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How Government Assistance Affects Income

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Government assistance accounts for only a small share of household income on a national basis (about 5 percent), but it constitutes a large part of income for many recipients. The most economically vulnerable households in the United States, especially low-income single-parent households, receive a substantial share of their income from assistance provided by Federal, State, and local governments. In 1996, 58 percent of the income of low-income single-parent households came from government assistance programs. The levels and distribution of income vary across sociodemographic groups, as does the extent of household dependence on earnings and government assistance.

Assessing government assistance as a source of income for specific segments of the population helps States identify which groups are most at risk as States design and implement new welfare programs under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (see "Welfare Reform Affects USDA's Food

Assistance Programs," elsewhere in this issue). The importance of assistance programs to the incomes of the most financially vulnerable U.S. households attests to the serious challenges facing States.

Employment Earnings Are the Principal Income Source...

Wages, salaries, and self-employment earnings accounted for 77 percent of national household income in 1996. Income from government assistance programs accounted for 5 percent. The remaining 18 percent of national income came from a variety of sources, including Social Security, dividends, interest, and retirement payments.

We grouped and categorized income sources to describe the composition of income in the United States. Doing so allows an examination of the contribution of various types of assistance to income (see box for a description of income sources). All nonassistance income was grouped into one category called base income. Income from government assistance was classified according to whether it was cash or payments in-kind.

Base income accounted for 95 percent of national household income in 1996. Base income includes all income from earnings, including

Social Security and unemployment payments because these are linked to contributions from wages prior to retirement or job loss. Employment income (wages, salaries, and income from self-employment) accounted for 82 percent of base income; social insurance income (primarily Social Security) 8 percent; dividends, interest and rent 6 percent; retirement payments 3 percent; and unemployment compensation, interhousehold transfers, and other income 1 percent (table 1).

Income from government assistance programs constituted 5 percent of national household income in 1995—2 percent from cash assistance and 3 percent from in-kind assistance. Education assistance was the largest component of government cash assistance, accounting for 32 percent. Next were Supplemental Security Income (SSI) and Earned Income Tax Credit (EITC), each of which accounted for 25 percent of cash-assistance income. The smallest of the cash-assistance programs, Aid to Families with Dependent Children and General Assistance (AFDC/GA), accounted for 18 percent of cash-assistance income.

Health programs dominated government in-kind assistance income. Medicare accounted for 71 percent of in-kind assistance income, while

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Medicaid accounted for 17 percent. The two primary Federal food-assistance programs, the Food Stamp Program and the National School Lunch Program, accounted for 11 percent of in-kind assistance income, while housing and energy assistance accounted for 1 percent.

numerous, accounting for 23 percent of all households. Forty-one percent of the U.S. population lived in dual-parent households in 1996, 21 percent in multi-adult households without children, 14 percent in elderly households, 13 percent in single-parent households, and another 11

percent in single-adult households. The majority of children (70 percent) lived in dual-parent households, while 28 percent lived in households headed by a single parent, and approximately 2 percent lived in households headed by someone 65 years old or over.

...But Not for All Households

These figures describe an economy comprised of households that rely primarily on their own resources to generate income. Even for poor households, base income comprised more than half (55 percent) of total household income in 1996. However, the contribution of base income dipped below half (42 percent) for poor single-parent households.

In order to examine the relative importance of employment income to specific groups, we divided U.S. households into five types: single-adult households, multi-adult households without children, dual-parent households with at least one child, single-parent households with at least one child, and elderly households with or without children (see box on household definitions).

The largest number of households in 1996—27 percent of all U.S. households—were single-adult households (table 2). Dual-parent households were the second-most

Table 1

Employment Accounted for 77 Percent of National Household Income in 1996

| Income source | Amount |
|-------------------------------|--------|
| <i>Billion dollars</i> | |
| Base income | 4,690 |
| Employment | 3,834 |
| Dividends, interest, and rent | 274 |
| Retirement | 167 |
| Unemployment compensation | 7 |
| Social insurance | 356 |
| Interhousehold transfers | 33 |
| Other | 9 |
| Cash-assistance income | 85 |
| Supplemental Security Income | 22 |
| AFDC and general assistance | 15 |
| Education assistance | 27 |
| Earned Income Tax Credit | 21 |
| In-kind assistance income | 179 |
| Food stamps | 14 |
| School lunch | 6 |
| Medicaid | 30 |
| Medicare | 127 |
| Housing | .9 |
| Energy assistance | .5 |
| Total income from all sources | 4,954 |

Source: ERS calculations based on the 1996 Current Population Survey.

Table 2

In 1996, 41 Percent of Americans—including 70 Percent of Children—Lived in Dual-Parent Households

| Household type | Households | | Household members | | Children | | Elderly | |
|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| | <i>Million</i> | <i>Percent</i> | <i>Million</i> | <i>Percent</i> | <i>Million</i> | <i>Percent</i> | <i>Million</i> | <i>Percent</i> |
| Dual-parent | 25.4 | 23 | 107.1 | 41 | 48.7 | 70 | 0.6 | 2 |
| Single-parent | 11.2 | 10 | 34.9 | 13 | 19.6 | 28 | .2 | 1 |
| Single-adult | 30.0 | 27 | 30.0 | 11 | 0 | 0 | 0 | 0 |
| Multi-adult | 22.4 | 20 | 54.7 | 21 | 0 | 0 | 1.8 | 6 |
| Elderly | 21.8 | 20 | 37.2 | 14 | 1.1 | 2 | 29.3 | 92 |
| U.S. total | 110.9 | 100 | 264.0 | 100 | 69.4 | 100 | 31.9 | 100 |

Notes: Does not include households headed by someone in the military. Entries may not sum to total due to rounding. Source: ERS calculations based on the 1996 Current Population Survey.

In 1996, 16 percent of all households had incomes (excluding assistance) below the poverty line. The poverty line is established by the Office of Management and Budget

at the minimum subsistence income level for a household, depending on the number of adults and children living in the household. For example, in 1996 the poverty line was

\$15,911 for a family of four (two adults, two children) and \$12,641 for a single parent with two children. (Although standard poverty statistics are calculated on all cash

Sources of Income

The income statistics in this article are based on data from the March 1997 Current Population Survey. This is a survey of about 60,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics. The survey gathers data on self-reported income, meaning that its income totals could vary from official program expenditure statistics.

The survey records income from many sources, which we combined into the following categories.

Base Income

Employment income: wage-salary (wages, salaries, and tips from paid employment); nonfarm self employment (net earnings from own business); farm self-employment (net earnings from own farming operation).

Dividends, interest, rent: Income from capital holdings (except capital gains).

Retirement: Pensions from personal plans, employer plans, and government plans (but not Social Security).

Unemployment compensation: Payments from the Unemployment Compensation system.

Social insurance: Social Security income (including its related Survivor and Disability benefits), Workers' Compensation payments, Veterans' Administration benefits.

Interhousehold transfers: Payments received from another household, including alimony, child support, and financial assistance (but not loans).

Other income: Cash income from any other source, including royalties, private insurance payments, estates, trusts, strike benefits, earnings from third or fourth jobs held during the year (only earnings from the longest and second jobs are included in wage-salary and self-employment earnings).

Cash-Assistance Income

Supplemental Security Income (SSI): Income support for low-income elderly, blind, and disabled persons who are not covered by Social Security or its associated Survivor and Disability programs.

Aid to Families with Dependent Children and General Assistance (AFDC/GA): AFDC provided cash assistance to low-income families with children. The States administered the program and had wide discretion in setting benefit levels and eligibility criteria. AFDC was funded primarily by the Federal Government, with matching funds from the States and, in some States, from local governments. AFDC and several related programs have now been replaced by State programs with Federal funding in the form of a block grant to each State under the Temporary Assistance to Needy Families program (TANF). General Assistance is offered by some States through their own cash-assistance programs to low-income families and individuals who do not qualify for the federally funded programs.

Educational assistance: Grants and scholarships (excluding loans) to help cover costs of attending college or university or vocational, business, or trade schools.

Earned Income Tax Credit (EITC): Credits against income tax, based on earned income for low-income households with children. Originally designed to offset the costs of payroll taxes and income taxes for low-income families, this program was later expanded to provide additional income to low-wage workers in families with children. The credit is refundable, meaning that if it exceeds taxes due, the Internal Revenue Service pays the difference to the family.

In-Kind Assistance Income

Food stamps: The market value of food coupons received under the Food Stamp Program. The Food Stamp program is operated by USDA and provides food coupons to eligible families and individuals to ensure access to a minimally adequate diet.

School lunch: The estimated value of free and reduced-cost meals provided to children by the National School Lunch and School Breakfast Programs. The Census Bureau estimates these values, based on the number of children in a household who receive free or reduced-cost meals and the number of months involved. Children from homes with income below 130 percent of the poverty line are eligible for free meals, and children from homes with income between 130 and 185 percent of the poverty line are eligible for reduced-cost meals.

Medicaid: Medical insurance for low-income families, especially for those covered by AFDC. This program is funded jointly by the Federal Government and the States. This is an estimate prepared by the Census Bureau of the value of Medicaid insurance to those who report being covered by Medicaid.

Medicare: Medical insurance for the elderly. This is an estimate prepared by the Census Bureau of the value of Medicare insurance to those who report being covered by Medicare.

Housing assistance: Financial assistance from Federal, State, or local government programs to help cover rent, or the value of rent subsidy in subsidized public housing provided by such programs.

Energy assistance: The value of assistance in cash or kind to purchase fuel for heating, or to help cover energy-related utility costs.

income, including most government cash-assistance income, we excluded SSI and AFDC/GA payments from our income analyses to focus on the households' ability to achieve an adequate income without government assistance.)

The distribution of poverty varied among household types, with single-parent households facing the highest poverty rate. Forty-one percent of single-parent households were below the poverty line, compared with 21 percent of single-adult households, 15 percent of elderly households, 8 percent of dual-parent households, and 5 percent of multi-adult households without children. Although only 13 percent of the total population lived in single-parent households, 39 percent of all poor people—those with incomes below the poverty line—lived in single-parent households. Forty-eight percent of children living in single-parent households were poor. Sixty-three percent of all poor children lived in households headed by single parents.

The contribution of employment income to total income was low, although still substantial, for all poor working-age households. Dual-parent households with nonassistance incomes below the poverty line received 52 percent of their income from employment; single-adult households, 42 percent; multi-adult households without children, 32 percent; and single-parent households, 31 percent.

Welfare Assistance Varies by Household Type

Overall, poor households received 26 percent of their income from cash assistance and 18 percent from in-kind assistance in 1996. The largest contributions to poor households' income came from SSI (10 percent), AFDC/GA (8 percent), food stamps (8 percent), Medicaid (6 percent), and EITC (6 percent). The exact

level and type of welfare assistance received by poor households varies according to household type.

Dual-parent households in poverty received 24 percent of their income from government cash assistance and 17 percent from in-kind assistance (table 3). The largest component of government assistance to poor dual-parent households was EITC (11 percent), followed by Medicaid (7 percent), AFDC/GA (6.5 percent), and food stamps (6 percent).

Single-parent households in poverty received 34 percent of their income from government cash assistance and 24 percent from government in-kind assistance. The largest components of government assistance to poor single-parent households were AFDC/GA (17 percent), food stamps (13 percent), EITC (9 percent), and SSI (7 percent).

Single-adult and multi-adult households without children received similar proportions of their income from government cash assistance (22 and 24 percent, respectively) and both received 14 percent from government in-kind assistance.

The largest components of government assistance to these households were SSI (15 and 17 percent, respectively), Medicaid (7 and 6 percent, respectively), and food stamps (4 and 5 percent, respectively).

Poor elderly households received 17 percent of their income from government cash assistance and approximately 12 percent from government in-kind assistance. The largest components of government assistance to poor elderly households were SSI (16 percent), Medicare (6 percent), and food stamps (3 percent). (Recall that Social Insurance payments, including Social Security, are included in base income because they are linked to contributions from wages prior to retirement. However, because low-income retirees receive Social Security payments at a higher proportion to their lifetime contribution than do higher income retirees, Social Security benefits have contributed to alleviating poverty for the elderly. In 1996, elderly households received 34 percent of their income from Social Insurance and poor elderly households received 62 percent.)

Defining a Household

The "household" is a primary unit of analysis for many statistics compiled by the U.S. Government, and yet the exact meaning of the term is often confusing to all but those who actually compile the statistics. In this paper, we define a household as:

(1) All members living in the same housing unit who are related by blood, marriage, adoption, or other legal arrangements; or (2) a person living alone or sharing a household with others, or living as a roomer in a private home or lodging house, or in permanent living quarters in a hotel or motel, but who is financially independent.

For the analysis in this article, five household types are differentiated:

Dual-parent households: Households composed of a married couple

and at least one child (under 18 years of age). The household head is under 65 years of age.

Single-parent households: Households composed of one working-age adult with one or more children. The vast majority of single-parent households are headed by women (85 percent in 1996).

Multi-adult households: Households composed of more than one adult and no children. The household head is under 65 years of age.

Single-adult households: Households composed of one working-age adult without children.

Elderly households: Households composed of any number of adults or children. The household head is 65 years of age or over.

Welfare Assistance Raises Incomes, But Most Recipients Remain in Poverty

While average income for all households increased by only 6 percent with the addition of cash and in-kind assistance, average income for specific household types increased far more dramatically (fig. 1). Average incomes of poor elderly households increased 42 percent with the addition of government cash and in-kind assistance, average incomes of poor single-adult households increased 57 percent, poor multi-adult households without children 64 percent, and poor dual-parent households 68 percent. Poor single-parent households' incomes increased 140 percent with the addition of government cash and in-kind assistance.

Despite the dramatic impact of welfare assistance on the average

income for single-parent households, 30 percent of people living in these households remained in poverty after the addition of government assistance income. Thirty-four percent of children living in single-parent households remained below the poverty level after government cash and in-kind assistance payments.

In fact, the majority of poor households of every household type remained poor after the addition of government cash and in-kind assistance. Eighty-eight percent of poor people in single-adult households remained poor after government assistance was added to base income; 78 percent of those in multi-adult households; 73 percent of those in elderly households; 69 percent of those in single-parent households and 55 percent of those in dual-parent households.

Even though low-income single-parent families and dual-parent families received similar average

assistance payments in 1996, assistance income was more successful in pulling dual-parent households out of poverty. (Dual-parent households—average household size of four members—received an average of \$7,010 in government assistance, and single-parent households—average household size of three members—received an average of \$6,740). The addition of government cash and in-kind assistance to the base income of dual-parent households reduced the number of people in those households living in poverty by 45 percent, compared with a reduction of 31 percent for single-parent households. Much of this result is explained by the fact that a large percentage of single-parent households were in severe poverty; that is, they had incomes below 50 percent of the poverty line. Although the addition of government assistance income raised these households out of severe poverty, it was not sufficient to raise them out

Table 3
Sources of Income Vary Across Households

| Household type | Base income | SSI | AFDC/GA | Education assistance | EITC | Total cash assistance |
|----------------|-------------|------|---------|----------------------|------|-----------------------|
| Percent | | | | | | |
| Dual parent | 97.4 | 0.2 | 0.2 | 0.4 | 0.5 | 1.3 |
| Non-poor | 98.2 | .1 | .1 | .4 | .3 | .8 |
| Poor | 59.6 | 5.2 | 6.5 | .6 | 11.4 | 23.7 |
| Multi-adult | 97.7 | .3 | 0 | .6 | .1 | 1.0 |
| Non-poor | 98.0 | .1 | 0 | .6 | .1 | .8 |
| Poor | 60.9 | 17.2 | 3.7 | 1.8 | 2.0 | 24.6 |
| Single parent | 83.8 | 1.4 | 3.3 | 1.0 | 3.7 | 9.4 |
| Non-poor | 92.8 | .3 | .4 | .8 | 2.6 | 4.1 |
| Poor | 41.7 | 6.7 | 16.9 | 1.7 | 8.5 | 33.8 |
| Single adult | 97.1 | .6 | .1 | 1.0 | 0 | 1.8 |
| Non-poor | 98.5 | .1 | 0 | .9 | 0 | 1.0 |
| Poor | 63.8 | 15.0 | 3.0 | 3.0 | 1.0 | 21.9 |
| Elderly | 84.2 | .7 | .1 | .1 | .1 | 1.0 |
| Non-poor | 84.7 | .2 | 0 | .1 | .1 | .4 |
| Poor | 70.3 | 15.6 | 1.1 | .1 | .3 | 17.2 |
| Total | 94.7 | .4 | .3 | .5 | .4 | 1.7 |

Notes: Base Income includes wages, salaries, self-employment income, dividends, interest, rent, retirement, social insurance, unemployment compensation, interhousehold transfers, and other miscellaneous income. Poor denotes household income below the poverty line. Source: ERS calculations based on the 1996 Current Population Survey.

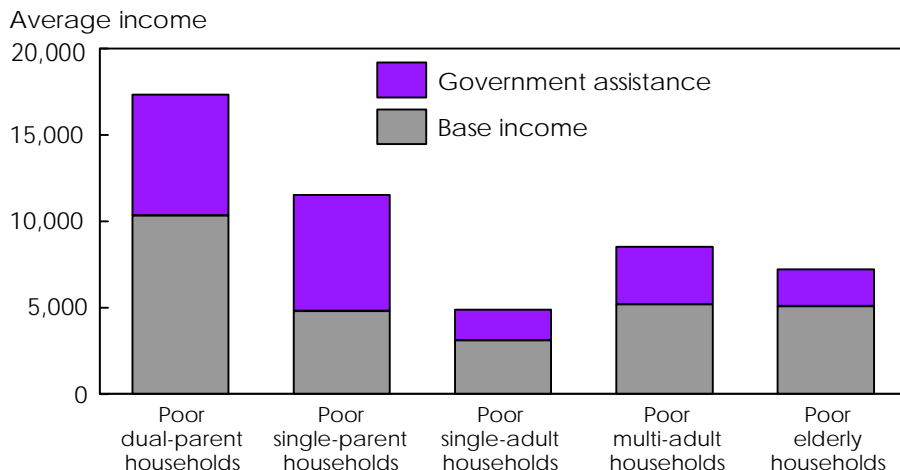
of poverty altogether. For single-parent households in 1996, the share of severely poor dropped from 29 percent to 9 percent with the addition of assistance income.

Although cash and in-kind assistance accounted for a very small

proportion of national household income in 1996, the most economically vulnerable households received an important share of their income from welfare programs. In particular, low-income single-parent households received well over half

of their incomes from government assistance programs. For these households, AFDC/GA and food stamps alone accounted for 30 percent of income in 1996. The fact that assistance income was not adequate to raise many low-income households above the poverty line attests to the financial problems these households face, even with welfare assistance, and to the difficult task facing States as they design and implement new welfare programs.

Figure 1
Average Income of Poor Single-Parent Households Increased 140 Percent With Government Assistance...But Many Still Poor



Source: ERS calculations based on 1996 Current Population Survey.

References

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| | Medicare | Medicaid | Food stamps | School lunch | Housing subsidy | Energy assistance | Total in-kind assistance |
|--|----------|----------|-------------|--------------|-----------------|-------------------|--------------------------|
| | 0.3 | 0.6 | 0.2 | 0.2 | 0 | 0 | 1.3 |
| | .3 | .5 | .1 | .1 | 0 | 0 | 1.0 |
| | .9 | 6.8 | 6.2 | 2.5 | .1 | .1 | 16.7 |
| | .9 | .3 | .1 | 0 | 0 | 0 | 1.3 |
| | .9 | .3 | 0 | 0 | 0 | 0 | 1.2 |
| | 2.7 | 6.3 | 4.9 | .1 | .2 | .2 | 14.5 |
| | .6 | 2.5 | 2.7 | .9 | .1 | .1 | 6.9 |
| | .6 | 1.6 | .4 | .4 | 0 | 0 | 3.1 |
| | .6 | 6.4 | 13.3 | 3.3 | .6 | .3 | 24.5 |
| | .4 | .5 | .2 | 0 | 0 | 0 | 1.1 |
| | .3 | .2 | 0 | 0 | 0 | 0 | .6 |
| | 2.5 | 7.4 | 3.6 | 0 | .5 | .2 | 14.3 |
| | 14.1 | .5 | .1 | 0 | 0 | 0 | 14.8 |
| | 14.3 | .5 | 0 | 0 | 0 | 0 | 14.9 |
| | 6.2 | 2.5 | 2.8 | .3 | .5 | .3 | 12.5 |
| | 2.6 | .6 | .3 | .1 | 0 | 0 | 3.6 |