

Despite Recession, Welfare Reform and Labor Market Changes Limit Public Assistance Growth

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SUMMARY

Many analysts had expected that the job losses associated with the city's recent economic downturn would reverse the nearly decade-long decline in New York's public assistance caseload. Although the caseload declined at a slower pace, and more recently there have been modest caseload increases, the increases have been far smaller than would have been expected based on the jump in welfare enrollment that accompanied the 1989-1992 recession.

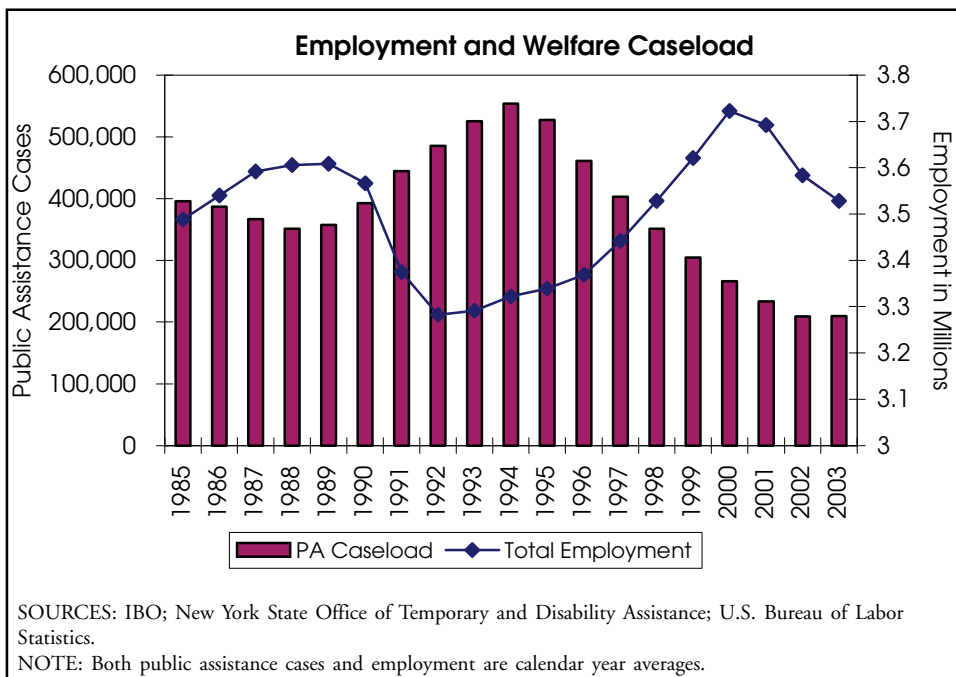
In this fiscal brief, IBO examines several factors that help account for the differences in the relationship between job losses and welfare caseloads. Changes in the labor market between this downturn and the last have affected the level and mix of welfare recipients. In addition, newly available caseload data allows a close examination of how policy changes implemented by federal, state, and city officials have affected individuals' ability to access and retain public assistance grants. While the data do not allow us to determine the relative strength of each factor, it is clear that both policy and labor market changes have acted to limit recent welfare caseload increases. Key findings include:

- The recent economic downturn had a greater effect on welfare's Safety Net program, in which more than half the adult participants are men, than on the Family caseload, which primarily serves women with children.
- In 1995 and 1996, the first two years of welfare reform, the fall in new welfare cases stemmed largely from an increase in the rejection of applications. From 1997 through 2000, the caseload decline continued mostly because of a drop in the number of people applying for public assistance.
- As the recession hit the city in 2001, the number applications for public assistance increased, and along with it the percentage of applications that were rejected. If the 2003 rejection rate had mirrored the 2001 level, an additional 25,000 cases would have been opened over the course of the year.
- In 1994, the year before welfare reform, more people applied for welfare and fewer were rejected than in 2003. This occurred in spite of the fact that in 1994 the city experienced its second straight year of significant job gains, while in 2003 the city suffered its third consecutive year of large job losses.

INTRODUCTION

The number of public assistance recipients in New York City has varied widely over the last two decades. The economic downturn of the early 1990s led to large increases in the welfare caseload; at its peak in early 1995 about 1 in 7 city residents were receiving public assistance grants. Starting in 1995 welfare reform policies and an expanding economy resulted in several years of rapid caseload decreases. As a result, by 2001 the number of public assistance cases had fallen by more than 60 percent, from 563,000 to 220,000. While the more recent economic downturn that began in 2001 did not lead to the large caseload increases of the previous recession, the downward trend slowed and by 2003 the number of welfare cases began to show a modest increase.

Starting in early 2001 the city experienced a significant economic contraction, and the attack on the World Trade Center delivered an additional shock leading to heavy job losses. From December 2000 through December 2003 the city experienced a net loss of over 240,000 jobs. This recent economic downturn has had an impact on the welfare caseload, although far smaller than in the 1989-1992 recession, when 350,000 jobs were lost. By 2002 the downward trend in the overall annual caseload had slowed to 15,000 cases, compared to a reduction of 34,000 cases in 2000. By 2003 the overall caseload trend had turned positive, showing a modest increase of 8,000 cases to 213,000 in December 2003. This modest upward trend has continued in recent months, reaching 219,000 cases in June 2004.



Both the Safety Net and the Family caseloads have experienced less change during the recent recession than during the previous one, although the Safety Net caseload has shown more sensitivity to the recent job losses. After several years of decreases, the Safety Net caseload stabilized in 2002 before increasing by about 7,000 cases in 2003 and another 5,000 cases in the first six months of 2004. In contrast, the Family caseload was still decreasing in 2002 and did not stabilize until 2003. As of June 2004 the Family caseload remained stable.

LABOR MARKET CHANGES

Changes in the city's labor market helped to reduce the impact of the recent recession on the welfare caseload. Some

Our analysis focuses both on the overall public assistance caseload and the separate "Family" and "Safety Net" caseloads. What we refer to as the Family caseload combines two programs that generally provide assistance to parents with children under 18. The two programs are the current Family Assistance program (formerly Aid to Families with Dependent Children) and the 60-Month Converted to Safety Net program for families who have reached their five-year limit on federally financed assistance. Aside from differences in funding sources, these two programs are distinguished only by the length of time that the families have been receiving public assistance. What we refer to as the Safety Net caseload generally includes single adults and couples without minor children who are receiving assistance under the current Safety Net program (formerly Home Relief).¹

industrial sectors that employ large numbers of low-skilled workers suffered fewer job losses than they did in the early 1990s. And although the share of both men and women in the labor force decreased during the recent downturn, long-term changes in the employment of women meant that a larger share of woman were employed in 2003, when the local economy bottomed out, than in 1989, when it was at its peak. This change in women's employment partly explains why the downturn had less of an effect on the Family caseload than on the Safety Net caseload.

Some Sectors Fare Better in Recent Recession. The 1989-1992 and 2001-2003 recessions differed somewhat in terms of the economic sectors that were hardest hit by job losses.² In both of these periods large job losses occurred in financial activities,

manufacturing, and professional and business services. Conversely, the educational and health services sector continued to add significant numbers of jobs during both recessions. However, there were some sectors that suffered fewer job losses in the more recent downturn than they did in the earlier one, in both percentage and absolute terms.

Sectors that fared better in 2001-2003 than in 1989-1992 include retail trade (such as restaurants, bars, and lodging), construction, and government.³ Each of these sectors employ significant numbers of low-skilled, low-wage workers, and their relative success in withstanding the most recent downturn probably helped limit the pressure on the welfare system. For instance bars and restaurants and hotels and motels, which provide numerous jobs that require minimal education and

5.4 percentage points from 2000 to 2003. Similarly, the ratio for women declined 2.6 percentage points from 1989 to 1992 and 2.2 percentage points from 2000 to 2003. What has changed since the last downturn is that women's labor force participation has risen strongly over the last decade. Reasons for this include long-term economic, social and political changes (including welfare reform itself). As a result, although women's labor force participation declined from 2000 to 2003, it remained considerably higher than a decade ago. In 2003, the ratio for women bottomed out 55.9 percent, 5.6 percentage points higher than at the end of the previous recession in 1992. In fact, women's labor force participation in 2003—at the trough of the economic cycle—was 3.0 percentage points greater than at the economic peak in 1989.⁴

Annual Change in Number of Public Assistance Cases in New York City for 1985 through 2003

	Family	12-Month Change	Safety Net	12 Month Change	TOTAL PA	12-Month Change	Total Nonfarm Employment	12-Month Change
Dec-85	251,132		143,279		394,411		3,558,900	
Dec-86	244,385	(6,747)	134,815	(8,464)	379,200	(15,211)	3,600,700	41,800
Dec-87	233,817	(10,568)	116,762	(18,053)	350,579	(28,621)	3,662,000	61,300
Dec-88	229,838	(3,979)	121,549	4,787	351,387	808	3,666,600	4,600
Dec-89	227,022	(2,816)	142,743	21,194	369,765	18,378	3,657,600	(9,000)
Dec-90	238,673	11,651	174,938	32,195	413,611	43,846	3,553,200	(104,400)
Dec-91	256,634	17,961	213,312	38,374	469,946	56,335	3,370,400	(182,800)
Dec-92	282,047	25,413	229,825	16,513	511,872	41,926	3,314,900	(55,500)
Dec-93	303,422	21,375	236,826	7,001	540,248	28,376	3,360,600	45,700
Dec-94	318,610	15,188	244,333	7,507	562,943	22,695	3,390,600	30,000
Dec-95	305,245	(13,365)	177,418	(66,915)	482,663	(80,280)	3,401,200	10,600
Dec-96	277,229	(28,016)	153,128	(24,290)	430,357	(52,306)	3,455,100	53,900
Dec-97	245,004	(32,225)	134,892	(18,236)	379,896	(50,461)	3,545,600	90,500
Dec-98	210,101	(34,903)	113,615	(21,277)	323,716	(56,180)	3,630,100	84,500
Dec-99	194,397	(15,704)	91,802	(21,813)	286,199	(37,517)	3,730,400	100,300
Dec-00	168,779	(25,618)	83,232	(8,570)	252,011	(34,188)	3,821,400	91,000
Dec-01	145,572	(23,207)	74,639	(8,593)	220,211	(31,800)	3,657,700	(163,700)
Dec-02	130,033	(15,539)	75,108	469	205,141	(15,070)	3,634,200	(23,500)
Dec-03	130,937	904	82,227	7,119	213,164	8,023	3,577,400	(56,800)
Jun-04	130,656		87,935		218,591			

SOURCES: IBO, New York State Office of Temporary and Disability Assistance, U.S. Bureau of Labor Statistics.

June 2004 caseload numbers are from the New York City Human Resources Administration.

NOTES: The Family caseload includes the current Family Assistance program (formerly Aid to Families with Dependent Children) and the 60-Month Converted to Safety Net program.

training, lost over 20,000 jobs in the earlier recession before gradually recovering in the mid and late 1990s. After an initial setback following the World Trade Center attack, these establishments began to recover in 2002 and 2003, for a net loss of 1,200 jobs in the recent downturn.

Trends in Men's and Women's Labor Force Participation. The employment-population ratio generally decreases during recessions, and this downturn was no exception. The ratio for men decreased 6.6 percentage points from 1989 to 1992 and

Recent patterns in public assistance caseloads are consistent with these employment trends. As discussed earlier, while both the Safety Net—serving single adults—and the Family caseloads have experienced less change during the recent recession than during the previous one, the Safety Net caseload has shown more sensitivity to the recent job losses. A recent report from the city's Human Resources Administration indicates that more than half of all adult Safety Net recipients are male, while the Family caseload is overwhelmingly composed of female-headed households.⁵ Thus, it makes sense

that labor market changes that contributed to greater job losses among males would have a greater impact on the Safety Net caseload. Furthermore, the CSS report showed that black males suffered the largest job losses of any demographic group from 2000 to 2003.⁶ This group is disproportionately represented in the Safety Net caseload.

In short, economic factors seem to offer a partial explanation for why the loss of 240,000 jobs in recent years has had a relatively light impact on the welfare caseload, and why the caseload increases that did occur have been primarily on the Safety Net side.

THE EFFECTS OF WELFARE REFORM

The recent downturn occurred after a series of major changes to the public assistance program. Each of the policy and programmatic changes, which began in 1995, reduced the likelihood that an individual would move on to or remain on public assistance. These changes included such programs as job search and job placement assistance, which, when successful, eliminated the need for public assistance grants. Other changes increased the difficulty of accessing and maintaining assistance.

The effects of these changes on the welfare caseload can be seen in the newly available public assistance administrative data provided by the Human Resources Administration. These data allow us to look at some of the underlying dynamics behind the caseload changes we have previously described. The data, which are available beginning with 1993, include the number of applications for public assistance that were rejected each month, case openings each month (for both new cases and

cases that previously received assistance at some prior time), and case closings each month.⁷

Rise in Case Closings. The changes initially worked to decrease the caseload in three ways: by increasing the number of cases rejected, decreasing the number of cases opened, and increasing the number of cases closed. A case is considered open when an application is accepted and benefits begin to flow. A rejection occurs when an application is filed but the case is not opened for a variety of reasons, including being over the income threshold, being placed in a job during the application process, or failure to comply with procedures.

The average number of public assistance applicants rejected each month rose from 4,700 in 1994 to 7,500 in 1995 and 7,400 in 1996. The average number of case openings dropped from 24,600 per month in 1994 to 21,300 in 1995 and 20,100 in 1996. While the data suggest that there were modest decreases in the number of people applying for public assistance in 1995 and 1996, in the first two years of welfare reform the drop in case openings was primarily a result of the increase in the rejection rate.⁸ Finally, the average number of case closings per month jumped from 21,600 in 1994 to 26,900 in 1995, falling somewhat to 24,500 in 1996.

By 1997 a somewhat different dynamic sustained the continued caseload decreases. The number of case closings dropped as the overall caseload decreased, leaving a shrinking universe of cases to be closed. Instead, the large caseload decreases that occurred from 1997 through 2000 were primarily driven by fewer people coming on to the public assistance rolls. Both the number of new openings and the number of total openings

Movement On and Off of Public Assistance									
<i>Monthly averages</i>									
Calendar Year	Rejections	New Openings	Reopenings	Total Openings	Closings	Total Openings-Closings	Estimated Applicants	Rejection Rate	
1993	4,273	12,059	14,140	26,199	22,477	3,722	30,472	14%	
1994	4,744	10,842	13,759	24,601	21,564	3,037	29,345	16%	
1995	7,519	7,396	13,878	21,274	26,850	(5,576)	28,793	26%	
1996	7,435	4,375	15,698	20,073	24,513	(4,440)	27,508	27%	
1997	5,488	3,484	12,974	16,458	20,011	(3,553)	21,946	25%	
1998	4,832	3,076	11,897	14,973	19,174	(4,201)	19,805	24%	
1999	4,095	3,359	12,418	15,777	18,043	(2,266)	19,872	21%	
2000	3,549	3,554	13,702	17,256	19,781	(2,525)	20,805	17%	
2001	3,855	3,668	14,130	17,798	20,373	(2,575)	21,653	18%	
2002	5,788	3,890	14,117	18,007	19,572	(1,565)	23,795	24%	
2003	6,457	4,150	13,444	17,594	18,286	(692)	24,051	27%	

SOURCES: IBO, New York City Human Resources Administration.
 NOTES: Estimated applicants combines the number of rejected applications and total openings. The rejection rate is the number of rejected applications divided by the estimated applicants.

continued to decrease. This decrease in openings, however, did not result from an increase in the number of rejections, which actually began to fall after 1996. Rather, the data suggest that the decreases in both rejections and case openings resulted from an accelerated decline in the number of people applying for public assistance. While this reduction in welfare applicants was expected, given the improving labor market, factors such as the decreasing attractiveness of the welfare system for many individuals and the implementation of the policy of front-end diversion starting in 1998 contributed as well. Front-end diversion included the conversion of income maintenance centers to job centers, new job search requirements and other mechanisms designed to greatly reduce the number of individuals who end up on the welfare rolls.

More Applicants, More Rejections. The city's new welfare policies faced a new challenge with the downturn in the job market that began in early 2001 and accelerated after the attack on the World Trade Center. The impact of the downturn is reflected in the public assistance administrative data for 2002 and 2003. As the job market tightened, case closings decreased from an average of 20,400 per month in 2001 to 18,300 in 2003, contributing to the modest caseload increases. Consistent with this decrease in case closings, the city reports on the Human Resources Administration's Web site that their job placements have decreased from a monthly average of 9,188 in 2001 to 8,434 in 2002 and 5,868 in 2003. At a recent City Council hearing city welfare officials attributed this decrease to the fact that as the public assistance caseload has shrunk, those remaining clients are more likely to have barriers to employment. It is likely that this problem has been amplified by the worsening job market of the last few years.

At the other end of the welfare system, the estimated average number of applicants per month increased from 21,700 in 2001 to 24,100 in 2003. This increase in applicants was not accompanied by a sustained rise in the number of case openings over the same time frame. Instead, the number of applicants whose cases were rejected increased from an average of 3,900 a month in 2001 to 6,500 in 2003, as the rejection rate rose from 18 percent to 27 percent of applicants. Thus, the increase in the rejection rate for applicants played a substantial role in limiting caseload increases. If the 2003 rejection rate had remained at the 2001 level, an additional 25,000 case openings would have occurred over the course of the year, adding significantly to the caseload.⁹

The important role that welfare policy changes played in limiting caseload growth during the recent recession can be further illustrated by comparing the administrative data for

2003 with 1994, the year before welfare reform policies were implemented. By 1994 the recession of the early 1990s had ended and employment was growing, while in 2003 the city was suffering its third consecutive year of job losses. Yet in spite of the rosier economic picture, the data suggest that in 1994 far more people applied for public assistance each month than in 2003 (29,300 compared to 24,100), and fewer of these applicants were rejected (4,700 compared to 6,500). As a result there were far more case openings per month in 1994 (24,600 compared to 17,600). And while there were more case closings in 1994, the caseload was much larger and the chances of a case being closed were smaller than in 2003. In short, the policy changes that began in 1995 slowed the growth in the public assistance caseload under varying economic conditions.

CONCLUSION

The recent recession has not led to the large caseload increases that accompanied the previous economic downturn. However, the loss of nearly a quarter of a million jobs from 2001 through 2003 has had some impact on the public assistance caseload. By 2002 the downward trend in the overall caseload had slowed to less than half of the decrease in 2000, and in 2003 the caseload showed a modest increase. This increase has continued in the early months of 2004, although the recent upturn in the city's economy makes it unclear how much longer caseloads will continue to rise. Unlike in the early 1990s, the impact has been primarily confined to the Safety Net caseload.

Part of the difference can be explained by economic factors. In the recent recession some key sectors that employ large numbers of low-skilled workers suffered fewer job losses than they did a decade earlier. In addition, because of differences in their employment patterns, longer-term trends in the low-skilled labor market have been more beneficial to female New Yorkers than to males. Despite recent job losses, a larger share of woman are now in the labor force than were a decade ago. This has helped to cushion the impact of the labor market downturn on the largely female-headed Family caseload.

The other major factor limiting the impact of the most recent recession on the welfare caseload is the changed policy environment. City, state, and federal welfare reform measures, which began in 1995, have played a major role in decreasing the number of applicants for assistance, increasing the rejection rate, and reducing the number of case openings.

Written by Paul Lopatto

ENDNOTES

¹ Family Assistance is funded with 50 percent federal, 25 percent state, and 25 percent city funds. Both the Safety Net program and the 60-Month Converted to Safety Net program are funded with 50 percent state and 50 percent city funds.

² All employment numbers are from the U.S. Bureau of Labor Statistics (BLS). They are based on the Current Employment Statistics establishment (employer) survey. Sector definitions are also from BLS. Because of a change in industrial classification systems beginning in 2002, sector-level data using the current definitions is not available before 1990, a full year after the start of the 1989-1992 recession. Although some sectoral definitions under the two systems are fairly consistent, there also are significant changes that limit our ability to compare every sector during the two downturns.

³ In order to compare across the two downturns, we combined the SIC categories of Retail Trade with Hotels and Lodging for the period 1986 through 2000 and the NAICS categories of Retail Trade, Food Services and Drinking Establishments, and Lodging and Accommodation for the period 2000 through 2003.

⁴ Levitan, Mark. *A Crisis of Black Male Employment: Unemployment and Joblessness in New York City, 2003*. Community Service Society. February 2004. Female New Yorkers are more likely to be employed in economic sectors that have fared better in recent years, especially in the Educational and Health Services

sector.

⁵ New York City Department of Social Services/Human Resources Administration. *HRA Facts Quarterly Supplement*. April 2004.

⁶ Levitan.

⁷ Case openings and closings are not exactly equivalent to the number of caseload entries or exits. A given case can be opened or closed more than once in a given month. Therefore, openings minus closings will not equal the net caseload change for that month. However, the number of openings minus closings does generally correlate well with net caseload change.

⁸ The rejection rate is computed by dividing the number of rejections by IBO's estimate of the number of applicants each month. The public assistance administrative data do not include any direct measures of the number of applicants. For the purposes of this report we have estimated the number of applicants by combining the number of rejections and total openings. Thus, potential applicants who are discouraged from completing an application are not counted in this analysis. While IBO's estimate likely understates the total number of individuals contacting the Human Resources Administration, it should serve as a reasonable proxy for the changing demand for assistance over this time frame.

⁹ This does not mean that there would have been exactly 25,000 additional cases in 2003, since many of these newly opened cases would have closed during the course of the year.

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