HEALTH AND THE WORKING POOR

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INTRODUCTION

Recent welfare reforms that emphasize shifting people on public assistance into employment, no matter what they earn, has given new public policy importance to understanding the working poor. Central to these reforms are time limits that cap the number of years individuals can receive benefits. Time limits implicitly assume that working provides enough income to lift one out of poverty and that the poor have no long-term limitations that will prevent them from fully participating in the labor market. This research finds that contrary to these assumptions, many poor individuals have long-term health problems and other personal disabilities that can prevent them from escaping poverty and that working does not always boost individuals out of poverty.

This research examines the working poor who are limited by health, drug and alcohol addiction or serious personal disabilities such as blindness. Approximately one-third of working poor baby boomers suffers from at least one of these problems. This includes over half a million young baby boomers and approximately one percent of the U.S. population. Besides comprising a large proportion of the working poor, those with health and other limitations are important to examine because they have twice the chance of becoming working poor, spend more years in poverty, and have lower incomes after leaving poverty. In addition, almost half of the working poor who suffer from health or other serious limitations remain in poverty for five or more years. Thus, in order to reduce working poverty, policymakers must consider the needs and limitations of those who have significant health problems and other personal disabilities.

Understanding the problems facing the working poor is important because even before welfare reform they comprised a growing proportion of U.S. society. Bureau of Labor Statistics researchers calculated that the working poor comprised 6.6 percent of the 1987 labor force (Klein and Bones, 1989) and 5.5 percent of the 1990 labor force (Gardner and Herz, 1992). By 1996 the percentage in working poverty had increased to 5.6 percent of the entire labor force (U.S. Department of Labor, 1997). Not only has working poverty increased in percentage terms, it has also increased in absolute size. In 1987 approximately 6.7 million workers were poor, but by 1996 their ranks had grown to over 7.5 million.

Policymakers have not been idle while working poverty has grown. During President Clinton’s first administration, the Earned Income Tax Credit, referred to as the

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EFTC was expanded to boost the earnings of low-income workers. Clinton then enacted a two-step minimum wage increase to help those holding low-paying jobs. Unfortunately, enacting these policies has not reduced the extent of working poverty. Research by Bluestone and Harrison (1988) suggests that one reason working poverty increased during the 1980s and 1990s is that the proportion of workers in low-wage jobs steadily increased.

Previous research has focused on the extent to which the working poor had disabilities. These with disabilities comprise a disproportionate share of the working poor (Levitan et al., 1993; Murray, 1987), and the disabled are more likely to be poor, earn lower hourly and monthly earnings, and work fewer hours than their able-bodied counterparts (Krause, 1998; Burkhauser and Daly, 1996; Hale, Haynes and McNeil, 1998; Baldwin and Johnson, 1994). Unexamined, however, is the extent to which the working poor suffer from a wide array of health and other personal disabilities and the degree to which these conditions limit their ability to escape poverty.

The next section of this paper describes the data set and discusses the definitions used. The third section investigates the characteristics of those in working poverty. The fourth section shows the typical outcomes after individuals spend a year in working poverty. The fifth section discusses recent policies designed to diminish working poverty and calculates the cost of expanding these programs to eliminate working poverty. Lastly, a conclusion summarizes the paper.

THE DATA SET AND DEFINITIONS

While most working poor studies use data from the Current Population Survey’s (CPS) March supplement, this research instead uses the National Longitudinal Survey of Youth 1979 cohort, or NLSY79. The NLSY79 not only provides CPS-style data on both income and labor force status, but also contains information on a person’s health and limitations in a longitudinal framework. The first part of this section overviews the NLSY79 and briefly examines its strengths and weaknesses. The second part describes how an individual’s work and poverty status were determined. The last part explains how individuals with health problems and limitations were identified.

NLSY79

The NLSY79 data set was started in 1979 by the U.S. Department of Labor to track the status of the young baby boomer generation. Unlike the CPS, which is primarily a cross-sectional survey, the NLSY79 recontacts the same group of respondents. Thus the survey enables researchers to track what happens to a specific individual in working poverty over time. The survey, fielded 18 times to date, covers a wide number of topics and currently includes over 50,000 data points for each of the 13,686 respondents.

This research uses the NLSY79 instead of the CPS for three reasons. First, the NLSY79 contains information on substance use, disabilities and other personal limitations not included in the March CPS. Second, unlike the CPS which uses the first informed-adult to answer questions about the household, the NLSY79 does not use proxy respondents. Lastly, the NLSY79 is longitudinal while the CPS is not.

The primary drawback of analyzing poverty with the NLSY79 is that the survey captures just a portion of the entire population. When the NLSY79 sample was drawn in 1978, only teenagers ranging from 14 to 21 years old were chosen. Hence, results from this research may not match findings for other age groups. A second problem is that during the survey’s early years many respondents lived at home. To address this issue, data are analyzed starting in 1985, when the youngest NLSY79 respondent turned 21.

In addition to dropping survey years, the analysis excludes a number of respondents. While 12,686 individuals participated in the first 1979 interview, over 2,700 individuals, including almost all members of the military over-sample, were dropped by the Department of Labor during the 1980s to reduce fielding costs. Additionally, a small number of original respondents refused to continue participating. This research eliminates all dropped respondents, plus those not answering at least 75 percent of the NLSY79 surveys fielded since 1985, and analyzes the remaining 8,834 individuals. Since the NLSY79 over-samples African-Americans and Hispanics, all data are weighted to eliminate bias. This weighting means results represent U.S. national averages for young baby boomers.

Working Poor Definition

No matter whether NLSY79, CPS or another data set is used, researchers have no common definition of working poverty. Different definitions not only influence the number in working poverty but also whether the problem is growing or shrinking. Their importance is described in Davis and Huston (1991), who show the effects of using absolute versus relative poverty levels in determining the number of working poor. This research uses the definition adopted by the U.S. Bureau of Labor Statistics (Klein and Jones, 1989). Poverty status is based on whether a household receives more or less income than the amount listed in official poverty guidelines. Work is defined as working, actively searching for work, or a combination of the two for more than half the calendar year.

The definition unfortunately has problems. For example, individuals only searching for but not holding a job are counted in working poverty. Including these job seekers increases the number of working poor by a small but perceptible amount. For example, 14.4 percent of the NLSY79 working poor in 1995 met the "work" criteria by searching half a year or more.

The "poverty" portion of this definition is also problematic as indicated by the current debate about the accuracy of the official poverty guidelines. Although the definition used in this research fails to correct for a number of problems in measuring poverty, it addresses three important issues by including in-kind payments in total income, measuring the family's size correctly, and including partners as part of the family unit.
Each respondent’s total yearly family income was calculated by first summing all sources of income and then comparing that amount to the official poverty threshold appropriate for the family. Individuals with a family income below the poverty line and who participated in the labor market for more than 26 weeks were labeled working poor; all others were labeled not working poor.13

Table 1 shows the extent of working poverty among baby boomers from 1985 to 1995 using these definitions. As column (3) indicates, the proportion who worked but remained poor fell from 9.3 percent in 1985 to 6.1 percent in 1995. As the bottom row shows, on average, 7 percent of baby boomers were poor during the time period examined.

Disabilities and Limitations

The NLSY79 contains information on a number of characteristics that may limit a respondent’s ability to participate fully in the labor market. This research focuses on five factors: mental or physical disabilities, alcoholism, drug abuse, health problems and language barriers. Because of data limitations, mental illness, which also fosters working poverty, is not included.14 Including mental illness potentially has a large impact since in 1991 there were twice as many U.S. individuals with mental disorders as with a substance abuse or dependency problems (Rouse, 1995, Table II-1).

Having a mental or physical disability is not determined by a doctor, but instead by the interviewer. Interviewers fill in a brief questionnaire about their perception of the respondent after each survey to guide staff in deciding if an interviewer with special characteristics, such as the ability to use American Sign Language, is needed in the future. This questionnaire identifies special characteristics which created problems while interviewing respondents such as being blinding, deaf, mentally or physically disabled. Combining the answers over time identifies almost 400 disabled respondents. This is a lower bound estimate since disabilities not affecting a sit-down interview are overlooked. Column (1) of Table 2 shows that over time between 6.3 percent and 9.5 percent of the working poor are disabled by this definition. This is consistent with cross-sectional estimates by Levitan et al. (1993).

The second limitation is the disease of alcoholism, defined in this study as heavy drinking that leads to serious problems. This research first identifies heavy drinkers, defined as those who had six or more drinks on at least two occasions in the last month. Then such individuals were questioned to see if drinking caused serious problems. Problem drinkers were defined as those having faced a serious drink-induced problem such as arrest, staying away from work, hurting their chances for a raise or losing ties with family at least twelve times in the past year. To avoid penalizing reformed drinkers, the most recent data (1994) were used unless that data were missing. This ensured that someone who recently overcame a drinking problem was not categorized as having an alcohol problem because of drinking during younger days. The second column shows alcoholism ranged from almost 10 percent of the working poor in 1995 to 13 percent in 1988.
Drug abusers are determined from NLSY79 supplements fielded in 1984, 1988, 1992, and 1994, which ask about the quantity and frequency of drugs used. Since the supplements focus primarily on marijuana, cocaine, or crack,14 abusers of other drugs like heroin are not counted as drug users. Additionally, since only the 1984 survey included questions on how drugs affected respondents' lives, abusers are primarily determined by frequency of use. In this research drug abusers are individuals using crack, cocaine or marijuana more than 3 times per week over the last 30 days in the 1994, 1990, and 1988 surveys. Respondents who used drugs at work in 1984 were also classified as abusers. To avoid including reformed drug abusers, the most recent data (1994 if possible) determined drug status. Column (3) shows that between 10 percent and 15 percent of the working poor are drug dependent, with a range over the past ten years similar to those who abused alcohol.

The fourth category is general health problems. NLSY79 respondents were asked yearly if health problems prevented them from fully participating in the labor force. Those without a job were asked if health problems prevented them from working, and those working were asked if health reasons limited their kind or amount of work. Respondents answering affirmative to either question are classified as being in poor health for that year. The table's fourth column shows that between 3.4 percent and 11.2 percent are limited by health problems with a steady growth over time. Hence, as baby boomers age, those with health problems comprise a larger proportion of the working poor.

Lastly, data were gathered to compute the number affected by language difficulties such as not speaking English or not being able to read. Both of these problems are identified in the questionnaires interviewers fill out after the survey. Interviewers can readily identify illiteracy since respondents must read and choose answers from flash cards. Respondents never interviewed in English are categorized as having spoken language difficulties. Column (5) of Table 2 shows between 3.7 percent and 6.4 percent of all working poor baby boomers faced language disabilities. While language limitations are the smallest and least important of the specific problems examined, they still affect about five percent of working poor boomers in this age group.

Some working poor individuals have multiple problems. For example, in 1995 one quarter (25.4 percent) of those marked with limitations had more than one disability. Column (6) examines the cumulative effect of all these factors and removes double counting. From 1985 to 1995, young baby boomers having at least one personal limitation or disability averaged one third of the working poor (33.1 percent). Extrapolating these findings to the entire U.S. population indicates that 2.5 million people, or 1 percent of the U.S. population, work in poverty and experience serious health or other limitations.

It is useful to compare these estimates with those who are not among the working poor. Taking the average of column (7) shows that 19.1 percent of the not working poor have one or more health other personal limitations. The 14 percentage-point gap between the averages in columns (6) and (7) indicate that health and other disabilities are more concentrated (73.3 percent higher) among the working poor than in the rest of the population.

**Characteristics of the Working Poor**

The importance of having health or other personal disabilities just described can be seen in Table 1. Comparing columns (1) and (2) shows that those with health or other problems are twice as likely to be working poor as those without these limitations. The annual averages at the bottom of these columns indicate that while only 5.8 percent of young baby boomers without health or other problems are working poor, 11.7 percent with these limitations are poor.

In order to understand this population more fully, this section examines the characteristics of the working poor as well as those who have one of the major health or personal limitations described in the previous section. Baby boomers are divided each year into one of four mutually exclusive groups: those in working poverty, those with health or other limitations (referred to as "health problems"), those experiencing both working poverty and health or other personal limitations ("both problems"), and those experiencing neither working poverty nor health or other limitations ("neither problem"). These groups are then analyzed using labor force, demographic and health information.

Figure 1 examines the percentage working in part-time or part-year jobs from 1985 to 1995. The graph's most important section is the back row, showing the percentage not holding full-time full-year positions by status group. The highest point in the back right-hand corner reveals that 75.9 percent of the working poor with health problems do not hold full-time full-year jobs. This is in sharp contrast to individuals with neither health issues or working poverty problems, located in the back left corner, where only 33.9 percent hold part-time or part-year jobs. Lack of full-time work is a significant reason why many individuals' income falls below the poverty line. Research by Kim (1998) using the March CPS shows that 48 percent of those in poverty and holding part-time or part-year jobs would lift themselves out of poverty by working full-time full-year. Hence, moving both healthy and NLSY79 individuals with health problems into full-time work would surely boost many out of poverty.

The front row shows that the working poor hold both part-time and part-year jobs at more than twice the rate of all other workers. The second row shows that an average 33.7 percent of the working poor were on a part-time schedule of less than 35 hours a week compared to 14.8 percent of those not in working poverty. The third row shows even more working poor (36.6 percent) were only part-year, working less than 50 weeks, than the non-poor (26.7 percent). The dramatic height differences between the second and third rows suggest the working poor are impeded from full-time jobs by a lack of stable employment, not a lack of hours. If true, public policies which lower worker turnover will reduce working poverty rates by increasing the number in full-year jobs.

Table 3 examines the demographics of young baby boomers based on their status from 1985 to 1965. The table's top section shows that working poverty afflicts blacks more than other racial or ethnic groups since they comprise 25.4 percent of the working poor sample but only 14.7 percent of all young baby boomers. Blacks not only have higher rates of working poverty but also disproportionately higher rates of working poverty combined with health problems (36.2 percent) than other groups.
While the sample is almost evenly divided by gender, health problems affect slightly more males than females (51.8 percent males versus 48.2 percent females) but working poverty affects slightly more females (53.0 percent) than males (47.0 percent). Being an immigrant does not statistically increase the probability of working poverty or increased health problems since the full sample’s 55.8 percent value is quantitatively and statistically similar to the four subgroups.

AFQT (Armed Forces Qualification Test) scores show large differences between the different groups. While the military uses these scores to determine if a candidate is mentally fit to serve, the research community uses AFQT scores as a proxy for IQ.44 AFQT scores range from a low of 1 to a high of 99; adding roughly 60 points to the score approximates the IQ. The average score (49.5, which ranks in the top 45 percent) is quite high among those with neither health nor poverty problems and quite low among those with both problems (29.7 which is bottom 30 percent). Since the health problem variable explicitly includes mentally disabled individuals, lower AFQT scores are expected for these individuals. What is surprising is the 12.7 percentage-point gap in scores between individuals with health problems (42.4) and those with health problems and a bout of working poverty (29.7), representing a drop of roughly 15 percent in the distribution of IQ scores.

Large differences are also found in educational attainment. The working poor and those with health problems tend to have less formal education than in the general population. For example, while 34.3 percent of those without health or working poverty problems received some type of college degree, only 23 percent of those with health problems, 17.8 percent of those in working poverty and just 11 percent of those with both issues graduated from at least a junior college. Similar differences exist among those without a high-school degree. Among those with no problems, only 7.4 percent failed to receive a high-school degree compared to 25.2 percent among those with both problems.

Thus, individuals experiencing even a single year of working poverty have less education and much lower AFQT scores than the general population. Among the working poor, those with health problems have the very lowest scores and education levels. While economists continue to debate whether schooling or innate ability [Blacksburg and Neumark, 1993] is more important in determining labor market success, there is little doubt that having less of both greatly hampers success. More
importantly, Currie and Thomas (1996) find, using NLSY79 data, that the innate intelligence of children is partially accounted for by the mother's AFQT score and partially by the mother's level of education and income. If these findings are correct, because of their low income, low educational attainment and low AFQT scores the working poor are perpetuating the cycle of working poverty by passing on a low-ability legacy to their children.

**Causation**

Do health problems cause working poverty or are they the result of working poverty? First, short spells of working poverty cannot cause disabilities and language limitations. Additionally, it is doubtful that working poverty causes health limitations since few young baby boomers have experienced long periods of time in low-wage dangerous occupations which could impair their health.

What is unclear is whether individuals finding themselves in poverty turn to alcohol or drugs or if drug or alcohol abuse is the source of poverty. While previous research on the impact alcohol use has on wages (Heien, 1989) shows that abusers have lower earnings than moderate drinkers or abstainers, the literature has not determined causality.

A simple method of understanding causality is to calculate when substance use began. Three variables were created for respondents, marking the earliest year an individual experienced working poverty and if or when the individual started drinking or using drugs. Cross tabulations show most (85.7 percent) heavy drinking and a small majority (55.4 percent) of heavy drug use occurs before working poverty's first spell. Since most heavy substance use began first, it is doubtful that working poverty causes drug or alcohol problems. The results do not rule out that substance abuse may cause working poverty. If so, programs aimed at curtailting drug and alcohol usage like "Just Say No" may reduce future working poverty.

**WHAT HAPPENS AFTER A YEAR OF POVERTY?**

What happens after an individual experiences a year of working poverty? Is working poverty a long-term trap or a short-term unpleasant event? Does the outcome depend on health status? Using the NLSY79's longitudinal data, this section investigates these questions first by calculating how many times an individual is in both working and non-working poverty. Then based on the respondent's 1985 health and poverty status it investigates the future probability of becoming poor. The section concludes by examining what happened a decade later to each of the 1985 status groups.

The simplest method of examining if working poverty is a long- or short-term event is to examine the number of years spent working poor, without regard to health status. Table 4's middle column shows the number of times in the 10 surveys since 1985 that young baby boomers were in working poverty. Almost one third (30.5 percent) of all young baby boomers spent at least one year in working poverty. Interestingly, while the table shows almost half of these (14.3 percent) experienced only a single year being working poor, a small group is consistently poor, with 5.0 percent spending four or more years in poverty.

This column, however, overlooks an important group who escape not by jumping to a higher income bracket but instead by leaving the labor market and continuing to be poor. The next column shows the number of years spent in any kind of poverty after spending one year in working poverty. While the average young baby boomer spent 0.68 years in working poverty over the decade, dropping the "working" criteria from future poverty spells increases this to 0.87 years. Even after examining individuals leaving the labor market, the data suggest that working poverty is a short-term unpleasant event that lasts less than one year for the typical young baby boomer.

Quite a different picture emerges, however, when examining previous health and poverty status. Figure 2 examines the poverty status of individuals from 1986 to 1995 based on their 1985 categorization. The results indicate that previous status is strongly correlated with future status. For example, of the working poor who also faced health or other limitations in 1985, almost 90 percent remained in poverty a decade later. On average, 41.4 percent of those who suffered from both working poverty and other limitations in 1985 were poor during each of the next ten years. This contrasts dramatically with those experiencing neither health nor poverty problems in 1985, of which only 8.7 percent on average were poor. Being in working poverty but not having health problems (29.2 percent) or just having health problems (18.0 percent) also results in lower chances of future poverty than individuals facing both problems.
This table also provides a method for calculating the average length of time spent in poverty. Multiplying the number of years in poverty by each matching percentage and then summing reveals that while the average respondent with neither problem in 1985 spent 0.8 years in poverty, respondents with both problems spent 3.7 years. Having just a health problem in 1985 results in an average of 1.6 years in poverty, while being working poor in 1985 resulted in 2.5 years. Once again, a large gap (1.2 years) exists between those who were working poor and had health problems and those without those problems. Overall, these results suggest that many individuals classified as working poor in 1985 fell into a long-term poverty trap.

What type of individuals are caught in this long-term poverty trap? Table 5 provides demographic and labor market information for each 1985 status group based on their income a decade later. The left part of the table contains those not in poverty in 1995 while the right includes those in poverty in 1995. All pairs of the poverty/not-in-poverty comparisons that are quantitatively and statistically different at the 5 percent level are marked by an asterisk.

Since the table is divided based on a poverty criteria it is not surprising that incomes on the left- and right-hand sides of the table are vastly different. What is striking is the radical difference in 1995 income for those not in poverty. In 1995 the typical individual who left working poverty has a 36.7 percent lower income than those not experiencing working poverty in 1985. The gap is even bigger for those with both problems in 1985 but who escaped poverty by 1995 since they have half (55.6 percent) the income of those experiencing neither problem. This is consistent with Lillard and Willa who examined general poverty among PSID males and stated, "Those in poverty in a given year have permanently lower earnings than those not in poverty and are fifteen to twenty-five times as likely to be in poverty as much as six years later."[1978].

Moreover, the first line also suggests serious health problems are related to lower future income. Individuals who in 1985 had health problems earned a decade later almost $13,000 less than those experiencing neither problem in 1985 ($47,647).
TABLE 6
1985 Outcomes of Young Baby Boomers by 1985 Status

<table>
<thead>
<tr>
<th></th>
<th>Not in Poverty 1985</th>
<th>Working Poor '85</th>
<th>Problem '85</th>
<th>In Poverty 1985</th>
<th>Working Poor '85</th>
<th>Problem '85</th>
<th>Both in '85</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Neither in '85</td>
<td>$35,916</td>
<td>$47,547</td>
<td>$33,091</td>
<td>$35,916</td>
<td>$47,547</td>
<td>$33,091</td>
<td>$35,916</td>
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<tr>
<td>(2) Working Health</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>(3) Neither in '85</td>
<td>$37,006</td>
<td>$49,547</td>
<td>$33,091</td>
<td>$37,006</td>
<td>$49,547</td>
<td>$33,091</td>
<td>$37,006</td>
</tr>
<tr>
<td>(4) Both in '85</td>
<td>$38,006</td>
<td>$51,000</td>
<td>$33,091</td>
<td>$38,006</td>
<td>$51,000</td>
<td>$33,091</td>
<td>$38,006</td>
</tr>
</tbody>
</table>

Income, health problems, weeks worked, weeks unemployed, highest grade, number of children and percent married refer to 1985. Job changes, number of training programs and years at home refer to the period 1985 to 1986. The AFQT test was given to respondents in the early 1980s.

a. The pair of values (in poverty—not in poverty) are statistically significant at the 5 percent level.

Table shows the size in both percentage and absolute terms for all eight groups. Summing the "size in 10,000s" line shows there were 38 million young baby boomers in the United States during 1985. If this 28 million, slightly more than 10 percent (9.88 million) had income below the poverty level in 1985 and approximately 550,000 of these individuals also experienced working poverty in 1985. While many of those poor in 1995 are poor for a short period of time, a small but significant number have been poor for a long time and are likely to stay poor.

he number of children, especially those with health problems, has little formal schooling and extremely low ability; and their lack of continuous labor market experiences means small amounts of on-the-job training. To compound their labor market difficulties they have more children and also have a lower probability of being married. The next section investigates public policies designed to reduce working poverty.

RECENT PUBLIC POLICY AND THEORETICAL MODELS

Solutions for eliminating working poverty fall into two general categories: broad sweeping policies aimed at large sections of the economy, like minimum-wage legislation, or narrowly defined policies aimed at individuals, such as job-retraining programs. Many of the Clinton administration's recently enacted policies are broadly focused attempts to create more good jobs and are not specifically targeted at working poor individuals with health problems. The theoretical ideas underlying this approach are summarized by dual labor market models (Dickens and Lang, 1988) in

compared to $90,592). Moreover, the table's second line, which tracks health status, shows few individuals changed their health classification after 10 years. This matches Burkhauser and Daly's findings using the PSID which showed that "Once one has a disability, it is relatively rare to experience a health recovery" (1996).

The next set of lines examine labor market experiences. A weighted average of columns (1) to (4) in line 3 shows that individuals not in poverty spent on average over 41.1 weeks working, while a weighted average of columns (5) to (8) reveals those in poverty (22.9 weeks) worked almost half that amount. Line 4 shows that individuals not in poverty in 1995 spent on average only 0.9 weeks looking for work, while those in poverty in 1995 spent more than a month (5.1 weeks). The next lines show that from 1985 to 1995 the poor experienced slightly more job changes (5.1 versus 3.8) and those not in poverty attended half a job training course more than those in pov-

overall, this means those in poverty hold roughly the same number of jobs as those not in poverty but each job is of shorter duration, depriving these individuals of both additional income and on-the-job experience.

Large differences also occur both within and between groups in educational attainment and AFQT scores. The typical respondent not in poverty in 1985 and hav-

ing neither problem ten years earlier completed almost two years of college (13.7 years of education). The typical respondent in poverty in 1985 and having both problems ten years earlier did not even finish eleventh grade (10.7 years of education).

AFQT scores show an even wider divergence than schooling. The typical indi-

vidual (52.9) in column (1) ranked in the top 40 percent of all AFQT scores while the 11.1 score in column (8) ranks in the bottom 10 percent. This suggests a strong relation-

ship between the IQ proxy and outcomes in both 1985 and 1995. More impor-

tantly, individuals with poor health and multiple periods of working poverty have both extremely low ability and low amounts of schooling. While lack of education is potentially remedied by public policies, such as higher funding for adult literacy classes, ability is usually considered an inherent trait not amenable to change.

The next line shows that those in poverty in 1995 had almost one more child than those not in poverty while the following line shows large differences in the probability of being married for the different classifications. Of those in 1985 with neither health nor poverty problems, 67.6 percent are married a decade later compared to only 17.9 percent among those with both problems.

The last two lines show the size in both percentage and absolute terms for all eight groups. Summing the "size in 10,000s" line shows there were 38 million young baby boomers in the United States during 1985. If this 28 million, slightly more than 10 percent (9.88 million) had income below the poverty level in 1985 and approximately 550,000 of these individuals also experienced working poverty in 1985. While many of those poor in 1995 are poor for a short period of time, a small but significant number have been poor for a long time and are likely to stay poor.

the table shows those poor in 1985 and still poor in 1995 have extremely low amounts of human capital. These individuals, especially those with health problems, have little formal schooling and extremely low ability; and their lack of continuous labor market experiences means small amounts of on-the-job training. To compound their labor market difficulties they have more children and also have a lower probability of being married. The next section investigates public policies designed to reduce working poverty.
which the economy is comprised of both good and bad jobs. Good jobs have excellent pay and benefits while bad jobs have low pay, intermittent hours and few benefits. Because in these models the size of the labor force exceeds the number of good jobs, some individuals are forced into the bad jobs and act as a reserve army of labor. Individuals in bad jobs are unable to earn enough money to boost themselves above the poverty threshold and hence live in working poverty because of general labor market conditions.

The first policy enacted by Clinton was an increase in the Earned Income Tax Credit, which is an earnings subsidy (Schultz, 1994). Workers earning money below a certain level ($10,000 for a single individual or $20,000 for a family in 1990) are granted a refundable tax credit. By lowering the effective tax on wages, the government is explicitly increasing each poor worker’s after-tax pay rate. Higher pay rates ensure that workers stuck in bad jobs make a more livable salary, thus making bad jobs less onerous to hold (see Greenstein and Shapiro, 1998). Nevertheless, the EITC does not directly affect the mix of work available since payments are made to workers, not employers.

The second policy enacted by the Clinton administration was a two-step minimum wage increase which boosts the pay of those holding jobs at the lowest wage rates (Bernstein and Schmitt, 1998). During the early 1990s the $4.25 minimum annually provided full-year, full-time jobs (2,080 hours) only $8,840, just enough to support a single individual above the poverty threshold. The 1996 increase to $5.15 enabled full-year, full-time workers to support a family of 2 above the poverty threshold.

Neoclassical economists do not believe dual labor market models adequately explain working poverty. The standard neoclassical model views the labor market as having plenty of good jobs but workers have heterogeneous productivity. Workers who are disabled, lack education, lack training or have health problems have low productivity while workers without these problems have high productivity. Since in neoclassical labor market models workers are paid based directly on how much they produce, low productivity workers do not earn enough to boost their family income above the poverty level while high productivity workers earn more than enough.

Policies which boost the productivity and wages of low productivity workers are aimed at the individual level. Enrolling individuals in job training classes upgrades their skills so workers better suit labor market needs. Helping workers find a better fit to their skill set through job placement and counseling services also reduces working poverty by improving job-worker matches. Lastly, helping workers with health, personal or addiction problems through counseling and treatment programs moves individuals out of working poverty by diminishing factors which interfere with productivity.

The U.S. government funds a variety of programs that focus on ameliorating many of these personal productivity problems. Funding includes programs to train individuals (Job Training and Partnership Act), match workers with jobs (Employment Service) and provide labor market information for new entrants and those seeking to change careers (Bureau of Labor Statistics programs like Occupational Outlook). While these programs exist, appropriations for these programs have been constant at $7 billion per year (in 1997 dollars) since the early 1980s (Table 720, Statistical Abstract, 1997). Given that the number of working poor has grown from 6.7 million in 1987 to 7.5 million in 1997, steady government funding means a decline in the amount available per needy worker.

Policy Simulations

Each public policy that reduces working poverty has costs and benefits. Since the benefit to society of raising an individual out of poverty should be similar no matter which program is used, policymakers primarily need cost estimates when choosing among options. This section simulates the cost of implementing the three most discussed policies, minimum wage changes, EITC payments and training programs.

What is the minimum wage needed to boost working poor youth baby boomers out of poverty? This number is calculated by dividing the gap between total income and the relevant poverty line for each working-poor individual by hours worked. Assuming no displacement effects, the 1996 minimum of $4.25 an hour would need to increase to $7.35 an hour to move half the baby boomers out of working poverty if hours worked remain constant. While only a fourth are boosted out of working poverty with an increase to $5.15 an hour, three fourths are lifted out of working poverty with an increase to $10.75 an hour in 1996. These new rates are similar to those recommended by the Campaign For A Living Wage, started by the AFL-CIO in 1998. Given that approximately 7 percent or 5 million workers are currently paid at or below the minimum wage (Table 678, Statistical Abstract, 1997), each $1 increase will cost employers roughly $5 million dollars for each hour worked by minimum-wage workers.

However, large minimum wage changes also have displacement effects. While some economists (Card and Krueger, 1995) believe that small minimum wage changes do not reduce employment, large changes must decrease employers’ need for low-wage workers since demand curves slope downward. By using the EITC program instead of minimum-wage legislation, policymakers eliminate the displacement problem and provide income support for the poor while maintaining an incentive to work. The program’s drawback is its large drain on government revenue, with the 1996 EITC costing the U.S. treasury over $5 billion (Table 721, Statistical Abstract, 1997).

To calculate the increase needed to move individuals out of poverty, expected 1996 EITC payments were calculated. The median calculated EITC payment was $1,070, with individuals in the bottom 25 percent receiving $310 or less and those in the top 25 percent receiving $1,143 or more. To move half the working poor out of poverty, calculated EITC payments would have to increase by $2,859 per poor family. One quarter of the working poor could be raised out of poverty by increasing the EITC by $290, while three quarters would live above poverty with an increase of $6,859. Using these estimates suggests that doubling the EITC program’s 1996 size to $10 billion would eliminate almost half of working poverty. However, increasing EITC
In addition, while those with health problems are the most susceptible, working poverty is surprisingly widespread among all young baby boomers, with almost one third (30.5 percent) spending at least one year in working poverty. Although most of these baby boomers will spend a short amount of time in poverty, having even one year of working poverty is correlated with lower future income. The typical individual who was working poor in 1985 but escaped has a 36.7 percent lower income a decade later than those not experiencing working poverty in 1985.

Among the more than 25 million young U.S. baby boomers in 1995, 10 percent had income below the poverty level and 6.1 percent were in working poverty. While some of these individuals move quickly in and out of poverty this paper has identified a core group, many of whom have serious health and personal limitations, and who will not leave working poverty quickly. Policies designed to reduce working poverty must address the needs of this extremely disadvantaged group. Simulations show that while policies such as increasing the minimum wage and Earned Income Tax Credit will help many escape working poverty, needed changes are expensive and do not specifically target those with health problems. Based on these simulations this paper suggests modifying the EITC program to target the long-term working poor.

NOTES

1. This number comes from multiplying the 28 million young U.S. baby boomers by the 7.0 percent (Table 1, bottom right) who are working poor in a typical year by the 33.1 percent who have health problems.

2. While national data show rising working poverty, Table 1’s last column reveals the opposite, a falling rate for young baby boomers. This contradiction occurs because the incidence of working poverty is closely related to age. Data in Gardner and Herr (1999) show being a year older reduces working poverty by 0.14 percent, with the steepest drops occurring during the mid- to late-30’s. NLSY79 data show falling working poverty rates because respondents start out in the age range with the highest poverty rates and then by aging move into the years when the steep reductions occur.

3. The growth is primarily due to labor market expansion since both years are at similar points in the business cycle.

4. While EITC payments are not included in official poverty rate calculations, the Census Bureau releases a series of alternative measures that show how EITC payments change the measured rate of poverty (Dalaker and Natb, 1998, Table E and F).

5. The minimum wage was $4.25 from 1991 to 1995, rose to $4.74 on October 1, 1996, and rose to $5.15 on September 1, 1997. Recently, in his 1996 State of the Union speech Clinton proposed increasing the minimum wage again.

6. Since no representative is eligible for all questions, a significant fraction of the 50,000 > 10,000 data matrix does not contain meaningful answers.

7. Using other cutoffs, like 50 percent, results in similar findings since Zagorsky (1997, Table 3.7.3) shows the vast majority (99.8 percent) of respondents who were not dropped for finding reasons completed either every survey or missed just one round.


9. The NAS (1995) and Sulliher (1994) believe neglecting to include in-kind transfers as part of income seriously biases poverty estimates. Government programs which provide vouchers, such as food stamps, or refundable price services, such as rental subsidies, are not included under official Census-
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