The Effect of Government Cash Assistance on Household Financial Outcomes

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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.

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