

The Effect of Government Cash Assistance on Household Financial Outcomes

MANASI DESHPANDE, TAL GROSS, AND JIALAN WANG

Key Findings and Policy Implications

This paper estimates the causal effect of Supplemental Security Income (SSI), the largest cash welfare program in the United States, on household bankruptcies. It uses administrative records on SSI recipients from the Social Security Administration, merged with consumer bankruptcy filings in nearly all states between 1994 and 2009. The findings are as follows:

- Using a discontinuity in the receipt of cash assistance created by 1996 welfare policy reforms, we find that losing cash assistance reduces household bankruptcy rates nearly to zero. The fall in bankruptcy filings is driven primarily by Chapter 7 filings, which is consistent the SSI population having low income and assets.
- SSI removal of an 18-year-old reduces the likelihood that parents file for bankruptcy by 12 percentage points, a nearly 70-percent decrease relative to families whose children remain on SSI. One explanation for this surprising finding is that SSI removal reduces access to credit, which mechanically reduces bankruptcy rates.

There are important potential policy implications of these findings. Specifically, the unexpected result suggests more complicated interactions between government cash assistance programs, credit eligibility, and financial outcomes. We are pursuing credit bureau records to explore these interactions in greater detail.

MANASI DESHPANDE is Assistant Professor in Economics at the University of Chicago and an NBER Faculty Research Fellow.

TAL GROSS is Assistant Professor in the Department of Health Policy and Management at Columbia University, and a Faculty Research Fellow at the National Bureau of Economic Research.

JIALAN WANG is Assistant Professor of Finance at University of Illinois at Urbana-Champaign.

Complete DRC Working Papers available on our website: <http://www.nber.org/aging/drc/papers/>

This research was supported by the U.S. Social Security Administration through grant #DRC12000002-05 to the National Bureau of Economic Research as part of the SSA Disability Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.