By Jeannette Wicks-Lim

THE WORKING POOR
A Booming Demographic

Former 2012 GOP presidential candidate Rick Santorum caught hell when he called President Obama a snob for wanting everyone to get a college education. But Santorum's words strike a discordant note that shouldn't be ignored. The president's frequent exhortations that everyone should go to college in order to achieve some level of economic success ignore this fact about the U.S. labor market: that now and into the next decade, more than two-thirds of the jobs that U.S. workers will depend on to earn their livelihoods will be non-college-degree jobs. Intentionally or not, Obama's words suggest that workers without a high level of educational credentials should expect less. Such a view feels out of touch at best, and elitist at worst.

For the large majority of workers, the key to avoiding—or escaping—the ranks of the working poor will necessarily rely less on whether they have any post-secondary education and more on whether jobs that require no college experience pay decent wages. To get serious about reducing the number of the working poor we must eliminate poverty wages. Without doing so, a large share of future jobs will offer little more.

DEFINING THE WORKING POOR

The most widely recognized definition of poverty—the U.S. Census Bureau's official poverty line—has been widely criticized as too low because it represents an exceedingly severe level of economic deprivation. Income eligibility guidelines for major anti-poverty policies demonstrate the inadequacy of the official federal poverty line (FPL). Public subsidy programs such as free and reduced-price school lunches, the State Children's Health Insurance Program (SCHIP), the Low Income Home Energy Assistance Program (LIHEAP), and the Earned Income Tax Credit (EITC) provide benefits to households with incomes up to about twice the poverty line.[1] According to these programs, families at twice the poverty line live with a high enough

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level of economic distress to warrant government aid.

The Economic Policy Institute has an alternative measure of a minimally decent living standard for families with young children, called the "Basic Family Budget."[2] These budgets include: food, clothing, housing, transportation, child care, health care, other necessities (including personal care items), and taxes. These budgets do not allow for any savings—not for retirement, education, or even for emergencies. This Basic Family Budget typically ranges between two and four times the official poverty line, depending on local living costs, and averages at about 2.4.[3] In other words, for the typical family with children, an income level below 240 percent of the FPL would not be enough to meet their basic needs.

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For these reasons, I define the poor as those living in households with annual incomes at 2.4 times the official poverty line or less. The *working* poor are those who have been active in the workforce at some point in the year—either by working or looking for work.

Who constitutes the working poor? There are no surprises here. People of color—African-Americans and Latinos, in particular—are over-represented. African-Americans made up 11.8 percent of the workforce in 2010, but 17.5 percent of the workers whose family incomes did not cover their basic needs.[4] The figures for Latinos are more dramatic: Latinos made up 25.6 percent of poor workers, even though they only constitute 14.8 percent of all workers.

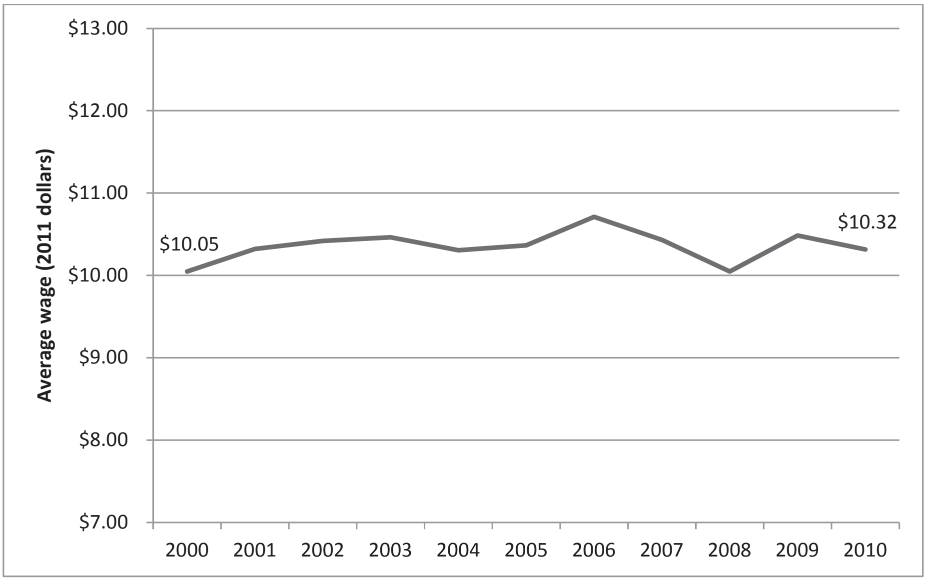
Educational credentials matter a lot too—not because available jobs require high levels of education, as I will demonstrate later, but because high-school-degree jobs pay less. The share of those with a high school degree or less is about nineteen percentage points greater among the working poor compared to the overall workforce (57.3 percent versus 37.8 percent).

The working poor are also somewhat younger than workers more generally, with an average age of thirty-seven compared to forty-one for the overall workforce. Women and men, on the other hand, appear among the working poor in the shares that roughly mirror the general working population.

WHY ARE WORKING PEOPLE POOR?

PAID EMPLOYMENT CAN LEAVE workers and their families in poverty for two basic reasons: insufficient employment opportunities and inadequate pay rates. Since the beginning of the Great Recession in 2009, policymakers have focused nearly exclusively on the issue of jobs. What gets lost in the panic over unemployment and underemployment—though justified—is that before the Great Recession, millions of fully-employed workers already filled the ranks of the working poor. Without aggressively addressing the issue of low-wage work, a large share of workers and their households will continue to live in poverty. To focus sharply on how low wages create a class of the working poor, the first column of Table 1 presents some basic figures for the year 2000 on the work status of poor individuals. The year 2000 is the last full year of a ten-year-long expansion that produced the lowest unemployment rate—4.0 percent—of the last three decades. The figures for this

Figure 1. Average Wage among the Working Poor, 2000-2010



Source: Current Population Survey (CPS), ASEC 2001-2011 files (the median represents the average wage).

year should tell us something about how full employment would reduce poverty.

In this near-full-employment economy in 2000, nearly one in three (31.5 percent), or 54.5 million, prime-working-age adults (eighteen to sixty-five years old) lived in poor households. Among these individuals, the large majority

The average hourly wage among the working poor is $10.00.

(68.1 percent) participated in the workforce—either by working or wanting to work at some point during the year.[5] Among the other 31.9 percent of poor adults—individuals not in the workforce—nearly all (92.4 percent) either have other responsibilities that interfere with working (taking care of family or going to school) or they are unable to work (because they are ill, disabled, or retired). For these individuals, paid employment will not adequately address their income needs.

Focusing now on individuals who are in the labor force and poor, even in a near-full-employment economy, 16.6 percent seek more work and have partial schedules for "economic" reasons (14.8 percent wanted to work more, and another 1.8 percent did not work at all because they could not find a job). Getting enough work clearly remains a problem for some people, even when there is a historically low unemployment rate.

But the majority of the working poor (54 percent) do not escape poverty despite working full-time, year-round. For these workers, too-low wages create the gap between their earnings and their household needs. The average hourly wage among the working poor is $10.00 (see Figure 1).[6] Full-time, year-round earnings at this rate—$20,800—fall 52 percent short of the $43,500 that the average worker with a small family (two adults and one child) needs to

Table 1. Characteristics of the Working Poor in 2000 and 2010

	Year 2000 Near-full-employment economy	Year 2010 Weak-recovery economy
Number of poor prime-working-age adults	54.5 million	73.4 million
% in poverty	31.5%	37.7%
% in labor force	68.1%	63.7%
Work status among labor force participants over the year		
Full-time, year-round	54.0%	43.9%
Part-time or part-year for economic reasons	14.8%	27.1%
Part-time or part-year for non-economic reasons	29.4%	19.5%
Unemployed	1.8%	9.4%

Source: Author's analysis of 2001 and 2011 CPS ASEC files; sample includes all prime-working-age (eighteen to sixty-five years old) individuals. The concept of labor force participation used here is somewhat different from the definition typically used. The official government count of the labor force is based on the activity of individuals over the past month. However, the data I used measure activity and income over the past year.

maintain a minimally decent living standard.[7] Even two adults working full-time, year-round, at $10.00 an hour would leave a $2,000 gap.

Fast forward ten years to 2010, which had a 9.6 percent unemployment rate. We can clearly see the role of massive job losses and reduced hours in pushing U.S. workers and their families into poverty (column 2, Table 1). Now, 37.7 percent of prime-working-age adults are poor. Fully 36.5 percent are now either unemployed or underemployed.

Still, even in 2010, just over two in five poor workers had full-time jobs year-round. They couldn't make ends meet because of their low pay rate. Over the decade, the average wage among the working poor hovered just over $10.00 (after adjusting for inflation), reaching $10.70 near the peak of the last business cycle in 2006. By 2010, the average wage among the working poor was $10.32, only slightly higher than where it started at the beginning of the decade.

So why are working people poor? Employment levels certainly matter. The share of prime-working-age adults who can't make ends meet shot up from 31 percent in 2000 to 38 percent in 2010. But wages matter too. As the earlier figures show, whether the economy is

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barely recovering from a severe recession (2010) or operating at a high level of activity (2000), a large share of poor workers—roughly between 40 and 50 percent—are fully employed but struggle because they earn poverty wages. In other words, to reduce the ranks of the working poor we must focus on the quality of jobs, not just on the unemployment rate.

THE PROMISE OF FUTURE JOBS

THE WAGE PREMIUM FROM A college degree is worth a 44 percent raise for male workers with only a high school degree and a 48 percent raise for female workers.[8] If more of tomorrow's jobs are college-degree jobs—or at least jobs that require some college experience—the future holds the promise of better-paying job opportunities for workers to strive for. This is not the future that the Labor Department projects. Ten years from now, the Labor Department expects that more than two-thirds (68.5 percent) of U.S. jobs will require only a high school degree. (This figure is virtually unchanged from today's 69.3 percent.)

We can dig a little deeper and compare the top thirty occupations that the Labor Department estimates will have the largest growth between now and 2020 to the top thirty occupations most commonly held by the working poor in 2010 (see Tables 2 and 3). These occupations broadly overlap: seventeen out of the thirty occupations are the same. Moreover, if current rates are any indicator of what is to

Table 2. Top Thirty Occupations with the Largest Projected Employment Growth

Registered nurses
Retail salespersons
Home health aides
Personal care aides
General office clerks
Food preparation and serving workers
Customer service representatives
Heavy and tractor-trailer truck drivers
Laborers and material movers
Post-secondary teachers
Nursing aides
Child care workers
Bookkeeping, accounting, and auditing clerks
Cashiers
Elementary school teachers
Receptionists
Janitors
Groundskeepers
Sales representatives
Construction laborers
Medical secretaries
First-line supervisors of office workers
Carpenters
Waiters and waitresses
Security guards
Teacher assistants
Accountants and auditors
Licensed practical and licensed vocational nurses
Physicians and surgeons
Medical assistants

Source: Department of Labor; the occupations in common between Tables 2 and 3 are in bold.

Table 3. Top Thirty Occupations Most Commonly Held by the Working Poor

Cashiers
Cooks
Janitors
Nursing, psychiatric, and home health aides*
Waiters and waitresses
Driver/sales workers
Retail salespersons
First-line retail supervisors
Laborers and material movers
Maids
Construction laborers
Stock clerks
Carpenters
Groundskeepers
Customer service representatives
Secretaries
Personal care aides
Child care workers
Miscellaneous agricultural workers
Receptionists
Miscellaneous assembly workers
Miscellaneous managers
Security guards
Food service managers
Painters
Miscellaneous production workers
Food preparation workers
Auto mechanics
General office clerks
Elementary school teachers

Source: Author's analysis of 2011 CPS ASEC files; the occupations in common between Tables 2 and 3 are in bold.
*ASEC files combine these three occupations into one.

come, we can expect these projected jobs to offer low wages: the median hourly pay rate among those jobs is $12.30—23 percent below the median of $16.00 across all workers.[9]

Another commonality among the thirty occupations with the largest growth is that many are "non-offshorable" and "non-routine." Non-offshorable jobs (e.g., security guards and janitors) involve significant levels of in-person interactions and on-site work and, as a result, are less vulnerable to the global scope of today's labor market. Non-routine jobs are hard to automate, making it more difficult to replace workers with computers or other types of machines (e.g., child care workers and personal care aides).

To reduce the ranks of the working poor we must focus on the quality of jobs.

This is why, as MIT economist David Autor explains, we should expect that these jobs—many of which pay low wages—will continue to be an important area of future employment opportunities.[10] Autor shows how, in contrast to previous decades (1979-1989 and 1989-1999), jobs that paid the lowest wages are in more recent years (1999-2007) experiencing the largest employment growth. The Labor Department projections extend this trend for the next ten years.

More workers with college degrees are unlikely to change this pattern. Instead, as more workers become educated, the educational credentials among low-wage workers will simply rise. From 1979 to 2011, the percentage of adult workers getting some college experience rose by more than twenty percentage points, from 41 percent to 64 percent. Over the same period, the percentage of workers earning the low-wage of $10.00 or less hardly changed at all, *rising* slightly from 23 percent to 24 percent. The result? The percentage of low-wage workers that now have some college experience has grown considerably, from 25.2 percent to 43.2 percent.[11]

THE NEED TO RAISE LABOR STANDARDS

What can be done about poverty wages? New thinking about a century-old U.S. labor market institution—minimum wage laws—holds great promise.[12]

Minimum wage laws typically come under fire in policy debates because of the concern that strengthening this labor standard will impose high costs on employers and, in response, employers will cut back on staff. Recent research persuasively demonstrates that minimum wage laws in the United States have not caused any significant employment losses.[13] Our attention should turn to the question of how much higher minimum wage rates could be lifted, while still avoiding job losses. Currently, a large gap exists between the federal minimum wage of $7.25 and what workers typically need to earn to support a minimally decent standard of living. For example—for a two-adult, one-child household—two adults working full-time, year-round, would need to earn at least $10.50 per hour; and if there is only one adult working, $21.00 per hour.

Empirical estimates on how much labor costs rise when minimum wages go up repeatedly demonstrate that, relative to businesses' sales revenue, the costs are small. Consequently, employers can adjust to minimum wage increases in other, less disruptive ways than by reducing their workforce. After all, laying off workers has its own costs. Employers invest time and energy in finding and identifying reliable and appropriately skilled staff.

Take, for example, the cost increase experienced by one of the most low-wage, labor-intensive industries: restaurants. The cost of wage raises by a typical minimum wage increase—say 20 percent—represents between 1 and 2 percent of the average restaurant's sales revenue. If such a restaurant raised its prices—a common way for businesses to adjust to minimum wage hikes—by between 1 and 2 percent, this would entirely cover the cost of a minimum wage hike. This would mean that a $40.00 restaurant bill would rise, at most, by $0.80. Note, too, that restaurants within a local area would be similarly covered by minimum wage laws. No single establishment should be put at a competitive disadvantage by raising its prices, since the competition is primarily with other nearby restaurants.

The other ways employers commonly adjust to such small cost increases include the following. First, offering workers higher wages tends to lower turnover rates, so businesses can partially offset cost increases with these cost savings. Also, businesses can use revenue gains that they normally experience as the economy expands—since people spend more as their incomes grow—to cover cost increases.

In a 2010 report, my co-author Dr. Jeffrey Thompson and I take account of these three adjustment channels to identify the largest minimum wage hike that businesses could absorb without resorting to layoffs or cutting back on their workers' hours.[14] We find that, with a national economy growing at a 3.0 percent annual rate, businesses have the capacity to adjust to a minimum wage hike as large as 70 percent without reducing their employment levels.[15] This would raise the federal minimum wage rate to $12.30. Coincidentally, this is the same as the average pay rate among the thirty occupations with the largest projected growth. A minimum wage standard set at this level would clearly have a major impact on the quality of future jobs, and get the lowest pay rates within the range of what could lift workers and their households out of poverty.

This rate is not, historically speaking, that high. The 1968 peak value of the minimum wage, adjusted for inflation, would set the federal minimum at about $10.00 today. But inflation is not the only thing that has risen since 1968. Worker productivity has also risen, but by a lot more—230 percent. In other words, workers are producing more than twice per hour what they did in 1968. Policymakers have failed to leverage the increased economic abundance generated by the U.S. economy over these past four decades to improve minimum wage laws.

STRONGER LABOR, STRONGER LABOR STANDARDS

The prevalence of low-wage jobs contributes significantly to generating a class of the working poor. Despite working full-time and year-round in 2010, 40 percent of prime-working-age workers could not support a minimally decent standard of living for their households. This figure would have been even higher if the unemployment rate had not persisted at above 8 percent since the Great Recession.

To eliminate working conditions that lead to poverty, we need to pursue a more ambitious set of labor standards. Research indicates that the well-established labor market institution—the minimum wage—is not being used to its full potential. The evidence on how businesses adjust to minimum wage rates suggests that the federal minimum wage rate could be raised by as much as 70 percent—from $7.25 to $12.30—while avoiding any significant fall-off in employment. This would maximize the benefits from minimum wage laws to support a minimally decent standard of living for U.S. workers.

Today's anemic minimum wage is a symptom of a bigger problem: an embattled labor movement. Since the 1960s, the value of the minimum wage has been falling alongside the union density rate. Think about this: at the height of the U.S. labor movement the federal minimum wage ticked upwards, *in step with increases in worker productivity*, ensuring that a share of the nation's growing income went to the lowest paid workers.[16] Remember, worker productivity has more than doubled since the late 1960s. If the real value of the minimum wage had continued to increase alongside worker productivity, starting from its peak of $10.00 in 1968, it would now be about $23.00. This is how far the minimum wage has veered off course from its path of promoting a "fair day's pay for a fair day's work."

The federal minimum wage rate could be raised by as much as 70 percent, while avoiding any significant falloff in employment.

Instead, today's minimum wage rates are so low that living wage campaigns have necessarily recast the struggle over the minimum wage standard in terms of a living wage—a wage floor that will at least prevent workers from becoming destitute. This political strategy has been effective. By igniting public outrage against paying workers less, the living wage movement has led to the passage of more than 130 living wage ordinances across the country.

Recasting the minimum wage as a living wage, however, has a downside. A "living" wage entwines the wage standard with what workers must be paid to survive instead of what workers deserve. This can distract the debate around labor standards with questions about what workers actually need. Living wage and minimum wage opponents, for example, argue that most low-wage workers are teenagers that don't need to earn much of anything at all.

But working people are not working for charity and their pay should not be tied down to what they need just to get by. Rather, employers should pay their workers a fair rate that keeps pace with the increasing number of goods and services that they generate. This crucial distinction has been lost in the absence of a powerful union movement. The fight against poverty wages requires a strong labor movement that can recast, again, the debate over wage standards in terms of what's fair, not what passes as minimally decent.

Notes

1. For eligibility guidelines for free and reduced school meals, see: www.fns.usda.gov/cnd/Guidance/EliMan.pdf; for SCHIP, see: www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Childrens-Health-Insurance-Program-CHIP/CHIP-Eligibility-Standards-.html; LIHEAP uses the greater of 150 percent of the official federal poverty line (FPL) or 60 percent of the state median income. The latter tends to be higher than 150 percent of the FPL. In Alabama, for example, 60 percent of the state median income ranges between 175 and 200 percent of the FPL.

2. See the Economic Policy Institute's Basic Family Budget Calculator, available at www.epi.org/resources/budget.

3. The federal poverty line does not take into account geographic differences in the cost of living.

4. These figures are based on author's analysis of the 2011 CPS ASEC file.

5. This is a different definition of the labor force from what is typically used. The official count of the labor force is based on the activity of individuals over the past month. However, the data I used measure activity and income over the past year.

6. Average wage rates reported in this article are medians.

7. This figure is the 2011 FPL for a two-adult, one-child household multiplied by 2.4.

8. These are the college degree premiums in 2007. See Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *State of Working America* (Ithaca: Cornell University Press, 2008-2009 edition), 154-155, table 3.14.

9. This average is based on the author's analysis of 2011 wage data from the Outgoing Rotation Group files (ORG) of the CPS.

10. See David Autor, *The Polarization of Job Opportunities in the U.S. Labor Market* (Washington D.C.: Center for American Progress and The Hamilton Project, April 2010).

11. See John Schmitt and Janelle Jones, *Issue Brief Finds Low-Wage Workers Are Older and Better Educated than Ever* (Washington D.C.: Center for Economic and Policy Research, April 2012). The estimate of the percent of workers earning $10.00 or less is based on author's analysis of 1979 and 2011 CPS ORG files.

12. Massachusetts adopted the first minimum wage law—at the state level—in 1912.

13. For examples, see Hristos Doucouliagos and T.D. Stanley, "Publication Selection Bias in Minimum-Wage Research?" *British Journal of Industrial Relations* 47, no. 2 (June 2009): 406-28; Arindrajit Dube, T. William Lester, and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *Review of Economics and Statistics* 92, no. 4 (November 2010): 945-64; and Sylvia A. Allegretto, Arindrajit Dube, and Michael Reich, "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data," *Industrial Relations* 50, no. 2 (April 2011): 205-40.

14. See Jeannette Wicks-Lim and Jeffrey Thompson, *Combining the Minimum Wage and Earned Income Tax Credit Policies to Guarantee a Decent Living Standard to All U.S. Workers* (Amherst, MA: Political Economy Research Institute, October 2010).

15. The national economy has historically grown at an average rate of 3.5 percent annually. However, over the current faltering recovery from the Great Recession, the growth rate has been unusually low, averaging at 2.4 percent since July 2009. Our 2010 analysis shows that if the pace of the national economy remains at this slower rate, businesses still have the capacity to absorb the costs of a large 60 percent minimum wage hike—or $7.25 to $11.60.

16. See John Schmitt, *The Minimum Wage Is Too Damn Low* (Washington, D.C.: Center for Economic and Policy Research, March 2012).