



Panel Study of Income Dynamics Technical Paper Series

Using the Panel Study of Income Dynamics to Study Poverty and Welfare Dynamics

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I. Introduction

This paper discusses the use of the Panel Study of Income Dynamics to study poverty and welfare dynamics. We summarize the existing studies, briefly compare the PSID with other major data sources, and then discuss some of the specific questions concerning future directions for the PSID that were laid out in the charge to the authors. The final section includes a short wish-list of improvements in data and measurement concepts.

Without the PSID, there would be very little empirical literature on poverty dynamics in the United States. While shorter term studies of welfare dynamics can be done using other data sets, most of what we know about long-term welfare reciprocity also is based on the PSID. Because the PSID has been, and continues to be, so crucial to studies in these areas, researchers and policy analysts interested in the low-income population have a strong interest in the quality and continuity of these data.

II. Existing Studies

While the PSID has been the primary data set used to study both poverty and welfare dynamics, other data sets have helped fill in many of the details. Bane and Ellwood (1983) and

Ellwood (1986) provide the first detailed studies of welfare dynamics. Bane and Ellwood used the PSID to measure both the total number of years in which a household received some AFDC income and the number of consecutive years of receipt. As they acknowledged, the yearly measures of welfare income available in the PSID could not capture breaks in spells that occurred during the year. Their measure was also limited by focusing only on AFDC and "other welfare." Later studies filled these gaps using both the PSID (Harris) and alternative sources. These have included the Survey of Income and Program Participation (SIPP), used by Blank and Ruggles (1992), Fitzgerald (1991), and Long (1990), the National Longitudinal Survey of Youth (NSLY) (Gritz and MaCurdy (1992)), the Seattle-Denver Income Maintenance Experiments (Blank (1989)), and administrative records (Engberg, Gottschalk, and Wolf (1990), Merrell and Burnstein (1989), and Burnstein and Visher (1989)).

While there is now substantial information on the distribution of welfare durations for several different programs and several different accounting periods, much less is known about how these distributions have changed over time. Gottschalk and Moffitt (1994) offer one of the few studies that exploits the relatively long time series in the PSID to estimate changes in the distribution of spells on and off of AFDC.

The literature on poverty dynamics is much smaller than the literature on welfare dynamics. Lillard and Willis' 1978 paper is the earliest of which we know to look at poverty dynamics in the United States. This paper used the PSID to deduce mobility into and out of poverty from a more general earnings dynamics process. Rather than focusing on discrete poverty status indicators, Lillard and Willis modeled the observable continuous earnings variable and estimated the probability of falling below a given threshold. This branch of the earnings dynamics literature was further developed in MaCurdy (1982) and Abowd and Card (1989) who used the PSID to estimate a richer dynamic structure. They, however, did not directly tie their findings back to poverty dynamics.

Following a somewhat different track, Bane and Ellwood (1986) examined poverty spells directly. This approach, which reduces continuous information on income into a discrete poverty indicator, was followed by a number of researchers who developed alternative measures of persistent poverty. Most of these studies, including Corcoran, Duncan, Gurin and Gurin (1985) and Rodgers and Rodgers (1985), used the PSID to measure the distribution of total number of years a family was poor over an extended period. Ruggles and Williams (1986) and Ruggles (1990) used the SIPP to measure the distribution of months in poverty.

While we now have a fairly consistent picture of the distribution of spell lengths (both for poverty and non-poverty spells), the evidence on whether these distributions have changed is not nearly as clear. Devine et al. (1992) and Rodgers and Rodgers (1985) find increases in chronic poverty over time, while Gottschalk, McLanahan and Sandefur (1994) and Duncan and Rodgers (1991) find little change in the distribution of spell lengths. These differences reflect conceptual differences in measures, not differences in data sets, since all use the PSID.

From this brief review of the literature we see that the PSID has been the central data set in the literature on poverty dynamics, while it has played a somewhat lesser role in the recent welfare dynamics literature. We expect that specialized data sets, such as SIPP or administrative records, will continue to dominate the PSID when looking at short term welfare dynamics of specific programs. The PSID's national representativeness and its focus on the family unit, however, as well as the larger period of time for which it is available, mean that it will probably continue to be the primary data set with which to examine the poverty and income dynamics.

Finally, it is worth noting that the PSID has been the only data set used to study secular changes in the dynamics of poverty or welfare. While other data sets may have some advantages in measuring a fixed distribution, the more than 20

years of data in the PSID make it one of the few data sets long enough to capture secular swings in these distributions.

III. Strengths and Weaknesses of the PSID for Studying Poverty and

Welfare Dynamics

As the discussion in the last section makes clear, the single most important advantage of the PSID is that no other data set follows a representative sample of family units over as long a period of time. The PSID provides a continuous data series on a reasonably representative sample of the population over a period of more than 20 years. No other survey data come close to offering this long a time series. The PSID is really our only source of information for three important kinds of measures: the distributions of long spells of either poverty or welfare reciprocity, changes in the distributions of spell durations over time, and finally, changes in the propensity to begin or end long spells across the population as a whole.

The distribution of long spells. Because the PSID is the only data set that allows us to observe very long spells of poverty or of welfare reciprocity, it is our best source of information on long-term persistence of poverty or welfare participation, including both long spells and frequent returns. Some attempts have been made to estimate the distribution of spell durations, especially for welfare programs, using

administrative or panel data covering shorter time periods. This, however, requires one to assume that the distributions observed over those shorter periods can be extrapolated over longer time periods in some systematic way. If those in longer spells are in fact different in some significant way from those in shorter spells, calculations based on the experience of the short-spell group may be misleading in projecting long-term persistence.

Changes in the distribution of spell lengths.

Distributions of time spent in poverty or on welfare presumably are not fixed forever. As economic and social conditions change, the amount of time a family is likely to spend in poverty or on welfare may also change. Use of a shorter time series effectively requires us to assume that the pattern observed over that period is reasonably stable and can be generalized over a longer period. Only a long series such as the PSID allows us to investigate whether spells may be getting longer or shorter as time goes on. Because the PSID gives us more than 20 years of data, we can at least begin to check for changes in the distribution of spell durations over time.

Changes in the determinants of long-spell entries and exits. In some ways, examinations of spell entries and exits seem like a topic that could be relatively well-covered using shorter panels than the PSID. Entries and exits are after all discrete events that can be observed even in short panels such

as the Survey of Income and Program Participation (SIPP). And indeed, much of our own work on spell entries and exits has been done using data from shorter panels. A long panel such as the PSID has two important advantages for studying entries and exits, however. First, if those who experience very long spells of welfare or poverty are in fact quite different in behavior or key characteristics from those who have short spells, their entries into and exits from such spells may also have very different determinants. In order to examine this proposition, it is necessary to be able to tell which entries and exits belong to very long spells, and which are associated with shorter spells. And second, the determinants of entries and exits may actually be changing in significant ways over time, as marriage patterns, employment opportunities, and other factors also change. While cross-sectional comparisons from repeated shorter panels could be used to examine this question, a single long panel offers the advantage of consistency in measuring not only the dependent variables but also the possible co-variants.

The major strengths of the PSID--its coverage of the full population (except immigrants), its consistency, its focus on specific family units, and above all its availability over a long period of time--are well illustrated in the examples above. There are some important weaknesses in the PSID that

complicate its use in studying poverty and welfare dynamics, however.

For poverty dynamics, probably the most important limitation concerns sample size. The proportion of the population that experiences long-term poverty is fortunately relatively small. As a result, a very large initial panel would be needed if substantial numbers of the long-term poor were to be observed over the subsequent period. The number of long-term poor observed in the PSID is larger than it would be in an entirely random sample because of over-sampling of the low-income population in the initial panel. Nevertheless, the initial panel was fairly small, and the sample has not been increased over time (except to the extent that original panel members have acquired new family members). While the NLSY offers a larger sample of a specific cohort, and the SIPP offers a larger sample for a shorter period, neither can be used to study the distribution of long spells for the entire population. Almost everything that we do know about very long spells of poverty in the United States does come from the PSID.

Sample size limitations also affect analyses of long-term welfare dynamics, of course, because the number of long-term welfare recipients is even smaller than the number of long-term poor. Other factors also cause problems in examining welfare dynamics, however, even in the shorter run. Welfare programs typically calculate eligibility on the basis of monthly income,

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and the typical welfare spell is probably best measured in months rather than in years. Until recently, however, it was quite difficult to assess the number of months within a year that a PSID family received welfare, or to estimate the timing of spell entries or exits very precisely relative to other family events. Recent panels have done a much better job of dealing with these within-year timing issues, but monthly welfare data are available from the PSID only since the 1989 panel.

Finally, one other factor that is generally a strength of the PSID--its focus on family units--can cause some problems in examining both poverty and welfare dynamics. Because of its focus on families, the PSID collects a great deal of relevant and useful information about family heads and the characteristics of the family as a whole, and this information is crucial in providing a context for the study of poverty and welfare changes. The family-level focus, however, means that less information is collected on individuals who do not start as family heads, and on within family linkages that may be important in determining welfare-program eligibility. In particular, it is relatively difficult to track changes in the earnings of persons who are not family heads or who change their headship status over time.

Similarly, details on incomes and relationships between family members other than the head can be very difficult to put

together. This information can be important in studying welfare dynamics, however, because almost a third of all AFDC units do not include a family head. Constructing potential AFDC units to study program eligibility and take-up rates is even more difficult, because the necessary information is often unavailable at a sub-family level of aggregation. To be fair, however, we do not know of a survey that handles this problem with ease.

IV. Comparisons Between the PSID and Other Data Bases

In addition to the PSID, only three other major data sources have been widely used to study either welfare or poverty dynamics in the United States. These are the Survey of Income and Program Participation (SIPP), the National Longitudinal Survey of Youth (NLSY), and welfare program administrative records, either as compiled for the income maintenance experiments or, in a few cases, as culled directly from welfare office case records. Each of these other sources has some specific advantages and disadvantages as compared to the PSID.

The Survey of Income and Program Participation. The SIPP has three major advantages compared to the PSID or other available longitudinal data bases. First, it has a relatively large sample size (at least in years when the budget hasn't been cut). The original panel of the SIPP included about

20,000 households, and the 1990 panel went into the field with about 25,000 households. The most recent publicly-available panel of the PSID, in contrast, included about 7000 family units. Proposed future panels of the SIPP may have even larger samples, although in the past sample size has been cut significantly when budgets get tight.

Second, the SIPP was designed to collect very detailed data on the income sources, assets, and family characteristics relevant to assessing welfare program eligibility and benefit levels. While it isn't easy to construct potentially-eligible welfare units in any existing sample, it can be done with somewhat greater confidence using the SIPP than with other data sources. The SIPP is the only large nationally-representative sample that collects information on many of the specific items that are needed to calculate program eligibility and participation in detail. These data are helpful in examining the dynamics of welfare participation among those who are potentially eligible for a welfare program, for example. Similarly, they can be helpful in distinguishing between spell endings occurring because of changes in eligibility status and those occurring among the still-eligible population.

Finally, the SIPP collects program, income and employment data on a monthly basis, and sample members are interviewed every four months. This relatively short interval is useful in examining month-to-month changes in participation and in

estimating more precise durations for shorter spells of poverty and of program participation.

The single greatest weakness of the SIPP, aside from its apparent vulnerability to budget cuts, is its relatively short time frame. Existing panels have generally followed sample members for approximately 32 months. Clearly, this is not a long enough time period to observe very long spells of either poverty or welfare participation. The survey does collect some background information on participants at the beginning of the panel, but these data are based on long-term recall and are much less detailed than the panel data.

The Census Bureau has proposed lengthening the observation period for each SIPP panel to four or five years. For the study of poverty and welfare dynamics, this would be a considerable improvement over the two and a half years of data now provided, but clearly even with this extension the SIPP will never rival the PSID as a source of information on long-term poverty and welfare usage.

The National Longitudinal Survey of Youth. The NLSY, which follows persons who were aged 14 to 22 in 1979, offers another natural alternative to the PSID for studying welfare and poverty dynamics. Like the PSID, the NLSY offers a large panel with information on family income and program participation. The primary advantage of the NLSY for studying welfare dynamics is that it offers the longest available time

series of monthly program participation data. It follows not only persons who are currently participating in programs, but also those who are non-participants or who move across either programmatic or geographic boundaries. Compared to the PSID, the NLSY offers a much larger sample of persons in the age-range of many AFDC participants (though this advantage will fade as the cohort ages). It also contains monthly data both on welfare participation and correlates of participation for a longer time period.

The NLSY also has several disadvantages, however. First, since the sample covers a single cohort, it is impossible to separate year effects from age effects. As a result, the NLSY cannot be used to estimate changes in the distribution of spell lengths. We believe that some of the most important unanswered questions regarding both poverty and welfare dynamics have to do with changes in conditions over time--has persistent poverty increased? Are welfare spells becoming longer?--and the NLSY cannot address these questions for the population as a whole. Second, the fact that the NLSY follows individuals rather than families complicates using it to study poverty dynamics. If the individual who is the focus of the sample moves out of a poor household and into a non-poor one, this will register as the end of her poverty spell, even if her original household continues to be poor. Unlike the SIPP, which also has an individual focus, the other members of the family do not have

their own longitudinal records, so complete longitudinal spell records cannot be constructed for everyone to give a more representative picture of the family's overall poverty experience. Individual records have some advantages in studying income dynamics, but family patterns of poverty and welfare use are also important, and they cannot be readily addressed using the NLSY.

Administrative Data Sources. The final source of data that has been used to examine welfare dynamics is administrative data from welfare program case records. The most consistent time series of such data comes from the income maintenance experiments of the 1970s, but these data are now becoming fairly old and their current relevance is difficult to assess. Some specific states have compiled data files from their own case records, and more of these are likely to become available in the coming years. And finally, certain programs--notably, the Food Stamp Program--have commissioned the collection of smaller samples of longitudinal case records from administrative files for the study of specific eligibility and participation issues.

Administrative records provide large samples of actual welfare participants; they typically include both actual benefits and all of the information needed to calculate eligibility and benefits for other welfare programs; and they often have useful information on issues such as reasons for

termination of benefits that is not available from survey data. Unfortunately, however, case record data provide little or no information on the experiences of recipients during periods when they are not on the case rolls, and in many cases subsequent returns to the rolls cannot be reliably linked to earlier spells of participation. Further, most samples are not constructed in a way that gives one confidence in their representativeness even for the specific case loads they are drawn from, and little attempt is generally made to relate them to any larger sample of the general population. Such data, therefore, at least as they currently exist, are typically most useful for detailed case studies of particular recipients rather than for analyses of the longer-term dynamics of welfare program participation. One avenue of research that may be promising for the future, though, could be the construction of a linked file based on a more general survey such as the PSID or the SIPP, but supplemented with data from specific case records.

V. Future Directions for the PSID

What issues will be important to the study of poverty and welfare dynamics using the PSID over the next five years? This section considers a number of specific questions concerning the future of the PSID that were outlined in the memo commissioning this set of papers.

1. What important research questions do longitudinal microdata such as those from the PSID need to address in the next decade?

We see three major sets of research issues concerning poverty and welfare reciprocity that we expect to be important over the coming decade. First and most important, we expect that the PSID will continue to be crucial in identifying and analyzing changes in the dynamics of poverty and welfare reciprocity as they occur. For example, are welfare spells getting longer or shorter over time? Are people more likely to be poor for sustained periods than they were in the 1970s? Are the income sources of the poor becoming more variable? Are the characteristics of those who are poor or on welfare over a long period different now than they were a decade or two ago? Has the relationship between employment prospects and poverty or welfare reciprocity changed significantly? Has the role of income support programs as a way out of poverty changed? These and other basic issues concerning changes in income and participation dynamics will continue to be important both to researchers and to policy makers.

A second set of research issues likely to assume a growing importance for the low-income population over the next decade is the role of health and disability status--and of potential health care reforms--in promoting or limiting spells of poverty and welfare reciprocity. There is already substantial evidence

of linkages between health status and poverty status, and as the population ages health-related factors are likely to grow in importance as determinants of poverty and program participation. It would be useful to have more detailed information on the extent and duration of disabling conditions, for example, or of other health-related limitations on work. And, in the absence of any comprehensive health insurance legislation, it will continue to be necessary to assess the availability and comprehensiveness of health care coverage and its relationship to movements onto and off of welfare programs.

Finally, a third area of research that may gain prominence, particularly in light of proposals to change the official poverty measure, has to do with the definition and measurement of poverty. In particular, many analysts argue that income-based poverty measures are misleading, because the poor appear to have consumption levels that are substantially higher than would be predicted based on their reported incomes.

Jencks et al. have done considerable work on developing material measures of well-being, which may tell us a very different story about poverty and deprivation than do income-based measures. Similarly, many people believe that welfare recipients must have some income sources beyond those they report in survey data, because among other things their

consumption levels appear to be higher than could be supported on their reported incomes.

We don't currently have many data sources that do a good job of linking income and consumption data for specific family units, and we have none that do so in a longitudinal context. Because apparent inconsistencies in income and consumption may be partly caused by differences in timing, such longitudinal data would be extremely useful. More broadly, it would be helpful for policy purposes to have a better understanding of the impacts of sustained low-income on consumption, and how those impacts vary over time and across family types. Clearly, the PSID cannot become a full-scale expenditure survey, but perhaps a bit more data could be collected on major expenditures such as food and housing, and on major indicators of material well-being.

2. Given other planned or actual national data collections, what is the value added by five additional years of the current design of the PSID? The single greatest strength of the PSID is that it provides the longest time-series of consistent micro-level data on families that we have available. Ending that time series by failing to fund the next five years of the sample would be a terrible mistake. Similarly, major changes in the design of the study or in the wording of key questions would have significant negative implications for our ability to continue to use these data to

analyze poverty and welfare dynamics. The PSID is the longest panel asking a consistent set of questions relating to long spells of poverty and welfare use. Without continued collection of consistent data, we will not be able to use it to examine future trends in poverty and welfare dynamics.

3. Would substantial changes in the PSID design add considerable value to its continuation? Specific changes that might be made include moving to every other year interviewing; ending the current sample and starting a new one; adding "refreshment" samples; improving or updating questions; and making routine attempts to interview past non-respondents. These potential changes need to be addressed individually.

a. Changing to a biannual survey. We think this is a bad idea. If we believed that a two-year accounting period was appropriate for studying the dynamics of poverty and program participation such a change would have a relatively small cost, but the evidence that we have available does not support this view. Indeed, the trend in other surveys has been to move to a shorter accounting period, especially for considering welfare dynamics.

The dynamics of poverty depend fundamentally on more general income dynamics, and any reasonably complete model of poverty dynamics must rest on a broader understanding of income movements. All but the simplest earnings-components models require a full and continuous time series of data--skipping

years would make the PSID almost useless for this approach. (The early NLSY cohorts, which skipped years, have not been used to try and estimate such models, for example.)

An alternative to yearly data collection would be to model annual income using a biannual survey. This would require some way to fill in the "holes" in the data, and the experience of other surveys, such as the SIPP, has been that recall-based estimates tend to have a relatively high variance compared to those based on current incomes. The SIPP has also found that there is considerable "seam bias" in reported estimates--that is, reported changes in income and program participation tend to bunch heavily at the beginnings and ends of reporting periods. In fact, now that the PSID is collecting data on monthly income transitions, it too might want to consider spreading out its interviews (and their reference periods) more broadly across the calendar year. This would reduce the 'seams' that are likely to occur at the beginnings and ends of calendar years as the survey is now structured.

b. Ending the current sample and starting a new one.

This is a very bad idea. As discussed above, it would remove the single greatest advantage of the PSID, which is its long panel of consistent data.

c. Adding refreshment samples. If it can be done without reducing the sample size or the comprehensiveness of the core questions in the existing survey, this is a good idea.

Attrition in the current PSID is large, because the study has had a steady small attrition rate over a large number of years. However, current work by Fitzgerald, Gottschalk and Moffitt supports earlier findings that the use of sample weights largely corrects for any attrition bias as of the most recent panel.

On the other hand, preliminary work by Ruggles and Reischauer indicates that the choice of weights can have significant impacts on the observed patterns of income dynamics over time. In predicting the probability that someone who is in poverty in the base year will be in poverty in a specific subsequent year, for example, one can get quite different results depending on whether base year or final year sample weights are used--in a sense, depending upon whether one takes a prospective or retrospective look at the question. While adding refreshment samples would not affect this result for existing files, it would avoid compounding weighting-related differences in samples as time goes on. More broadly, as original sample members die off or leave the sample in other ways, it may be useful to introduce refreshment panels in order to capture newly evolving social trends--for example, immigration--that may not be represented in the successor generations of the original sample. We do not believe that new respondents should be added at the cost of dropping existing ones, however.

d. "Improving" specific questions. In general, we favor retaining questions in a consistent form from year to year, and we believe that the value of consistency outweighs potential gains from improvements in questions. It may be necessary to add new questions from time to time (particularly where there is a paying customer), but it should not be at the expense of the basic questions that make up the core of the survey. Consistent observations on these basic variables over a long period of time are the greatest strength of the PSID, and that strength should not be risked for small potential improvements.

e. Reinterviewing past non-respondents. If this can be done reasonably cheaply, it is certainly worth doing. Again, however, we do not consider it important enough to justify cuts in sample size or in the comprehensiveness of the survey.

4. How much value would be added by five more years of interviews with the PSID's supplemental 1990 sample of 2000 Latino families? We believe that there would be substantial value in continuing this sample. This is a large and rapidly growing ethnic group, and it is not well covered by other sources of data. Only the NLSY has a comparable longitudinal sample, and that focuses exclusively on youth. In fact, even good cross-sectional data on this population are hard to come by. This population has high poverty rates, and the dynamics of poverty and of welfare reciprocity may be quite different for Hispanic families than for others. Within the Hispanic

population, there may also be substantial differences in income dynamics within specific population sub-groups--Cubans, Mexicans, Puerto Ricans--reflecting their different patterns of immigration to and settlement in the United States. Recent welfare proposals have included dramatic benefit reductions even for legal immigrants, and such proposals could have major impacts on Hispanic recipients and potential recipients. Without a supplemental over-sample of this group it may be very difficult to trace the impacts of such changes.

VI. Possible Improvements in the PSID: A Brief Wish-List

No paper by researchers using a particular data set on a day-to-day basis would feel complete without at least a few complaints about the existing data and their organization. Accordingly, this section focuses on some specific but relatively minor areas where we think some additional work could facilitate the analysis of poverty and welfare dynamics.

One of the most frustrating problems encountered in trying to study welfare dynamics in particular is that low income households often have complicated structures, and it can be quite difficult to determine just which household members should be included in an assistance unit or in a unit that may be eligible for welfare. For existing units, this problem could be ameliorated if there were more information on the

individuals within the family unit who actually received assistance from each specific program. Particularly when individuals leave a family unit, we need to know whether or not they were receiving assistance in order to determine the impacts of the change on benefits and on the continuity of the welfare spell.

Constructing potential assistance units in order to check for program eligibility is even more of a problem, and requires a substantial amount of information about relationships between members of the family unit. Questions such as which children belong to which relative of the family head must be answered in order to determine who is potentially eligible to receive benefits. Because in many cases non-family heads may qualify as potential assistance unit heads, it is often necessary to track information longitudinally on their work and childbearing histories, which is difficult in the current data structure.

We would also like to see some minor improvements in the basic covariates of income and welfare reciprocity. For example, there are a surprisingly large number of inconsistencies in the measurement of age over the years. Some individuals appear report that they have aged by only five years between 1970 and 1980, for instance. "Rounding down" of age is common among respondents in all survey data, of course, but it is more conspicuous in panel data. We believe these data could be edited to reduce such inconsistencies in

reporting. Similarly, it would be useful if consistent data series on education and marital status could also be constructed for each individual. Currently marital status is reported only for those married to persons within the family unit; it would be helpful to have a code for those married to persons outside the unit as well.

In the area of income measurement, it would be helpful to have more detail on assets and asset incomes, as well as on work expenses and taxes paid. Determining welfare program eligibility and potential benefits often depends on such details. Clearly, asset data in particular are hard to come by, and probably cannot be collected in detail in the basic survey itself. Perhaps it would be possible to provide some linkages between that file and some supplemental source of data on asset holdings.

Finally, there is the problem of longitudinal weights. The current-year sample weights do a good job of adjusting for attrition and their use appears to provide a highly representative sample of the current-year population. Because attrition is not absolutely constant over time or across population sub-groups, however, current-year weights cannot be used to examine the distribution of prior-year events, or of those taking place over a number of years (such as poverty spells), with a high degree of confidence. It is not clear what the "right" solution to the problem of longitudinal

weighting is (or even that there is one), but we believe this is an area that requires further thought.

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