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Briefing Paper

Jobs Held by Former Welfare Recipients Hit Hard by Economic Downturn

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September 5, 2003

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After welfare reform was signed into law in 1996, the booming economy of the late 1990s helped many women find jobs when they left the welfare system. A majority of these former welfare recipients —around 60 percent—successfully found work at some point in the five years after welfare reform.

However, as we move through a third year of rising unemployment, many of these jobs have disappeared. During the late 1990s, most of the industries in which former welfare recipients found employment grew faster than private sector employment overall. But, the economic downturn has led to considerable job losses in these same industries. As a result, former welfare recipients may be finding it increasingly difficult to maintain their tenuous foothold in the labor market. For those who have managed to keep their jobs, wage growth has been slower in the industries in which welfare recipients found employment, compared to the labor market overall.

As Congress looks to reauthorize the 1996 TANF legislation, they should do so cognizant of the hardships that higher unemployment has caused for low-income women and their families. Wanting to be off welfare is not enough; the labor market must provide employment opportunities. Congress can act to prevent those who lost their jobs from falling into poverty. In particular, Congress could consider whether the five-year lifetime limit and the current (or more stringent) work requirements are appropriate given the current labor market. It would also be appropriate to consider the potential benefits of increased childcare assistance for those who are in school, job searching, or employed.

Where former welfare recipients found jobs

Most former welfare recipients found employment in a relatively small number of industries over the late 1990s (Table 1). Current Population Survey (CPS) data[2] shows that the largest proportions of former welfare recipients found jobs in either retail trade (one-sixth) or eating and drinking establishments (one-sixth). Nine industries, mostly in the service sector, account for the employment of nearly two-thirds of all former welfare recipients. Overall, these are relatively low-wage industries: in the second quarter of 2003, retail had an average hourly wage of $10.64 while food establishments averaged $6.94 per hour (not including tips), both of which were much lower than the $13.94 average for the private sector as a whole.

[2] We used the Current Population Survey Annual Demographic File to examine the industries that employ people who both received welfare and worked within any year between 1996 and 2000.

Table 1. Industries that Most Commonly Employ Former Welfare Recipients, 1996-2000

	Percent of Employed Former Welfare Recipients in Industry
Retail except eating and drinking	17.6%
Eating and drinking places	14.4
Manufacturing except printing	7.4
Personnel supply services	4.6
Hotels and lodging places	3.7
Labs, home care	3.6
Nursing and personal care facilities	3.5
Elementary and secondary schools	3.5
Child day care services	3.3
Other	38.2

Source: CEPR analysis of CPS Annual Demographic File, 1996-2001

Over the 1990s, these nine industries performed quite well, adding a total of 3.5 million jobs between 1990 and 2000 (Table 2).[3] Six of the top nine industries hiring former welfare recipients—food service, temporary help, home health care, nursing and residential care, local government teaching, and child day care—grew faster than total employment between 1996 and 2000 (Table 3). All but one of these nine industries— manufacturing—saw total employment increase at an annual rate of at least 1.5 percent between 1990 and 2000.

Employment gains over the late 1990s were coupled with strong wage growth. Six of the eight industries for which data are available show higher-than-average wage growth from 1996 to 2000.[4] Only manufacturing and home health care services showed slower than average wage growth in the four years prior to the recession.

Rising unemployment has undone many of these employment gains

Unemployment has risen from 3.9 percent to 6.2 percent between October 2000 and July 2003 and many of the industries in which former welfare recipients found jobs were hit harder than the average industry. If job growth had remained steady at its 1.9 percent pace over the last business cycle (measured from the June 1990 peak to October 2000 peak), rather than falling to –1.0 percent after October 2000, then the economy would have had an additional nine million private sector jobs over the current 108 million. These nine million "missing" jobs are a result of the negative growth in private-sector employment growth over the past three years.

[3] Employment and wage data come from the Current Establishment Survey, conducted by the Bureau of Labor Statistics, Tables B1 and B15. For the post-welfare, pre-recession period wage data, we examine the trend from the fourth quarter of 1996 to the fourth quarter of 2000. For the recession period, we examine the trend from the second quarter of 2001 through the second quarter of 2003, the latest available.

[4] We do not have wage data for the ninth industry, local government-education.

Table 2. Employment Growth Before and After the Economic Downturn

	Actual employment growth (% per year)		Employment assuming no recession (thousands of jobs, as of July 2003)		
	Before recession	After recession	Total	"Lost jobs"	"Lost jobs" (percent)
Total private employment	1.9%	-1.0%	117,458	9,061	7.7%
Retail trade	1.5	-0.9	15,951	1,006	6.3
Food services and drinking places	2.2	1.5	8,675	157	1.8
Manufacturing	-0.3	-5.8	17,067	2,455	14.4
Temporary help services	8.2	-5.5	3,274	1,020	31.2
Accommodations	1.5	-2.2	1,976	192	9.7
Home health care services	8.0	4.5	781	68	8.6
Nursing and residential care facilities	3.4	2.5	2,852	67	2.3
Child day care services	6.0	1.4	822	93	11.4
Local government education	2.2	1.9	7,771	53	0.7

Source: CEPR analysis of Bureau of Labor Statistics, Current Employment Statistics survey, Table B1, various years. "Before recession" is June 1990 to October 2000; "After recession" is October 2000 to July 2003.

For former welfare recipients, the missing jobs story is even more grim. The industries in which most former welfare recipients found employment are missing more jobs than other industries. Of the total number of private sector jobs held in October 2000, 44.2 percent were in the industries with high proportions of former welfare recipients.[5] However, of the total number of missing jobs, 55.8 percent are in these eight industries.

Overall, the economy now has 7.7 percent fewer jobs because of the negative employment growth since October 2000. Of the eight private-sector industries with a high proportion of former welfare recipients, five have seen greater job losses than the private sector overall. Compared to the employment levels that would have resulted from the nineties rate of job growth, employment is down in manufacturing by 14.4 percent, temporary help by 31.2 percent, accommodations by 9.7 percent, home health care by 8.6 percent, and child day care service by 11.4 percent.

While employment has fallen, wages are either growing more slowly or actually falling. Between 2001 and 2003, inflation-adjusted wages have fallen for temporary help and home health care workers by 0.9 percent and 0.6 percent, respectively. The fall in wages for home health care workers completely erased all the wage gains made since the first half of 1992. Through the economic downturn, wage growth has been slower than the average for all private sectors workers in retail trade, food services and drinking places, accommodations, and child day care services.

[5] We exclude local government from our private-sector employment calculations.

Table 3. Wage Growth Before and After the Economic Downturn

	Annual growth in real hourly earnings	
	Boom	Recovery
Total private employment	1.5%	1.2%
Retail trade	1.8	1.0
Food services and drinking places	2.1	0.5
Manufacturing	0.6	1.5
Temporary help services	2.2	-0.5
Accommodations	1.8	0.8
Home health care services	0.2	-0.3
Nursing and residential care facilities	2.1	1.3
Child day care services	2.0	0.1
Local government education	-	-

Source: CEPR analysis of Bureau of Labor Statistics, Current Employment Statistics survey, Tables B1 and B15, various years. Table B15, various years. "Boom" is fourth quarter 1996 to fourth quarter 2000; "recovery" is second quarter 2001 to second quarter 2003.

The experience of former welfare recipients within these sectors is likely to be even worse than that of the average worker. Former welfare recipients are likely to be among the first laid-off, as many have shorter employment histories than other workers. And when they do lose their jobs, these workers will certainly have a more difficult time finding employment than they did when the economy was booming in the late 1990s.

Holes in the safety net

Although the 1996 welfare legislation succeeded in pushing welfare recipients into the labor market, it did not include reforms to make it easier for them to access social insurance programs, such as unemployment insurance (UI), if they lost their jobs. As a result, the women who left welfare and now face unemployment will find little in the way of a safety net to help keep them and their families out of poverty.

The low wages and intermittent employment typical of the service-sector jobs worked by many former welfare recipients mean that these workers are not building up the employment histories required for UI eligibility. Since states have made no effort to reform their UI systems in light of welfare reform's new work requirements, most state UI systems will be of little help to former welfare recipients and their families (Wenger 2001). Estimates find that former welfare recipients are less likely than other women workers to meet the monetary eligibility requirements to qualify for UI (Boushey and Wenger, forthcoming).

The fiscal crisis in most states only exacerbates the difficulties of a poorly performing labor market. Many states have already made significant cutbacks in TANF and childcare spending as a result of the fiscal crisis (Johnson, Lav, and Ribeiro 2003). The TANF Reauthorization bill passed by the House in February 2003, makes further cuts more likely because it enacts expensive new mandates, such as a 40-hour workweek requirement, while reducing state flexibility and holding federal funding at its current level. For example, last year, the Congressional Budget Office estimated that the states would need an additional $5 billion in child care funding over the next five years simply to keep spending at its current level in inflation-adjusted dollars, however the House bill only provides an additional $1 billion for child care spending (Parrott, Goldberg, and Fremstad 2003). In addition, the Congressional Budget Office (CBO) estimates that the full cost of implementing the 40-hour work requirement in the Personal Responsibility and Work Opportunity Act will be as much as $11 billion over five years, further exacerbating the fiscal crisis in the states.

It is important that Congress recognize that it cannot expect welfare recipients to have the same employment outcomes in an economic downturn as during a boom. When unemployment was low, jobs were plentiful and it was relatively easy to reduce the welfare rolls. Now, however, jobs – especially in the sectors that welfare recipients typically have found employment – are more difficult to come by. In the current labor market, many welfare recipients will be unable to work a 40-hour week, in spite of a congressional mandate to this effect. In addition, states are unlikely to meet their commitments to provide adequate childcare to former TANF recipients during a period in which they are facing their worst fiscal crisis in the post-war era. Congress must be aware of this reality as it evaluates the appropriateness of rules such as a five-year lifetime time limit for TANF and the exclusion of education as a valid work activity.

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