

The Hidden Public Costs of Low-Wage Jobs in California

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Executive Summary

This report, produced by the UC Berkeley Labor Center for the National Economic Development and Law Center, is the second in a series of white papers informing policy solutions to working poverty in California. Over the past two decades, California's "new economy" has produced an hourglass pattern of job distribution, fostering far more growth among high and low wage jobs compared to middle-income jobs. A growing segment of Californians work year-round, but earn too little to provide for their families. As a consequence, these families must often resort to publicly funded safety net programs in order to supplement their earnings and meet their basic needs. Increasingly, public assistance is becoming an ongoing wage supplement for low-wage workers, rather than emergency assistance for those who find themselves unable to work.

Working families are not the only ones who bear the burden of increasing numbers of low wage jobs. Taxpayers also share the cost. This report focuses on an important outcome of the increase in low-wage work: the hidden costs for taxpayers when California's working families must rely on public assistance to meet their basic needs.

This report is based on an analysis of the participation of working families in the ten largest statewide programs that provide public assistance to low-income families. The study uses a data set that combines government administrative data on the enrollment in and costs of these programs for 2002 with detailed demographic and employment characteristics of program participants from the Current Population Survey (CPS). The study defines working families as those in which at least one member works at least 45 weeks per year. The study's key findings are:

- Many of the families receiving public assistance are receiving aid not because they are unable to work, but because the work they do does not pay them enough to meet basic needs. Working families (those with at least one member who works at least forty-five weeks per year) comprise over half (53%) of the families enrolled in at least one of the ten programs we analyzed. Of the \$21.2 billion of public assistance to low-income families received by California families in 2002, 48%, or \$10.1 billion, went to working families.

- Some of the largest programs supporting working families include medical care, the Earned Income Tax Credit (EITC), and child care assistance. Of the \$10.1 billion in public assistance expenditures that went to working families, 35% was for Medi-Cal, 27% for the EITC, and 12% for Child Care Assistance.
- The data indicate that most working poor are not employed in sectors that face competition from low-wage states or countries. Workers employed in the sectors that are more likely to face some out-of-state or international competition collectively received about \$2.9 billion of public assistance benefits, while those in the sectors that face little out-of-state or international competition received about \$7.2 billion.
- Public assistance was concentrated among workers in several sectors. For instance, workers in the retail industry collectively received about \$2 billion of public assistance, over twice the amount received by workers in any other sector.
- Most of the public assistance that went to working families went to families with workers earning very low wages: \$5.7 billion went to families whose workers had average wages of under \$8 per hour. Another \$1.9 billion went to those with wages between \$8 and \$10 per hour.
- Most of the public assistance to working families went to families with full-time workers, dispelling the notion that part-time work largely accounts for the low earnings of poor working families. Seventy-six percent (\$7.63 billion) went to single earner families with over 35 hours of work per week or dual earner families with over 70 hours of work per week. Moreover, 82 percent (\$8.26 billion dollars) of public assistance benefits went to families with at least one full-time job (over 35 hours per week).
- The simulation we conducted on wages predicts that a drop in public assistance payments from \$10.1 billion to \$7.4 billion (a \$2.7 billion difference) would occur if the current group of public assistance recipients earned at least \$8 per hour. Simply raising wages for these workers earning minimum wage and slightly above would help the working families and could potentially save billions of dollars in program expenditures.
- The simulation we conducted on employer-provided health insurance predicts that, at current wage levels, public assistance payments would drop from \$10.1 billion to \$7.9 billion (a \$2.2 billion difference) if the working families currently

receiving assistance had access to affordable health insurance through their employers. When combined with employer-provided health insurance, payments would fall to \$5.4 billion with a wage floor of \$8 per hour, \$4.4 billion with a wage floor of \$10 per hour, \$3.7 billion with a wage floor of \$12 per hour, and \$3.2 billion with a wage floor of \$14 per hour.

The findings in this report provide direction for current policy discussions focused on supporting the working poor. First, the findings in this report dispel a widely held misperception that part-time work largely accounts for the low earnings of poor working families. Instead, our analysis points to low wages as a primary factor leading workers to turn to public assistance. Pulling this set of families out of poverty and thus reducing their need for public assistance will likely be more dependent on finding ways to improve wages than on finding ways to increase the hours that they work. A different set of policy considerations apply to the 47% of public assistance recipients that are members of families with no year-round workers.

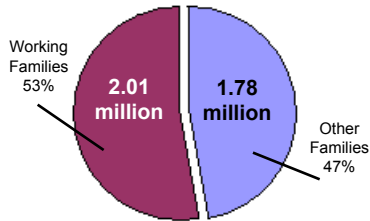
Second, our simulations show that savings in public assistance payments would be in the billions of dollars if the current group of recipients earned at least \$8.00 per hour (savings of \$2.7 billion) or had affordable employer-provided health insurance (savings of \$2.1 billion). Policies that improve wages and benefits would allow these programs to reach more families by moving people off waiting lists into current programs and extending eligibility.

Finally, the extremely large amount of public assistance payments that flow to workers is of a magnitude that can change economic incentives for the businesses in which they are employed. This lends fuel to the growing concern that some assistance programs may be serving as de facto subsidies for low-wage employers, pushing down wages and providing disincentives for employers that might otherwise "take the high road." This crowding out effect has long been recognized in the public health arena; recent research suggests that it may also apply to the EITC.

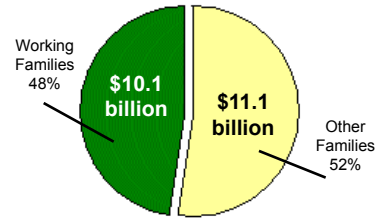
Given the prevailing low wages in many industries and the lack of health benefits in many jobs, the public assistance programs discussed in this report provide vital support for millions of California's working poor. Certainly, increased funding for these programs could cover more poor families and improve the quality of living for many of our state's neediest children. At the same time, this report suggests that these programs could be much more effective if they are combined with policies and programs that improve wages and increase access to affordable health insurance, so that public assistance does not itself encourage employers to reduce wages or benefits. Policies that would improve wages and benefits include: 1) establishing labor market standards, such as minimum, living and prevailing wage legislation, "pay or play" health care laws, and standards for economic development programs; 2) job creation and job upgrading efforts, particularly through sectoral partnerships that provide training and career paths in a multi-employer context; and 3) increasing access to and funding for education and vocational training.

Selected Tables

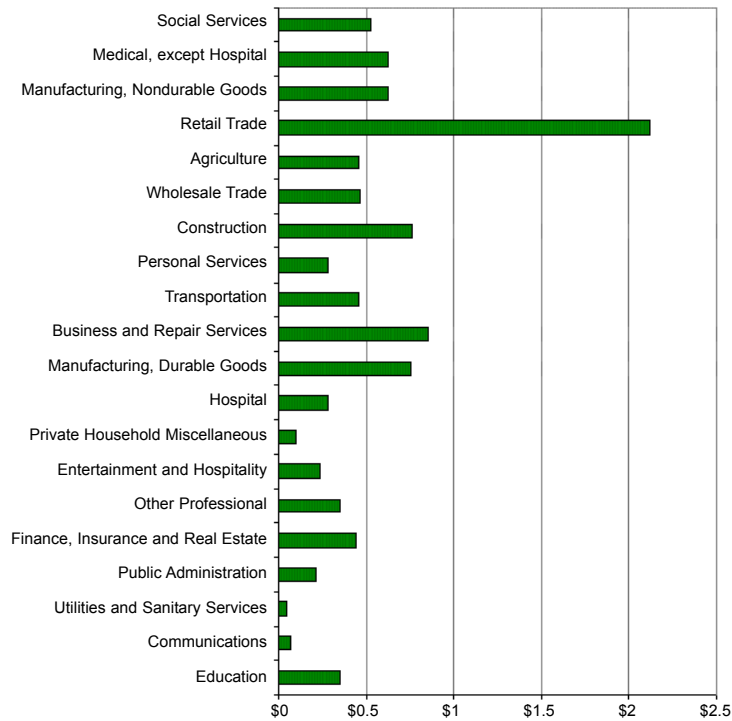
Working Families Receiving Public Assistance, 2002
 Combined administrative and CPS data



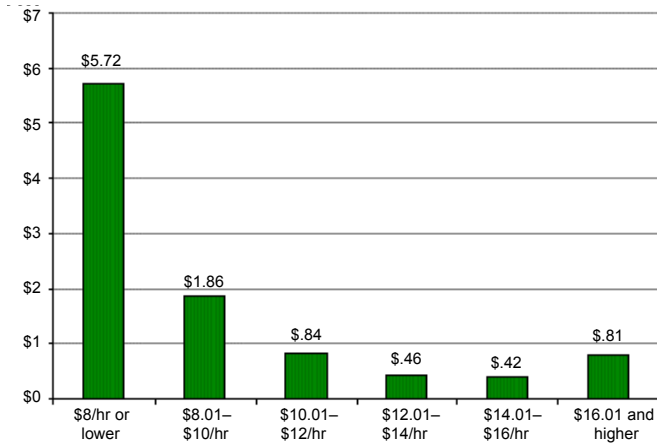
Share of Total Public Assistance for All Families, 2002
 Combined administrative and CPS data



Annual Amount (in billions) of Public Assistance to Working Families by Industry, 2002
 Combined administrative and CPS data



Distribution of Public Assistance Receipts (in billions) by Average Wage, 2002
 Combined administrative and CPS data



Current and Predicted Total Public Assistance to Working Families (in billions) under Alternative Wage and Benefits Standards
 Combined administrative and CPS data

