

# POVERTY RESEARCH NOW

## CENTER FOR POVERTY RESEARCH

WINTER 2016

## LABOR MARKETS AND POVERTY

### THE CHALLENGES OF LOW-WAGE WORK

By Ariel Pihl and Ann Huff Stevens

The connection between poverty and labor markets is complex. High, stable wages and stable full-time employment can keep many out of poverty. However, many of those in poverty have jobs and still remain poor.

Over the past several decades, wages have stagnated or declined at the bottom of the United States wage distribution. Those who earn the lowest ten percent of wages saw their real wages fall by an average of 0.2 percent per year between 1979 and 2013, while wages for the top ten percent grew by 0.8 percent per year over the same period.<sup>1</sup> Continuing low rates of full-time employment, especially in households with a single adult and children, leaves many families below the official poverty threshold.

The majority of the poor who can work, do. Among the poor who we expect should be able to work—those between 18 and 64 years of age who are not disabled and not students—fully 52 percent of them worked in 2014.<sup>2</sup>

But poverty status depends strongly on how we define working. In 2014 only about a quarter of poor householders worked full-time or for the full year (FT-FY). The poverty rate that year among those who worked a full 2,080 hours was only 2.9 percent. If we include all of their dependents, and look at poverty rates for individuals who live in families where the head of household works this much, poverty rates rise to 4.3 percent. Families in which the household head worked less than 40 hours weekly for the full year (PT-FY) had a poverty rate of 19 percent.

The amount one works is clearly linked to poverty, but wages are also a factor. This is particularly true for single parents. Poor single parents are much more likely to work and for more hours than other poor adults. Working full-time and yet remaining in poverty is very possible for this population. At the current minimum wage of \$7.25, a full-time job won't keep a single parent with only one child above their poverty threshold of \$16,256.

It is also important to recognize that part-time or part-year jobs are much more likely to have irregular and inconsistent hours and low wages. The median FT-FY worker earns twice as much per hour as the median worker who only worked part time for part of the year. More than one-fourth of those who

<sup>1</sup> Bivens, Josh, et al. 2014. "Raising America's Pay: Why It's Our Central Economic Policy Challenge." Economic Policy Institute.

### JOBS AND POVERTY

Since the end of the Great Recession, much of the public attention and media coverage has been on overall job creation and economic activity. However, at the current minimum wage, even with two workers in the family, it is challenging to get much above a poverty level income.

The Center for Poverty Research is one of three national poverty centers funded by the U.S. Department of Health & Human Services. Our mission is to facilitate non-partisan academic research on poverty in the U.S., to disseminate this research and to train the next generation of poverty scholars.

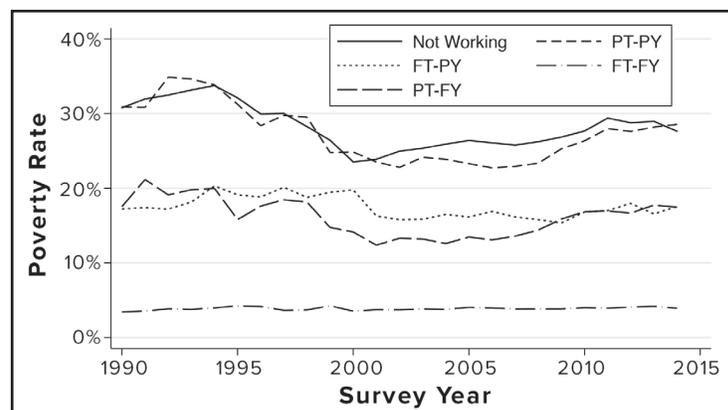
This issue of *Poverty Research Now*, contains a sampling of work that explores today's labor markets and how they affect low-wage workers. We hope they make a real contribution to policies that reduce U.S. poverty.

— Ann Huff Stevens, Director



Ann Huff Stevens is the Director of the Center for Poverty Research and Chair of the Economics Department at UC Davis.

Her research interests include the incidence and effects of job loss, understanding connections between economic shocks and health, and poverty dynamics.



This graph shows poverty rates by work. The solid line indicates those who do not work, followed by those who work a combination of Full Time (FT), Part Time (PT), the Full Year (FY) or Partial Year (PY). Those who work FT-FY have the lowest poverty rate.

<sup>2</sup> Author's own analysis of the 2015 Annual Social And Economic Supplement to the Current Population Survey (IPUMS-CPS, University of Minnesota, [www.ipums.org](http://www.ipums.org)).

## WAGE GROWTH AND INCREASED HOURS REDUCE POVERTY

By Ariel Pihl



The solid line shows how the actual poverty rate has evolved over time. The dotted line shows what the predicted poverty rate would be if the fractions in each employment category for hours worked remained at their 1999 levels.

How much does employment affect the poverty rate? This experiment calculates hypothetical poverty rates if we hold constant hours worked at its 1999 level—a peak year for employment. This way we can see how the total percentage of people in poverty would differ if people worked as much today.

Held constant are the fraction of individuals in five different employment categories and the poverty rates for each category: not working, full-time/full-year, part-time/full-year, full-time/part-year and part-time/part-year.

Between the early 1990s and 2000s, the lines are roughly on top of each other, suggesting that the drop in the poverty rate over that period was due to wage growth and not changes in the amount worked. The gap widens as the financial crisis hit in 2008. All else equal, the poverty rate would be about 1.5 percentage points lower (13%) if people worked as much today as they did in 1999.

work 28-38 hours per week would be unable to keep a family of three above the poverty line on their income alone.

Policy makers should consider how to get those who aren't working into the labor force, and how to increase hours and wages for those who already work. Childcare and transportation are also important for helping workers look for better jobs. Job training can help get more people ready for the workforce.

The public safety net is also vital for poor families. The Earned Income Tax Credit can boost the earnings of these low-income families by up to 45 percent, or roughly \$6,000 dollars.<sup>4</sup> Another important program is the Supplemental Nutrition Assistance Program (food stamps), which provides an average of \$380 per month in food vouchers for a family of three.<sup>4</sup> Many working families rely on this extra support to survive.

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<sup>4</sup> Tax Policy Center. 2014. "Taxation and the Family: What is the Earned Income Tax Credit?"

## DISTANCE FROM JOBS MAY BE A FACTOR IN EMPLOYMENT DISCRIMINATION

Urban poverty has become more geographically concentrated in recent years. Areas of concentrated poverty are also frequently located relatively far from jobs. If low-wage employers discriminate against applicants from poor or more distant neighborhoods, then those applicants and their neighborhoods may face even deeper poverty.

This new study finds that employers are less likely to call back applicants who live in distant, poor neighborhoods. However, the applicant's commute distance, rather than the affluence of the applicant's neighborhood itself, is the largest factor. This suggests that geographic location and transportation may be most important for overcoming discrimination.

The study involved submitting 2,260 fictional resumes to 565 actual online job postings in Washington, D.C. that required only a high school education. Applicant addresses were in one of four distance/affluence categories: near and poor (NP), near and affluent (NA), far and poor (FP), or far and affluent (FA).

The study found that employers

were less likely to contact applicants in distant, high poverty neighborhoods. However, the biggest reduction in callback rates was associated with longer distances. NP addresses received a 19.5 percent callback rate, compared to a 17.0 percent callback rate for FP addresses. Overall, addresses farther from the job were 2.7 percentage points less likely to receive a callback.

This study demonstrates that employer discrimination could center on commute distances. This may be one way that disparate housing markets lead to disparate labor market outcomes.

Effective housing interventions could focus on moving workers closer to jobs. This also points to the possibility that improved or subsidized public transit that effectively shortens the distance between areas of concentrated poverty and job vacancies could have positive effects on employment.

*David C. Phillips is an Assistant Professor of Economics at Hope College. This study was funded in part by a Center for Poverty Research Small Grant.*

## WORK STABILITY MAY IMPROVE MENTAL HEALTH

Many low-wage workers experience considerable variation in income due to off-seasonal work, shorter shifts and other disruptions. Even with annual income above the Federal Poverty Level (FPL), it may vary greatly from month to month. Low-wage workers are also more likely to work part-time. These challenges can create “material hardship,” which refers to difficulty obtaining basic necessities such as food, housing and health care. Official measures of poverty may not capture these difficulties, since income variation means some households can still experience material hardship while not considered officially poor.

This new study analyzed material hardship with 2003-07 surveys of workers in service occupations that include food and alcoholic beverage serving and hairstyling or barbering within the greater metropolitan area of Sacramento, California. Responses included how often during the four months prior workers experienced: a) having problems paying for basic necessities; b) not having enough food because of a lack of money; and c) not having the quality or variety of food desired because of a lack of money.

The study found that having an

income below 100 percent of FPL was associated with depression and poorer overall mental health. People with higher scores for material hardship had significantly higher levels of both. The probability of depression was one percentage point higher for those below FPL compared to those above, and 29 percentage points higher for someone with high material hardship, compared to someone with low material hardship.

This suggests that the mental health of low-wage workers may benefit from laws that not only increase earnings but also facilitate income stability. Low-wage workers may also benefit from programs that directly address material hardship.

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## PAID FAMILY LEAVE MAY KEEP WOMEN IN THE WORKFORCE

Paid Family Leave (PFL) provides income for workers to take time off to care for a newborn or sick loved one. The U.S. is the only industrialized country without national PFL. Moreover, job-protected leave is not universal.

When California enacted PFL in 2004, it became the first U.S. state to offer paid time off for bonding with newborns or to care for sick family members. Although eligibility is nearly universal among Californians who have worked in the previous year, only those who are FMLA-eligible have job protection.

The median PFL-taker makes about \$10,000 more per year than the median of working California women. This may reflect the fact that lower income women are less likely to be eligible for FMLA. Our calculations suggest that women who didn't complete high school are 11 percentage points less likely to be eligible for FMLA than the average and 26 percentage points less likely than women with a college degree.

A large body of research on policies outside the U.S. suggests that paid and protected leave help workers remain in the labor force. Limited existing data from California PFL show that the majority of new mothers do not take advantage of this policy. Take-up is even lower among women who work at low-wage jobs.

As California PFL begins its second decade and other jurisdictions follow suit, it is important to study the take-up of these benefits and their effects on mothers' time away from and return to work. Early evidence from California suggests that it may be particularly important to monitor eligibility and use of these benefits by low-income women. Increasing researchers' access to governmental administrative data would further show how to improve these policies for U.S. workers.

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## CONFERENCE ON LOW-WAGE LABOR MARKETS

The Center hosted top labor market experts at UC Davis to discuss realities and opportunities for low-wage workers at the October 2015 conference, “Employment, Earnings and Inequality.”

Presenters shared both quantitative and qualitative research on low wage labor markets, including trends and shifts in occupations, policies that enhance wages, issues related to immigration, mobility, stigma and identity among low-skilled workers.

Keynote speaker Paul Osterman, Nanyang Technological University Professor of Human Resources and Management at M.I.T. Sloan, said that the goal of this type of research is to improve jobs for low-wage workers. One way to do that, he said, is to understand the industries that hire them.

“What we're all interested in is helping people in bad jobs have better lives,” said Osterman. “This means either improving their mobility



*Paul Osterman from M.I.T. giving the conference keynote lecture.*

prospects, or improving the quality of jobs that they have.”

In his presentation, Ken Jacobs, Chair of the UC Berkeley Labor Center, said, “Real wages have fallen at the bottom as they have increased at the top, with the biggest declines in the lowest 30 percent.”

Hear all presentations on Soundcloud or at [poverty.ucdavis.edu/podcasts](http://poverty.ucdavis.edu/podcasts).

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## ABOUT THE CENTER

The Center for Poverty Research at UC Davis was founded in the fall of 2011 with core funding from the Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services.

We are one of three federally designated poverty research centers in the U.S. Our mission is to facilitate non-partisan research on U.S. poverty, to disseminate this research, and to train the next generation of poverty scholars.

Our research agenda spans four themes:

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- The Non-traditional Safety Net, focusing on health and education
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