IRET Byline

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Counting Workers With Low Earnings

The Census Bureau recently released a confusing report, *Workers With Low Earnings: 1964 to 1990*, describing a sharp increase in the fraction of full-time workers whose wages were too low to support a family of four above the poverty level. This fraction rose from 12.1% in 1979 to 18% in 1990. That is, in 1990, about 180 out of every 1,000 full-time, year-round workers could not support a family of four on their wages alone.

The report was highly sensational. Many in the media and their readers may have jumped to the conclusion that all of these workers and their families were poor. This is not the case. Many of the 18% were not trying to support a family of four on their wages alone, and they were not in fact in poverty. For example, some were single, or in a family with more than one worker. Indeed, of the roughly 180 in every 1,000 workers defined as "low earners" in 1990 by the Census, only about 13%, or about 23 workers, had incomes below the poverty line for their actual family situation. Of all full-time, year-round workers in 1990, including those trying to support even larger families, only about 2.6%, or 26 per 1000, were in poverty.

Low earners as defined by the Census in this report. Low pay was defined as annual earnings (cash only, excluding fringe benefits) less than the poverty level of a family of four. In 1989, this meant an income of $12,675, or roughly $6.10 an hour. This choice of benchmark led to frightening language in the press, such as the statement in the May 5th *Wall Street Journal* that "The Census Bureau study showed that the proportion of full-time, year-round workers making too little to lift a family of four above the poverty line swelled to 18% in 1990 from 12.1% in 1979." (See Table 1, below.)

Table 1: Percent of <u>all</u> full-time, year-round workers earning less than poverty level for a family of four (labeled "low earner" by Census)

1964	1969	1974	1979	1984	1989	1990
24.1%	14.4%	12.0%	12.1%	14.6%	16.3%	18.0%

It is foolish to compare the income generated by *all* full- time, year-round jobs to the poverty level *for a family of four*. Most workers are not trying to support a family of four, at least not singlehandedly. Many are single. The official poverty threshold for a single individual is only half that of a family of four. Many are married without children, or with grown children who are self-supporting. Many are married with two or more dependent children, but their spouses also work, and the family has two incomes. Others have income from savings to supplement their wages. Family size has been declining (e.g., from 2.87 persons in 1973 to 2.4 persons in 1989), and the number of workers per family has been increasing. Families of four supported by only one wage earner are increasingly rare.

Real status of those workers the Census called "low earner". Much further back in the Census report, there is a discussion of poverty rates. We learn (at the bottom of page 6 and in Table H, p.7, of the report) "Most year-round, full-time workers with low annual earnings are not in poverty. A worker with low earnings will not be in poverty if the worker's total family income exceeds the poverty threshold. One example of this situation is a worker who earns less than the low earnings threshold but who also falls above the poverty threshold because the earnings of another family member are enough to bring the total family income above the poverty threshold. Another example is an unrelated individual whose earnings are below the low earnings threshold but above the poverty threshold."

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The real poverty situation of these low-earner workers can only be found in relation to their actual family status. This is done by comparing the *total* incomes (from wages, savings, and transfers) of single workers to the single-person poverty level, the *total* incomes of *both* members of a two-person family to the two-person family poverty level, and so on. As shown in Table 2, below, *of the 16%-18% of workers the Census classified as "low earner" in 1989 and 1990*, the Census reports that fewer than 13% — about one in eight — were poor in 1989 and 1990, *substantially lower* than the non-recession levels of ten and fifteen years earlier, and only 40 percent of the 1964 figure. That is to say, of the 160 to 180 workers per 1000 who could not support a family of four above the poverty level, only about 20 to 23 workers were in fact poor.

Table 2: Percent of the "low earners" who were in poverty, given their actual family situation

1964	1969	1974	1979	1984	1989	1990
26.9%	18.6%	15.6%	15.8%	17.6%	12.7%	12.9%

Real status of all full-time, year-round workers. Because only about one in eight of the "low-earner" workers singled out by the Census are poor, the poverty rate among full-time, year-round workers is far less than the number of low-earner workers would imply. Census Table H shows the fraction of *all* full-time, year-round workers who were in fact poor, *given their actual family status*. Reproduced in Table 3, below, the Census report shows that only 2.4% of all full-time, year-round workers were poor in 1989, little higher than the non-recession levels of ten and fifteen years earlier, and only one-third the 1964 figure.

The fraction rose to 2.6% in 1990 as the recession began. That is to say, about 24 to 26 full-time, year-round workers in every 1000 were in poverty in 1989 and 1990, given their actual family situation. (These numbers are slightly larger than the 20 to 23 "low-earner" workers per 1000 reported above as being in poverty because of the inclusion of workers who could support a family of four, and hence are omitted from the "low-earner" figures, but who are actually in poverty because they are struggling to support families *larger than four*.)

Table 3: Percent of all full-time, year-round workers actually in poverty, given their family situation

1964	1969	1974	1979	1984	1989	1990
7.5%	3.0%	2.2%	2.1%	2.9%	2.4%	2.6%

Thus, even as the Census's peculiar "low-earner" statistic appears to have risen compared to a decade ago, the actual poverty rate among all earners has about held steady, and among the so-called "low earners" has fallen significantly!

Omitted income. The Census money income figure does not include non-cash compensation, such as pension contributions and health care benefits, which have been rising over time as a percent of employee compensation. As a consequence, the increase over time in the cash compensation used by the Census to define the low-wage earner understates the income growth of such workers over the period, and leads to an overstatement of the number of low-wage earners.

Inappropriately subjective presentation. The Census report admits that its definition of a low earner is highly subjective. It states, "In this report, workers have low earnings if their annual earnings are less than the poverty level for a four-person family. The choice of a low earnings threshold is necessarily subjective, but it might be considered a desirable goal to reach a point at which every full-time worker (with the possible exception of those just starting their work careers) had an earnings level sufficient to maintain a family above the poverty level."

The Census definition of "low earner" is more of a normative statement than an objective measure, and is not a proper basis for a presentation by the statistical agency of the government. Why does "family" mean "four"? Should an individual who enjoys the solitary outdoor lifestyle of spotting fires in a national forest be classified as "low earner" because his income would not also support a wife and two children, which he does not have and which he does not want? Should a married couple who do not want children be considered "low earner" if they choose to work at less demanding jobs than would be needed to support two offspring? At the other extreme, the definition of "low earner" excludes the worker with a wife and four children who is earning less than the poverty level of a family of six, because he would not be a "low earner" if he could get rid of two of the children. The definition of poverty threshold is itself arbitrary. What constitutes poverty for a family of four in the rural sunbelt with two children in kindergarten may not be the same as what constitutes poverty for a family of four in the urban frostbelt with two teenagers in college.

The Census can gather detailed data on people's incomes, educational levels, family situations, and career choices, define the official poverty levels for families of different sizes (with appropriate warnings as to the methodological problems that pervade the poverty definitions), and present these data in a manner that would allow researchers to sift, order, and correlate them based on whatever criteria they wish. Census should not take it upon itself to "suggest" the proper way to view the information, nor emphasize a particular social philosophy in the presentation.

Reaction to the study. Reaction to the Census report was predictable. Some naive observers have called for an increase in the minimum wage. Raising the minimum wage certainly would reduce the number of low-paying jobs — by eliminating the jobs, not by raising the pay attached to them. Over the decade of the 1980s, in spite of the reduction in the rate of inflation, the minimum wage fell in real terms. Far from increasing the incidence of poverty, this reduction in the real minimum wage helped to reduce poverty by enabling many more low-skilled and entry-level workers to find employment, and thereby boost their family incomes.

Other recommendations were more sensible, such as calls for improved education and training to enable people to obtain higher skilled and better paying jobs. Absent from the chorus bewailing the statistics, however, were calls for lower taxes on wages to raise the after-tax wage, or for lower taxes on interest, dividends, or capital gains, or for increased capital consumption allowances, to encourage the saving, investment, and resulting productivity growth that is a critical foundation for economy-wide wage increases. It would be interesting to see what a real tax reform package, one clearly oriented toward growth, could do for real wages and Census reports in the 1990s.

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Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.