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Preface to the Revised Edition

This book is a completely revised edition of a volume published six years ago, reissued because of growing public interest in the interrelationship between work and poverty. Revitalized government awareness of the importance of antipoverty measures that promote work has led to the enactment of several important reforms since the first edition appeared. These include significant expansions of the earned income tax credit, work-related programs for welfare recipients, child care assistance, and adult education. The revised volume also includes greater attention to the impact of eroding family structure on the working poor, the necessity for individual rectitude in avoiding or escaping poverty, and the effect of government policies on work incentives. Finally, computer advances have enabled analysts to better use survey data to more thoroughly explore problems and programs related to work and poverty. Access to previously unavailable information has allowed the authors to improve the book.

This study examines the experiences and hardships encountered by poor workers, and it assesses how well government policies ameliorate deprivation and enable or encourage work. Contrary to the widespread perception that poverty is due to indolence, 2 million people work full-time, year-round but remain poor, and nearly another 7 million poor individuals work full-time for part of the year or in part-time jobs.

Working but Poor profiles poor workers, examines the severity of their income problems, and analyzes the nature of low-wage job markets, including unemployment, technological developments,

immigration, and international trade. The impact of household structure and size upon poverty among workers is also assessed. No single problem explains the glaring contradiction of poverty among workers amidst an affluent economy, although declining earnings and the growth of single-parent families have been among the most deleterious developments in recent years.

This volume emphasizes the role and responsibility of the government in alleviating the problems of poor workers, but also stresses the necessity of effort and rectitude among the impoverished. Recognizing that different strategies are necessary to address the problems and needs of poor workers, this study assesses four separate but related government efforts:

Minimum-wage and tax policies that bolster the income from work;

Policies that remove employment obstacles by promoting education and job training, equal employment opportunity, and child care. These policies help the poor to find work and aid the upward mobility of those already employed;

Policies that help the employable but idle poor find jobs by matching the unemployed with job openings, providing incentives to employers for hiring the poor, or directly creating jobs; and

Income assistance and in-kind benefit policies that supplement the incomes of workers whose wages do not allow them to escape poverty.

Government policies assisting poor workers have never been generous, although since the mid-1980s both poverty debates and legislative reforms have demonstrated a greater concern with encouraging work. Aiding poor workers embodies the principles of an affluent and just society that promotes economic opportunity.

The final chapter recommends a modified government agenda that would more vigorously assist poor workers. Government policy should assist workers to secure sufficient earnings to escape poverty, as well as to enable or encourage work among the able-bodied, nonworking poor. The proposed reforms would be implemented over several years, and include raising the minimum wage, expanding the earned income tax credit, creating jobs for both the working and nonworking poor, expanding affordable child care, boosting funding for education and job training, ensur-

ing access to affordable health insurance, and reinvigorating enforcement of equal employment opportunity. Although the necessary outlays are considerable, the price for failing to help the working poor escape poverty may be even higher in the long run.

To avoid excessive footnotes, we have not cited material from routine annual government publications, or unpublished government data. Most of the uncited information in this book emanates from two sources: regularly published government reports from the U.S. Census Bureau and Bureau of Labor Statistics, or unpublished data generated in the preparations of these reports; and the annual *Green Book,* produced by the U.S. House Committee on Ways and Means, which has truly become an authoritative and comprehensive source on federal social programs.

The study was supported by an ongoing grant from the Ford Foundation to the Center for Social Policy Studies at the George Washington University. In line with the foundation's practice, responsibility for the contents of the study was left with the center director.

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The Concurrence of Work and Poverty

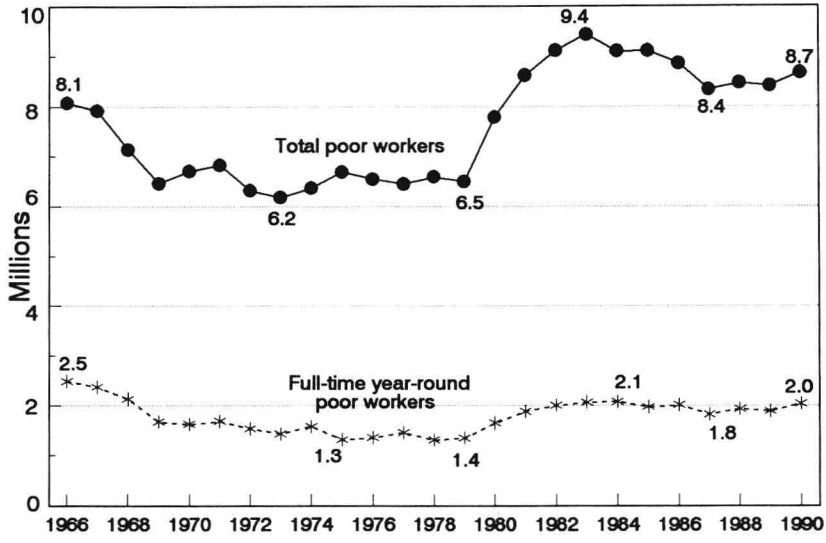
1. *The Working Poor in an Affluent Nation*

The working poor remain America's glaring contradiction. The concurrence of work and poverty is contrary to the American ethos that a willingness to work leads to material advancement, and it negates the prevalent view that the cause of poverty among adults capable of work is deviant behavior, particularly a lack of commitment to work.

The working poor are not an isolated few. In 1991, 2 million adults—59 percent more than in 1978—worked full-time throughout the year, yet they and their families remained poor. Another 7.2 million poor individuals worked either in full-time jobs for part of the year or in part-time jobs. Because of limited job opportunities, inadequate skills, and the low wages prevailing in some occupations or geographic areas, they continue to have low earnings.

The American economic and political system has produced vigorous economic progress, facilitating upward mobility. Millions moved out of poverty into the middle and upper classes, and the number of poor workers continued to decline until the 1970s. Individuals who fail to apply themselves are likely to be impoverished, and poverty, conversely, can breed dysfunctional behavior. Greater commitment to work and skill training can rightly be expected among many of the able-bodied poor. But blind faith in the free market system and a blanket indictment of the poor are unwarranted. The difficult living conditions of poor workers and the complex factors that account for their existence should not be

Figure 1. The number of poor workers has risen since the 1970s.



Source: U.S. Census Bureau

ignored. Government intervention is essential to improve their lives and prospects.

The Problem

After a sharp decline in the number of poor workers in the late 1960s, the level, though fluctuating with economic conditions, remained relatively stable until 1978, before rising sharply from 1979 to 1983. (Figure 1). The subsequent economic recovery reduced the working poor by 700,000, but the number climbed again as a result of the recent recession.

These data are based on the federal government's official poverty thresholds. Despite conceptual and technical measurement problems, the government's poverty index has gained wide acceptance. Each year the thresholds are adjusted to reflect changes in the level of consumer prices. The poverty thresholds are adjusted for family size and the age of the household head. The estimated 1992 thresholds for nonelderly households were:

Number of individuals in household	*Poverty threshold*
One	$ 7,320
Two	9,467
Three	11,216
Four	14,381
Five	17,000
Six	19,204
Seven	21,790
Eight	24,310
Nine or more	28,902

Most poor workers are white, as are a majority of all individuals in poverty. Three-fifths of the poor who work full-time, year-round are men; women constitute a similar majority of the poor who work full-time for part of the year or who work part-time. The working poor have a better chance of escaping poverty than the nonworking poor, but their income and employment problems are often persistent, partly because they often possess limited skills.

To visualize the deprivation of the poor, imagine what it would be like to live on income equal to the poverty line. The poverty threshold is based on the assumptions that a third of income is spent on food; in 1992 this fraction was equivalent to a little more than $1 per meal per person. The financial complaints of many middle-income families earning two or three times the poverty line is another vivid sign of the difficult circumstances of the working poor. A third of poor workers aged 16 to 64 have family incomes below half the poverty line; they find it even tougher to meet their basic food, shelter, and medical needs.

In a nation as affluent as the United States, the existence of numerous impoverished workers is disturbing. It raises serious questions about the fairness of income distribution. It challenges our faith in the American Dream: that those who work hard prosper. It is difficult and, indeed, inaccurate to believe in this dream when millions who work remain poor. Many of these jobs are dead ends, not stepping stones to opportunity.

When work brings few material rewards and upward mobility is unattainable, commitment to work is easily undermined, and alienation is inevitable. There is clearly a need to reconsider the impact of market wages and welfare upon incentives to work. But

the current debate emphasizes the work disincentives of welfare, while ignoring the limited incentives that labor bestows upon poor workers.

An economic system best promotes the work ethic when labor is sufficiently rewarded. Public policy should not only assist welfare recipients to attain economic self-sufficiency but also aid those who work but remain poor. Government policies that help lift workers and their families from impoverishment not only benefit the individuals directly affected, they also send a message to non-workers that labor provides a route out of poverty. A society that glorifies the work ethic should reward those who practice it.

The lessons to be drawn from an analysis of the working poor apply to a much larger group of workers. Millions of individuals work in low-wage jobs but have other sources of income (often from family members) that lift them above the poverty threshold. In 1990 almost one out of ten workers employed full-time, year-round did not earn enough to raise a family of three above the poverty threshold. Many low-wage workers will also benefit from higher minimum wages and other federal policies that help poor workers.

The Job Market for Low-Wage Workers

The number of poor workers reflects economic and demographic trends, individual behavior, and the effectiveness of government policies. In depressed economic conditions, low-wage workers are bound to experience difficulties. Not only are they more likely to be forced into unemployment or part-time work, but their already low wages are likely to stagnate or decline. Opportunities for upward mobility, through raises or new jobs, are reduced. But even during recovery periods, increasing international competition has contributed to a weak demand for workers, causing job losses and wage cutbacks. Federal economic policies have not addressed either problem effectively. Macroeconomic policy has generally focused on lowering inflation—even when it resulted in higher unemployment—and direct government action to aid the working poor remains inadequate.

Pockets of economic dislocation, moreover, are partially insulated from national economic growth. The working poor tend to

be concentrated in troubled local economies and in a few occupations and industries, including low-skilled blue-collar, service, and agricultural employment. Many of their jobs are in the "secondary labor market," which is characterized by high turnover, few worker protections, limited training, and little opportunity for upward mobility. Secondary labor market workers lack clout on the job and are heavily dependent on government to improve their employment conditions.

The number of poor workers also reflects population trends. A large supply of low-wage workers can slow wage growth. Illegal immigrants are in no position to challenge inadequate wages and other working conditions imposed by employers. In the 1960s and 1970s more immigrants, women, and youth entered the labor market, but in an expanding economy these workers were absorbed, and the number of poor workers tended to decline. Subsequent population trends have been mixed: immigrants, both legal and illegal, continue to enter the work force in large numbers, but the number of youth entrants declined sharply. Young female work-force entrants now match men in educational attainment, and therefore they are not much more likely than men to become impoverished workers unless they are single parents.

Federal Policies

The federal government influences the fate of poor workers not only through broad macroeconomic and trade policies, but also through a wide variety of more targeted policies. These policies specifically affect worker compensation and help break down skill and other barriers to employment. They also help the poor secure employment and supplement their income through welfare and social insurance.

Federal minimum-wage and tax policies have a direct impact on the compensation of low-wage employees. Established in 1938 as part of the Fair Labor Standards Act, the minimum wage places a floor under wages, which helps to ensure minimally acceptable living standards. The coverage and value of the minimum wage expanded until the 1980s.

Because of inflation the worth of the federal minimum wage fell dramatically in the 1980s, reducing the earnings of millions of

workers, many of whom were poor. By 1989 the purchasing power of the minimum wage was at its lowest level since the 1940s. The increases in 1990 and 1991 from $3.35 to $4.25 per hour fell well short of restoring the purchasing power lost because of inflation. By 1992 the earnings of a full-time, year-round minimum-wage worker were less than four-fifths of the poverty line for a three-person family. In contrast, throughout most of the 1960s and 1970s, full-time work at the minimum wage lifted a family of three above the poverty threshold. Exemptions from coverage and weak enforcement have allowed employers to pay many workers less than the federal minimum, further undermining the effectiveness of the standard.

While the value of the minimum wage declined during the first half of the 1980s, taxation on poor workers rose. Federal taxes for a two-parent family of four living at the poverty threshold jumped from 1.8 percent of income in 1979 to 10.4 percent in 1985. The 1986 tax law reduced the tax burden of the poor to the levels of the late 1970s. The law exempted more income from taxation and raised the earned income tax credit, which offsets social security taxes for low earners with dependents. These tax provisions are indexed to inflation and will free working-poor families with children from onerous federal taxes for the foreseeable future. Congress expanded the earned income tax credit further in 1990, but this did not fully offset the decline in the value of the minimum wage.

Skill deficiencies impede gainful employment for many poor Americans. About one in four working-age poor individuals is functionally illiterate. Nearly two in five poor workers lack a high school diploma, and one in nine has a work disability. Federal second-chance programs assist those who did not acquire adequate basic skills prior to entering the work force.

Adult education programs teach literacy or numeracy, help enrollees attain diplomas and certificates, or prepare participants for vocational training. Rehabilitation programs train or provide other work-related help to the disabled. The Job Training Partnership Act (JTPA) trains economically disadvantaged youth and adults. The Job Corps, a part of JTPA, provides comprehensive skill training in a residential setting for severely disadvantaged youth. Second-chance programs have always been underfunded