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Issue Brief

For Welfare Reform to Work, Jobs Must Be Available

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As Congress debates significant changes to the *Personal Responsibility and Work Reconciliation Act*, commonly known as welfare reform, they should take into account 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. Although the recession was relatively brief, from March to November 2001, the labor market continued to shed jobs until late summer 2003. Since then, job growth has been paltry at best and the unemployment rate of less educated women and single female heads of households remains high.

Former welfare recipients found jobs in a small number of industries, many of which saw higher job gains and stronger wage growth than the economy overall in the late 1990s. However, during the economic recession of 2001 and the recent recovery, these same industries have not performed as well. Over the recovery, of the eight private-sector industries with a high proportion of former welfare recipients, three have seen greater job losses than the private sector overall. Wage growth has been slower than the average for the private sector overall for workers in retail trade, food services and drinking places, temporary help, nursing and residential care, and child day care services.

With jobs scare and wage growth slow to negative in the industries that former welfare recipients found employment in, increasing work hour requirements above the existing 30 hours would not create jobs, but make life harder for those already struggling to find a job. Mandating more work hours from the people hardest hit from the recession would not help to increase employment; rather, what welfare reform needs is robust job growth.

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

[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.

low-wage industries: in the fourth quarter of 2003, retail had an average hourly wage of $11.90 while food establishments averaged $7.77 per hour (not including tips), both of which were much lower than the $15.47 average for the private sector as a whole.

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 late 1990s, when welfare reform was first passed, these nine industries performed quite well, adding a total of 3.5 million jobs between 1996 and 2001. 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 the beginning of the previous recession in July, 1990 and the beginning of the recession in March, 2001 (Table 2).[3] All but one of these nine industries—manufacturing—saw total employment increase at an annual rate of at least 1.4 percent between 1990 and 2001.

[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 fourth quarter of 2000 through the fourth quarter of 2001. For the recovery period, we examine the trend from the fourth quarter of 2001 to the fourth quarter of 2003, the latest available.

Table 2. Employment Growth Before and After the Economic Downturn

	Actual employment growth (% per year)		
	Before recession	During recession	During recovery
Total private	1.9%	-2.7%	-0.4%
Retail trade	1.4	-2.0	-0.6
Food services and drinking places	2.2	1.3	1.5
Manufacturing	-0.4	-9.7	-4.4
Temporary help services	7.4	-19.2	4.4
Accommodations	1.5	-8.3	-0.9
Home health care services	7.5	5.0	5.7
Nursing and residential care facilities	3.4	3.9	1.2
Child day care services	6.0	4.5	2.9
Local government education	2.2	2.7	0.8

Source: CEPR analysis of Bureau of Labor Statistics, Current Employment Survey, Table B1, various years. "Before recession" is July 1990 to March 2001; "During recession" is March 2001 to November 2001; "During recovery" is November 2001 to February 2004.

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 (Table 3).[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 peaked at 6.3 percent in June 2003, however it has only fallen down to 5.6 percent by February 2004. Many of the industries in which former welfare recipients found jobs were hit harder than the average industry, both during the actual recession and during the economic recovery. If job growth had remained steady at its 1.9 percent pace over the last business cycle (measured from the June 1990 peak to March 2001 peak), rather than falling to –0.9 percent from March 2001 through February 2004, then the economy would have had an additional nine million private sector jobs over the current 109 million. These nine million "missing" jobs are a result of the negative growth in private-sector employment growth over the past three years.

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

Table 3. Wage Growth Before and After the Economic Downturn

	Annual growth in real hourly earnings		
	Before recession	During recession	During recovery
Total private	1.5%	1.8%	0.4%
Retail trade	1.8	2.6	-0.2
Food services and drinking places	2.1	0.4	-0.2
Manufacturing	0.5	2.0	0.8
Temporary help services	2.3	3.3	-3.3
Accommodations	1.7	0.9	0.9
Home health care services	0.1	1.6	0.3
Nursing and residential care facilities	2.1	2.4	0.3
Child day care services	2.0	1.8	-0.9
Local government education	-	-	-

Source: CEPR analysis of Bureau of Labor Statistics, Current Employment Statistics Survey, Tables B1 and B15, various years. "Before recession" is 1996 Q4 to 2000 Q4; "During recession" is 2000 Q4 to 2001 Q4; "During recovery" is 2001 Q4 to 2003 Q4. Wages deflated by CPI-U.

For former welfare recipients, the missing jobs story is even grimmer. 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 March 2001, 43.9 percent were in the industries with high proportions of former welfare recipients.[5] However, of the total number of missing jobs, 51.6 percent are in these eight industries.

As of February 2004, the economy has 7.9 percent fewer jobs because of the recession and the negative to minimal employment growth since March 2001 (Table 4). Compared to the employment levels that would have resulted from the late nineties rate of job growth, employment is down in manufacturing by 14.5 percent, temporary help by 22.3 percent, accommodations by 11.3 percent, child day care by 7.3 percent, and home health care service by 5.3 percent.

While employment has fallen, wages have either grown slowly or actually fallen during the recovery. Between the fourth quarter of 2001 and the fourth quarter of 2003, inflation-adjusted wages have grown less than one percent for six of the eight private-sector industries with a high proportion of former welfare recipients. They have fallen for four: temporary help by 6.4 percent, child day care workers by 1.7 percent and retail trade by 0.4 percent and food services by 0.3 percent.

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

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.

Table 4. Missing Jobs Due to Recession and Recovery

	Employment assuming no recession (thousands of jobs, as of February 2004)		
	Total	"Lost jobs"	"Lost jobs" (percent)
Total private	117,880	9,286	7.9%
Retail trade	16,001	1,052	6.6
Food services and drinking places	8,858	193	2.2
Manufacturing	16,726	2,418	14.5
Temporary help services	3,055	681	22.3
Accommodations	1,973	222	11.3
Home health care services	779	42	5.3
Nursing and residential care facilities	2,911	124	4.3
Child day care services	836	61	7.3
Local government education	7,906	216	2.7

Source: CEPR analysis of Bureau of Labor Statistics, Current Employment Survey, Table B1, various years. "Before recession" is July 1990 to March 2001; "During recession" is March 2001 to November 2001; "During recovery" is November 2001 to February 2004.