregard and the benefit reduction rate did not take effect until November 1999. Hence, they should have no impact on the changes in the likelihood of combining cash assistance and earnings between 1994-95 and 1997-98.

Chart 6 shows the mixing of income sources for at-risk households for blacks and Hispanics separately. Whites and others are excluded because the sample size is small and because the patterns are very close to those for Hispanics. Overall, the increase in the proportion of the at-risk population that gets both public assistance and earnings is small, going from 9 to 11.5 percent. As shown in the chart, there was a substantially bigger drop among Hispanics than blacks in the proportion getting only public assistance: 13 percentage points versus 8.1 percentage points. What stands out is the difference in where those leaving the “just public assistance” category go. Among blacks, almost all apparently wind up getting both public assistance and earnings. The increase in the percentage getting both public assistance and earnings is almost 90 percent

CHART 6
Welfare and Earnings Receipt
 By “At-Risk” Households, 1994-95 and 1997-98

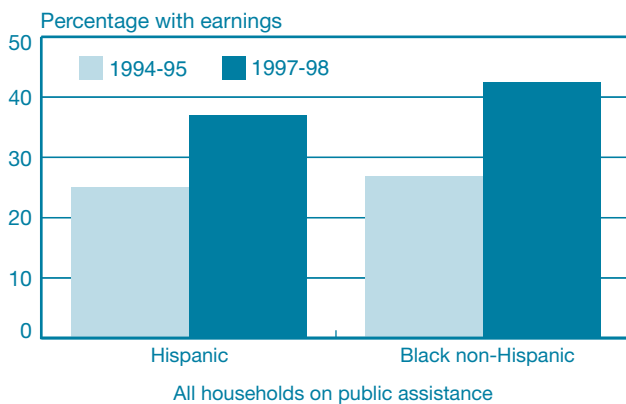


of the decrease in public assistance alone. By contrast, for Hispanics, the proportion getting income from both earnings and public assistance does not change, while the increase in the proportion with earnings-only is equal to 85 percent of the drop in those getting only public assistance.

The above results show that in the first years after welfare reform, Hispanics were more likely than blacks to leave public assistance entirely, while blacks were more likely to combine public assistance and earnings. The differential pattern of shifts between Hispanics and blacks among public-assistance-only, earnings-only, and both suggests that for many Hispanics, earnings have increased enough to end eligibility for public assistance. However, for blacks, the earnings increase seems to have been more modest and therefore a higher proportion retain eligibility for public assistance.

Chart 6 shows that the proportion of the “at-risk” population getting both public assistance and earnings is unchanged for Hispanics, but increases substantially among blacks. Chart 7 would seem to contradict this story. It shows that among those getting public assistance, the proportion of recipients who also get earnings increased almost as much among Hispanics (12 percentage points) as among blacks (15.6 percentage points). The explanation for this apparent inconsistency is that among Hispanics, two things appear to have been going on at the same time. Of those getting only public assistance in the earlier period, a substantial number also got earnings in the second period. However, of those Hispanics getting both sources of income in the earlier period, many lost their public assistance benefits and wound up having only earnings. By contrast, among blacks, only the first “movement” occurred. Households moved from public-assistance-only to public assistance and earnings, but very few households lost their public assistance benefits entirely.

CHART 7
Earnings by Households on Welfare
In New York City, 1994-95 and 1997-98

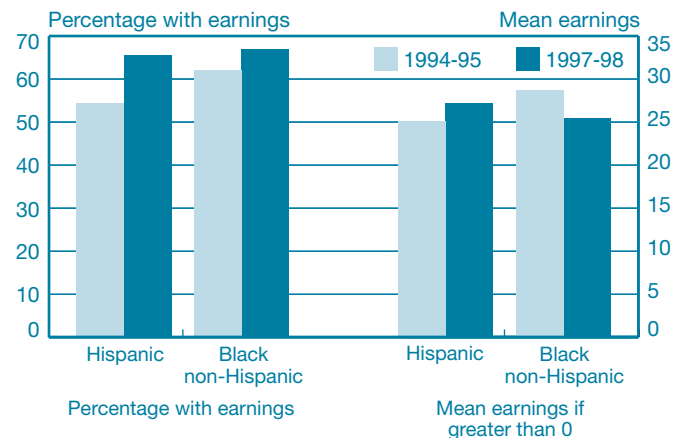


We would also like to know whether household income increased among those combining public assistance and earnings. As reported in our CPS samples, nominal household income actually went down for those combining public assistance and earnings (from \$18,193 to \$16,524). Unfortunately, the sample size for this group is quite small (about 100 households in each period), so our estimates are not very precise.

The small sample size makes it impossible to determine the reasons for the drop (or lack of increase) in household income among those combining public assistance income and earnings. One possibility stems from the fact that a household may have received income from both sources during a year, but not at the same time. Of those reporting both public assistance and earnings, some may have gotten public assistance toward the beginning of the year and earnings toward the end. Before welfare reform, the group leaving public assistance for work would have consisted mainly of households “pulled” off welfare by attractive employment. After welfare reform, however, more families may have been “pushed” off welfare into low-wage jobs. On balance, this may have led to household income being lower than it was before reform for those receiving both public assistance and earnings in the same year.

Lastly, we ask, how has economic well-being changed between 1995 and 1998 for New York City households with low earnings capacity? We examine changes in income and earnings both for those with positive earnings and for the entire at-risk group, again dividing the sample into Hispanics, blacks, and whites and Asians. The results are summarized in Charts 8 and 9. Chart 8 shows the change in the proportion of

CHART 8
Households with Earnings
“At-Risk” Households, 1994-95 and 1997-98



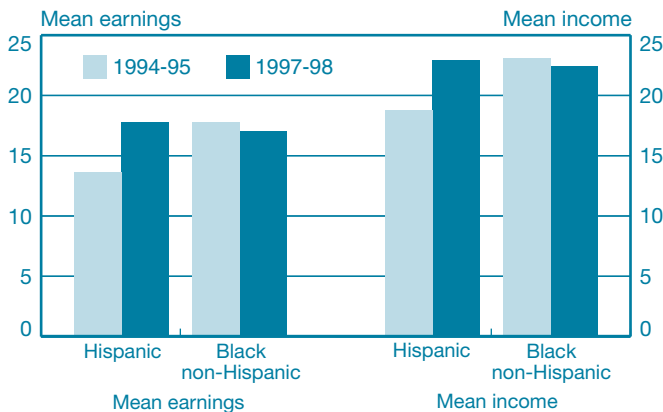
Note: Mean earnings are in thousands of 1999 dollars.

households with earnings and the average amount of earnings (in 1999 dollars) for those with some earnings. The proportion with earnings went up by 11 percentage points among Hispanics, as opposed to 4.9 percentage points among blacks. Among whites and Asians, there was no change. The increase in the proportion with earnings is statistically significant both among all “at-risk” households and among Hispanics, but insignificant among the other groups.

The second half of Chart 8 shows the change in average household earnings for those with positive earnings. (All figures are adjusted to 1999 dollars, using the New York City values of the consumer price index.) Among blacks, average real annual earnings decreased by \$3,277, while among Hispanics, average earnings went up by \$2,171. Among whites, there was a decline of \$1,268 (not shown). None of these changes is statistically significant, however. Although it is not statistically significant, the difference in the change between blacks and Hispanics is consistent with the greater decline in public assistance receipt among Hispanics than among blacks, as discussed above.

The first half of Chart 9 shows earnings among all Hispanic and black households who are at risk of receiving public assistance. Average real earnings increased by \$4,161 (30 percent) for Hispanics, but fell by \$798 for blacks. Only among Hispanics was the increase in earnings statistically significant. Among all households, the change in average real household earnings, although positive, was not significantly different from zero. Household income, shown in the second half of Chart 9, shows a pattern of change almost identical to household earnings, rising a statistically significant 22 percent among Hispanics and falling among blacks.

CHART 9
Household Earnings and Income
“At-Risk” Households, 1994-95 and 1997-98



Note: Mean earnings and mean income are in thousands of 1999 dollars.

VII. SUMMARY AND CONCLUSIONS

The 1996 welfare reform law marked a major change in national policy toward public assistance. Over the time period covered by our research, the City of New York has also been engaged in a vigorous effort to reduce the welfare rolls. To evaluate the initial effects of the new law and the change in city policies, we use the Current Population Survey to compare receipt of public benefits programs, income, and earnings among households with low earning capacity in New York City in 1994-95 and 1997-98. The CPS shows a 22 percent drop in the number of households getting public assistance. This estimate is well under the 33 percent decline in the caseload reported by the Human Resources Administration. However, food stamp and Medicaid receipt appears to be more accurately reported. The undercount suggests that some caution is warranted in interpreting our findings.

Between 1994-95 and 1997-98, the CPS shows a drop in the proportion of New York City households getting public assistance, from 11.3 to 8.4 percent. Food stamp receipt went down by 2 percentage points, from 17 to 15 percent, while the rate of Medicaid receipt remained constant. The proportion getting at least one benefit (Medicaid, public assistance, SSI, or food stamps) stayed about the same over the period. Of those who had been getting public assistance, food stamps, and Medicaid and then lost their public assistance, we estimate that at least 30 percent have exited the public welfare system entirely. At most, 70 percent have retained some other program benefit. Surprisingly, the reduction in rates of public assistance receipt among blacks is negligible. The decline in public assistance receipt is significantly greater among Hispanic households than among other ethnic groups. When we divide the Hispanic population into various groups, the greatest rate of decline is among Puerto Ricans. When we control for other factors that might affect the rate of public assistance receipt, the significantly greater rate of decline holds up statistically only for Puerto Ricans.

We also look at changes in income and earnings of public assistance recipients and households at risk of needing public assistance. Overall, we find only a small increase in the proportion of the at-risk population that is combining earned income and public assistance. However, among those who remained on the public assistance rolls in 1997-98, the increase was more substantial, with the proportion also receiving earnings going up from 27 to 43 percent. This increase probably results from both an economic pull—an improving job climate—and an administrative push—more emphasis on work requirements and greater sanctions for not working. Blacks were more likely than Hispanics to combine both sources of income in the later period. However, based on a very

limited sample, we find no evidence of significantly increased income among those who did combine the two sources of income.

The proportion of “at-risk” households with earnings rose from 62 to 69.2 percent, but went up more for Hispanics (by 11 percentage points) than for blacks (4.9 percentage points). Among those with earnings, the average level of household earnings went down for blacks and up for Hispanics, but these conditional earnings changes are not significant for either group. Among the entire “at-risk” group, including those with zero earnings, there was a statistically significant increase in average real household earnings (30 percent) and income (22 percent) for Hispanics, but not for the other ethnic groups.

We conclude by highlighting what we consider to be the most striking results from this research. First, although there was a sharp drop in the rate of receipt of public assistance, the same proportion of the city’s households (26.4 percent) received at least some benefits under the social safety net in 1997-98 as in 1994-95. This result reflects the strong fiscal incentives to maintain Medicaid enrollment and the increase in the number of SSI recipients.

Second, despite the strong economy in New York, real earnings and income for at-risk households show no significant gain over the period studied. Almost 20 percent of those who relied on public assistance alone in 1994-95 had substituted earnings for public assistance by 1997-98. Another 10 percent combined earnings and public assistance. Nonetheless, for those with low education levels or headed by a single mother, total household earnings and income remained basically unchanged. The lack of an increase in earnings could result in part from the depressing effect on wages for low-skill jobs caused by the entry of many former welfare recipients into the labor market. It should be noted, however, that our measure of income does not take into account the earned income tax credit, which was increased substantially not only in 1993 but also in 1996.

Differences between Hispanics and blacks may be characterized as “gap closing,” in that rates of receipt of public assistance and earnings levels of Hispanics converge on those of blacks. The next step in our research is to use the March 2000 CPS to determine whether public assistance rates continue to decline more rapidly for Hispanics than for blacks, and earnings and income continue to increase more rapidly, or whether the rates have trended together as the economic expansion continues in New York City. Possible explanations for the observed gap closing involve data accuracy, language barriers, and economic factors.

First, there is a question of data accuracy. Although the decline in public assistance receipt among Hispanics is consistent with the overall caseload decline in the

administrative data, the especially sharp decline among Puerto Ricans and the negligible change among blacks are surprising. We find this result for blacks hard to believe. More and better data are required to determine whether the rate of public assistance receipt actually did not drop among blacks, or whether our result reflects anomalies in the CPS data.

The greater decline in rates of public assistance receipt among Hispanics between 1994-95 and 1997-98 would seem to be consistent with the hypothesis that language is an important barrier to understanding the new rules and policies implemented by New York City. However, this hypothesis is contradicted by the fact that the greatest drop in rate of receipt was among Puerto Ricans, who might be expected to face fewer language barriers than other Hispanics.

An alternative explanation for the sharp decline among Puerto Ricans is that it reflects a complicated interaction between greater administrative barriers to receipt, differences in family structure and resources, and the “pull” effects of a stronger economy. Suppose that Puerto Ricans were more likely to cohabit, or live in extended families, and therefore were better able to draw on extended family economic resources than blacks. If those resources were increasing relatively rapidly because of the stronger economy, then the additional administrative hurdles, even if relatively uniform for all groups, could make Puerto Ricans more likely to leave the welfare rolls.

On the earnings side, only Hispanics show consistent and statistically significant increases in employment, income, and earnings. Hispanics “at risk” for needing assistance started out the period with household earnings only 75 percent of the earnings of blacks. By 1997-98, their household earnings had risen to 105 percent of the earnings of blacks. Why did low-skilled Hispanics do better in the labor market than other groups, particularly blacks?

Kathryn Edin has suggested to us that one consequence of welfare reform may be a switch from informal to formal earnings, and greater reporting of those earnings on sample surveys such as the CPS. If Hispanics were more likely to rely on informal and unreported earnings than blacks, then the increase in earnings among Hispanics could represent a difference in reporting, rather than a real change in relative economic circumstances.

Another possibility is that the characteristics that help to determine income, such as education level, changed more for Hispanics than for blacks. Although the data do show an increase in education level among Hispanics, and a drop in rates of single motherhood relative to blacks, the differences are not great enough to explain the difference in outcomes. Moreover, the fact that our at-risk group is based on single motherhood and low education means that those experiencing

sharp increases in education or changes in headship would be selected out of the at-risk group.

A third explanation for the increased employment of Hispanics is that the demand for Hispanics in the labor market has increased relative to blacks. This change could reflect employer discrimination, or the fact that the ability to speak Spanish is increasingly valued by employers in New York. Employer preferences for Hispanics over blacks have been reported in interview surveys conducted in a number of cities (Moss and Tilly 2000). The fact that both employment and earnings went up for Hispanics is consistent with both of these stories.

Finally, the fact that Hispanics left the public assistance rolls at such high rates may have been related to their increase in

earnings. Exit from public assistance reflects both push and pull factors. If the push factor of administrative hassling had a greater effect on Hispanics than on blacks, it may have forced Hispanics to increase their employment and earnings more than other groups.

To conclude, it is axiomatic that researchers always call for more research. In this case, however, we feel particularly justified in doing so. In an era in which welfare policies are changing rapidly, patterns in receipt of public benefits, income, and earnings are highly important in understanding the well-being of New York City's low-income residents. There are some genuine puzzles presented by the data, and we hope that future research, by ourselves and others, will be able to explain the results more conclusively.

ENDNOTES

Tables containing the information presented in the charts are available from the authors.

1. The New York State credit was expanded after 1997, so it now equals 22 percent of the federal EITC.
2. For a national analysis along these lines, see Primus et al. (1999).
3. From fiscal year 1994 through fiscal year 1997, the percentage of fair-hearing rulings in the client's favor ranged from 85 percent to 91 percent. In fiscal year 1998, the measure was changed, making it impossible to compare with the earlier period. The last statement is based on a communication with Glenn Pasanen, Associate Director of the City Project, on December 13, 2000.
4. The HRA counts were prepared for us by the Office of Policy and Program Analysis of the Human Resources Administration.
5. Communication with Anne Polivka, Bureau of Labor Statistics, November 19, 2000.
6. One possible explanation for this increase in the reporting of public assistance receipt in the later Current Population Surveys was suggested to us by Kathryn Edin. Changes in the official names of many state welfare programs after PRWORA might be confusing to respondents, and could be expected to lower reporting rates for public assistance in the CPS. In the case of New York, the name change from AFDC and Home Relief to Family Assistance and Safety Net Assistance may have had the effect of increasing the reporting of these programs in the CPS because the names conform more closely to the wording of the census question on receipt of public assistance.
7. The fact that the person count is much closer to the administrative count of persons receiving public assistance, while the CPS household count is between 69 and 80 percent of the number of cases, indicates that CPS households reporting welfare receipt typically are larger than caseload units. This reflects the frequency with which public assistance units live with other relatives. The upward bias from counting persons in a household who are not part of the case unit offsets the underreporting bias.

8. A priori, we would expect the CPS to show a bias toward overreporting because the CPS measure is a measure of "ever received" the program during a year, while the administrative records are point-in-time measures. Because of turnover, the former number is larger than the latter in welfare programs.

9. A more targeted group at risk for AFDC/TANF would require both low education and female headship. It would include only female household heads with children whose mother lacks a high-school diploma. However, sample sizes are substantially reduced for this restricted group and are too small for fruitful analysis. Moreover, this would exclude the population at risk for General Assistance.

10. Tables containing the rates of receipt by at-risk households are available from the authors.

11. Throughout this paper, for the sake of brevity, we use "whites" to refer to non-Hispanic whites and "blacks" to refer to non-Hispanic blacks. The group "whites and Asians" also includes Pacific Islanders, American Indians, Aleuts, and Eskimos.

12. The most inclusive specification of Model 1, shown as column 9 in Table 2, is $Prob(PA\ receipt) = constant + \beta_1(Yr9798) + \beta_2(Black) + \beta_3(Black*Yr9798) + \beta_4(Hispanic) + \beta_5(Hispanic*Yr9798) + \beta_6(singlemom) + \beta_7(singlemom*Yr9798) + \beta_8(dropoutLT65) + \beta_9(dropoutLT65*Yr9798) + \beta_{10}(noncitizen) + \beta_{11}(noncitizen*Yr9798) + error$. Model 2 breaks up each "Hispanic" term into three separate terms: Puerto Rican, other Hispanic citizen, and Hispanic noncitizen. The specifications in column 1 include only the terms identifying ethnicity. The specifications in columns 2-8 also include various subsets of the variables labeled "controls" in Table 2.

13. This result is obtained by adding ! 0.009 (row 1) and 0.004 (row 3), resulting in an insignificant ! 0.005.

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