

SYMPOSIUM

THE WORKING POOR

Marlene Kim, Guest Editor
Rutgers University

Introduction	Marlene Kim
The Working Poor: A Statistical Artifact?	Catherine J. Weinberger and Marlene Kim
Health and the Working Poor	Jay Zagorsky
Demand Shifts and Low-Wage Workers	Jared Bernstein
Racial and Ethnic Gaps in Male Earnings in a Booming Urban Economy	Barry Bluestone and Mary Huff Stevenson

Introduction

Marlene Kim
Rutgers University

INTRODUCTION

Two decades of increasing income inequality along with policy changes that have dramatically altered our welfare system have put a large spotlight on low-income workers and the working poor. The new welfare laws, which limit cash assistance during one's lifetime and emphasize paid work as a route out of poverty, may simply transform the non-working poor into the working poor [Gueron and Pauly, 1991; Blank and London, 1995]. This is because earnings for low-skilled workers have declined so far that working does not guarantee an income above the poverty level. But if the public had limited tolerance for the able-bodied nonworking poor, no topic seems to tug at the national heartstrings more than tales about those who work hard but remain poor. This is especially true when economic and technological changes that are beyond one's control seem to be responsible for the earnings losses of low-income

Marlene Kim: Department of Labor Studies and Employment Relations, SMLR, 50 Labor Center Way, Rutgers University, New Brunswick, NJ 08901. E-mail: mrlkim@rci.rutgers.edu

Eastern Economic Journal, Vol. 25, No. 2, Spring 1999

workers [see Bound and Johnson, 1992; Katz and Murphy, 1992; Davis and Haltiwanger, 1991].

Yet the problems facing the working poor and the solutions to their poverty remain matters of great debate, with more research needed to understand this important population. How large is the problem of working poverty? To what extent can our labor markets sustain low-income workers above poverty? What policies are appropriate to reduce working poverty? The papers in this symposium contribute to our understanding of these issues.

The first paper examines part of the controversy over measuring the working poor population. There is a lively debate regarding just how large (and thus how significant) the working poor population is. Weinberger and Kim examine the assumption that the poor understate their earnings, leading to inflated estimates of the working poor. Their findings indicate that poor workers are more likely to *overstate* rather than understate their earnings. They examine two opposing components of measurement error: systematic error, in which low earners over-report their earnings, leading to underestimates of the working poor, and random error, which tends to inflate estimates of the working poor. Kim and Weinberger find that these opposing sources of error cancel out. As a result, no matter which threshold of earnings is used to estimate poverty, estimates of the working poor obtained from micro data such as the Current Population Survey are quite accurate.

The second paper finds that the probability of falling into working poverty is higher than previously thought. Zagorsky estimates that over a ten year period, one-third of all young baby boomers—those between the ages of 23 and 37—were once working poor. His main finding, that approximately one-third of the working poor suffer from health or other serious handicaps, has important implications for policy. Because almost half of the working poor with such limitations are likely to spend five or more years in poverty, imposing time limits on public assistance is likely to harm this population. Acknowledging that a sizeable fraction of the working poor have serious limitations that can prevent them from leaving poverty and providing adequate income supports would be a more appropriate response.

The next two papers examine a closely related topic: labor markets for low-skilled and low-wage workers. Most economists assume that labor demand for both low-skilled and low-wage workers has declined, since wage rates for these workers have fallen. Yet Bernstein finds that although demand for low-skilled workers has declined, demand for low-wage workers, especially for male workers, has increased. Although this seems contrary to existing wage trends, it is consistent with complaints by business owners of their difficulty in recruiting and retaining low-wage workers. Bernstein believes that demand for low-wage male workers has increased precisely because earnings for these workers have fallen so dramatically. His remedies for reversing falling wage rates include income supports, continuing strong labor demand for low-wage workers, invigorating institutions such as labor unions, increasing the minimum wage, and strengthening worker retraining in trade agreements.

Bluestone and Stevenson's research adds another dimension to low-wage and low-skilled labor markets. By investigating the Boston labor market during 1993 and 1994, they are able to examine how low-skilled workers fare by race and ethnicity

during a period of sustained high labor demand with very low unemployment. They find that even with high labor demand, not all low-skilled workers were able to rise out of poverty despite high employment rates. High labor demand benefited Hispanic and black men by increasing their employment rates compared to those of white men, and wage rates for all workers were high enough to lift them out of poverty if they worked full-time and year-round. However, because black men in particular had jobs that failed to provide full-time and full-year work, many continued to live in poverty, despite booming economic conditions. Thus the persistent problem of lack of full-year work, even in the best of times, eludes those who remain at the bottom of the job queue.

These papers indicate that labor markets for low-wage labor are complex: the working poor are a heterodox population, with different gender, race and ethnic groups faring quite differently. Thus, having multiple policy responses, such as Bernstein suggests, is more apt to meet the needs of the working poor than a policy where one size fits all. Bluestone and Stevenson's research indicates, for example, that human capital initiatives, such as job training and education, as well as high labor demand, are appropriate for low-skilled Hispanic men. Because Zagorski finds that health problems limit the extent that young workers can work their way out of poverty, incomes policies are needed for some workers. But for black men, Bluestone and Stevenson find that besides high labor demand, ending racial discrimination in labor markets is needed to permit black men to extend their working time so that they can lift themselves out of poverty. Ending poverty for all workers, in other words, may unfortunately remain a challenging task.

NOTES

The papers in this symposium were originally presented at the 1998 meetings of the Eastern Economic Association. Excellent comments were provided by Edward Wolff and David Brauer. Thanks to Sandy Baum and Ken Koford for their help on this symposium, and to Barry Bluestone for comments on this introduction. Thanks also to numerous anonymous referees for suggestions and comments on all of these papers.

REFERENCES

- Blank, R. M. and London, R. A. Trends in the Working Poor: The Impact of Economy, Family, and Public Policy, in *America's Working Poor*, edited by T. Schwarz and K. M. Weigert. Notre Dame, IN: University of Notre Dame Press, 1995.
- Bound, J. and Johnson, G. Changes in the Structure of Wages in the 1980s: An Evaluation of Alternative Explanations. *American Economic Review*, June 1992, 371-392.
- Davis, S. J. and Haltiwanger, J. Wage Dispersion between and within U.S. Manufacturing Plants, 1963-86, in *Brookings Papers on Economic Activity: Microeconomics*, edited by M. N. Baily and C. Winston. Brookings Institution: Washington, D.C., 1991.
- Gueron, J. M. and Pauly, E. *From Welfare to Work*. New York: Russell Sage Foundation, 1991.
- Katz, L. and Murphy, K. M. Changes in Relative Wages, 1963-87: Supply and Demand Factors. *Quarterly Journal of Economics*, February 1992, 35-78.