



Community Economics

A Newsletter from the Center for Community and Economic Development; Department of Agricultural and Applied Economics; Community, Natural Resource and Economic Development Programs, and University of Wisconsin-Extension, Cooperative Extension Service

No. 335

Community Economics Newsletter

September 2004

The Working Poor¹

Steven C. Deller

*Department of Agricultural and Applied Economics
University of Wisconsin-Madison/Extension*

A number of people who are living in poverty also participate significantly in the labor force. In 2001, the most current year for which the data are available, 32.9 million persons of all ages, or 11.7 percent of the population, lived at or below the poverty level. Most of these were children or adults not participating in the labor force during the year. About 6.8 million, however, were at least 16 years of age and participated in the labor force for at least 27 weeks during the year. These persons, also referred to as the working poor, represented 4.9 percent of all persons over the age of 16 that were in the labor force 27 weeks or more – an increase of 319,000 persons over 2000 levels.

The proportion of those classified as the working poor continued to be higher for women than men – 5.5 versus 4.4 percent. Young workers are more vulnerable to poverty than those in other age groups partly because their earnings are lower and they are more likely to be unemployed than older workers. Minority teenage workers are more likely to be classified as working poor: 23.3 percent of blacks and 14.3 percent for Hispanics were working poor compared to 8.8 percent for whites. Hispanics and blacks were disproportionately represented among the working poor.

The incident of living in poverty greatly diminishes as workers achieve higher levels of education. People with higher education levels have access to higher paying jobs, such as managerial and professional specialty occupations than those with lower occupations. In 2001, only 1.5 percent of college graduates were counted among the working poor, compared with 5.8 percent of high school

graduates, and 13.1 percent of high school dropouts. The patterns of women and minorities tending to have a higher probability of being classified as working poor follows across all educational levels except for college graduates.

Occupation is a powerful predictor of those defined as belonging to the working poor. During 2001, farm workers and service employees were more likely to be classified as working poor than were those in other occupations. In fact, the two million working poor in service occupations accounted for 31.1 percent of all those classified as the working poor. Within the category of service workers, 20.4 percent of private household workers (e.g., housekeepers, childcare workers and cooks) were among the working poor. About 11.6 percent of service workers such as bartenders, waiters and waitresses, dental assistants, janitors and hairdressers were classified as working poor. In contrast only 1.4 percent of those in managerial and professional specialties were classified as working poor.

The structure of the worker's family also plays a role in describing the working poor. Only 3.4 percent of persons in married couple families were classified as working poor. However, 8.8 percent of those persons in families were maintained by men. For families maintained by women the rate jumps to 16.4 percent. Clearly as the size of the family increases, the likelihood of being classified as a member of the working poor increases regardless of structure of the family. This is fairly straightforward given that larger families require higher incomes to keep the family out of poverty.

People who work full-time are far less likely to live in poverty than others. Yet, there remains a sizable group of full-time workers who live below the poverty level. Among those who participated in the labor force for more than half of the year and who usually worked in full-time wage and salary jobs, 3.5 million or 3.2 percent were classified as working poor.

There are three major labor market problems that can impede the ability of workers to earn an income above the poverty threshold: earnings, periods of unemployment and involuntary, part-time employment. In 2001, about 83 percent of the working poor who usually worked full-time experienced at least one of these problems.

Low earnings continued to be the most common condition encountered with 68.2 percent facing low earnings, either alone or in conjunction with other labor market problems. About 32.7 percent of the working poor experienced unemployment either alone or in conjunction with other labor market problems. Only 5.3 percent experienced all three problems – low earnings, unemployment, and involuntary part-time employment. Seventeen percent of the working poor did not experience any of the three primary labor market problems. Rather, their classification as working poor was more likely to be explained by short-term employment, some weeks of voluntary part-time work, or a family structure that increases the risk of poverty.

Unfortunately, predictions for job growth over the next ten years suggest that occupations with the highest propensity to have low pay are among the largest growth sectors. Some of the largest growth occupations include private security guards, personal and home care aids, and waiters and waitresses each paying significantly below \$20,000 a year. In essence, although average income has been slowly growing, the distribution around that average has been widening. The gap between the rich and the poor is growing and the number of working poor is likely to grow larger rather than smaller over the next decade.

There are at least two simple policies that can be aggressively pursued to minimize this trend: increased investment in education particularly continuing educational opportunities and job placement programs to help bridge the gap between job seekers and employment opportunities. Particular attention needs to be paid to the working poor who may need additional assistance in structuring full-time employment with part-time job opportunities.

Steven C. Deller
Community Development Economist

¹ This essay draws on "The Working Poor in 2001" by Abraham T. Mosisa, *Monthly Labor Review* Nov/Dec 2003.

Issued in furtherance of Cooperative Extension work, Acts of May 8, and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Arlen Leholm, Cooperative Extension, University of Wisconsin-Extension.

University of Wisconsin-Extension, U.S. Department of Agriculture and Wisconsin counties cooperating. UW-Extension provides equal opportunities in employment and programming, including Title IX and ADA.