

Chapter 5 – The Working Poor

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I. Work Experience and Poverty

Poverty depends on not just working, but working a sufficient amount of hours. Part-time jobs or part-year jobs may lead to the “working poor.”

Weeks of Work and Hours

Figure 5.1 traces out poverty rates – by head of household – based on number of weeks worked during the year, and by full/part-time status of the head of household. Poverty is virtually nil for full-time/full-year workers, but reaches just 30% for those who work even part-time/part-year.

How are these measures computed? The CPS asks about the number of weeks employed in the last calendar year, and the usual hours worked per week (when employed).

- Annual hours of work in the CPS can only be approximated, because “usual” hours of work per week may refer to the median or mode hours of work (or something else), rather than the mean. For example, suppose that a person worked part-time (20 hours) for slightly more than one-half of the year, and full-time for slightly less than one-half of the year. Then “usual hours” could be 20 hours (the median and mode), 30 hours (the mean), or perhaps 40 hours if the person’s most recent job was full-time.
- The questionnaire for the 1998 CPS – which hasn’t changed – can be found at: <http://www.census.gov/aprd/techdoc/cps/mar98/ques98.pdf> . The exact question reads: “*In the weeks that you worked, how many hours did you usually work per week?*” (See Question 41 of the survey).
- The word “usually” can be interpreted in different ways, and it is not clear how

this question accounts for second jobs/temporary jobs.

There are a number of issues with Figure 5.1:

- In an earlier edition of the book, poverty rates increased for part-time workers going from 1-13 weeks of work to 14-26 weeks. Based on the clear trend in this graph, that was either a mistake or due to small sample sizes.
- Poverty rates for those with zero weeks of work are not shown.
- The work behavior is for the head of household, and does not account for family circumstances, such as the distinction between married and single households.
- Part-time is defined as 1-34 hours per week, full-time as 35-plus. Since a substantial fraction of full time jobs are centered at 40 hours per week, it is fairly clear how to translate “full-time” and “employed weeks” into annual hours. On the other hand, there is a great deal more dispersion in “part-time” hours.

The Working Poor

Approximately half of the poor household heads (51%) have any work experience during the year (for the 2000 calendar year). Schiller interprets Figure 5.2 to say:

“the presence of so many workers among the poor is a blatant contradiction to the accepted wisdom that ‘to get ahead, get a job’.”

Is it really blatant? The pie chart shows only a small minority (18.7%) of poor household heads have a full-time, full-year job, or 81.3% don't. Many poor household heads could exit poverty if they increased their work effort.

- In a recent analysis of Missouri, Troske and Yelowitz (2006) produced the tables at the end of these notes. Average work effort among workers in poverty (not heads) was 1,120 per year (Table 1). Poverty would fall dramatically if individuals in poor families worked full-time, full-year (Table 4).

How Much Work?

There are different classifications of the “working poor.”

- Department of Labor: Persons who have devoted 27 weeks or more to working or looking for work and who lived in families with incomes below the official poverty threshold.
- Gorham and Harrison definition – All workers whose annualized earnings are too low to lift a family of four out of poverty.

As Schiller mentions, both definitions have problems.

More Measurement Problems

- Usual hours per week – A person classified as “full-time” may occasionally experience “part-time” work. Around 10% of full-time, full-year workers actually had at least six weeks of part-time work.
- Tips, commissions, bonuses – Schiller incorrectly claims that “The annual Census survey inquires about regular wages but neglects tips, commissions, and bonuses. These irregular forms of income may be particularly important for workers with low hourly pay (e.g., salespeople and food servers).”

This is incorrect. See for yourself in the 1998 CPS:

<http://www.census.gov/apspd/techdoc/cps/mar98/ques98.pdf>

Question 48a3, and 48aad explicitly discuss this. “How much did you earn in tips, bonuses, overtime pay or commissions from this employer in 1997?”

- Self-employment – roughly 400,000 poor working heads (out of 5.2 million poor working heads) classify themselves as self-employed. Computing the well-being of the self-employed is difficult for a number of reasons:

Under-reporting: More potential to under-report income. Not all income receipts are easily audited by the Internal Revenue Service, for example.
Assets: Self-employed may own assets of considerable value – e.g. a farm or business capital. The reason why assets matter is because the self-employed may have considerable discretion to reclassify “salary income” into “business capital.” Consider a female head who runs a child-care center out of her home and either renovates some of the rooms in her home and calls it a business expense, or pays herself a salary, and then uses the salary to renovate the rooms. In either situation, she is fundamentally in the same economic situation, but in one case she would have much higher income than in the other.

Secondary Workers

Most individuals live in families, and families may supply more than one worker to the labor market. Figure 5.3 illustrates that a secondary worker is often decisive in keeping a family out of poverty. In two-parent families with children, the poverty rate is 58% when there are no workers, 13.9% with one worker, and 2.8% with two workers.

- The classification of workers does not tell us much about *intensity of work* – presumably the poverty rates are lowest when the workers are full-time, full-year.
- Question arises on why so few families with zero workers (presumably over the course of the entire year) are not in poverty?
- Schiller cites a study by Levitan that computed that “50 to 70 percent *more* two earners families would be in poverty without the earnings of the secondary worker.”

The poverty rate would still be extremely low, because the base of 2.8% is

very low – an increase in 50% would lead to a poverty rate of about 2.8%+1.4%, or 4.2%.

In addition, these calculations almost surely assume no behavioral response – e.g., that if the secondary earner left her job, that the primary earner would not increase his labor supply.

II. Searching For Explanations

Why are full-time full-year workers poor?

Earnings is equal to wages multiplied by hours, or $w*H$. If H is high, then w must be low. Schiller says:

“it might also be the case that the poor simply have above-average needs, due to either larger families or special expenses, for example, medical bills.” (p. 95)

Larger families will result in a higher poverty threshold, so that part of the statement is correct.

Other ‘special expenses’, however, do not enter the poverty line. The poverty line simply measures income flows against a dollar threshold, adjusted for family size and inflation.

III. Minimum Wage Jobs

The nominal federal minimum wage has increased over time, from \$0.25 in 1938 to \$5.15 in 1997. The minimum wage is not indexed to inflation, and only increases when there is political agreement on doing so.

Eighteen states and Washington DC, by their own choice, have imposed minimum wages higher than the federally mandated minimum wage.

- See <http://www.dol.gov/esa/minwage/america.htm> for state-by-state variation. Kentucky’s minimum wage is the federal one of \$5.15. Washington state currently has the highest minimum wage of \$7.63 per hour, but California’s minimum wage is going up to \$8 per hour.

Living wages – a number of cities have imposed minimum wages on some subset of workers (oftentimes, those employed by a company that is dealing with the local government). The proposed wage rates are oftentimes around \$10 per hour. See http://www.epionline.org/index_lw.cfm for an overview. Chicago recently passed an ordinance for big box stores that would have amounted to \$13 per hour, but the mayor vetoed it.

As Schiller notes, a full-time, full-year job of 2,000 annual hours would result in income of \$10,300 which is slightly below the threshold for a two-person family (but ignores a rather large potential EITC refund for families with children).

Figure 5.4 shows that the real value (accounting for inflation) of the minimum wage has generally eroded over time.

There are a number of issues to take away concerning minimum wages and poverty:

- Many people who earn the low wages are not in poor families – for example, many teenagers and secondary workers. For example, Troske and Yelowitz (2006) found that only 11% of low-wage workers (under \$6.50 per hour) in Missouri were sole earners with children present. 41% of low-wage workers lived with a parent or relative.
- Schiller's Table 5.3 shows that only 24% of minimum wage workers are in poor families.
- Wages often increase rapidly for those who start off at the minimum wage – these jobs are “stepping stones” to higher wage jobs.
- Raising the minimum wage potentially has employment effects if the minimum wage is above the market-clearing wage. This is a source of great discussion in the economic literature – with different studies coming to dramatically different conclusions on the extent of the disemployment effects.
 - Card and Krueger (1994) find that raising the minimum wage in New Jersey did not have disemployment effects (using Pennsylvania as a control).
 - Neumark and Wascher (2000) argue that there are disemployment effects when better data is used to measure hiring.

IV. Low Wages

One wage earner in a family of four would need an \$9 per hour job to escape poverty in 2002. Table 5.4 shows annual earnings of the head of poor families.

- Surprisingly high number of full-time, full-year heads (12.0%) report earnings of less than \$2,000, translating into an hourly wage rate of about \$1 per hour. This suggests *measurement error* in either earnings or annual hours. Moreover, if we divide earnings by full-time, full-year hours of work, about 36.4% of poor heads are apparently earning less than the minimum wage. This seems implausibly high.

Table 5.4 shows the distribution of wage rates by age groups; roughly 25 million workers were paid less than \$9 per hour. Among low earners, many were able to escape poverty however. The most common way that low earners escaped poverty is by having a small family size, and other common ways included having other workers in the family, unearned income, and welfare benefits (Table 5.6).

Poor Jobs

The reported occupations of poor heads of household are concentrated in a number of areas – the most common of which are “Other service workers,” “Craftspeople and precision production,” “Salesworkers,” and “Clerical workers.”

V. Why are Wages so Low?

Economics would suggest that wage rates are determined by supply and demand. There is ample supply of workers for unskilled jobs, hence wages remain low.

Schiller argues on page 103 that the demand side of the market is neglected in antipoverty discussions, and by doing so ignores tremendous potential for eliminating poverty.

He says that “the distribution of wages and incomes is partly a reflection of collective social decisions regarding the merits of particular kinds of output. ... Had we decided instead to dredge more rivers, to build more houses, or to clear up our cities, the extent and nature of poverty might now be marked different.”

This analysis assumes no behavioral responses. If unskilled occupations paid more, one could reasonably expect that skilled individuals would shift into them. For example, childcare workers and social workers are often paid very little – yet might be rewarding in a number of ways. One might expect that more skilled individuals would shift into occupations like those if they were more handsomely rewarded.

VI. Summary

Many people are poor despite relatively high attachments to the labor force – regardless of the measurement issues.

VII. Does Prosperity Trickle Down

Do the poor benefit from general economic growth or do they live in an isolated subeconomy? The *trickle down perspective* asserts that people at the bottom of the economic hierarchy benefit from increased prosperity as higher income levels, because of multiplier effects. The *dual labor market perspective* asserts that a variety of barriers, such as discrimination (either overt or in a statistical sense) or unions reduce the benefits from growth at the top of the income distribution.

TABLE 1
Summary statistics of Missouri adults, 2004
 (Authors' tabulation of 2005 March CPS)

	Non-elderly adults	Adult workers	Low-wage workers	Workers in poor families
Weighted Sample In Missouri	3,681,677	2,893,293	355,710	208,833
Individual Demographics				
Age in years	39.2	39.2	32.5	32.1
Age 16-19	8.8%	6.0%	24.9%	8.8%
Age 20-29	20.2%	20.9%	29.9%	42.2%
Age 30-39	21.2%	23.3%	11.6%	20.4%
Age 40-49	22.0%	24.4%	14.3%	18.8%
Age 50-59	20.9%	20.7%	15.1%	9.1%
Age 60-64	6.9%	4.8%	4.1%	0.6%
Married	52.6%	55.3%	31.8%	15.7%
Male	48.3%	51.3%	41.8%	41.7%
Veteran	8.8%	9.1%	4.8%	3.9%
No high school diploma/GED	15.7%	10.8%	29.6%	27.5%
Enrolled in school	9.8%	7.0%	25.5%	7.8%
White	84.9%	85.7%	77.3%	72.7%
African-American	11.5%	11.0%	17.7%	23.3%
Individual Work Behavior				
Worked in past year	78.6%	100.0%	100.0%	100.0%
Uninsured	16.3%	16.1%	30.4%	44.6%
Adult has disability	10.6%	4.4%	8.0%	6.5%
Annual hours worked		1,853	1,341	1,120
Wage		\$21.47	\$5.45	\$9.58
Wage gap from \$6.50		\$0.13	\$1.05	\$0.47
% Under \$6.50		12.3%	100.0%	43.0%
Annual per-worker cost of raising minimum wage		\$172.17	\$1,400.38	\$625.74
Household Characteristics				
Household income	\$79,284	\$85,998	\$57,562	\$26,888
Household size	3.02	3.00	3.15	3.36
Number of children	0.89	0.88	0.87	1.42
Under 100% of poverty line	11.8%	7.2%	25.2%	100.0%
Over 400% of poverty line	42.1%	47.8%	28.9%	0.0%
How Worker Fits Into Household				
One worker (single or married) with kids		12.7%	11.0%	38.8%
Worker lives with parent or relative		14.7%	40.9%	16.2%
Two workers in married couple with or without kids		44.7%	27.5%	3.4%
One worker (single or married) without kids		21.3%	15.8%	21.5%
Non-relative		6.6%	4.8%	20.1%

Notes: Authors' tabulation of 2005 March CPS, covering the 2004 calendar year. All dollar amounts are expressed constant 2006 dollars. Wage rate is computed by dividing annual earnings by the product of usual hours worked and weeks worked; non-negative values of the wage rate that were below \$5.15 were then imputed as \$5.15 an hour. The CPS only asks individuals aged 16 to 24 whether they are enrolled in school; the analysis assumes no adults age 25 and over are enrolled in school. Source: Troske & Yelowitz (2006).

TABLE 4: Poverty Reductions From Various Policies

Source: Troske & Yelowitz (2006).

	Poverty Rate For ...		
	Low-Wage Workers	All Workers	All Adults
No New Policies	25.2%	7.2%	11.8%
Raise Minimum Wage, No Job Loss	20.6%	6.5%	11.1%
Raise Minimum Wage, Hours Reductions	21.9%	6.7%	11.4%
Raise Minimum Wage, Job Loss	21.4%	6.7%	11.4%
Increase Work Hours for Low-Wage Workers and Non-Workers.	16.5%	6.1%	10.8%