Conclusions

We set out in this research to address the following questions:

(1) How did the influx of public assistance recipients into the labor force affect the labor market between 1996 and 2000, following welfare reform?

(2) How do alternative macroeconomic conditions affect the ability of labor markets to absorb the new workers and consequently affect the effectiveness of public assistance programs?

(3) Were public assistance recipients who moved into the workforce better off by attaining higher incomes than when they received public assistance?

In order to address these questions, we use a computable general equilibrium (CGE) model to analyze the impact of welfare reform and macroeconomic conditions on the labor market. We focus on low-skill jobs and workers by including a richness of labor market detail in the CGE model. The strength of this research and the contribution that it makes lies in the labor market detail in the CGE model that allows for the analysis of low-skill jobs and workers. In addition, we develop the household component of the model so that we can also see the relative impact on low-income households who receive public assistance compared with other households.

We find that the influx of public assistance recipients into the labor force since welfare reform (PRWORA) does indeed put wage pressure on low-skill occupations. In isolating the policy change—that is, looking at the impact of welfare reform isolated from macroeconomic changes—we measure this pressure as a decreased real wage. We estimate that approximately 2.4 million Food Stamp Program and Temporary Assistance for Needy Families participants moved into the labor force between 1996 and 2000, which accounts for about 18 percent of the labor force growth during this time period. If all this labor supply increase were in low-skill, short-term on-the-job-training (OJT) jobs, wages would be depressed by as much as 7.2 percent. If we assume that the jobs taken by the new workers ranged over all the occupations that already employed low-income households take, real wages would still decline, although only by 2.3 percent. This wage decline would affect all low-skill workers, not just those public assistance recipients who enter the labor force.

Looking at the impact of moving public assistance recipients into the workforce during the strong macroeconomic growth of 1996-2000, we find that the influx of workers puts wage pressure on the low-skill labor market, resulting in reduced wage growth. This reduction in wage growth is 2.5 percentage points for low-skill workers, such that wage growth is 4.4 percent versus 6.9 percent without the influx. However, we also find that the larger labor force contributes to the strong economic growth, accounting for 1 percentage point of real GDP growth over 1996-2000.

The impact of the influx of these workers is substantial enough that reducing the 2.4 million estimate of public assistance recipients entering the labor force to a more conservative estimate of 2.0 million does not qualitatively change the results.

Assuming that the welfare-to-work individuals take full-time, low-skill jobs, we find that real net income falls for these households, as their earned income does not compensate for the loss of benefit payments. In addition, other low-income households that are using public assistance but have household members who are in the workforce, or households that are not using public assistance, also lose earnings due to the decrease in real wages caused by the influx of low-skill workers. However, assuming that recipients enter the labor force with the same distribution of skills that other low-income households have and consequently take jobs in a broader range of skills, we find that low-income households that moved from public assistance to the workforce are better off in terms of real net income—their earnings are greater than their benefit payments.

In the recession scenario, the greatest job loss, both in percentage terms and in absolute numbers, is in the low-skill occupational groups, suggesting that the 2001 recession may strain the welfare-to-work feature of welfare reform if the labor market continues to be soft. The research shows that economic growth is not just good for the economy overall, but good for low-skill and other entry-level jobs. The particularly strong growth of 1996-2000 created a huge number of low-skill jobs and provided tremendous support for welfare reform. We would not expect such strong growth in the near future; however, the more modest trend growth still provides solid job growth for low-skill jobs.

These findings provide insight into the low-skill labor market and the labor market impact of moving public assistance recipients into the workforce. The finding that an influx of low-skill workers into the labor market results in a decline in real wage growth is an unintended consequence of the welfare-to-work emphasis of the current system for public assistance to low-income households. The finding that the negative labor market impact is smaller when welfare-to-work individuals enter the labor force with a broad range of skill levels suggests that education and training programs are useful, not only for public assistance recipients themselves but for other low-wage workers because real wage levels will not be depressed as much with the entry of the recipients into the labor force. The finding that the increase in labor supply from the movement of public assistance recipients into the workforce can contribute to economic growth indicates that the overall economy benefits. Finally, the finding that a recession results in the loss of a large number of low-skill jobs indicates that work requirements may need to be eased during downturns.