The Working Poor

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Who are these people that we refer to as the working poor ?

Some of the most current information on this subject can be found in a recent April, 2016 publication by the Bureau of Labor Statistics titled 'A Profile of the Working Poor, 2014.' In 2014, according to the US Census Bureau, about 46.7 million people, or 14.8 percent of the nation's population, lived below the official poverty level .(These numbers improved slightly in 2015 -refer to handout, page 1) Although the poor were primarily children and adults that had not participated in the labor force during the year, according to data from the Bureau of Labor Statistics, 9.5 million individuals comprised the "working poor" in 2014. The working poor are defined as people who spent at least 27 weeks in the labor force during the past year (that is, working or looking for work) but whose incomes still fell below the official federal poverty level. In 2014, the working poor rate-the ratio of the working poor to the 150 million individuals in the labor force -was 6.3 percent. The working poor rate has remained within a relatively narrow range during the past three decades. (see handout, page 2)

The discussion today concerns a subset of the population living in poverty, the 9.5 million individuals that, according to the federal government , comprise the working poor.

Some of the highlights from the Bureau of Labor Statistics report:

- 4.1 percent of full time workers were classified as working poor, compared with 13.5 percent of part-time workers.

-Women were slightly more likely than men to be among the working poor but blacks and Hispanics were more than twice as likely as whites and Asians to be among the working poor. (see handout, page 2)

-The likelihood of being classified as working poor diminishes as workers attain higher levels of education. Among people with less than a high school diploma, 18.3 percent of those who were in the labor force were classified as working poor, compared with 2.0 percent of college graduates.

-Individuals who were employed in service occupations continued to be more likely among the working poor than those employed in other major occupational groups.

Service occupations include such jobs as food preparation, retail sales, health care aides and housekeeping. Although the service sector has the highest rate of working poverty, a significant portion of the working poor are blue-collar workers in the manufacturing, agriculture, and construction industries. Most manufacturing jobs used to offer generous wages and benefits, but manufacturing job quality has declined over the years.

During the recent presidential election there was much discussion about the growing disparity of wealth in our country and also the shrinking middle class. We must recognize that the U.S. economy has undergone a major transformation in the post World War 2 period, particularly since the mid-1970's. Fundamental changes in our economy have had a direct effect on all workers and requires further discussion to better understand the plight of the working poor.

The immediate post World War 2 era in the USA was a period of economic prosperity for most workers. Many Americans feared that the end of World War 2 and the subsequent drop in military spending might bring back the hard times of the Great Depression. But instead, pent-up consumer demand fueled exceptionally strong economic growth in the post war period. The automobile industry successfully converted back to producing cars, and new industries such as aviation and electronics grew by leaps and bounds. A housing boom, stimulated in part by easily affordable mortgages for returning members of the military, added to the expansion. The nation's gross national product (GDP) increased 150 percent between 1940-1960. At the same time, the jump in postwar births, known as the "baby boom," increased the number of consumers. More and more Americans joined the middle class. There was widespread robust economic activity combined with low unemployment. Union representation was strong helping to create large numbers of well paying jobs with benefits and secure employment. Also ,there were many low skill jobs available that provided employment with good wages and often with the opportunity for job advancement.

In the mid-1970's, macrostructural changes in our economy began to emerge which fundamentally altered the labor market. The major changes included globalization that for the first time increased competition in product markets worldwide. Other important factors that affected our economy include the lessening of government intervention in the labor market, the expansion of the service sector, and technological improvements that promoted efficiencies in the workforce.

Globalization: Beginning in the mid-1970's American businesses began to face a growing increase in international competition. Foreign producers were able to manufacture items of good quality and often at a lesser price challenging American companies dominance both in the US and abroad. For example, Japanese automobile and South Korean steel companies began taking market share from American producers, a trend that came to subsequently characterize many industries in the US.

Labor markets became more global as American companies were drawn to low wage areas in other parts of the world to outsource production. The significant hourly wage difference in India, Asia, and Mexico continue to this day encouraging manufacturing in offshore countries. For example, the average hourly labor cost for workers in Mexico last year (2015) was $3.29 versus $23.83 for workers in the USA. (see handout, page 3) It is not surprising that American businesses find that manufacturing is attractive in these low wage countries.. International trade has eliminated more jobs for the less - educated workers in relatively low skill jobs in the United States.

Government deregulation in the late 1970's increased market competition in a number of domestic industries, such as airlines and trucking and railroads. Deregulation of these industries was part of the US government's general withdrawal from its activist stance of the postwar period and reflected an increasing emphasis on markets being the solution to economic problems.

The weakening of government intervention in the labor market resulted in the erosion of worker protections. As government intervention in the labor market decreased, labor laws and standards were less rigorously enforced. Employers were also able to circumvent the constraints imposed by the labor laws such as ERISA by taking advantage of the growing opportunities to lease workers and otherwise utilize nonstandard work arrangements such as independent contractors and temporary help agencies. The widespread practice of subcontracting and other nonstandard work arrangements that evolved during this period , often referred to as " domestic outsourcing", contributed to wage stagnation.

The massive shift in employment from industries that produce goods to those that produce services is a trend that has continued throughout the postwar period but particularly since the mid-1970s. Service sector jobs are often part-time and wages tend to be low relative to manufacturing jobs Keep in mind that not all service jobs are bad, of course. The service sector is very heterogeneous and includes highly skilled professional and business services such as college professors, medical doctors, bankers, lawyers, as well as low low-paid positions such as domestic workers and retail clerks. These low wage jobs have similar characteristics-- besides low wages, they have limited opportunity for growth and few benefits such as health care, pensions, and paid leave. Often there are non-standard work hours which create added difficulty for workers in providing child care and transportation.

Low paying service jobs have replaced, in many cases, higher-paying manufacturing jobs, which were more likely to be unionized and higher-skill. Union representation has continued to decline over the past few decades. In 2013 the unionized workforce in America hit a 97 year low. Only 11.3% of all workers were unionized including government workers such as police, firefighters and teachers. In the private sector unionization fell to 6.6%, down from 35% in the 1950's. (see handout, page 3)

Technological improvements have resulted in efficiencies that have led to the elimination of many jobs. For example, fewer workers are now needed to construct automobiles due to the emergence of robotics. General Motors, for instance, now employs barely a third of the 600,000 workers it had in the 1970's. Yet it churns out more cars and trucks than ever. Since 1997, the United States has lost 265,000 jobs in the production of primary metals - a 42% plunge- at a time when such production in the U.S. has surged 38%. The widespread use of email and electronic bill payment has had a profound impact on the US Postal Service resulting in reduced mail volume and revenue and, not surprisingly, a reduction in the workforce. The Government Accounting Office (GAO) has estimated that there will be a 60 % decline in the volume of mail from 2006-2020. The Postal Service has reduced its workforce by 24% during the past decade and a further reduction of 23% of full time employees, or 150,000 workers, is anticipated. The expansion of the internet has greatly affected many other businesses, often resulting in decreased manpower requirements. Online commerce has continued to increase as evidence by the explosive growth of companies such as Ebay and Amazon . The consumer has benefitted from the convenience of shopping on the internet but fewer workers are needed as a result. Nowadays one may refuel their cars at the gas station, book their airline flights, conduct stock transactions and so forth---all due to recent technological changes that have lessened the need for worker assistance.

A study at Ball State University's Center for Business and Economic Research last year found that international trade accounted for just 13 percent of America's lost factory jobs. The vast majority of the lost jobs-88 percent- were due to homegrown factors that reduced the need for human labor. The United States lost 7 million factory jobs since manufacturing employment peaked in 1979. Yet American factory production more than doubled over the same time span according to the US Commerce department. American factories are about twice as efficient today as they were three decades ago and manufacturing more products than ever before but using fewer and fewer workers. (see handout, page 4)

Many of the lost manufacturing jobs have been replaced with jobs that have lower pay and fewer job protections and benefits. The middle class continues to shrink as a result. Of course, large numbers of 'good', well paying jobs have been created during this time of transition from a manufacturing to a service economy. These jobs, however, require skills that are dependent on obtaining a quality education. This has resulted in a polarization in the workforce with the creation of many 'good', well paying jobs for those with the necessary skills and the creation of many so called 'bad' jobs for those without such skills. There are fewer jobs nowadays for those in the middle.

Finding affordable housing, arranging transportation to and from work, buying basic necessities, arranging childcare, dealing with unpredictable work schedules, juggling two or more jobs are common struggles faced by the working poor

Housing subsidies are available to some but many of the working poor find themselves unable to own a home or rent an apartment . Because of their low earnings, they cannot save enough money for a down payment to qualify for a home mortgage or a deposit on a rental property. As a result, many working poor people end up in living situations that are actually more costly than a month-to-month rentals such as renting rooms in week-to-week motels that are more costly but are accessible because they do not require a large deposit. The working poor struggle to pay for basic necessities like food, clothing, and transportation. Often childcare costs can exceed a low-wage earners' income, making work, especially in a job with no potential for advancement, an economically illogical activity. Many low-wage workers have to work multiple jobs in order to make ends meet. These jobs often force workers to accept irregular work schedules making it difficult for them to arrange for childcare and to take on a second job. Many have jobs in right-to-work states where it is difficult to form a union often resulting in lower wages and fewer benefits.

In some cases, the low income community have schools that are often lacking the necessities and support needed to obtain a solid education foundation. This often hinders the possibility of remaining in school and attaining an advanced degree. Today a college education is a requirement for many good jobs, and it is the low skill jobs that usually only require a high school degree or GED.

What are the solutions ? We all would agree that anyone working full time should be entitled to making a sustaining wage and being able to provide for his/her dependents.

Various policies on both the federal and state level exist to aid the working poor. Chief among them are the Earned Income Tax Credit (EITC) and the Minimum wage law .(see handout, pages 5 and 6)

The federal Earned Income Tax Credit is a refundable tax credit for low-moderate income working individuals and couples, particularly those with children The program was created in 1975 and indexed for inflation in 1986. Congress has increased the EITC several times, raising benefit levels and expanding eligibility criteria. The EITC is popular with elected officials across the political spectrum as it rewards work. The Earned Income Tax Credit (EITC) is a wage supplement for the working poor so it does not carry the stigma attached to "welfare". It is popular also because the credit comes in through the back door (as a tax break) rather than through the front door (as a direct grant) like food stamps. It has become, without much fanfare, the nation's most effective anti-poverty program. The amount of EITC benefit depends on a recipient's income and number of children. The maximum amount of credit in 2016 for a family with three or more qualifying children is $6,269.00. In 2015, 27 million working American families received about $65 billion in federal EITC benefits with the average benefit being $3,186.00 for a family with children boosting wages by $265.00/month. Research indicates that families mostly use the EITC to pay for basic necessities such as home repair and automobile maintenance and, in some cases, to obtain additional education or training to boost their employability and earning power.

The EITC has been part of the ongoing political debate in the United States questioning whether raising the minimum wage or increasing the EITC is a better idea. Proponents of the EITC believe that it is a more efficient program to help the poor. Currently there are 25 states, including Indiana, that offer their own EITC programs for their working residents, thus providing additional tax credits to those available under the federal program The Indiana EITC was established in 1999 and was modified in 2003 to mirror the federal credit. The Indiana credit cannot exceed 9% of the federal EITC.

The EITC is the third largest social welfare program in the United States after Medicaid and food stamps. The EITC dollars have had a significant impact on the lives and communities of the nation's lowest-paid working people largely returning any payroll taxes they may have paid. Some economists have noted that the EITC might conceivably cause a reduction in entitlement spending that result from individuals being lifted out of poverty by their EITC benefit check. However, because pre-tax income determine eligibility for most state and federal benefits, the EITC rarely changes a taxpayer's eligibility for other federal or state benefits. The most serious shortcoming of the the federal EITC relates to the fact that the benefit levels are the same across the country, even though the cost of living-especially housing-varies dramatically.

Minimum Wage: The minimum wage in the United States is set by a network of federal, state, and local statutes. Workers generally must be paid no less than the statutory minimum wage as specified by either the federal, state, or local government. (see handout, pages 7 and 8) The national minimum wage was established in 1938 (pursuant to the Fair Labor Standards Act) initially at $0.25 per hour. The minimum wage has been increased 22 times since 1938, the last time being in 2009.. At the present time, the federal government has mandated a nationwide minimum wage level of $7.25 per hour. This works out to be $15,080.00/year for a full time worker which is almost $4,000.00 below the poverty line for a family of three. In 2014 a number of U.S cities, including San Francisco, Seattle and Los Angeles approved the gradual raising of their minimum wage to $15.00/hour. Many have advocated raising the minimum wage because the wage no longer has kept up with inflation over the years. Effective January 1, 2015 there were 29 states with a minimum wage higher than than the federal minimum.

Congress raised the minimum wage in 1968 to a point that actually lifted a family of three above the poverty line. (page 7) The real value of the 1968 wage was to be the highest in the history of the law. Since then, the real value of the wage has declined substantially and millions of workers have watched the cost of living rise while their paychecks have stayed the same. Since 1968 the minimum wage has declined by 32 % in today's dollars.

In 2014, the U.S. Senate debated increasing the federal minimum wage to $10.10 per hour over the course of a two year period. The bill was strongly supported by President Obama but became bogged down in partisan politics and did not pass. In April, 2015 a bill was introduced in Congress to raise the minimum wage to $12.00/hour incrementally by 2020. The bill is known as the Raise the Wage Act and is currently still in committee.

The economic effects of raising the minimum wage are controversial. Adjusting the minimum wage may affect current and future levels of employment, prices of goods and services, and economic growth. Some economists argue that raising the price of something results in lower demand, in this case, fewer workers. Other economists have challenged this assumption. The Center for Economic and Policy Research (CEPR) in 2013 reviewed multiple studies since 2000 and indicated that there was "little or no employment response to modest increases in the minimum wage". In 2014, the Congressional Budget Office (CBO) reported the theoretical effects of a federal minimum wage increase to $10.10/hour. They concluded that 16.5 million workers would have their wages rise resulting in 900,000 being lifted out of poverty but with a projected loss of 500,000 jobs.

The proponents of raising the minimum wage conclude that it benefits workers, children, taxpayers, and the economy as a whole. It increases buying power and reduces the daily struggle for people to pay their basic expenses. It pumps money into the economy. It enables people to save for and invest in their future.

An increase in the minimum wage is a form of redistribution from higher-income persons (business owners) to lower income persons and some argue that it should help reduce income inequality. The debate continues……..

Although the U.S. has a long history of prosperity, mobility, and justice, trends over the past 30 years have left too many citizens behind-struggling to get by, with little hope for a better future. Nearly 50 million Americans live on incomes below the federal poverty level, including one in every four children. People who are willing and able to work at a full-time job should be able to earn enough money to support their families and have opportunities to climb the ladder out of poverty. Low wage jobs do not pay enough to provide for even a modest standard of living, do not offer adequate benefits to meet the demands of raising children, and leave workers unable to invest in paths to prosperity (like education) or to save for retirement. Most low-wage workers barely scrape by month to month, are plagued by worries about meeting their families basic needs, and often turn to loans, credit card debt, pawn shops and government programs just to get by.

Closing gaps in education is especially important to reduce disparities among working families. Education is increasingly important in obtaining a 'good' job that will provide a sustaining wage and job security. The lifetime expected earnings of college graduates are nearly twice that of a high school graduate. Education is the main divider between those with 'good' and 'bad' jobs. (see handout, page 9)

Too many low wage earners become disconnected from career opportunities because they lack the necessary education and skills. Lawmakers, some argue, should increase need-based tuition assistance for post secondary education to support more low-income students. Many advocate for government provided child care for adult students in low-income families. Student parents and particularly single parents are at high risk of dropping out of college because of the challenges in balancing school with family responsibilities. Many suggest that the government should support career pathways and other programs that link education to career opportunities. Not everyone needs a four year college degree. A two year degree can often provide a solid foundation for a well paying career.

Low wage workers require improved access to health care. They often do not have access to employer-sponsored health insurance, and if coverage is available, they cannot afford the premiums. Medicaid and Children's Health Insurance Program (CHIP) have provided coverage for most low income children, but coverage for parents is often very limited. .Many advocate to expand federal programs such as EITC, SNAP (food stamps), and the Child Tax Credit as well as housing and child care assistance Effective solutions to these anti-poverty policies are multifaceted..A two pronged approach is needed 1) increase access to education and job training and 2) enact policies that make work pay. (see handout, page 10)

The government needs to implement a coordinated strategy. The obstacles to uplift are many: lack of education, affordable housing, transportation, child care, irregular work schedules, and others.

The goal clearly should be to build a better safety net and support programs that help low-income working families move toward self-sufficiency.

In closing, the working poor are defined by the federal government according to their low income relative to the federal poverty level. There are many who feel that this definition vastly underestimates the actual number of working poor in our society. The ALICE Project has compiled data noting that in Indiana, for example, the working poor rate is actually 22% higher than the federal statistics indicate.. ALICE, a United Way acronym, standing for Asset Limited, Income Constrained, Employed represents the growing number of individuals and families that are employed and having earnings above the federal poverty level. They are not considered working poor by the government, but are unable to afford the basic necessities of housing, food, childcare, healthcare, and transportation. With as many as one-third of the population in the United States living in an Alice household, many public and corporate policy issues must be reassessed and the scope of current solutions be reconsidered. Short- term strategies are those that help a family cope with an emergency and prevent spiraling into poverty. Long-term strategies are more challenging that can help a family maintain financial stability. Many stakeholders have a role, including family and friends,nonprofits, employers and government . We must remember that the future success of our society is directly related to the financial stability of its citizens.