A recession will significantly limit the employment options of recent welfare recipients and will require appropriate safety nets for unemployed recipients.

In many ways, our national experiment with welfare reform has been more successful to date than many analysts had anticipated. Not only have welfare rolls declined by roughly half since the early 1990s, but also employment rates have risen for most former (and many current) welfare recipients (Council of Economic Advisers 1999). Nevertheless, several important questions about the success of welfare reform remain—and one of the most pressing is what will happen when the current national economic boom ends and the next recession begins.

The importance of the strong national economy to the success of welfare reform to date has been considerable. For one thing, we have recently enjoyed the lowest unemployment rates nationally in 30 years. Virtually every recent analysis suggests that the strong economy of the 1990s has contributed significantly to both the declining caseload and the rise in employment rates and earnings among single mothers (e.g., Council of Economic Advisers 1999; Meyer and Rosenbaum 2000). The continuation of extremely tight labor markets since federal reforms were implemented has created an environment in which transitions from welfare to work could proceed more easily than they otherwise would. A serious recession would eliminate these conditions and likely cause some reversal of these trends. Furthermore, we have moved from a social welfare system that was centered around cash assistance to the nonemployed to one that is based on assistance to the “working poor” (e.g., Ellwood 1999). In an era when jobs may not be so plentiful as they currently are, the “safety net” available to those who cannot find jobs may have some significant gaps in it.

Traditionally, the major “safety net” program available to unemployed workers during a recession has been the Unemployment Insurance (UI) system. However, several authors (Kaye 1997; Gustafson and Levine 1998; Vroman 1998) have noted that, in the next recession, eligibility for UI among former welfare recipients will be limited for a variety of reasons, particularly insufficient prior work experience. At the same time, many of these individuals (and their families) will be ineligible for Temporary Assistance for Needy Families (TANF) benefits if they have exhausted their lifetime limits. Neither program may be available to the (often noncustodial) fathers in these families as well, whose contributions to their family’s financial well-being are increasingly crucial (Sorensen 1999).

On the other hand, little is known currently about how significant these problems are likely to be. Estimates in the sources cited above are based almost exclusively on data from the 1980s and early 1990s, during which time employment among welfare recipients was much lower than it is today. More recent data on the employment experiences of current and former welfare recipients are now available and might lead to new estimates of future UI eligibility.

This brief reviews evidence on these issues and considers their implications for...
policy. In particular, the following questions are addressed:

1. By how much is employment likely to decline among welfare recipients and other vulnerable groups of workers during a recession?
2. How many former welfare recipients and other vulnerable workers will be eligible for UI?
3. If UI is not likely to serve a large fraction of this population during a downturn, what should state and federal policymakers do to address these issues?

Employment Declines in the Next Recession

One way to estimate the extent to which employment will decline among welfare recipients and other vulnerable groups during the next recession is to gauge movements in employment and unemployment over previous business cycles (figures 1 and 2). In general, the employment rates of women have been less sensitive to the business cycle than those of men, even among the less educated. Nonetheless, the data show that adult female high school dropouts, black women, and teenage black women in particular experience large employment declines during recessions. Indeed, employment rates for black female teens during a recession can decline by as much as one-third.

So which group is most comparable to former welfare recipients who are now working? In terms of education and basic cognitive (i.e., reading, writing, and arithmetic) skills, adult female high school dropouts may be the most relevant comparison group and, therefore, the employment losses of welfare recipients in a downturn may be relatively modest. On the other hand, welfare recipients’ vulnerability to a downturn might be more like that of teens—both have substantially less labor market experience than most working adults, and experience is a very strong predictor of job loss during a recession.

Another way to determine the vulnerability of welfare recipients’ employment during an economic downturn involves considering current hiring patterns and their relation to measures of labor market tightness. For instance, data from employer surveys recently administered in several large metropolitan areas show that the job vacancy rate would likely decline by two-thirds or more during a severe recession and by somewhat less in a milder recession (Holzer and Stoll 2000a, b). Accordingly, the new hire and employment rates of welfare recipients could decline by large amounts as well.1

Of course, the impact of the next recession on the job status of welfare recipients remains uncertain, since many of its attributes—including its severity, duration, and distribution across states and/or economic sectors—are unknown. Despite this uncertainty, however, nearly all of the above estimates suggest that a recession will significantly limit the employment options of recent welfare recipients and will require appropriate safety nets for unemployed recipients.

Determining Eligibility for Unemployment Insurance

There are a number of reasons why welfare recipients who lose their jobs might not qualify for UI. Vroman (1998) identifies four: (1) insufficient prior work experience and earnings, (2) use of base periods for calculating prior earnings that, in turn, disqualify up to six months of an employee’s most recent work (since the current and previous quarter’s earnings are generally omitted), (3) reasons for job departure or loss (since spells of unemployment resulting from employee quits or discharges for just cause are generally not covered by UI), and (4) lack of availability for full-time work due to family responsibilities or other personal problems. Applying these reasons to work and turnover patterns observed among welfare recipients in the National Longitudinal Survey of Youth in the 1980s and 1990s has led several analysts to conclude that no more than 20 percent of unemployed welfare recipients would be eligible for UI in a recession.

There are a number of reasons, however, to question whether these inferences from past data are accurate predictors of

Note: Data on high school dropouts were not available for the earlier periods.


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UI eligibility during future downturns. First, there are many more current and recent welfare recipients working now than in the 1980s. Next, the longer the current boom lasts, the more work experience recipients will have gained once the recession begins—and the less important the base period designation might be in determining their eligibility. Furthermore, many more job losers in a recession will have been laid off from their jobs than is the case currently, and thus fewer job leavers/losers will be disqualified from UI eligibility due to reason for job departure. Finally, the growth of labor market activity among single mothers in the 1980s and 1990s and the availability of child care subsidies for former welfare recipients may mean greater availability for full-time employment among this population than observed in the past.

Table 1 presents data on the welfare recipients hired most recently (primarily from 1997 to early 1999) in the survey of employers described above, including wages, hours worked, and durations of employment. The findings show that:

- The mean and median durations of employment for recipients are roughly seven to eight months;
- Very few recipients were employed for less than three months;
- The median starting wage in these metro areas was $7.00 per hour; and
- Most recipients were working full-time.

How do these figures compare with most states’ eligibility requirements? These requirements vary from state to state; the average is roughly $2,000 of earnings over the previous four quarters, with most states falling in the range of $1,000 to $3,000. At 30 hours per week and roughly $6.00 per hour (both of which are achieved by large majorities of these workers), recipients would need to work 5 to 17 weeks, or an average of 11 weeks, to meet base period earnings requirements. Even allowing for a base period that may exclude the most recent three to six months of earnings, most of these workers would qualify for UI if laid off so long as they would be willing to work as many hours on their subsequent jobs as they had worked on their most recent ones.

At the same time, there remain several other groups of current or former welfare recipients who may be underrepresented in these data and who will likely not qualify for UI during a downturn. These groups include those who work primarily in informal sectors and those who have worked little to date, either on the rolls or off. The evidence suggests that both groups may not be small.

The latter group includes those unemployed welfare recipients who will be new entrants or reentrants to the labor force when the downturn occurs and, therefore, will have little recent work experience and eligibility for UI. In addition, at least some former welfare recipients will have quit or been discharged with cause and will not gain new employment before the recession begins; these groups will remain ineligible for UI as well. Additionally, even among those who are eligible, take-up rates may be quite low.

Overall, only about 30 percent of all currently unemployed workers receive UI.

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**TABLE 1. Job Characteristics of Welfare Recipients in Four Metropolitan Areas**

<table>
<thead>
<tr>
<th>Starting Wages ($)</th>
<th>Weekly Hours</th>
<th>Duration of Job (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>7.41</td>
<td>34.60</td>
</tr>
<tr>
<td>Median</td>
<td>7.00</td>
<td>40.00</td>
</tr>
<tr>
<td>25th Percentile</td>
<td>6.00</td>
<td>30.00</td>
</tr>
<tr>
<td>75th Percentile</td>
<td>8.30</td>
<td>40.00</td>
</tr>
</tbody>
</table>

Source: Author’s survey of employers in Chicago, Cleveland, Milwaukee, and Los Angeles.
and only about 40 percent did so during the most recent economic downturn (Bassi and McMurrer 1997). It seems quite unlikely that this percentage will be higher among unemployed welfare recipients in the next recession.

Of course, many of those women who fail to qualify for UI can return to the welfare rolls during a recession. In fact, recent estimates suggest that the rolls will rise by 5 to 7 percent for each percentage-point increase in the national unemployment rate (Council of Economic Advisers 1999). While welfare rolls have been declining in recent years, most states have been accumulating TANF surpluses in expectation of using these funds during a downturn if needed. Under certain circumstances, the $2B federal contingency fund can also be tapped by states that have exhausted their own TANF funds (see Levine 1999).

On the other hand, federal- or state-imposed time limits on TANF benefits will limit the eligibility of many unemployed recipients, particularly if the recession is a lengthy one, and since UI eligibility is itself limited in duration, some who initially qualify may exhaust their eligibility for this program as well. The ability of states to finance rising rolls out of their current and accumulated TANF funds remains questionable as well. And in many states, many of the noncustodial fathers referred to earlier will not be eligible for these funds.

Finally, it is important to note that the labor market experiences of noncustodial fathers and low-income males more generally have improved much less dramatically than those of single mothers in recent years (Lerman, Riegg, and Aron 2000). In fact, the labor force participation rates of young black men continued to fall during the 1990s and their employment-to-population ratios are no higher now than a decade ago, despite a much tighter labor market. Due to lengthy spells of nonemployment and limited attachment to the workforce, these men will continue to experience very limited UI eligibility during the next downturn as well.

In summary, the employment experiences of current and former welfare recipients are improving rapidly enough that their eligibility for UI will be significantly greater than many had earlier thought. Nevertheless, many female welfare recipients and their male counterparts are still gaining little employment experience and will likely not qualify for either UI or TANF, at least at some point during a downturn. Some planning for their needs during this time remains critically important.

**Potential Policy Responses to the Downturn**

Policy responses that could help to protect these vulnerable workers during the next recession can be grouped into two broad categories:

- **Changes in UI** that would improve the eligibility of low-wage workers; and/or
- **Changes in TANF** or other programs that would make it easier for unemployed workers to gain income during a recession.

Changes in UI that would raise eligibility among low-wage workers might include (a) encouraging states to adopt alternative base periods for earnings calculations, so that the most recent quarter of earnings might not be disqualified; (b) setting minimum levels of hours and/or earnings for eligibility nationwide; and (c) allowing part-time workers, or those who have quit for specified family difficulties, to be eligible for UI. In fact, these proposals have already been implemented in some states and are part of an ongoing discussion of reforms to the UI system at the federal level. Alternatively, the government might consider setting up a separate system, funded by general federal revenues, to provide income support for those who have worked but do not yet qualify for benefits under the regular program.

Changes in TANF might include allowing temporary suspensions of federal time limits on recipients and crediting more educational and training activities to count toward work requirements. Also, progress toward time limits could be suspended for individuals on welfare who are...
working. More federal funding for TANF or community service jobs might be triggered by state unemployment rates, in the same way that UI extended benefits are triggered during a recession. These changes could potentially be incorporated into the TANF reauthorization expected in 2002.

Finally, the federal government might provide additional assistance to states wishing to implement some type of work experience (or community service jobs) program, in the form of technical assistance and/or additional funding. These programs might be a form of paid employment, or some type of “workfare” for those who remain on the welfare rolls (perhaps beyond the original time limit).

Of course, many questions remain about all the approaches mentioned above. These include: (1) Exactly who would be eligible for additional forms of assistance (such as an SUA or work experience program), among low-wage men as well as women? (2) Who would administer these programs locally—TANF offices, “One-Stop” centers, or other agencies? Would they have the necessary administrative capacity? (3) How can the federal government provide assistance while still giving states the incentive to use their own funds, including unspent TANF surpluses or UI trust funds?

Given the many questions and time lags involved with the implementation of any such approach, it is imperative that discussions of their various advantages and disadvantages begin as soon as possible. The well-being of several vulnerable populations is at stake.

Endnotes

1. The surveys were administered to roughly 3,000 employers in late 1998 and early 1999 in Chicago, Cleveland, Los Angeles, and Milwaukee. The predictions are based on regressions of new hire rates for welfare recipients on establishment vacancy rates and a wide range of control variables, along with estimates of how much those vacancy rates will change in the aggregate during a severe or mild recession. Predicted new hire rates decline by as much as two-thirds during a severe recession, though employment among those hired previously would presumably decline less.

2. Three states (Florida, Virginia, and Washington) required more than $3,000 in previous earnings, while six required less than $1,000 as of 1997 (Vroman 1998).

3. Ludwig et al. (2000) note that, in Maryland, up to a third of welfare recipients who are working do not show up in UI wage records, suggesting that many work informally or in uncovered sectors; many of them will be underrepresented in this survey as well. Studies of recent welfare leavers also suggest that 20 to 30 percent of permanent leavers do not work at all in the year following their exit (Loprest 1999).

4. In our employer survey data, the welfare recipients hired most recently also have somewhat greater problems with job performance than those hired earlier. Results from the overall sample might therefore understate the job market difficulties of the current and future entrants. See Holzer and Stoll (2000a).

5. Take-up may be reduced by perceptions of ineligibility and informational limitations, perhaps linked to administrative practices in various states that limit outreach and deter applicants.

6. For instance, the state of Washington has implemented an alternative base period for the calculation of UI eligibility that counts all earnings in the most recently completed quarter.

7. Such a program (called Supplemental Unemployment Assistance, or SUA) was set up during the 1974–75 recession to provide benefits for workers in uncovered sectors of the economy (Vroman 1999). TANF surpluses could also potentially be used to fund these programs at the state level.


References


**About the Author**

Harry J. Holzer is a professor of public policy at Georgetown University and a visiting fellow at the Urban Institute. Dr. Holzer is a former chief economist for the U.S. Department of Labor. His books include The Black Youth Employment Crisis (coedited with Richard B. Freeman, University of Chicago Press 1986); What Employers Want: Job Prospects for Less-Educated Workers (Russell Sage Foundation 1996); and Employers and Welfare Recipients: The Effects of Welfare Reform in the Workplace (Public Policy Institute of California 2000).
This series is a product of Assessing the New Federalism, a multiyear project to monitor and assess the devolution of social programs from the federal to the state and local levels. Alan Weil is the project director. The project analyzes changes in income support, social services, and health programs. In collaboration with ChildTrends, the project studies child and family well-being.


This series is dedicated to the memory of Steven D. Gold, who was codirector of Assessing the New Federalism until his death in August 1996.

The views expressed are those of the author and do not necessarily reflect those of the Urban Institute, its board, its sponsors, or other authors in the series.

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