Introduction

Work and Poverty During the Past Quarter-Century

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Fluctuations in the economy have a strong effect on the extent of poverty and well-being among low-income families.[1] Reduced economic demand during recessions can significantly increase the unemployment rate, as was the case in the early 1980s. A sustained economic expansion can substantially reduce the unemployment rate and contribute to increased experience on the job and in wage growth, 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, the globalization of the economy, 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. And wage growth for all workers has been slow in this quarter-century relative to the experience of the quarter-century following the end of World War II.

Improvements in employment opportunities and wage rates are important to low-income families because 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; 28 percent contained at least one full-time, year-round worker (U.S. Department of Commerce 2005b).

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 demographic composition and material well-being of low-income families; still others evaluate the effectiveness of federal and state social policies and the federal and state tax systems and how they interact with the economy over the long run and over the course of the business cycle. One key question connects the chapters in this volume: how have economic changes and the economic cycle affected the well-being of less-skilled workers and low-income families over the last quarter-century?

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 as—and in some cases more important than—those directly related to economic conditions. Thus, a second question arises: how have long-term changes in the demographic composition of the population, changes in work participation patterns and family behaviors, and changes in policy and program rules interacted with economic changes to affect the well-being of less-skilled workers and low-income families?

The volume documents the variety of changes that affected less-skilled workers and their families from 1979 through 2004. This quarter-century is important for several reasons. First, macroeconomic changes over this period were striking, including strong expansions in the late 1980s and 1990s. The economy experienced the 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.

Three recessions also occurred in the past quarter-century, 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 the early 2000s (March to November 2001), both of which were followed by several years of sluggish growth. These cyclical changes provide an opportunity for several of the contributors to evaluate how economic cycles affected the labor market outcomes of less-skilled workers.

Second, other important economic changes over the past twenty-five years have interacted with the macroeconomy. Most notable is the dramatic increase in wage and family income inequality that was particularly pronounced in the 1980s. Closely related are the substantial growth in world trade and the widespread adoption of new labor-saving 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, important policy changes over the past quarter-century 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. Other programs that assist low-income working families have provided increasing assistance to a greater percentage of poor families. These include several large expansions in the Earned Income Tax Credit (EITC), which provides subsidies through the tax system to workers in low-income families with children. 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 to collect child support from absent fathers; and increased public spending to subsidize the child care expenses of low-income families. These changes have fostered the development of a "work support" public assistance system in which more assistance is given to low-income families with workers and less 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, the first since many of the work-focused policies were implemented in the 1990s. The chapters in this volume seek to understand how poor families have fared now that they have less access to cash assistance than in earlier periods and how well policies focused on supporting low-wage workers (rather than providing cash assistance) have performed in a slower-growth economy.

WHO ARE THE WORKING POOR?

The initial chapters in this volume focus primarily on less-skilled workers; later chapters also focus on poor or low-income families, regardless of whether the household head is a worker. In all of these chapters, the authors are looking at persons (or household heads) between the ages of eighteen and fifty-four; this volume does not examine issues related to retirement or aging. In this introduction, we provide background by reviewing the economic trends for eighteen- to fifty-four-year-olds, and we also look at those whose family income is below 200 percent of the official poverty line, one measure of the low-income population.

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

Table I.1 provides a snapshot of eighteen- to fifty-four-year-old individuals whose family income was 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. The last row indicates that, in each of the years shown, about one-quarter of adults in this age group lived in families with incomes below these levels. Thus, this table can also be interpreted as showing the characteristics of those persons in the bottom quarter of the individual income distribution. In 2003 about 41 percent of prime-age adults in low-income families lived in married-couple families; another 20 percent were in single-parent families; about 38 percent were single persons without children. Among these poor and near-poor individuals, 63.8 percent worked at a median hourly wage of $7.29; their median family income was $14,706.

TABLE I.1 / Characteristics of Individuals Age Eighteen to Fifty-Four with Family Income Less Than 200 Percent of the U.S. Poverty Line, 1979 to 2003

	1979	1989	1999	2003
Share employed (at any point in previous 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
Family composition (share)				
Married couple	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
Race-ethnicity (share)				
Black non-Hispanic	0.206	0.205	0.201	0.187
Hispanic	0.101	0.154	0.224	0.256
White and other non-Hispanic	0.693	0.641	0.575	0.556
Education level (share)				
Less than high school	0.397	0.334	0.295	0.280
High school degree	0.344	0.385	0.374	0.370
Some college	0.186	0.200	0.247	0.253
BA degree or more	0.073	0.082	0.084	0.097
Share of individuals aged 18 to 54 who live in families with income below 200 percent of U.S. poverty line	0.25	0.26	0.26	0.26

Source: Authors' tabulations from Current Population Survey's March Supplement data.
Note: Wage and income numbers inflation-adjusted to 2000 dollars.

Table I.1 documents the changing demographic composition of low-income persons. Since 1979, these 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 over this quarter-century has increased the share of low-income adults who are Hispanic from 10 to 26 percent. Low-income individuals have become somewhat more educated over time, mirroring 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 who are employed declined slightly, from 68.2 percent in 1979 to 63.8 percent in 2003. Among low-income workers, the median hourly wage increased over the past twenty-five years by only 14 percent (from $6.38 in 1979 to $7.29 in 2003), and their median family income was virtually constant ($14,500 in 1979; $14,700 in 2003).

Some prime-age individuals who live in families with incomes below 200 percent of the poverty line are not the focus of much policy concern because they may have higher earnings opportunities but choose not to pursue them. Examples include 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 the individuals included in table I.1, however, live in families with children, and many are involuntarily unemployed or are working at low wage rates. Their low incomes are largely due to economic constraints that limit their employment opportunities and/or wage rates.

Because the chapters in this volume focus on those with limited long-term earnings opportunities, they analyze the prospects, not of individuals who happen to be poor in a given year, but of less-skilled individuals—those with the most constrained labor market options. Throughout the volume, "less-skilled" is defined as those who are high school dropouts or who have only a high school degree.

TRENDS IN THE ECONOMY, 1979 TO 2004

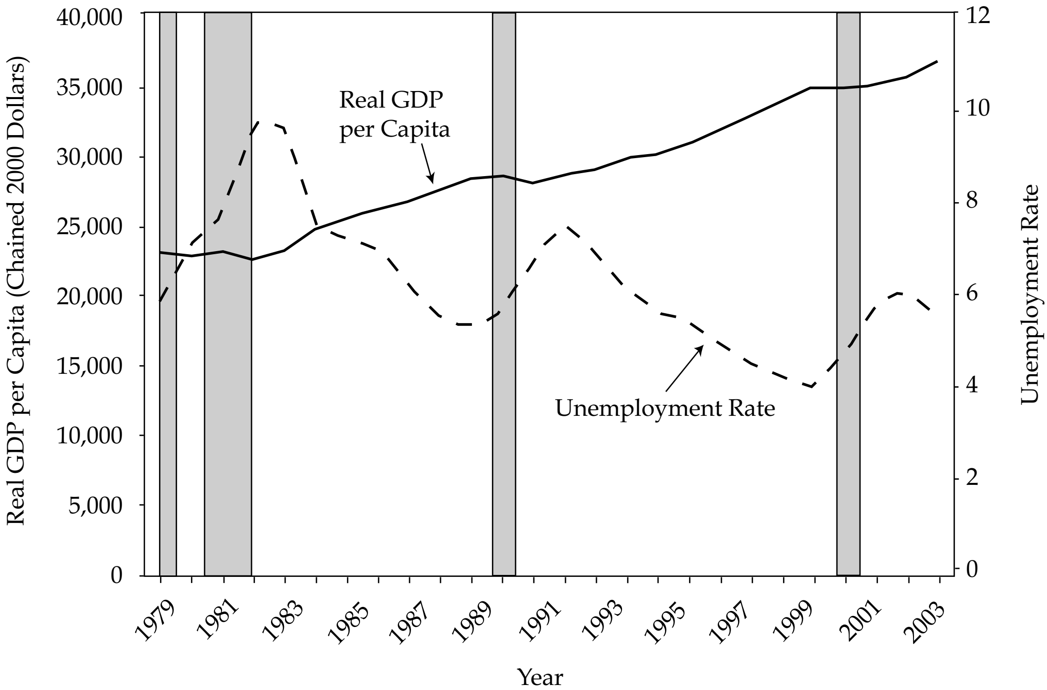
This volume discusses both long-run economic trends over the past quarter-century and cyclical changes associated with recessions and recoveries. Figure I.1 shows two key economic indicators for each year between 1979 and 2004: real (that is, inflation-adjusted) gross domestic product (GDP) per capita, a commonly used indicator of the overall wealth of the economy; and the annual unemployment rate for all persons over sixteen years of age. The shaded areas indicate the four recessionary periods during this quarter-century.

Real GDP per capita rose by 59 percent between 1979 and 2004. 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. This latter period was particularly prosperous: the rapid GDP growth was accompanied by the first sustained real wage increases for less-skilled workers since the early 1970s.

The unemployment rate is an indicator of cyclical changes: it rises during recessions and falls 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 rate rose from 5.8 to 9.7 percent. While the recessions of 1990 to 1991 and of 2001 were milder (and shorter), economic growth also did not rebound as quickly; the years immediately following these recessions (1992 to 1994 and 2002 to 2004) were therefore 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 I.1 tells a generally positive story about the economy over the quarter-century. After the recession of the early 1980s, economic growth was substantial. The two recessions were relatively mild, and unemployment rates for the 1995 to 2004 decade were always below 6 percent, in contrast to 1980 to 1986, a period when the rate each year exceeded 7 percent.

FIGURE I.1 / Per Capita Gross Domestic Product and Unemployment Rates



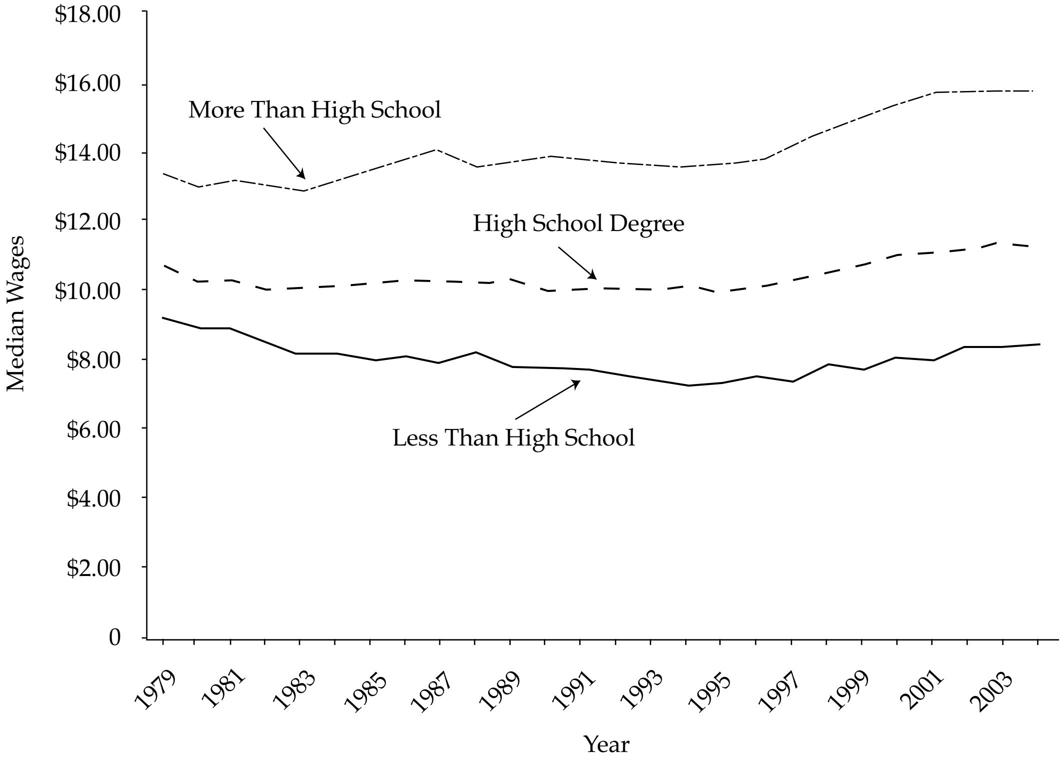
Source: U.S. Department of Commerce, Bureau of Economic Analysis (www.bea.gov), U.S. Department of Labor, Bureau of Labor Statistics (www.bls.gov), and National Bureau of Economic Research, "Business Cycle Expansions and Contractions" (http://www.nber.org/cycles.html/).
Note: Shaded portions indicate periods of recession.

Unfortunately, less-skilled workers have not gained as much from these overall economic trends as we might expect. With lower unemployment rates since the mid-1990s, jobs have been more available for those who actively search 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 I.2 displays real (inflation-adjusted) hourly wage rates from 1979 to 2004 among male and female workers between the ages of eighteen and fifty-four. 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 three educational categories are used by all the contributors to this volume.)

Figure I.2 shows the much-discussed rise in between-group wage inequality of the past twenty-five years, with wages rising throughout the period for the

FIGURE I.2 / Median Real Hourly Wages for Workers Age Eighteen to Fifty-Four

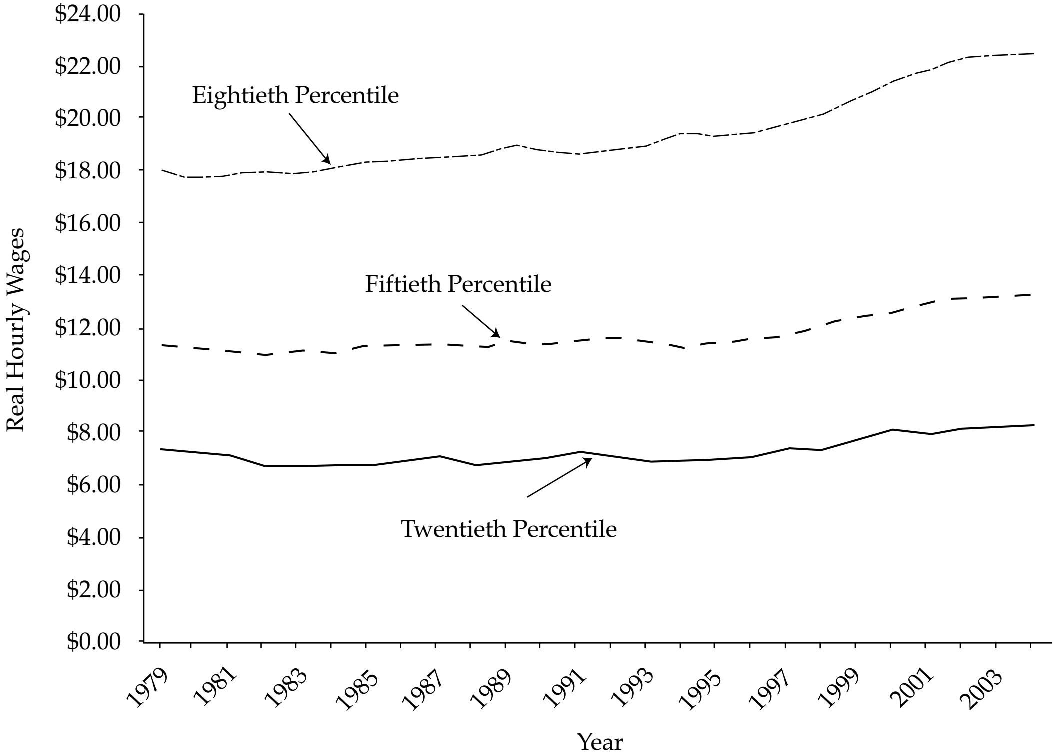


Source: Authors' tabulations from the Current Population Survey outgoing rotation group data.

more-skilled groups. Among workers who are high school dropouts, wages fell in most years between 1979 and 1994, rose from 1995 to 2000, and edged up only slowly after 2000. In 2004 real wages were 9 percent below their 1979 levels for dropouts ($8.35 versus $9.14) and 5 percent higher ($11.18 versus $10.62) for workers who graduated from high school. Among workers with more than a high school degree, wages were about 19 percent higher at the end of the quarter-century ($15.77 versus $13.28).

These trends in median wage rates by educational attainment hide substantial heterogeneity within the low-wage and low-skilled workforce. As chapter 1 discusses in detail, wages among less-skilled women have risen somewhat, even while wages have been falling among less-skilled men. Wage declines among African American men have been greater than among white men, primarily because a larger percentage of African Americans are in the low-skilled category. For instance, among high school dropouts, the wages of black and white men have fallen at about the same rate. Wages of Hispanic dropouts have fallen faster

FIGURE I.3 / Real Hourly Wages at Various Points of the Wage Distribution

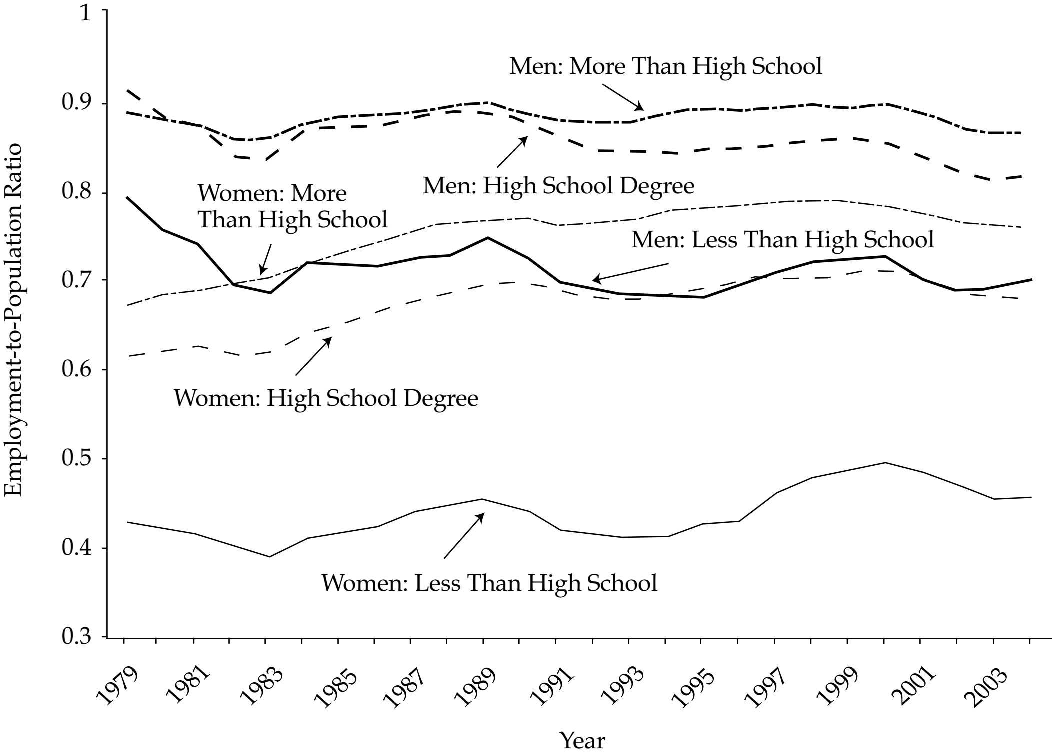


Source: Authors' tabulations from the Current Population Survey outgoing rotation group data.

than among other racial-ethnic groups within this skill category, largely owing to low-skilled immigration over the time period.

The change in the share of workers in different skill groups over time has also affected wage rates. In particular, if high school dropouts become increasingly less skilled as their population share declines, this might lead to declining wages. Figure I.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 show real wages at the twentieth percentile (that is, one-fifth of all workers in each year earn less than this wage level), at the median, and at the eightieth percentile (four-fifths of all workers in each year earn less than this wage). Wages fell at the twentieth percentile of workers from 1979 to 1984, remained flat until the mid-1990s, then rose through 2004. In 2004 wages at the twentieth percentile were at $8.11, about 11 percent above the $7.32 1979 level. This suggests that selectivity is partly responsible for declining wages among the less-skilled. Wages at the median rose by 18 percent and by 26 percent at the eightieth per-

FIGURE I.4 / Employment-to-Population Ratios by Skill Level and Gender, 1979 to 2004



Source: Authors' tabulations from Current Population Survey outgoing rotation group data, 1979 to 2004. Based on all noninstitutionalized civilian adults age eighteen to fifty-four.

centile, showing widening wage inequality across the distribution of all prime-age workers.

Wages are one factor for evaluating the well-being of less-skilled workers, but employment rates are also important. Figure I.4 plots the employment-to-population ratios among men and women between the ages of eighteen and fifty-four by education level. Employment-to-population ratios declined among high school dropouts between 1979 and 1984 and then were largely flat; this ratio declined more steadily among high school graduates. Overall, the employment-to-population ratio among the less-skilled population (including both of these groups) declined slowly over time, from 86 percent in 1979 to 78 percent in 2004. This decline would be even larger if our data included incarcerated men, whose population share has been increasing but who are excluded from the data used here. Among men with more than a high school degree, there was little change:

88 percent worked in 1979, and 86 percent worked in 2004. Employment choices are affected by wages, of course, and declining real wages among less-educated men have contributed to their declining employment rates (Juhn 1992).

Among women, employment-to-population ratios have risen for each education category. Among all women, this ratio increased from 59 to 70 percent between 1979 and 2004. In 1979 the ratio for all women was twenty-eight points less than that for all men (59 versus 87 percent); by 2004 the gender gap in employment had fallen to twelve points (70 versus 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).

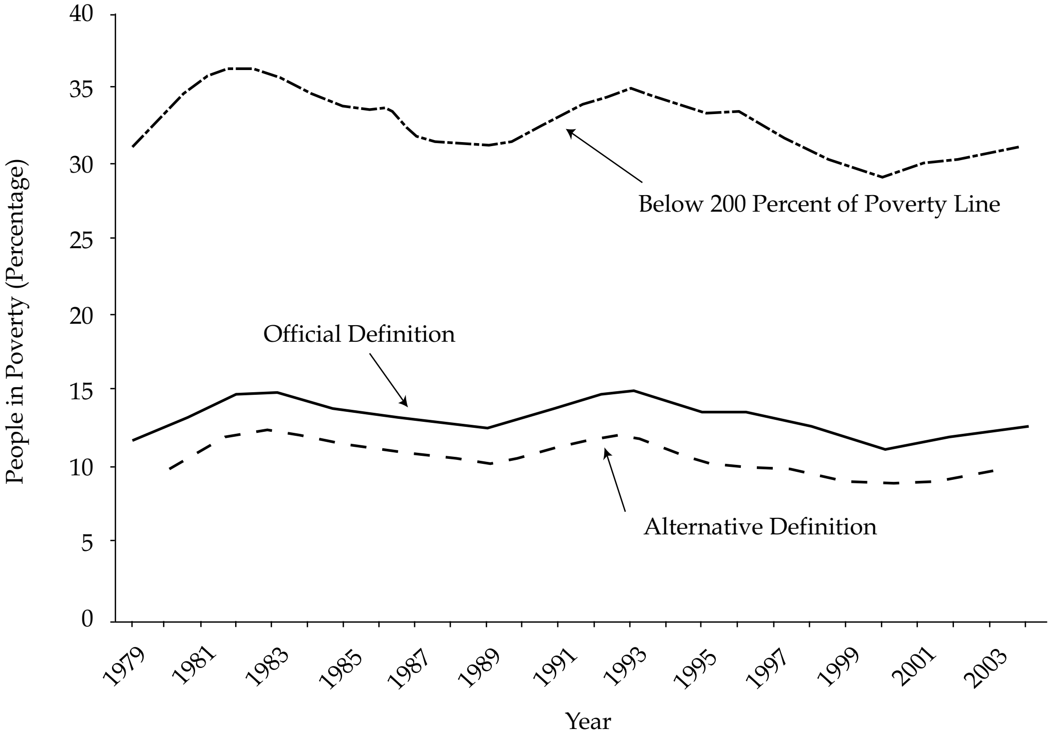
The net effect of these long-run trends in wages and employment is a decline in earnings among all less-skilled men, who have seen both their wages and their employment-to-population shares decline somewhat. This occurred most rapidly in the 1979 to 1984 period; there was some recovery in the expansion of the 1990s, but the long-term trend in earnings for less-skilled men has been downward. Among women, earnings have not declined, and among some groups—especially single mothers—they have risen substantially. This increase is attributable primarily to substantially increased employment. Female wages have declined only slightly among dropouts and have risen among high school graduates.

Overall economic well-being is determined not just by the labor market income of individuals but also by the ways in which individuals come together in families and share their resources and by income sources other than earnings. Figure I.5 shows the evolution of poverty rates for all persons over the past twenty-five years. The figure shows the percentage of the population below the official government poverty rate (the solid line), and the percentage below 200 percent of the official government poverty rate (the dotted line), our measure of those who are poor and near-poor. An alternative poverty definition based on a broader income definition (the dashed line) was calculated by the Census Bureau for the 1980 to 2003 period. Rather than comparing a family's cash income with the official poverty line, this alternative measures disposable income, taking account of sources that are not included in the official measure, such as taxes paid, tax credits received, and noncash public assistance transfers.

All three measures show that the poverty rate is 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. 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, given the GDP growth shown in figure I.1. Official poverty rates in 2004 were slightly above their 1979 levels, 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, substantial growth in aggregate income over this quarter-century did

FIGURE I.5 / Official and Alternative Poverty Measures, 1979 to 2004



Source: U.S. Department of Commerce, Census Bureau (2005a).
Notes: The 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 noncash transfers (from U.S. Bureau of the Census 2005a, table B-1, definition 14).

not produce equivalent income increases among those at the bottom of the income distribution—in part because declining real wages among less-educated workers prevented them from fully sharing in the rising prosperity. But the failure of poverty to fall is also due to changes in the demographic composition of the population, changes in living arrangements, and declines in receipts of cash transfers, such as welfare and unemployment compensation. The increases in both the (disproportionately low-income) immigrant population and in single-parent families have kept poverty rates higher than they would have been in the absence of these changes. Increasing work by women in married-couple families has kept poverty rates from rising even further.

In analyzing the factors behind the changing well-being of 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 chapters in this volume address a number of questions.

WHAT IS CHANGING IN THE LABOR MARKET FOR LOW-SKILLED WORKERS, AND WHY?

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 the native-born and immigrants from varying race and ethnic groups. In their investigation of differences in the trends in employment and wages among less-skilled men and women, Rebecca Blank and Heidi Shierholz show in chapter 1 that less-skilled women have improved their labor market position—their labor force participation has increased and their wages have remained flat or risen—while less-skilled men have worked less and earned less.

Less-skilled women have lost ground, however, relative to more-skilled women. 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. These women have higher real wages and higher employment rates today than a quarter-century ago, but their wage rates have fallen relative to those of women with higher education. The labor force participation and wages of all women are less affected today by marital status or family composition than they were a quarter-century ago. These changes have reduced the gender gap in wages for workers at all skill levels.

In chapter 2, George Borjas analyzes differences between immigrant and native workers classified by race and ethnicity and documents dramatic changes in the racial-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. At least half of the native-immigrant wage gap can be explained by differences in observable characteristics. Wage trends among less-skilled minority workers are particularly sensitive to business cycle fluctuations and are also influenced by continuing immigration. Although past studies have found limited effects of immigration on wages, Borjas argues that a superior approach shows bigger effects, and he 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 twenty-five years have affected the less-skilled workforce. In chapter 3, Robert Hall uses a macroeconomic framework to describe aggregate economic trends and economic cycles 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: extensive capital deepening 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. The recession of 2001 was an unusual one that had an equal effect on less- and more-skilled workers, largely owing to the industries that were most affected by this economic downturn. Hall speculates that rises in productivity in the early 2000s may suggest further wage growth in the near future.

A primary reason often given for declining wages among less-skilled workers is 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. In chapter 4, 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 speed 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 multicausal model of the forces driving increased inequality and argue that we 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, 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 can vary 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 among 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 been devoted 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 examine the relationships between macroeconomic changes and consumption, resource sharing, and living arrangements.

In chapter 6, Kerwin Charles and Melvin Stephens investigate the extent to which economic cycles result in cyclical changes in consumption. Although figure I.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; by implication, then, personal consumption should show less dramatic short-run changes over the business cycle. Charles and Stephens find that consumption in middle- and higher-income families varies less than income with the business cycle, as the theory predicts, but that consumption in lower-income families does decline in recessions. Low-income families are less able to smooth their consumption during downturns, probably because they have few liquid assets; their reductions in consumption are driven largely by cuts in 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 from relatives and friends can also affect measured poverty. In chapter 7, Steven Haider and Kathleen McGarry examine some of the ways in which family members help each other, especially in low-income families. Using the 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 family financial assistance has become more common over the last twenty-five years. More importantly, coresidence and the potential of income sharing within a household appear to have increased substantially. More research and better-quality data on the ways in which family members and friends help each other, whether 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, Rebecca London and Robert Fairlie investigate the impact of the economy and other factors on the composition of the households in which children live, using both cross-sectional and longitudinal analyses to examine changes in living arrangements for 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 job loss or economic hardship leads their parents to split up. At the same time, the longitudinal analyses indicate that poor economic conditions cause some families to co-reside. For example, children in single-parent families move into alternative arrangements such as parental cohabitation or living with other relatives.

HOW DO POLICY CHANGES INTERACT WITH THE ECONOMY AND ECONOMIC WELL-BEING?

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 how low-income workers and families are affected by temporary agency employment, the child support system, unemployment insurance, and health insurance.

In chapter 9, Kevin Hassett and Anne Moore examine changes in federal, state, and local tax policies over the past twenty-five years and find that total direct taxes paid by low-income families with children have declined significantly, particularly since the late 1990s. Low-income adults without children have not benefited from these changes; their tax burdens have been constant over the last quarter-century. Federal income taxes for families with children have declined because of the refundable child tax credit (instituted in 2001), several expansions of the Earned Income Tax Credit, and lower marginal tax rates. At the same time, state sales tax collections have increased and payroll taxes and property taxes have stayed relatively constant. For example, for a family of three with a single parent earning $14,000 in 2004, the tax system provided a net subsidy to work of $2,613 because the EITC exceeded the sum of all taxes paid.

Hassett and Moore also find that the ratio of taxes other than income taxes (state sales taxes, local property taxes) to total taxes for low-income families has increased sharply over time. For a married couple with two children and an annual income of about $27,000, the share of non-income taxes rose from 23 percent of taxes paid in 1979 to 65 percent in 2004.

In chapter 10, Therese McGuire and David Merriman analyze how states have coped with recessions and the variations in their expenditures on public assistance programs over the cycle. Comparing state revenue and expenditure changes during the 2001 recession with the downturns of the early 1990s and the early 1980s, they pay particular attention to whether states cut social spending during the economic slowdown of the early 2000s. They find that state spending on cash welfare is countercyclical—it increases when unemployment rises—and that 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 since the 1996 federal welfare reform. Of course, spending on cash welfare has declined dramatically, so there was less to be gained from cuts in benefits by 2001 than in earlier recessions. Medicaid spending for low-income families has increased dramatically as a share of the state budget, and it also increased in the economic slowdown of the early 2000s. In short, there is no evidence that states used the recent recession as an excuse to cut public assistance programs.

In chapter 11, David Autor and Susan Houseman evaluate the increased use of temporary agencies to place welfare recipients in jobs. This practice has sparked debate about whether temporary jobs help the poor transition into stable employment and out of poverty or whether they place workers in dead-end jobs and provide little work experience that is of any value. Autor and Houseman studied welfare recipients in a city that assigned them to various service providers based only on their residential location. Because some providers relied heavily on temporary agencies and others rarely used them, this "natural experiment" allowed the authors to ask whether temporary agency placements helped participants achieve earnings sufficient to leave welfare and escape poverty, relative to the outcomes for those placed in nontemporary (direct-hire) jobs or those who received no job placement. They find that placing a participant in either a temporary or direct-hire job improved her chances of leaving welfare and escaping poverty in the short term. Over a one- or two-year time horizon, however, a participant with a temporary job placement was no better off—and was possibly worse off—than would have been the case with no such 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, Maria Cancian and Daniel Meyer describe the child support system and consider the relationship between economic conditions, child support, and poverty. Child support is an unreliable income source for poor single-mother families, in part because the children's fathers 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 in a year, the average amount received was $3,200. Nonpoor custodial mothers are more likely to have an order and to receive higher payments, but many of them also receive either no child support or less than they are owed.

Enhanced child support enforcement and other policy changes have contributed to increased collections, but the system faces difficult trade-offs. Because most child support orders are fixed at the time they are issued, 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.

In chapter 13, Phillip Levine describes how the unemployment insurance (UI) program raises taxes from employers and provides benefits to unemployed workers. Because low-wage jobs tend to provide less stable employment than other jobs, the availability of UI for less-skilled workers who are unemployed is quite important for their economic well-being. However, 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 expensive—commodity. It accounts for a substantial portion of total compensation costs for employers, and government expenditures on health care continue to grow. Yet, during the record-setting expansion of the economy in the 1990s, when wages for most workers rose, health insurance coverage actually fell. In chapter 14, Helen Levy documents the facts and examines competing hypotheses about why coverage has changed.

Levy finds that employment and earnings gains contributed to increased private coverage for both men and women, and for both low-skilled and high-skilled workers. For low-skilled men and high-skilled women, who do not rely heavily on public coverage, employment and earnings gains led to modest declines in public coverage that were much smaller than the increases in private coverage. But for groups who rely 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 health insurance coverage declined. In speculating as to why this was the case, Levy considers welfare reform as one possible factor.

WHAT IS TO BE DONE ABOUT THE CHALLENGES FACING LESS-SKILLED WORKERS AND THEIR FAMILIES?

Four primary lessons emerge from these chapters that lead us to identify several policy options that we think provide the most promise for improving the well-being of less-skilled workers and low-income families.

First, a growing economy is a prerequisite for improvement in the well-being of low-wage workers and low-income families. Economic growth in the late 1990s, which led to higher wage rates and increased employment, was particularly beneficial for less-skilled workers. When the unemployment rate fell below 5 percent, large numbers of less-skilled individuals entered the labor market and accumulated valuable work experience, particularly single mothers who entered the labor force in response to welfare reform and expansions in the EITC.

At the same time, because recessions (at least since 1982) have been relatively mild, business cycle fluctuations have had less impact than long-term labor market changes on the economic well-being of less-skilled workers. These changes, including labor-saving technological changes, 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 relative 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.

Economic changes affect other aspects of well-being as well. Relative to nonpoor families, during recessions poor families are at higher risk of reduced consumption, disrupted living arrangements, lowered child support income, limited access to employer-provided health insurance, and reduced access to unemployment insurance.

Second, the past decade has been a period of unusual economic patterns, making it difficult to forecast both economic prospects for the near future and economic challenges for the working poor. We believe it is unlikely that we will see a repeat of the unusually robust and sustained economic growth of the 1990s, but we would probably have made this pessimistic forecast in the early 1990s as well. Certainly, such a period of sustained growth would be ideal for raising wages and increasing job advancement options for less-skilled workers. The eight-month recession of 2001 was also unusual in that it had a smaller negative impact on less-skilled workers than other recent recessions. In particular, the effects on less-skilled women were mild, largely because the industries most affected by the economic slowdown (especially manufacturing) were not significant employers of low-skilled women.

Although the decline in wages among less-skilled men was reversed for several years in the late 1990s and their wages have been stagnant since, it is difficult to forecast how economic changes will affect their wage rates over the next several years. We are still uncertain about the importance of various factors in causing these prior economic shifts against the less-skilled. Yet it seems safe to say that even a decade hence the absolute wage levels of less-skilled male workers are not likely to be much higher than they were in the early 1970s. And there is little reason to think that very much of the dramatic increase in earnings inequality of the last quarter-century will be reversed.

It is also difficult to predict how government policies might change in the future and how participation in current government transfer programs will evolve. 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; a more severe downturn might lead to a more substantial rise in the cash welfare rolls.

Third, the evolution of federal and state social welfare programs and tax policies over the past quarter-century has had significant effects on the well-being of less-skilled workers and low-income families. Federal income tax policies have been a particularly important source of income for families with children given the growth in the refundable EITC. However, there were relative increases in state and local taxes on low-wage workers, and most childless low-wage workers pay the same percentage of their income in taxes now as they did in the late 1970s.

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. Medicaid and the State Child Health Insurance Program (SCHIP) cover an increasing share of poor people, particularly low-income children, but a smaller share of unemployed workers receive UI.

Immigration policy has allowed large increases in legal immigration over the past twenty-five years; most observers believe that illegal immigration has also increased. As a result, there has been very rapid growth in the share of all less-skilled workers who are immigrants. Undocumented immigrants are likely to avoid interaction with the government and therefore rarely participate in programs designed to alleviate poverty. The access of legal immigrants to social assistance programs has also been constrained over the past decade. As a result, government policies and programs may have become less effective in dealing with poverty because an increasing share of the poor do not receive assistance from these programs.

Fourth, as these chapters demonstrate, attitudes and learned behavior have probably been as important as economic and policy changes in their effects on 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) nonparticipation in public assistance among some eligible families. Seemingly large rates of nonparticipation among potentially eligible persons in cash welfare and unemployment insurance are interpreted quite differently by different observers. Some perceive a failure in program implementation: some low-income individuals who would gain economically from receiving public assistance are not being served. Others believe, however, that nonparticipants want to be independent of government assistance as they look for their next job or that they prefer to rely on assistance from family or partners.

The issues raised in this volume lead naturally to a discussion of policy options. The welfare reform debates of the mid-1990s reflected the public's preference for shifting resources from the nonworking to the working poor. The expansions in the EITC and increased state and federal spending on child care for the working poor also reflected this concern. Yet there remain a very large number of working-poor and near-poor families who receive no assistance or too little assistance. We believe that helping these families work more, even while also supplementing their earnings, is good public policy. No benefit accrues to either worker productivity or child development when unstable jobs and unemployment lead to eviction, family disruption, or loss of health insurance.

The specific policy proposals discussed in various chapters in this volume include the role of minimum wages and changes in child support benefits, unemployment insurance, tax policies, and health insurance. Our own priorities for enhancing the economic well-being of low-income workers include:

- A minimum wage that would be increased and indexed to inflation to maintain its real value over time. We tentatively suggest that the minimum wage be somewhere around 40 percent of the average wage, which was its historical level over much of the quarter-century following World War II.
- A further expansion of the State Child Health Insurance Program to cover not only low-income children but also their parents.

- An expanded Earned Income Tax Credit for low-income, childless adults whose tax burdens have not been reduced over the past quarter-century, as well as a higher EITC schedule for families headed by married couples to reduce marriage disincentives within the EITC.
- Changes in the child support system that would provide some minimum public benefit for low-income custodial parents who have child support orders but who receive little or no child support.
- Changes in the structure of the unemployment insurance program so that a larger percentage of low-income workers, including part-time workers, would be eligible for benefits.

Public discussions of poverty and government assistance in the United States have always emphasized the value of work and the importance of personal responsibility. Millions of low-income workers take these values seriously and try hard to find and keep jobs that will raise the economic well-being of their families. Yet the economic changes discussed in this volume demonstrate that many workers cannot rely on their earnings alone if they are to achieve economic self-sufficiency. These policies would encourage low-income workers to work more, while at the same time supplementing their earnings and raising the economic well-being of their families.

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