

Low-Wage Workers in the United States:

Status and Prospects

Statement of

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**Committee on Ways and Means
Subcommittee on Income Security and Family Support
United States House of Representatives**

September 11, 2008

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Mr. Chairman, Mr. Weller, and distinguished members of the subcommittee, thank you for inviting me here to discuss the status and prospects of low-wage workers in the United States. The views I express are mine alone and should not be attributed to the Urban Institute, its trustees, or its funders. I will begin by describing the size and characteristics of the low-wage workforce and the jobs low-wage workers hold. Then, I will discuss the prospects for wage growth and upward mobility. Finally, I will say a few words about the policies and programs that help support low-wage workers and their families.

There is no official definition or consensus on how little a worker must earn to be considered low-wage or how much time he or she must put in on the job to be considered a worker. As such, you will find a number of different definitions of “low-wage worker” in the literature. For example, some researchers set the low-wage line relative to the federal minimum wage—Acs and Nichols (2007) use 150 percent of the federal minimum wage as their cutoff. Others compute the low-wage line in terms of how much it would take to keep a family of four out of poverty if a worker worked full time, year round (Schochet and Rangarajan 2004). Still others define low-wage workers as anyone in the bottom 20 percent of the wage distribution (CBO 2006); of course, this approach guarantees that exactly 20 percent of all workers are low-wage workers. And studies that focus on a wider swath of the population (say, everyone over age 16) find more low-wage workers than studies that focus on narrower subgroups (say workers age 18 to 61).

Despite these differences in how the low-wage line is defined and who is included in any particular analysis, the findings across studies are remarkably consistent. In today’s dollars, the low-wage line is about \$10 an hour, and about a quarter of workers are low-wage workers.

Low-wage jobs are not necessarily bad things. Low-wage jobs serve as entry-level jobs for new workers and those returning to the labor market after long absences—the first step on a job ladder or a stepping stone to better, higher paying jobs. They provide earnings opportunities for secondary and tertiary workers in families with higher-wage primary workers, supplementing family incomes. Indeed, about half of all low-wage workers live in families with incomes over twice the federal poverty line (Acs and Nichols 2007). In other words, their family incomes are above \$42,000 a year, most likely due to the earnings of higher-wage primary workers in the family. That’s the “half full” interpretation; on the flip side, half of all low-wage workers—more than one in ten workers—live in low-income families.

Characteristics of low-wage workers and their jobs

Low-wage workers differ in many ways from average workers, and low-wage workers in low-income families are a special subset. Data tabulations from the 2004 Annual Demographic Supplement of the Current Population Survey by Acs and Nichols (2007) highlight key differences.

Earnings are linked to education; thus, although 60 percent of workers have some education beyond high school, only 46 percent of low-wage workers do. But four out of five low-wage workers have at least a high school education, suggesting that postsecondary education or training may help raise their wages. The educational deficits for low-wage workers in low-income families are even larger than those of low-wage workers in general: only 35 percent of low-wage workers in low-income families have more than a high school degree, and 28 percent do not even have a high school degree.

Low-wage workers are more likely to be young (between age 18 and 29) than the average worker (39 versus 27 percent). This segment of the low-wage workforce (18- to 29-year-olds) may expect wage growth as they gain experience. There are only minor differences between the ages of low-wage workers and low-wage workers in low-income families.

The race/ethnic distribution of low-wage workers is similar to that of all workers—they are a little less likely to be white and a little more likely to be Hispanic. However, low-wage workers in low-income families are far less likely to be white and more likely to be Hispanic than the average low-wage worker and the average worker overall.

Low-wage workers are slightly more likely to be in fair or poor health than the average worker (9 versus 6 percent), but distressingly, those in low-income families with children are almost twice as likely as the average worker to report fair or poor health (12 versus 6 percent). Poor health may limit the jobs available to these workers in several ways; for example, they may be less able to perform certain tasks or adhere to work schedules, and the employer's cost of providing benefits may increase. In addition, the jobs low-income workers hold may be more dangerous than those higher-income workers hold. Further, low-wage workers in low-income families may be at heightened risk of poor health because the housing they can afford carries greater environmental risks (from lead paint to poor insulation to more crime) than the housing available to higher-income families. Low-income individuals also may not seek out or receive appropriate medical care for emergent conditions that can worsen substantially if left untreated.

Finally, low-wage workers, particularly those in low-income families, are more likely to reside in both central cities and rural areas than the average worker. This suggests that low-income workers may have limited access to better-paying jobs in growing suburban areas.

The employment and job characteristics of low-wage workers and low-wage workers in low-income families also differ from those of the average worker as well as

from one another. Seventy percent of all workers work full time, year round, compared with about half of low-wage workers and low-wage workers in low-income families. Among low-wage workers, those in low-income families are more likely to work full time but for only part of the year than the average low-wage worker (23 versus 19 percent) and slightly less likely to work part time (27 versus 30 percent). The fact that about half do not work full time, year round, contributes to their low-income status. However, whether they could sustain full-time, year-round work is uncertain.

Interestingly, among married workers, having a spouse who works full time and even full time, year round is common. Regardless of wage status, about 70 percent of married workers have a spouse working full time and 60 percent have a spouse working full time, year round. This is slightly less common among low-wage workers in low-income families. Nevertheless, 57 percent of low-wage workers in low-income families with children have a spouse working full time, and 42 percent have a spouse working full time, year round. Again, more work on the part of spouses could lift these families into a higher income status; nevertheless, spouses of low-wage workers do work substantially, and how much more they could work is unclear.

Low-income workers are disproportionately likely to work in smaller firms. Although 20 percent of all workers are employed in firms with fewer than 10 workers, such firms employ 42 percent of low-wage workers and 35 percent of low-wage workers in low-income families. Because of their small size, these firms may lack the resources to pay higher wages or offer comprehensive benefits, and they likely cannot offer much flexibility to their workers.

Across broad industry categories, there are differences in workers' employment patterns, although few differences stand out. For example, low-wage workers are more likely to be employed in leisure and hospitality and other service industries than the average worker (14 and 8 percent versus 7 and 5 percent, respectively). Low-wage workers in low-income families are distributed across industries in much the same way as low-wage workers in general. The average hourly wage across industries, however, is 17 percent lower for low-wage workers than for workers in general. This suggests low-income workers are more concentrated in lower-wage industries than workers in general.

Wage Growth for Low-Wage Workers

There are two ways to look at the question of wage growth for low-wage workers: One is to track individual workers over time to see how much their wages grow; another is to consider whether successive cohorts of low-wage workers are receiving real wage gains economy-wide over time. First, consider wage growth among individual low-wage workers. One study that tracks low-wage workers over three and a half years finds that the wages of low-wage workers grow at 8 percent per year (Schochet and Rangarajan 2004). Other studies focus on the value of experience for less-skilled workers and find that wages grow at 4 to 6 percent per year, with stronger growth during times of low unemployment (Gladden and Taber 2000; French, Mazumder, and Taber 2006).

What does this mean for low-wage workers? Consider a worker who takes a job at today's federal minimum wage, \$6.55 an hour. Even with 8 percent annual wage growth (the high-end estimate), it would take six years for this worker to start earning more than \$10 an hour.

The path up the pay scale is even harder when you consider how challenging it is for low-wage workers to sustain full-time employment year in and year out. Recall that only about half of all low-wage workers work full time, year round, in any given year (Acs and Nichols 2007) and that almost two-thirds of low-wage workers experience at least one month of unemployment during a three and a half year period (Schochet and Rangarajan 2004).

Next consider how low-wage workers as a group have fared over time—how much better off are today's low-wage workers than low-wage workers from previous decades? The answer is, "not much." A 2006 CBO study looked at the distribution of wages between 1979 and 2005, examining how the wages of the 10th percentile changed over time. Nine out of ten workers earn more than the 10th percentile wage rate while one in ten earn less. Between 1979 and 1990, the inflation-adjusted wage rates for workers at the 10th percentile of the wage distribution fell by 11 percent; between 1990 and 2005, wages at the 10th percentile grew by 12.8 percent. This means that a low-wage worker today makes about the same as a low-wage worker in 1979.

In addition, low-wage workers are losing ground relative to the average worker. Between 1979 and 2005, the gap between the median wage and the 10th percentile wage widened by 10 percent (CBO 2006). Low-wage workers are falling even farther behind workers near the top of the wage distribution: from 1979 to 2005, the gap between wages at the 90th and 10th percentiles increased by 29 percent (CBO 2006).

Supports for Low-Wage Workers

Work supports include both public-sector programs and private-sector employer practices that promote the security, employment, and advancement of workers. Public-sector programs are directly aimed at low-wage workers while private-sector work supports are generally more available to higher-wage workers than to low-wage workers.

Private-sector supports. Private-sector or employer work supports include nonwage benefits (like health insurance), training and educational benefits, paid time off, and even some form of retirement benefits. Low-wage workers have much less access to these employer-sponsored supports than higher-wage workers. For example, over half of all workers receive health insurance coverage through their own employers. In contrast, only one in five low-wage workers do so (Acs and Nichols 2007). Similarly, only 46 percent of working poor parents and 61 percent of working parents with income between 100 and 200 percent of FPL have any paid time off (Phillips 2004). Both health insurance and paid time off have been shown to help keep workers on the job (Holzer, Stoll, and Wissoker 2004; Lee 2004; Levin-Epstein 2007).

Public-sector supports. Public-sector or government-sponsored work supports are a mix of programs that provide financial and in-kind support to low-income families as well as those directly linked to the work effort of low-wage workers. Low-wage workers in low-income families may be eligible to receive benefits from traditional public assistance programs like food stamps, Medicaid, SSI, WIC, school lunch, and even TANF because their incomes are low. As such, these programs can supplement the earnings of low-wage workers; however, as wages and earnings rise, these benefits phase out rather quickly and receipt of such benefits is not conditioned on work.

Other public programs are linked directly to work effort. For example, programs like the earned income tax credit (EITC) are only available to those who work. EITC benefits rise with earnings, peaking at \$4,536 (in 2006) when the income of a family with two children reaches about \$11,340; benefits begin to phase out when income passes \$16,810 (Maag 2007). Thus, the EITC provides considerable support to low-wage workers in low-income families in addition to its role in creating strong incentives for these families to work. Other public work supports like child care and transportation assistance aim to remove specific obstacles to work.

These public programs interact in complex ways with important implications for low-wage workers in low-income families. By supplementing the resources of the very lowest earners, these programs make work substantially more attractive (financially) than relying solely on public assistance (Acs et al. 1998; Acs and Toder 2007). Cauthen (2007) notes that without public-sector work supports, a low-wage working single parent could not meet her basic expenses.

However, because these public supports are aimed at low-income families and low-wage workers in low-income families, they phase out as a worker begins to move up the economic ladder. Depending on the types of public assistance a low-wage worker's family receives, moving from earning \$15,000 a year to earning \$20,000 (equivalent to a raise from \$7.50 to \$10 an hour) may mean only a meager increase in disposable income as higher earnings displace public assistance, the family's EITC is reduced, and their tax liability increases (Acs and Turner 2008; Carasso and Steuerle 2005). Not all low-income working families take up all the benefits for which they are eligible—in fact, most do not (Zedlewski et al. 2006). Nevertheless, the effective tax rates low-wage workers in low-income families face are quite high—one study by Holt and Romich (2007) using administrative data from the state of Wisconsin shows that, on average, single mothers with incomes between 100 and 250 percent of the federal poverty line would gain 55 cents of disposable income for every extra dollar they earned—an effective tax rate of over 45 percent.

Other government policies. Government policies and laws—ranging from minimum wage statutes to worker protection laws—all, to some extent, affect low-wage workers. Extensive research notes how the minimum wage supports the wages of the lowest earners in the economy and may adversely affect employment opportunities for the less skilled (Neumark and Wascher 2007), so I will not discuss the minimum wage at great length here. Note that even with the scheduled increase in the federal minimum wage to \$7.25 an hour in July 2007, it is still below its real value from 1979. Further,

many states have gotten out in front of the federal government and have higher minimum wages. When considering changes to the minimum wage, such as indexing it for inflation, it will be important to be mindful of the extent to which such changes would lead to a decrease in full-time work, the availability of low-wage jobs, and which low-wage workers would be most affected (e.g., teenagers in higher income families versus low-income single mothers).

Certain laws aimed at all workers may be particularly important in helping low-wage workers keep their jobs and retain their opportunities for advancement. For example, the Family and Medical Leave Act of 1993 (FMLA) provides job-protected parental and medical leave for qualifying workers (Waldfogel 2007). Without such a law, low-wage workers may be more likely than the average worker to lose their jobs if they have to take time off for medical or family reasons. But, because FMLA only applies to larger employers and requires workers to have spent 1,250 hours on the job in the previous year, the law covers only about half of all workers, and low-wage workers are less likely to be covered than the average worker because they work in smaller firms and have less stable employment histories.

Other existing and proposed laws at the local, state, and federal levels share similar features: those aimed directly at low-wage workers (like living wage ordinances) may have disemployment effects, while those aimed at all workers but particularly helpful to low-wage workers (such as paid time off or paid parental leave) may not reach all these workers due to exemptions for small employers and work history requirements.

Summary

To conclude, the following are key facts about low-wage workers:

- Low-wage workers represent a substantial share of the workforce—about one in four workers earns low wages.
- Low-wages do not necessarily equate to low incomes. About half of all low-wage workers live in families with incomes above twice the federal poverty line (about \$42,000 for a family of four in 2007).
- Since 1979, the position of low-wage workers in the economy has declined relative to the average worker and especially relative to high earners (90th percentile).
- Low-wage workers who stay employed and gain experience do enjoy wage growth averaging between 4 and 8 percent a year; however, only about half of all low-wage workers work full time, year round, and even with 8 percent raises every year, it takes them six years to surpass \$10 an hour if they start at today's minimum wage.
- Low-wage workers are less likely than other workers to receive private-sector, employer-sponsored benefits that support their efforts to work. Public-sector work

supports provide substantial incentives to work but limit the financial incentives for low-wage workers in low-income families to take the next step on the economic ladder.

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