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The economy is a key determinant of poverty and well-being among low-income families. Reductions in the level of economic demand during recessions can significantly increase the unemployment rate, as was the case in the early 1980s. At the same time, sustained strong economic growth can substantially reduce the unemployment rate and contribute to increased experience on-the-job and growth in wages, as occurred in the late 1990s. The employment of less-skilled workers has tended to fluctuate more across the business cycle than the employment of other workers.

Longer-run developments in the economy such as labor-saving technological changes, declines in the degree of unionization, and the changing skill mix of the labor force also affect the economic well-being of less-skilled workers independent of the business cycle. For example, over the last quarter century, the wage rates of high school graduates and high school dropouts have fallen dramatically relative to those of college graduates.

Improvements in employment opportunities and wage rates are important to low-income families, as less-skilled workers have more cyclical employment opportunities and their income fluctuates more with the economic cycle (Borjas, this volume). In 2004, 61 percent of families with income below the poverty line contained at least one worker ([http://pubdb3.census.gov/macro/032005/pov/new06\\_000.htm](http://pubdb3.census.gov/macro/032005/pov/new06_000.htm)).

Several chapters in this volume analyze the ways in which the business cycle and long-run changes in the economic environment since the late 1970s have affected the employment and earnings opportunities for less-skilled workers. Other chapters focus on the composition and material well-being of low-income families. Other chapters evaluate the effectiveness of social assistance policies and the federal and state tax systems and how they interact with the economy over the course of the business cycle. The key question that runs throughout the papers in this

volume is “How have economic changes and the economic cycle affected the well-being of less-skilled workers and low-income families?”

An examination of changes in employment, earnings, and income among less-skilled workers and low-income families reveals that other trends have been as important – and in some cases more important – than those directly related to the economy. Thus, a second question is “How have long-term changes in the demographic composition of the population, work and family behaviors, and policy and program rules affected the well-being of less-skilled workers and low-income families?”

The volume documents the variety of changes that have affected less-skilled workers and their families from 1979 through 2004. This quarter century is important for several reasons. First, the macroeconomic changes over this period were striking, including strong expansions in the late 1980s and 1990s. The economy experienced its longest historical period of sustained economic growth from the end of the recession in March 1991 through the start of the next recession in March 2001; economic growth was particularly strong in the last half of the 1990s.

The past quarter century also included three recessions, with one long period of economic contraction in the early 1980s (actually two back-to-back recessions, January to July 1980 and July 1981 to November 1982), and two shorter and milder recessions in the early 1990s (July 1990 to March 1991) and early 2000s (March to November 2001) both of which were followed by an extended period of sluggish growth. These cyclical changes provide an opportunity for several chapter authors to evaluate how economic cycles affect the labor market outcomes of less-skilled workers.

Second, there have been other important changes over the past 25 years that have interacted with the macroeconomy. Most notable is the trend toward widening wage (and

income) inequality that was particularly pronounced in the 1980s. Closely related to this is the substantial growth in world trade, and the widespread adoption of new computer and information technologies by both businesses and consumers. At the same time, high rates of immigration (especially among Hispanics), declines in the percentage of persons living in married couple families, and dramatic increases in women's labor market involvement have changed the face of the American workforce. These trends have had particularly large effects on the employment and earnings of less-skilled workers.

Third, there have been important policy changes over the past quarter century that have interacted with economic, demographic and behavioral changes. Most notable are the welfare reforms of the mid-1990s which ended the entitlement to cash assistance and required low-skilled single mothers to seek and maintain employment. Over the entire period, the inflation-adjusted minimum wage has fallen and risen and then fallen again. There has also been substantial growth in other programs that assist low-income working families, including several large expansions in the Earned Income Tax Credit (EITC), which provides subsidies through the tax system to workers in low-income families. Other changes include increased provision of public medical insurance, especially for children in low-income families, increased efforts to establish paternity for nonmarital births and collect child support from absent fathers, and increased public spending to subsidize the child care expenses of low-income families. Many observers have commented on the move to a "work support" system of public assistance in which most assistance is given to low-income families with workers rather than to those without a wage earner (Blank, 2002; Ellwood, 2000).

The effect on poor families of these numerous policy changes is particularly salient for the period during and after the 2001 recession. This recession was the first since many of the

work-focused policies were implemented in the 1990s. We want to understand how poor families have fared now that they are not entitled to cash assistance that was available in earlier periods and how well policies focused on getting people into jobs have fared in a slack economy.

### **Who Are the Working Poor?**

Most chapters in this volume focus on workers who are between the ages of 18 and 54; this volume does not deal with issues related to retirement or aging. To provide an overview of those individuals who are working poor and near-poor, we review economic trends for 18 to 54 year olds whose family income is below 200 percent of the official federal poverty line, a rough measure of the extent of the low-income population.

The federal poverty line is a somewhat arbitrary concept, established in 1964 and updated each year for inflation (Citro and Michael, 1995). It primarily provides an inflation-constant benchmark against which to compare family incomes over time.

Table 1 provides a snapshot of primary age individuals whose family income is below 200 percent of the poverty line for the years 1979, 1989, 1999, and 2003. In 2003, 200 percent of the poverty line was \$37,320 for a married-couple with two children, \$29,648 for a single-parent with two children, and \$19,146 for a single nonelderly individual. As the last row in Table 1 indicates, about one-quarter of 18 to 54 year old adults live in families below these income levels. Among these prime-aged adults in lower income families, about 41 percent lived in married couple families in 2003, and another 20 percent were in single parent families. Among these poor and near-poor individuals, 64 percent worked at a median hourly wage of \$7.29; the median family income among these persons was \$14,706.

Table 1 provides a sense of how the composition of low income persons has changed over time. Since 1979, these prime-age adults have become less likely to live in married couple families (a decline from 57 to 41 percent), and are much more likely to be single males (11 to 18 percent) or single females (13 to 21 percent). Extensive immigration of Hispanics over these years has increased the share of low-income adults who are Hispanic from 10 to 26 percent. And low-income individuals have become somewhat more educated over time, mirroring the overall trends in the population. The share with less than a high school degree declined from 40 to 28 percent, while the share with more than a high school degree rose from 26 to 35 percent. The share that is employed has remained relatively stable.

Low-income working adults have seen slight increases in hourly wage wages over the past 25 years (from \$6.38 in 1979 to \$7.29 in 2003) and even smaller increases in their family income (from \$14,500 in 1979 to \$14,700 in 2003).

Some individuals profiled in Table 1 are not the focus of much policy concern, because they may have higher earnings opportunities but choose not to pursue them, for example students who are temporarily poor and working part-time while attending college or graduate school, or individuals who have voluntarily chosen to work few hours. Many of these individuals, however, are in families with children, and many are involuntarily unemployed or are working at low wage rates. Their low incomes are due to economic constraints that constrain their opportunities.

The chapters in this volume focus on those with limited long-term earnings opportunities. Hence, most chapters analyze the prospects not of individuals who happen to be poor in a given year, but of less-skilled individuals, typically defined as those with less than a high school degree or only a high school degree. They tend to have the most constrained labor market options.

## **Trends in the Economy, 1979-2004**

The chapters in this volume discuss both long-run economic trends over the past quarter century and cyclical changes associated with recessions and recoveries. Figure 1 shows two key economic indicators of for the years between 1979 and 2004, real (that is, inflation adjusted) Gross Domestic Product (GDP) per capita, a commonly-used indicator of the overall wealth of the economy, and the annual unemployment rate for all persons over 16 years of age. The shaded areas in Figure 1 indicate the four periods over this quarter century when the economy was officially in a recession.

As Figure 1 shows, real GDP per capita has grown substantially, rising 59 percent between 1979 and 2004. The period between 1995 and 2000 was particularly prosperous, with high productivity, rising wages, and substantial increases in GDP. While the average annual rate of growth in GDP per capita was 1.7 percent between 1979 and 1995, it was 2.9 percent between 1995 and 2000.

The unemployment rate provides a measure of cyclical change, with unemployment rising during recessions and falling during economic recoveries. Unemployment rates are a particularly important labor market indicator for less-skilled workers. The most sustained rise in unemployment occurred between 1979 and 1982, when the unemployment rate rose from 5.8 to 9.7 percent. While the recessions of 1990-91 and 2001 were milder (and shorter), economic growth has also not rebounded as quickly, so that the years immediately following these recessions (1992 to 1994 and 2002 to 2004) were periods of slow expansion. The unemployment rate was below 5 percent in only five of the twenty-six years shown in the figure—each year from 1997 through 2001.

Figure 1 tells a generally positive story about the economy over the quarter century. Since the early 1980s, there has been extensive economic growth. The two recessions have been relatively mild, and unemployment rates for the 1995-2004 decade were always below 6 percent in contrast to 1980-1986 when the rate each year exceeded 7 percent.

Unfortunately, less-skilled workers have not gained as much from these overall economic trends as one might expect. The lower unemployment rates since the mid-1990s have meant that jobs have been more available for those who actively searched for work. However, wages among less-skilled workers declined for much of the past quarter century, rising only during the rapid expansion of the late 1990s.

Figure 2 displays real (inflation-adjusted) hourly wage rates from 1979 to 2004 among male and female workers between the ages of 18 and 54. The solid line shows median wages among those without a high school degree, the dashed line shows median wages among those with only a high school degree, and the dotted line shows wages among those with more than a high school degree. (These are the three educational categories that authors use throughout this volume.)

Figure 2 shows the much-discussed rise in between-group wage inequality of the past 25 years, with wages rising throughout the period for the more-skilled groups. Among high school dropouts, wages fell in most years between 1979 and 1994, rose from 1995 to 2000, and have edged up only slowly since then. In 2004, real wages were 9 percent below their 1979 levels for high school dropouts (\$8.35 vs. \$9.14) and 5 percent higher (\$11.18 vs. \$10.62) for high school graduates. Among those with more than a high school degree, wages were about 19 percent higher at the end of the quarter century (\$15.77 vs. \$13.28).

These trends in median wage rates by educational attainment hide substantial heterogeneity within the low-wage and low skill population. As Chapter 2 discusses in detail, wages among less-skilled women have not fallen as fast as they have among less-skilled men. Wage declines among African Americans have been greater than among whites on average, primarily because a larger percentage of African Americans are in the low-skilled category. Among high school dropouts, wages among black men have not fallen faster than among white men. Wages among Hispanics have fallen faster than other race/ethnic groups within the low skill category, although this reflects increasing low-skilled migration over this time period.

The share of the population in different skill groups has been changing over time, and this affects wage rates. In particular, if high school dropouts have become increasingly less skilled as their share in the population declines, then this might lead to declining wages. Figure 3 avoids this problem by focusing on wage rates at a specific percentile in the distribution rather than on wages by skill level. The three lines on Figure 3 show real wages at the 20<sup>th</sup> percentile (that is, one-fifth of all workers in each year earn less than this wage level), at the median, and at the 80<sup>th</sup> percentile (four-fifths of all workers in each year earn less than this wage level.) Wages fell for the bottom 20<sup>th</sup> percentile of workers from 1979 to 1984, then remained flat until the mid-1990s. In 2004, wages at the 20<sup>th</sup> percentile were at \$8.11, about 11 percent above the \$7.32 for 1979. Wages at the median rose by 18 percent and by 26 percent at the 80<sup>th</sup> percentile, showing widening wage inequality.

Wages are one important component in evaluating the well-being of less skilled workers, but employment rates may be equally important. Figure 4 plots the employment to population ratios among men and women between the ages of 18 and 54 by education level. As before, the solid lines are for high school dropouts, the dashed lines for high school grads only, and the

dotted lines for those with more than a high school degree. The dark black lines are for men and the gray lines are for women.

Employment to population ratios declined among men with a high school degree or less from 79 percent in 1979 to 70 percent in 2004. They were stable among more skilled men. For example, among men with more than a high school degree, 88 percent worked in 1979 and 87 percent worked in 2004. Employment choices are affected by wages, of course, and declining real wages among men have been directly linked to declining employment rates (Juhn, 1993).

Among women, employment to population ratios have risen for each education category. Among all women this ratio has risen from 59 percent in 1979 to 70 percent in 2004. In 1979, the ratio for all women was 28 points less than that for all men (59 vs. 87 percent); by 2004, this gap in employment had fallen to 12 points (70 vs. 82 percent). Employment among less skilled women rose particularly fast in the mid-1990s, at about the time that EITC expansions and work-oriented welfare reform were being implemented (Blank, 2002).

The net effect of these long-run trends in wages and employment is a clear decline in earning power among less skilled men, who have seen both their wages and their employment-to-population shares decline. For women, earnings have not declined, and among some groups (especially single mothers) they have risen substantially. This is because the share employed has gone up, while wages have declined only slightly or (for high school graduates) even risen somewhat.

Overall economic well-being is determined not just by the labor market income of individuals, but by the ways in which individuals come together in families and share their resources. Figure 5 shows the evolution of poverty rates for all persons over the past 25 years. The figure shows the percent of the population below the official government poverty rate (solid

line), and the percent below 200 percent of the official government poverty rate (dotted line). This is one measure of those who are poor and near-poor.

Figure 5 also shows an alternative poverty definition, calculated by the U.S. Census Bureau between 1980 and 2003, that is based on a broader income definition. Rather than comparing a family's cash income with the poverty line, this alternative definition uses a broader measure of disposable income, taking account of sources that are not included in the official measure, such as taxes paid, tax credits received, and non-cash public assistance transfers.

Poverty rates are affected by the macroeconomy. During recessions, poverty increases; as the economy expands, poverty falls. The strong economic expansion of the 1990s brought poverty rates to their lowest levels in many years as shown for each series in Figure 5. In 2004, 12.7 percent of all persons were poor and 31.2 percent were below twice the poverty line. The quarter century trend is disappointing, however. Official poverty rates in 2004 are slightly above where they were in 1979, and at about the same level as they were in the late 1960s. The alternative definition shows a pattern similar to the official definition—the rate was 10.1 percent in 1980, reached a maximum of 12.7 percent after the recession of the early 1980s and was 9.7 percent in 2003.

In short, the substantial growth in aggregate income visible in Figure 1 has not produced equivalent income increases among those at the bottom of the income distribution. In part, this is due to declining real wages among less skilled workers who have not fully shared in the rising prosperity of the country as a whole. But, the failure of poverty to fall is also due to changes in the demographic composition of the population and changes in living arrangements. Both the growing (disproportionately low-income) immigrant population and the rise in single-parent

families have kept poverty rates higher than they would have been in the absence of these changes.

Several chapters in the volume explore the factors behind changing well-being among the families at the bottom of the income distribution, particularly less-skilled workers and poor and near-poor persons who rely on labor market income. The next several sections of this introduction indicate the questions that the chapters address. The final section summarizes some of the key lessons from the entire set of chapters.

### **What is Changing (and Why) in the Labor Market for Low-Skilled Workers?**

The volume opens with two chapters that describe changes in the low-skilled labor market. The first focuses on differences between men and women; the second, on differences between native-born and immigrants from varying race and ethnic groups. In chapter 1, “Exploring Gender Differences in Employment and Wage Trends Among Less-Skilled Workers,” Rebecca Blank and Heidi Shierholz investigate differences in the trends in employment and wages among less-skilled men and women. They show that less-skilled women have increased their labor force participation and have experienced flat or rising wages, while less-skilled men have worked less and earned less.

Less-skilled women have lost ground relative to more-skilled women, however. Blank and Shierholz examine how changes in levels of experience and education, as well as changes in marriage and fertility patterns affect these results. They conclude that less-skilled women have found an ‘intermediate’ place in the labor market. They have experienced deteriorating returns to education, but they have benefited from their increased labor force experience. Their labor force participation and wages today are less affected by marital status or family composition than they

were a quarter century ago. These changes have reduced the gender gap in wages among less-skilled workers. In contrast, less-skilled women's labor market outcomes have improved at a much slower rate than those of more-skilled women, who benefited from increased returns to both experience and education.

In Chapter 2, "Wage Trends Among Disadvantaged Minorities," George Borjas analyzes differences between immigrant and native workers classified by race and ethnicity and documents dramatic changes in the race-ethnic composition of less-skilled workers, emphasizing growth in the representation of Hispanic workers in this population. Declining relative wages for less-skilled Hispanics hide a great deal of variation among Hispanic workers and largely reflect a substantial increase in the share of specific Hispanic subpopulations. Wage trends among less-skilled minority workers are particularly sensitive to business cycle fluctuations, and are also influenced by continuing immigration. Borjas estimates that the large immigration between 1980 and 2000 reduced the wages of the typical high school dropout by 11 percent in the short run.

### **How do Economic Trends Affect Less-Skilled Workers?**

Chapters 3 through 5 focus on how economic changes over the past 25 years have affected the less-skilled workforce. In Chapter 3, "The Macroeconomy and the Earnings of Less-Skilled Workers," Robert Hall uses a macroeconomic framework to describe aggregate economic trends in the past quarter century. He compares the economic expansions of the 1980s and the 1990s and shows that these were very different decades in the way that aggregate growth affected less-skilled workers. The 1990s expansion was particularly strong, with extensive capital deepening that led to wage increases that exceeded the increase in the price of goods and services. The demand for workers at all skill levels grew in the 1990s, unlike the 1980s, when

demand increases were concentrated among the more-skilled. Hall speculates that rises in productivity in the early 2000s may suggest further wage growth in the near future.

Skill-biased technological change, that is, changes due to computerization or other changes in employment practices that displace less-skilled workers and advantage more skilled workers, is a primary reason often given for declining wages among less-skilled workers. In Chapter 4, “‘Technological Change’ and the Well-Being of the Poor in the United States,” David Card and John DiNardo critically review the literature that tries to link technological change and widening wage inequality. They cite a variety of inconsistencies in this literature. For instance, there appears to be little link between the speeds with which new technologies were adopted across countries and the growth in wage inequality within those countries. They conclude that technological changes probably account for a portion of the growing disadvantage of less-skilled workers within the U.S. wage distribution, but that the evidence on the causal nature of this link remains tenuous. They call for a more multi-causal model of the forces driving changes in inequality, and argue that one cannot assume that the ongoing adoption of new technologies will necessarily disadvantage less skilled workers.

A key question for low-skilled workers is the extent to which their wages rise with labor market experience. In Chapter 5, “Labor Force and Wage Dynamics Among Less-Skilled Workers,” Eric French, Bhashkar Mazumder, and Christopher Taber explore how wage growth varies across the economic cycle. Experience accumulation leads to growing wages, but the return to experience has varied significantly with the economic cycle. Wage growth is procyclical, that is, wages grow faster when unemployment rates are low. The procyclical effect appears to be quite similar across different skill groups and for men and women.

Experience accumulation is much more important for wage growth for new labor market entrants at all levels of education than are improvements in the job match resulting from a job change. These results suggest that it does not matter a great deal whether workers enter the labor market in good or bad economic times, so long as they persist in employment and acquire additional experience.

### **How do Macroeconomic Changes Influence Well-Being Measures Beyond Income?**

While substantial research attention has gone to measuring the impact of macroeconomic changes on wages and employment, there are many other aspects of family well-being that might be affected by fluctuations in the economy. Chapters 6 through 8 look at the relationships between macroeconomic changes and consumption, resource sharing, and living arrangements.

In Chapter 6, “The Level and Composition of Consumption Over the Business Cycle: The Role of ‘Quasi-Fixed’ Expenditures,” Kerwin Charles and Melvin Stephens investigate the extent to which economic cycles result in cyclical changes in consumption. While Figure 5 shows that poverty rates fluctuate with the business cycle, standard economic theory assumes that families smooth expenditures over time to deal with short-run changes in income, implying that personal consumption should not show similar short-run changes with the business cycle. While Charles and Stephens find that consumption among middle and higher-income families does not move with the business cycle as the theory predicts, consumption among lower-income families does in fact decline in recessions. While it is unclear why low income families experience these fluctuations, the data show that the reductions in consumption are driven largely by cutting back spending on entertainment and personal care.

Labor market earnings and government transfers are the most important sources of income for many families, but transfers of cash and other resources among family members and friends can also be important. In Chapter 7, "Recent Trends in Resource Sharing among Poor Families," Steven Haider and Kathleen McGarry examine some of the ways in which family members help each other, especially within low-income families. Using the relatively limited data that are available to examine financial transfers, they conclude that private transfers of cash are important for many less-educated individuals and that financial assistance has become more common over the last 25 years. Perhaps more importantly, co-residence and the potential of income sharing within a household also appear to have increased substantially. More research and better quality data on the ways in which family members and friends help each other, whether it be through money, shared housing, or time spent providing assistance, will be important to furthering our understanding of how families weather financial shocks.

During the past two decades there has been a large rise in the share of children living in single-parent families. In Chapter 8, "Economic Conditions and Children's Living Arrangements," Rebecca London and Robert Fairlie investigate the impact of the economy and other factors on the adults with whom children live, using both cross-sectional analyses and longitudinal analyses that examine changes in living arrangements for individual children. The data do not tell a simple story. The cross-sectional analyses indicate that recessions increase the odds of children living in single-parent households, perhaps because their parents split up due to job loss or general economic hardship. At the same time, the longitudinal analyses indicate that poor economic conditions cause individuals to double-up, with children in single-parent families moving into alternative arrangements including cohabitation by their parent.

## **How do Policy Changes Interact with the Economy and Economic Well-being?**

The last section of the book – Chapters 9 through 14 – focus on specific policy areas and discuss the interactions between policy design and policy effects and the economic environment. Chapters 9 and 10 focus on tax policies, while the remaining chapters focus on the role of temporary agency employment, child support, unemployment insurance, and health insurance.

In Chapter 9, “How Do Tax Policies Affect Low-Income Workers?” Kevin Hassett and Anne Moore examine changes in federal and state tax policies over the past 25 years and find that total direct taxes paid by low-income families with children have declined significantly, dropping especially sharply since the late 1990s. Federal income taxes have declined because of the refundable child tax credit (instituted in 2001 for taxpayers with less than three children), expansions of the Earned Income Credit, and lower marginal tax rates. At the same time, state sales tax collections have increased significantly, but not enough to offset the decline in federal taxes paid. Payroll taxes and property taxes stayed relatively constant over the last several decades. For example, for a family of three with a single parent earning \$14,000 in 2004, the tax system provides a net subsidy to work because the tax credit exceeds the sum of all taxes paid. The net subsidy is \$2,613, 19 per cent of total income (the \$4,622 federal income tax refund is offset by \$2,142 in payroll taxes; state taxes are negligible).

Hassett and Moore also find that the ratio of non-income taxes to total taxes for low-income families has increased sharply over time. For a married couple with two children and annual income of about \$27,000, the share of nonincome taxes rose from about 25 percent of their taxes paid in 1979 to more than 60 percent in 2004.

In Chapter 10, “State Spending on Social Assistance Programs Over the Business Cycle,” Therese McGuire and David Merriman analyze how states have coped with recessions and how

their expenditures on public assistance programs have varied over the cycle. They pay particular attention to whether states cut social assistance programs during the economic slowdown of the early 2000s, comparing state revenue and expenditure changes during this downturn with the downturns of the early 1990s and the early 1980s. They find that state spending on cash assistance programs is countercyclical – it increases when unemployment rises – and this effect was stronger in the most recent slowdown than earlier. Hence, states do not seem to have reduced their willingness to fund welfare programs after the 1996 federal welfare reform. Of course, spending on welfare programs has declined dramatically, so there was less to be gained from cuts in welfare by 2001 than in earlier recessions. Medicaid spending (on public health insurance for low-income families) is a rising share of the state budget and it also increased in the economic slowdown of the early 2000s. In short, the authors find no evidence that states have used the recent recession as an excuse to cut public assistance programs.

In Chapter 11, “Temporary Agency Employment as a Way out of Poverty?,” David Autor and Susan Houseman evaluate the increased use of temporary agencies to place welfare recipients into jobs. This practice has sparked debate about whether these jobs help the poor transition into stable employment and out of poverty or whether temporary jobs harm workers’ long-term labor market outcomes. Those favoring an expanded role for temporary job placements cite evidence that some agencies provide valuable skill training, that many employers screen workers for permanent positions through agencies, and that these agencies may provide an important port-of-entry for low-skilled workers. Critics view most agency jobs as dead-end jobs, providing little in the way of valuable work experience, training, or opportunity for career advancement.

Autor and Houseman studied a city in which welfare recipients were assigned to various service providers based only on their residential location. Because some providers relied heavily on temporary agencies and some rarely used them, the authors evaluate this “natural experiment.” They ask whether temporary agency placements help participants achieve earnings sufficient to leave welfare and escape poverty, relative to what participants accomplish who are placed in non-temporary (direct-hire) jobs or who receive no job placement. They find that placing a participant in either a temporary or direct-hire job improves her chances of leaving welfare and escaping poverty in the short term, defined as one quarter following the quarter of program entry. Over a one to two year time horizon, however, a temporary job placement makes a participant no better off—and possibly worse off—than not having received any job placement.

As the proportion of children living with both parents has fallen and as public support for sole-parent families has been reduced, child support has become a more important income source for single-parent families. In Chapter 12, “Child Support and the Economy,” Maria Cancian and Daniel Meyer describe the logic and outcomes of the child support system and consider the relationship between economic conditions, child support, and poverty. Child support is an often unreliable income source for poor single-mother families, in part because the fathers of their children typically have limited economic resources. For example, in 2001 only about half of poor single mothers had a child support order. However, child support can be an important part of poor single mothers’ income packages; among those who received any support that year, the average amount received was \$3200. Nonpoor custodial mothers are more likely to have an order and receive higher payments, but many of them also receive no child support or less than they are owed.

Outcomes have improved with increased child support enforcement and other policy changes, but the system faces difficult tradeoffs. Because most child support orders are fixed, the obligation is more financially burdensome for nonresident parents who experience earnings losses and less burdensome for those whose earnings increase. Stable child support orders and payments could provide insurance against cyclical variations in the resident parent's earnings; however, this would lead to fluctuations in the income of the nonresident parent.

Low-wage jobs tend to provide less stable employment than other jobs, making the availability of unemployment insurance for less-skilled workers who are unemployed quite important for their economic well-being. With a greater emphasis on work as a component of welfare reform, the Unemployment Insurance (UI) program may become a more important source of income for low wage workers. In Chapter 13, "Unemployment Insurance Over the Business Cycle: Does it Meet Workers' Needs?" Phillip Levine reviews what we know about how UI raises taxes from employers and provides benefits to low-skilled unemployed workers.

Because UI is an insurance system, benefits are not paid out according to need but according to the loss incurred. Eligibility rules make it more difficult for those with the greatest need to qualify for benefits. Workers cannot have left a job voluntarily and they must have had a sufficient work history prior to the job loss, typically measured as minimum earnings requirements, to qualify for benefits. Lower-wage workers and those who have difficulty maintaining steady employment because of lack of skills have a tougher time satisfying these requirements. Over the last quarter century, UI receipt has fallen among high school dropouts relative to more educated workers. In 2003, only 20 percent of unemployed high school dropouts and 35 percent of unemployed workers with more education received benefits.

Health insurance has become an increasingly important – and increasingly expensive -- commodity. It accounts for a substantial portion of total compensation costs for employers, and government expenditures on health care continue to grow. But during the record setting expansion of the economy in the 1990s when wages for almost all disadvantaged groups rose substantially, health insurance coverage actually fell. While some have claimed that these declines are due to policy changes in the 1990s, in Chapter 14, “Health Insurance Over the Business Cycle; Public and Private Coverage Among Less-Skilled Adults,” Helen Levy looks closely at the data to document the facts and examine competing hypotheses.

Levy finds that gains in employment and income increased private coverage for almost all groups: men and women, low skilled and high skilled workers. For low-skilled men and high-skilled women, who do not rely heavily on public coverage, these employment and income gains led to modest declines in public coverage that were much smaller than the increases in private coverage. But for groups who typically rely more heavily on public insurance, most notably low-skilled women, the reduction in public coverage was even larger than the gains in private coverage. While improvement in employment outcomes for low-skilled women during this period can account for a substantial share of the loss in public coverage, it cannot explain why on net health insurance coverage actually declined. Levy speculates as to why this was the case, with welfare reform as one possible factor.

### **What is to be done about the Challenges Facing Less-Skilled Workers and their Families?**

What are some of the primary lessons which emerge from these papers regarding work and family well-being among less-skilled workers? We identify four major themes.

First, overall economic trends are important for the well-being of low-wage workers. Economic growth in the late 1990s was particularly beneficial for less-skilled workers, leading to higher wage rates and increased employment. The relatively low unemployment rates of the years following the 1990-1991 recession have allowed a large number of less-skilled workers to enter the labor market and accumulate valuable work experience, particularly single mothers who entered the labor force in response to welfare reform and expansions in the EITC and recent immigrants. At the same time, because recessions (at least since 1982) have been relatively mild, business cycle fluctuations have not been the most important determinant of economic well-being for less-skilled workers.

Long-term labor market trends have been quite important. These factors, including labor-saving technological change, declining unionization rates, and globalization have reduced the relative demand for less-skilled workers and contributed to falling real wages among less-skilled men and to lower wages among less-skilled women. Declining real wages have contributed to declining labor force participation among less-skilled men as well. Because workers at the bottom of the distribution have not shared proportionally in the economic growth of the last quarter century, earnings inequality has increased among both male and female workers.

While economic changes are important because of their direct impact on employment and earnings, they affect other aspects of well-being as well. It has been argued that consumption is superior to income as a measure of material well-being. It has been shown that poor families, whose employment outcomes are most affected by fluctuations in the macroeconomy, must lower their consumption in response to recessions. While intuitive to some, this pattern indicates that poor families are limited in their ability to moderate such fluctuations, which in turn lowers their well-being.

In addition, living arrangements of children have changed, with many fewer children living with both parents. These developments have not been good for the material well-being of children, with poverty among children in single parent families much higher than in two parent families. More attention to the links between the economic environment and family and individual well-being beyond employment, wages, and program participation is needed.

Second, the past decade has been a period of unusual economic patterns, making it difficult to forecast the near future. The 1990s brought a long economic expansion and it is not likely that we can expect such robust economic growth in the near future. The short (8 month) recession of 2001 was unusual as well, as it had less of a negative impact on less-skilled workers than other recent recessions. In particular, the effects on less-skilled women were mild, largely because the industries that were most affected by the economic slowdown (especially manufacturing) were not significant employers of low-skilled women.

It is very difficult to forecast the impact of economic changes into the future. While the decline in wages among less-skilled men was reversed for the last half of the 1990s, and wages for this group have been stagnant since, it is hard to forecast wage changes over the next several years. We are still uncertain about the importance of various factors in causing these economic shifts against the less-skilled.

For these same reasons it is difficult to predict how participation in government transfer programs will evolve in the coming years. On the one hand, the fact that cash welfare caseloads did not increase substantially during the recent recession indicates that the reforms of the 1990s fundamentally altered the relationship between macroeconomic growth and welfare participation. At the same time, the recession was modest, and a more severe downturn might lead to a more substantial rise in program rolls.

Third, federal and state policy changes have had an enormous impact on less-skilled workers and their families over the past 25 years. Federal income tax policies have been particularly important, especially the increase in the EITC that subsidizes low wage work among those with children. However, there were relative increases in state and local taxes on low-wage workers. Welfare policy reforms and a host of related changes in public assistance programs have pushed more less skilled women into work and raised the importance of earnings to their overall economic well-being.

An immigration policy that allowed large increases in immigration over the past 25 years has led to very rapid growth in the share of less-skilled immigrants in the workforce. While the vast majority of immigrants live in the U.S. legally, a substantial share of low-skilled immigrants is undocumented. Undocumented immigrants most likely attempt to avoid interaction with the government, and therefore do not participate frequently in programs designed to alleviate poverty. As a result, government policies and programs may become less effective in dealing with poverty because an increasing share of the poor cannot benefit from the designed policies.

Fourth, while an overall focus of this book has been on economic factors, these papers also demonstrate the importance of attitudes and learned behavior, as well as the economic environment. These other factors have probably been as important as economic changes in affecting everything from debt burdens, to marital and fertility choices, to income sharing across families.

For instance, an individual's willingness to participate in the public assistance system is clearly shaped by more than economic opportunity, as indicated by the ongoing (and in some cases rising) non-participation in public assistance among eligible families. Seemingly large rates of non-participation among potentially eligible persons in cash welfare and in Unemployment

Insurance are interpreted quite differently by different observers. On the one hand, this may indicate failures in program implementation as some low-income individuals who would gain economically from receiving public assistance are not being reached by these programs. On the other hand, this may reflect the desire of non-participants to be independent of government assistance and to find the next job, or a preference to rely on assistance from family or boyfriends/girlfriends.

The papers, taken together, provide a set of policy options for public discussion. The welfare reform debates of the mid-1990s indicated a public willingness to assist individuals who work but remain poor. The expansions in the EITC and increased state and federal spending on child care and medical care reflect this concern. Yet, there remain a very large number of working poor and near-poor families. We believe that assisting these families to work more and to earn more and to further supplement their earnings is good public policy. It benefits neither worker productivity nor child development if unemployment means eviction, family disruption, or loss of health insurance. Hence, we direct readers to the specific policy proposals that are discussed in various chapters in this volume, including the role of minimum wages, child support benefit changes, unemployment insurance changes, tax policy changes and health insurance changes.

Public discussion of poverty and government assistance in the United States has always emphasized the value of work and the importance of personal responsibility. Large numbers of poor individuals take these values very seriously and make ongoing efforts to find and keep jobs that will help support their families. Yet, the number of low-wage jobs in this economy means that not all workers will be able to rely upon their earnings alone for economic self-sufficiency. We hope that this volume has made a contribution to the discussion about low-wage work,

indicating both some of the key causal factors that have prevented less-skilled workers from gaining more ground over the past 25 years and some of the important policy changes over this time period.

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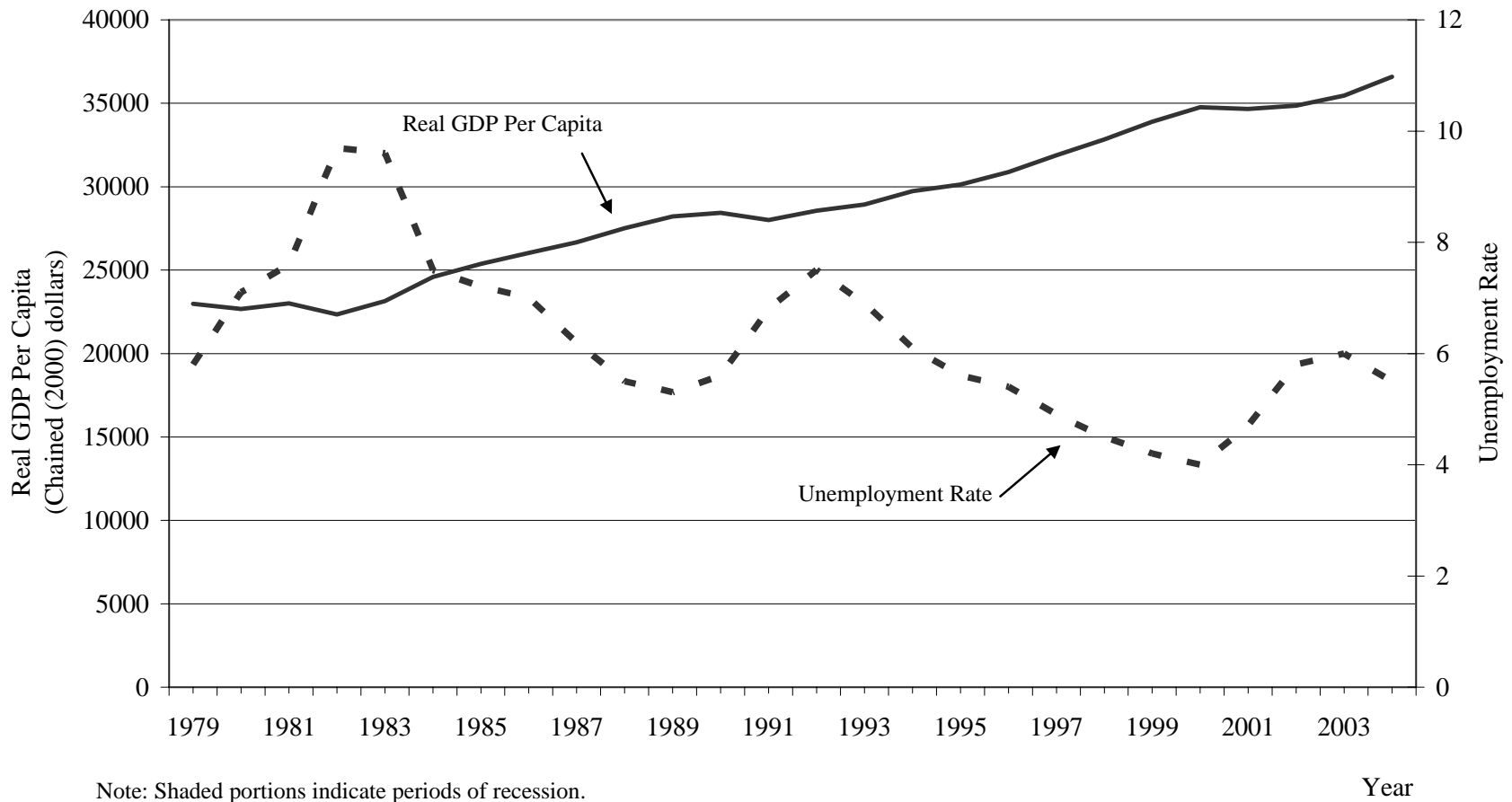
Table 1

**Characteristics of Individuals Aged 18-54 whose Family Income  
is Less Than 200% of the U.S. Poverty Line**

	<u>1979</u>	<u>1989</u>	<u>1999</u>	<u>2003</u>
Share Employed (at any point last year)	0.682	0.684	0.668	0.638
Median Hourly Wage	\$6.38	\$6.25	\$6.83	\$7.29
Median Family Income	\$14,499	\$14,093	\$14,681	\$14,706
<u>Family Composition (share)</u>				
Married Couples	0.569	0.493	0.428	0.414
Single Parent	0.186	0.201	0.216	0.201
Other Single Male	0.111	0.149	0.161	0.177
Other Single Female	0.134	0.157	0.195	0.208
<u>Race/Ethnicity (share)</u>				
Black/Non-Hispanic	0.206	0.205	0.201	0.187
Hispanic	0.101	0.154	0.224	0.256
White & Other, Non-Hispanic	0.693	0.641	0.575	0.556
<u>Education Level (share)</u>				
Less than High School	0.397	0.334	0.295	0.280
HS Degree	0.344	0.385	0.374	0.370
Some College	0.186	0.200	0.247	0.253
BA or More	0.073	0.082	0.084	0.097
Share of individuals aged 18-54 who live in families with income below 200% of U.S. Poverty Line	0.25	0.26	0.26	0.26

Source: Authors' tabulation from Current Population Survey's March Supplement. Wages and income numbers inflation adjusted to 2000 dollars.

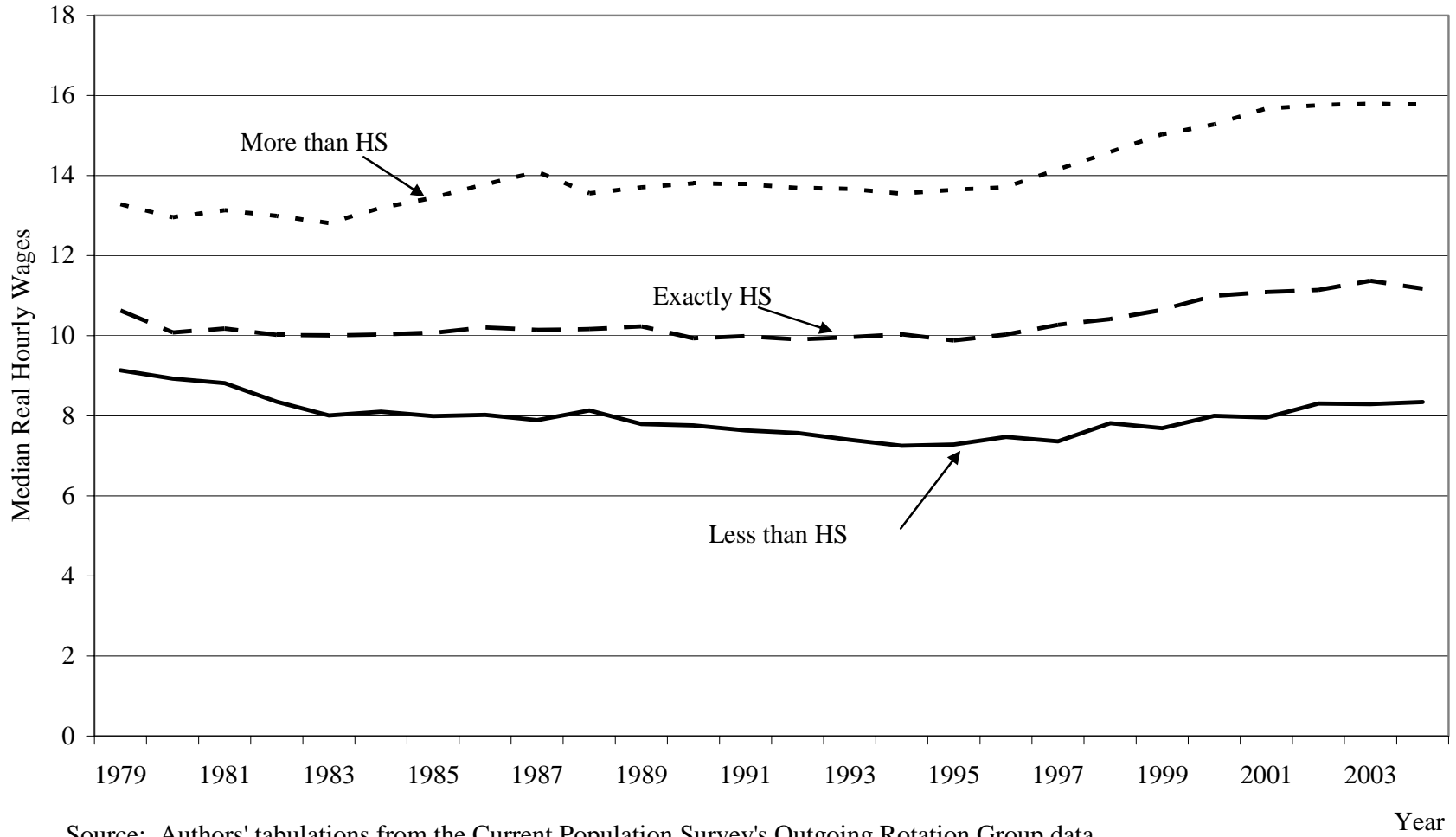
Figure 1  
Per Capita Gross Domestic Product and  
Unemployment Rates, 1979-2004



Note: Shaded portions indicate periods of recession.

Source: U.S. Department of Commerce (Bureau of Economic Analysis), Bureau of Labor Statistics, and National Bureau of Economic Research, Business Cycle Expansions and Contractions, <http://www.nber.org/cycles.html/>.

Figure 2  
Median Real Hourly Wages for Workers Ages 18-54 by Skill Level



Source: Authors' tabulations from the Current Population Survey's Outgoing Rotation Group data.

Year

Figure 3  
Real Hourly Wages at the 20th, 50th, and 80th  
Percentiles of the Wage Distribution

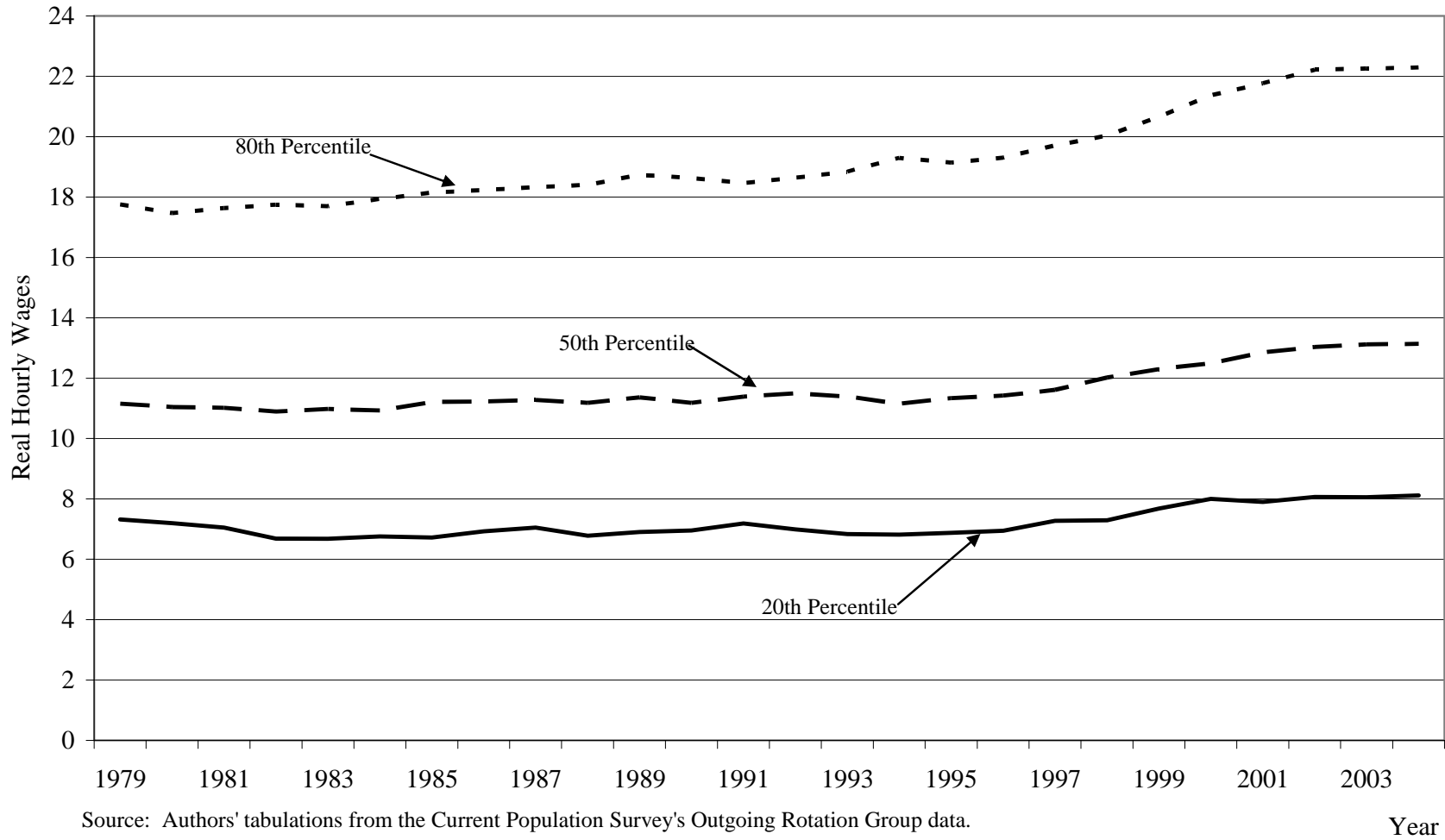
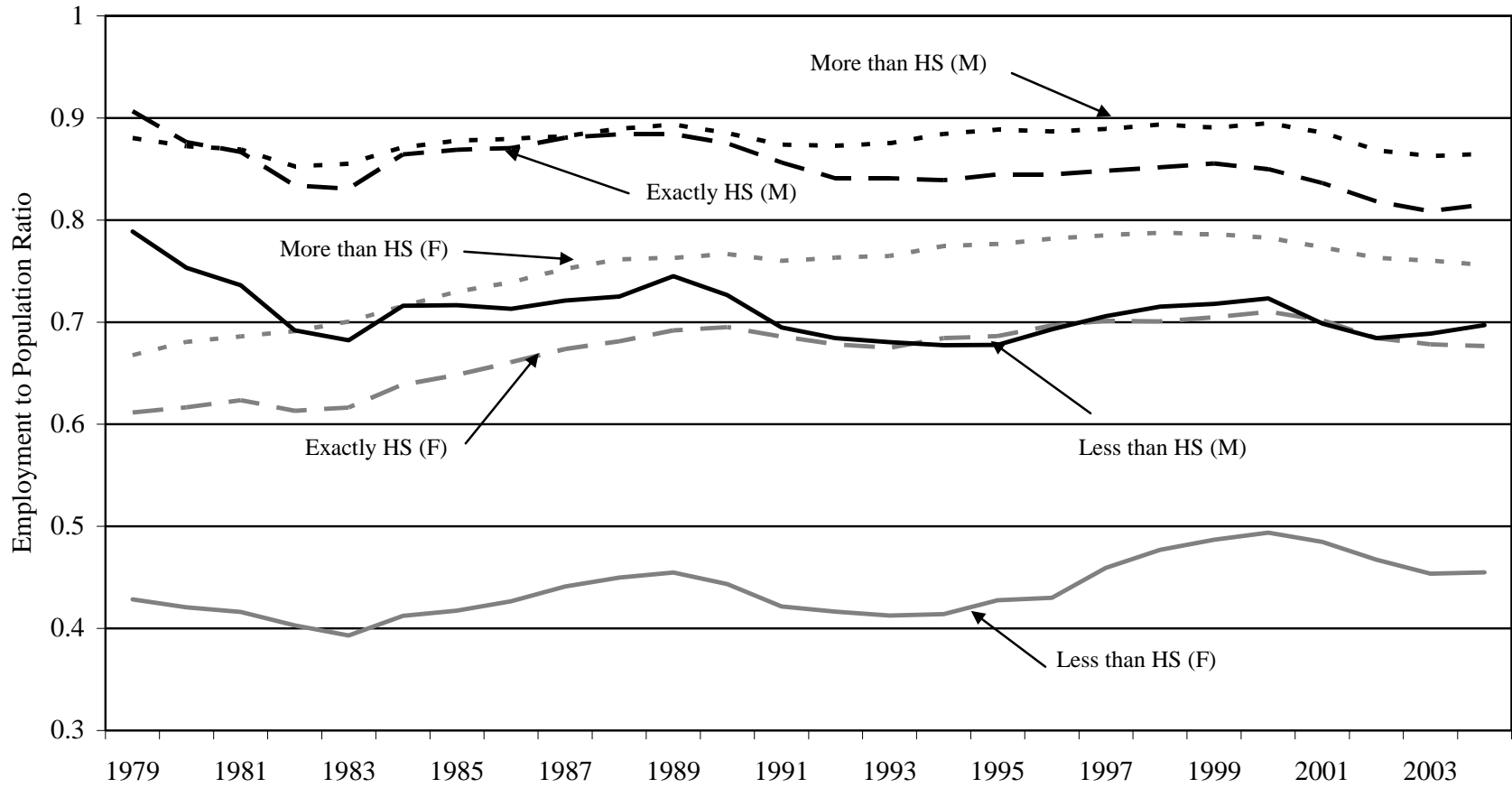


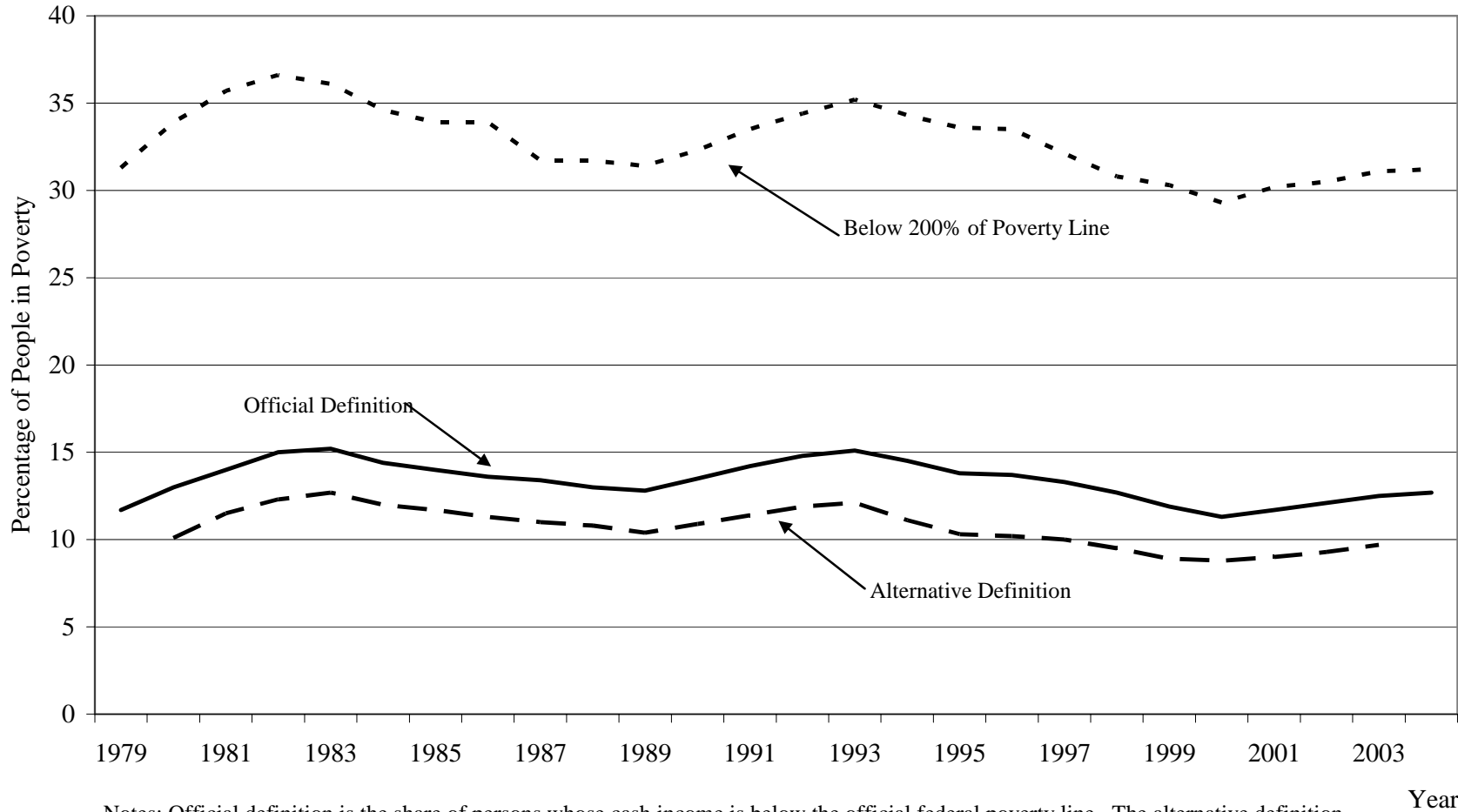
Figure 4  
 Employment to Population Ratios by Skill Level and Gender



Source: Authors' tabulations from Current Population Survey Outgoing Rotation Group data, 1979 to 2004. Based on all noninstitutionalized civilian adults aged 18-54.

Year

Figure 5  
Alternative Poverty Measures, 1979-2004



Notes: Official definition is the share of persons whose cash income is below the official federal poverty line. The alternative definition uses disposable income rather than cash income and takes account of taxes and non-cash transfers (from Table B-1, Definition 14, P60-277, "Alternative Poverty Estimates in the United States," U.S. Census Bureau, June 2005.)