

ASPE RESEARCH BRIEF

OFFICE OF THE ASSISTANT SECRETARY FOR PLANNING AND EVALUATION
OFFICE OF HUMAN SERVICES POLICY - U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Who are Low-Wage Workers?

This brief examines the size and characteristics of the low-wage workforce and whether low-wage workers experience wage growth. We define low-wage workers as workers whose hourly wage rates are so low that even if they worked full-time, full-year their annual earnings would fall below the poverty line for a family of four. This wage rate is \$8.63 in 2001, equivalent to \$10.50 in 2008. Almost one-third of all workers ages 16 to 64 — over 38 million people — are low-wage workers in 2001. From 2001 to 2003, we find some evidence that low-wage workers are moving to higher wage jobs. But, the majority of low-wage workers either remain in low-wage jobs or are not working at all.

Over the last decade, American social policy has increasingly focused on encouraging and requiring work for those receiving government supports. Indeed, the earned income tax credit, the largest cash assistance program for low-income families, is available only to those who are working. And employment has been rising among some traditionally disadvantaged groups. For example, since the mid-1990s there have been dramatic increases in employment among single parents, from 59 percent in 1994 to 71 percent in 2004 (Lerman 2005). But much of this employment is in the low-wage labor market. As such, it is of great interest to policy makers to understand better the low-wage labor market and the factors that help low-wage workers attain higher wages and become self-sufficient. Towards this end, this brief examines who is in the low-wage labor market and whether they are experiencing wage growth.

The data for this analysis come from the 2001 panel of the Survey of Income and Program Participation. This study follows prior ASPE-funded work (Schochet and Rangarajan 2004) and defines low-wage workers as workers ages 16 to 64 whose hourly wage rate is such that even if they worked full-time, full-year their annual earnings would fall below the poverty line for a family of four. This wage rate is \$8.63 in 2001, equivalent to \$10.50 in 2008. Our analysis identifies low-wage workers in January 2001 and analyzes their progression to higher paying jobs between 2001 and 2003.

ABOUT THIS BRIEF

This brief was prepared by Pamela Loprest, Gregory Acs, Caroline Ratcliffe, and Katie Vinopal of the Urban Institute under contract to ASPE. The brief presents an overview of the low-wage labor market and low-wage workers' progression to higher wage employment in the early 2000s. This brief updates previous ASPE-funded research that examined the low-wage labor market in the 1990s. The economy experienced a recession in 2001 and less economic growth in the early 2000s compared to the mid- to late-1990s, making this research update a useful comparison.

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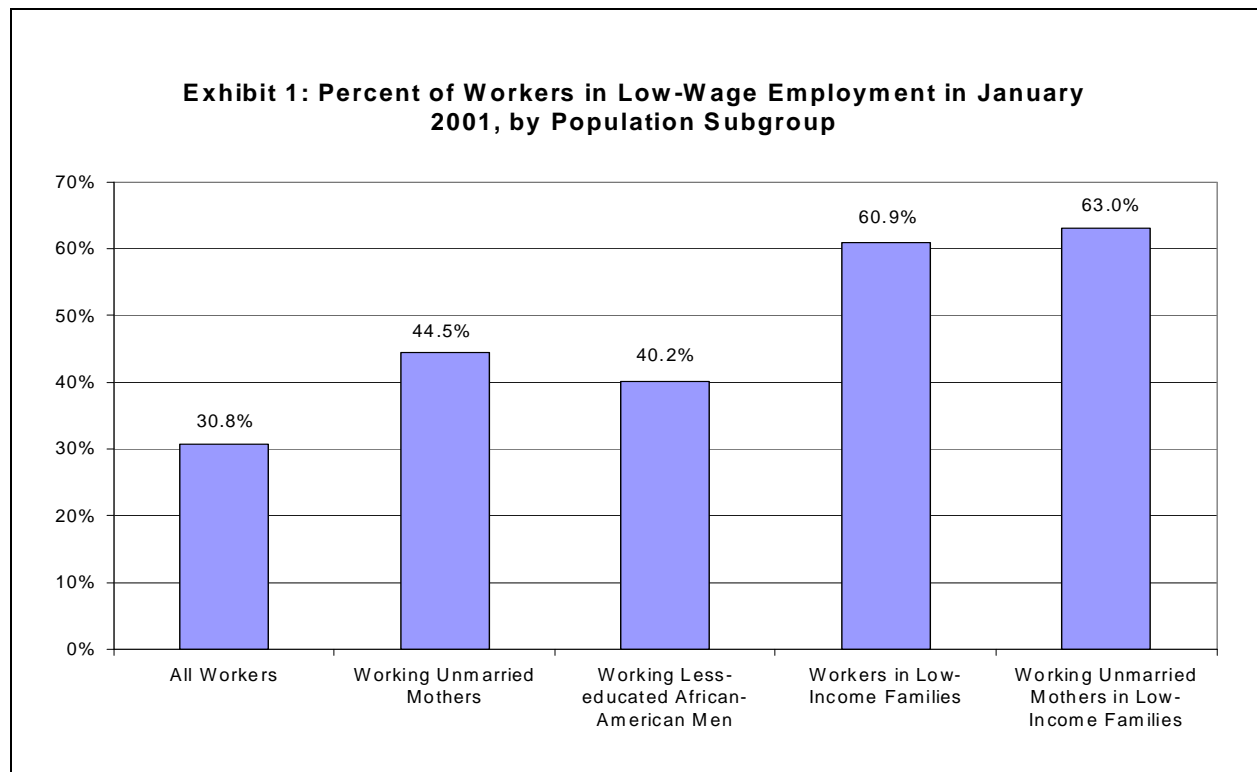
How many workers are low-wage workers?

Almost one-third of all workers, 31 percent or over 38 million people, are low-wage workers in 2001. The percentage of low-wage workers is slightly higher than estimates for earlier time periods. A prior study using a similar definition found that 25 percent of workers in 1996 and 28 percent in 1999 were low-wage (Schochet and Rangarajan 2004¹).

Certain subgroups of workers are of particular interest to policy makers because they are the beneficiaries of public safety net and work support programs or have traditionally had more difficulties in the labor market. These groups include unmarried mothers and African-American men with at most a high school diploma or GED. Although these groups make up a relatively small part of all low-wage workers, 7 percent and 3.5 percent respectively, policies to assist or support low-wage workers may want to target these groups.

In addition, low-wage workers living in low-income families (defined here as those with income less than twice the poverty line) are of special concern. These workers not only earn low wages but their families face difficult economic circumstances. Low-wage workers in higher income families are less likely to be the primary contributors to their family's income. Of all low-wage workers in January 2001, less than half (44 percent) lived in a low-income family, and just over one-quarter (26 percent) were in low-income families with children.

Members of these key subgroups are disproportionately likely to be low-wage workers (see Exhibit 1). Of all working unmarried mothers, 45 percent are low-wage; of less-educated African-American men, 40 percent are low-wage. Even higher percentages of workers in low-income families and working unmarried mothers in low-income families are low-wage workers, 61 and 63 percent respectively.



¹ Schochet and Rangarajan (2004) exclude students, while students are included in the current study.

Who are low-wage workers?

Low-wage workers are different in important ways from workers earning higher wages. Exhibit 2 compares key characteristics across these groups. Low-wage workers are more likely than higher-wage workers (i.e., all non-low-wage workers) to be female, young, black or Hispanic, and never married. Almost 60 percent of all low-wage workers are female compared to only 44 percent of higher-wage workers. Of all low-wage workers, 17 percent are under age 20 (compared to 2 percent for higher-wage workers) and another 30 percent are ages 20 to 29 (compared to 20 percent for higher-wage workers). However, not all workers move on to higher wages with age — about one-third of low-wage workers are 40 or older. A higher percentage of low-wage workers than higher-wage workers are black or Hispanic. This could reflect average differences in the factors connected with low wages, such as skills, education and experience, as well as discrimination. Also, low-wage workers are far less likely to be married than higher-wage workers, 39 versus 62 percent. This may be related to the younger ages of low-wage workers.

The educational attainment of low-wage workers is lower than higher-wage workers. Nearly one-quarter (23.8 percent) of low-wage workers do not have a high-school degree or GED, while only 6 percent of higher-wage workers have not completed high school. This difference may, in part, be due to the age differences in the two groups. Three out of ten low-wage workers have some college, but only 10 percent have graduated from college. Almost one-third of higher-wage workers have a college education or more. Obviously, lack of education is one factor in the low wages of these workers.

How much do low-wage workers work and how much do they make?

The average low-wage worker works full-time hours (35 hours per week or more), but a substantial fraction of low-wage workers are part-time. Of all low-wage workers, 63 percent work full-time hours, 24 percent work from 20 to 34 hours a week, and 13 percent work less than twenty hours a week (Exhibit 3). Far fewer higher-wage workers work part-time (10.5 percent). Of course, low hours and low wages together lead to lower incomes, especially for those who are

Exhibit 2: Individual Characteristics of Low-Wage and Higher-Wage Workers in January 2001

Individual Characteristics	Low-wage workers	Higher-wage workers
<u>Gender*</u>		
Male	41.1%	56.0%
Female	58.9%	44.0%
<u>Age*</u>		
Under 20	17.3%	1.5%
20 to 29	30.2%	19.5%
30 to 39	20.3%	28.3%
40 to 49	17.4%	28.7%
50 to 59	11.3%	18.5%
60 to 64	3.4%	3.5%
<u>Race/Ethnicity*</u>		
White, non-Hispanic	64.0%	75.6%
Black, non-Hispanic	13.9%	10.2%
Hispanic	17.9%	9.4%
Other	4.3%	4.8%
<u>Marital Status*</u>		
Married	39.1%	62.3%
Separated, divorced, widowed	14.4%	15.5%
Never married	46.5%	22.3%
<u>Educational Attainment*</u>		
Less than high school	23.8%	6.1%
High school/GED	36.3%	29.3%
Some college	30.0%	32.1%
College or more	9.9%	32.5%

* Indicates a statistically significant difference between low-wage and higher-wage workers.

Exhibit 3: Job Characteristics of Low-Wage and Higher-Wage Workers in January 2001

Job Characteristics	Low-wage workers	Higher-wage workers
<u>Usual Hours Worked per Week*</u>		
less than 20	13.2%	2.9%
20 to 34	23.5%	7.6%
35 to 40	47.7%	59.4%
more than 40	15.6%	30.1%
Average hours worked*	34.7	41.4
<u>Involuntary Part-time*</u>	9.1%	3.3%
<u>Working Multiple Jobs*</u>	11.4%	7.6%
<u>Average Hourly Wage*</u>	\$6.50	\$17.50

* Indicates a statistically significant difference between low-wage and higher-wage workers.

primary earners. Some part-time low-wage workers may be choosing to work fewer hours. However, 9 percent of low-wage workers (about one-third of part-time low-wage workers) report they are working part-time involuntarily; that is, they were seeking but could not find full-time work. This involuntary part-time work is higher among our four subgroups of low-wage workers. For example, about 14 percent of less-educated African-American men report they are involuntarily working part-time, which represents almost half of all low-wage less-educated African-American men who work part-time. Also, given the lower wages being earned, it is not surprising that a disproportionate share of all low-wage workers work multiple jobs (11.4 percent) compared to higher-wage workers (7.6 percent).

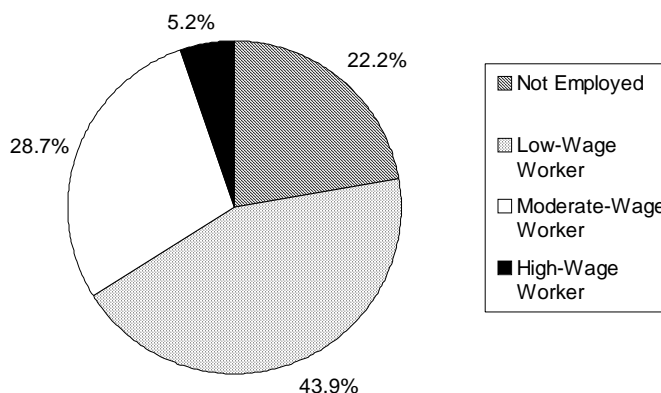
By definition, low-wage workers earn less per hour than higher-wage workers, but the difference is sizeable: The average low-wage worker makes \$6.50 an hour while the average higher-wage worker makes \$17.50 — 270 percent more.

Are low-wage workers progressing in the labor market?

To understand the implications of low-wage work on individuals' and families' well-being, we need to know if these workers are progressing to better paying jobs. We examine here low-wage workers' movement from low-wage employment to moderate-wage or high-wage jobs between 2001 and 2003. We define moderate-wage jobs as those with a wage between the low-wage cut-off and two times that wage (between \$8.63 and \$17.25 in 2001) and high-wage jobs as those with a wage at least two times the low-wage threshold (at least \$17.26 in 2001). Exhibit 4 shows the percentage of low-wage workers making these transitions as well as the percentages who remain low-wage workers and who are not working in 2003.

There is improvement in wages over this two year period for some low-wage workers. Of workers

Exhibit 4: Status in January 2003 of Low-Wage Workers in January 2001



earning low wages in January 2001, 29 percent are earning moderate wages in January 2003 and another 5 percent are earning high wages. Among these workers who progressed, moderate-wage workers have a median wage rate of \$10.17 and high-wage workers have a median wage rate of \$22.17 (in 2001 dollars).

Although this progress in wage growth is encouraging, a substantial percentage of low-wage workers, 44 percent, remain low-wage workers two years later. In addition, slightly more than one in five are not employed. To put this in context, 11 percent of workers with wages above the low-wage cut-off in 2001 are not working in 2003. So while joblessness is not uncommon even among higher-wage workers, the rate for low-wage workers is twice as high. These findings suggest that many low-wage workers are not substantially improving their economic circumstances over the two year period.

Conclusion

Almost one-third of workers in the economy earn low wages — wages that at full-time work would leave a family of four below the poverty line. About 44 percent of these low-wage workers live in low-income families; about one-quarter are in low-income families with children. To address particular concerns for these low-wage workers, policies may want to distinguish between all low-wage workers and those in low-income families.

Certain groups of workers are disproportionately low-wage including unmarried mothers and African-American men with high school education or less. Not surprisingly, low-wage workers are more likely to be female, young, black or Hispanic, and never married. Many low-wage workers also have low levels of education.

Not all low-wage workers fit this profile, however. For example, about one-third of low-wage workers are over age 40. Greater access to education or training may increase wage prospects for some low-wage workers, but the impact of interventions may vary by the age of the worker. Increasing the number of hours low-wage workers work may improve incomes for some low-wage workers, but already about two-thirds are working full-time. In addition, 11 percent are working multiple jobs and almost 10 percent would like to work more hours but cannot find full-time jobs.

Finally, we find some evidence that low-wage workers are moving to higher-wage jobs. Two years later, however, the majority of low-wage workers either remain in low-wage jobs or are not working at all. This signals the importance of considering employment policies to improve wage growth among workers, such as career ladders and skills training, as well as policies directly targeting employment and retention.

References

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