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The Labor Market, The Working Poor, and Welfare Reform: Policy Suggestions for the Clinton Administration

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Research conducted by the Institute for Women's Policy Research suggests that two types of strategies are needed to solve the problems of the working poor and to improve the living standards of the millions who currently depend on welfare.

The first set of strategies is directed at the low-wage labor market and employers' behavior. The second set of strategies is directed at government transfers.

Without reform of the low-wage labor market, the government transfers required to bring all workers out of poverty are needlessly expensive. Improving the low-wage labor market would reduce the draw on tax revenues to provide income assistance for the working poor and place a correspondingly larger burden on employers. This balance of strategies would likely have long-term impacts on raising the productivity as well as the wages of low-skill, low-wage workers and enhance economic growth in the long run.

Further, whenever and wherever private-sector job creation is inadequate to provide employment, public job creation programs must be developed. These must be targetted as much at women as at men since women's contributions to family income are now equally as critical for family well-being as men's.

I. Reforming the Low-Wage Labor Market

■ **The Problem:** IWPR research shows that almost half (45 percent) of women workers earn less than a minimum sufficiency wage--\$6.67 in 1991 dollars (an hourly wage that would bring a family of three to the poverty threshold, plus day care costs for one child,

to take advantage of the low pay women and minority men typically earn, thus encouraging higher turnover on the part of these low-wage job holders. The remedies for this situation are rarely as negative for workers as employers often imply. Job loss from minimum wage increases is rarely as large as economists predict, apparently because employers find ways to improve productivity, making the higher wages affordable. Union representation also tends to increase worker productivity. One of the most devastating aspects of the low-wage labor market is its instability. Low-wage jobs come and go at a rapid rate, at least partially because employers have little financial incentive to invest in very low-wage workers. Higher wages would encourage employers to discover the productivity benefits that would accrue if they invested more in these employees; such investments would in turn reduce turnover and improve worker skills.

Many low-wage jobs are part-time or temporary; part-time work by those who would like to have full-time jobs (called involuntary part-time work) and temporary work are on the increase. So is holding multiple jobs (often several part-time jobs) to survive. Temporary and part-time jobs are also held disproportionately by women and minority men. Low-wage, low-benefit, unstable jobs make it impossible for people to support themselves, no matter how much they would like to do so. Thus, it is not only the "full-time" working poor who need help. **Temporary and part-time work need to be regulated in order to control their abuse** in the name of flexibility and efficiency; if flexibility and efficiency are truly desired for economic reasons, then paying hourly wages and fringe benefits equal to those of full-time workers would still reap efficiency benefits. **Wage and fringe benefit parity should be required** for these jobs; these measures would not only improve the quality of these jobs from the workers' viewpoint but also likely slowdown their growth and reduce the tendency for these "contingent" jobs to displace regular, full-time jobs.

Additional market-oriented strategies that can increase women's earnings and decrease their poverty include improving the skills that women workers bring to the labor market, improving women's access to higher-wage industries and occupations, and improving their access to flexible full-time, rather than part-time jobs. For example, a recent IWPR study finds that working at a full-time rather than a part-time job increases working mothers' earnings by \$1.24 per hour; having some college education increases their earnings by \$2.24 per hour; belonging to a union or being covered by a union contract increases their earnings by \$1.09 per hour; working in a high-technology industry increases their earnings by \$1.04

per hour; and working in a male-dominated occupation increases their earnings 95 cents per hour.

These earnings increases can be achieved through financial assistance for education, strong enforcement of anti-discrimination law, and encouragement of flexible work schedules for full-time jobs.

II. Growing the Economy: Remedying Discrimination Against Women and Minority Men

■ The Problem: IWPR research documents the pervasiveness of race and sex discrimination in the labor market by comparing the probability of being in a low-wage job across race, ethnic, and gender groups. When comparisons that hold education, work experience, occupation, and industry constant are made, women of color are four times more likely than white males to work in low-wage jobs, white women are three times more likely, and men of color are 1.5 times more likely. Additional IWPR research shows that holding these same factors constant, black women earned 42 cents less per hour than white women and Hispanic women earned 27 cents less per hour.

These workers face barriers including recruitment, assignment, compensation, training, and promotion practices and employer attitudes that tend to limit their employment opportunities and lower their pay. The resulting productivity loss to the economy is substantial.

■ The Solution: Available research studies show that stronger enforcement of equal employment opportunity brings greater gains. Government policy should increase the cost of discriminating to employers; the use of enforcement strategies such as class action lawsuits and disbarment from future contracts should be increased. Such mechanisms as affirmative action goals and timetables should be applied to on-the-job training as well to as recruitment and promotion. Strengthening equal employment opportunity policies should be seen not only as a way to ensure labor market fairness to all workers, but also as a way to enhance economic growth.

This is an area where a strong message from the President, a forceful speech coupled with a list of what he is directing the enforcement agencies to do, can make an enormous difference. Research shows that when top leaders are perceived to have true commitment to nondiscrimination practices, others follow suit. In addition, raising the budgets for the enforcement agencies (the EEOC and the OFCCP) would also be extremely useful, since resources for these agencies fell sharply in real terms during the Reagan and Bush years.

This is also a market-oriented strategy that will cost the government little.

III. Transforming Welfare: Bringing Families out of Poverty

■ **The Problem:** In the face of the enthusiasm to get single mothers "off the welfare rolls and into the workplace," IWPR research shows that a substantial portion (40 percent) of single mothers who receive AFDC for themselves and their children are already working about half-time. During a 24-month period during which such women received AFDC, 40 percent also worked approximately 1,000 hours each year. These women, referred to as "income packagers," minimized their receipt of welfare benefits by working and adding their earnings to their income package. Their average hourly earnings of less than \$5.00 in 1987 dollars would not be enough to support their families above the poverty threshold even if they worked full-time, full-year. Although the low-wage work these mothers do increases their family income and reduces their burden on the taxpayer, most changes in welfare regulations since 1981 have the effect of discouraging income packaging. And those mothers who work the most are the least likely to have health care coverage for the entire year (either through Medicaid or employer-provided benefits).

■ **The Solutions:** Rather than assuming that these women can become fully dependent on the job market for their livelihoods, policies should encourage the packaging of income from paid employment with welfare receipt and other income assistance. In other words, AFDC should be reconceptualized as a cash supplement to low earners. Income disregards in AFDC should be revised to allow women to keep a larger portion of their earnings (a policy that increases the likelihood of undertaking paid employment, IWPR findings demonstrate). Similarly, fill-in-the gap budgeting should be adopted by more state AFDC programs or required by federal standards; such budgeting allows recipients to have higher

income levels before being disqualified from AFDC and losing Medicaid.

As an alternative to expanding AFDC's role as a cash supplement to low earners, the Earned Income Tax Credit could be expanded. It would have to be expanded in a downward direction, ie. pay out more to low earners; it would also be helpful if EITC benefits could be paid out monthly or quarterly. However, because tax-based assistance programs do not reach those who do not file with the IRS and many eligible families are not currently participating, outreach to low income families needs to be increased. Child support assurance, a government-guaranteed child support payment from the absent parent (usually the father) to the custodial parent (usually the mother), is a new policy proposal that has merit. It would increase income to single mothers and their children and increase the government's motivation to collect from absent parents. These policies should all be part of a policy package that helps single mothers put together an income package that can bring their families out of poverty.

In addition, heavily subsidized child care and national health care are necessary for low-earning workers to survive in decency. A reasonable long term goal for the United States is to provide free child care for all children over the age of two and a half or three (much like the French do), recognizing that quality child care -- which might better be called "educare" -- is an important part of children's growth and development and helps them get a good start in life.

IV. Creating "Good" Jobs for Women

■ The Problem: The quality of jobs created during the 1980's (whether these were "good" jobs or "bad" jobs) has been the subject of a highly charged debate. The quality of jobs is of increasing importance to women as their financial responsibility for their families has grown. (Between 1970 and 1990 the labor force participation rates of mothers increased from 40 to 67 percent.) A recent IWPR study shows that the best jobs for women in terms of annual earnings and coverage by health insurance are full-time, year-round jobs for a single employer (rather than part-time/part-year jobs for multiple employers), in high wage manufacturing and service industries (high-wage service industries include transportation, communications, and public utilities), and in male-dominated occupations. The study also

shows that only a minority of women workers hold "good" jobs; only four in ten have a single full-time wage or salary job over the course of a calendar year. The majority either work part-time, package several wage or salary jobs, or include self-employment in their wage package. The majority work in female-dominated occupations and in low-wage service jobs. IWPR findings show that this majority, who work in more marginal employment, may gain some flexibility in work hours but suffer considerable loss in economic well-being. IWPR research also shows that those who work in these more marginal jobs are less likely to be able to rely on the earnings of an employed spouse.

In addition to holding "bad" jobs, many women are unemployed and many additional women are out of the labor force because no work is available. The many women on welfare who would like to work will need jobs if they are to work. Lack of employment is especially complicated for the many who live in inner cities and rural areas, where private jobs are often scarce even during periods of strong economic growth.

■ The Solution: The solution is to stop thinking of women as marginal workers and to create full-time, high-productivity jobs in the private service sector for these workers. Factors that will increase productivity in the private service sector include increased capital investment and increased skill training. Raising the minimum wage would increase the wages of many service sector employees. Increased union representation would also do so; wages are highest for women in communications and transportation, two private service industries which are highly unionized. Telephone operator, a formerly low-paid occupation, provides an example of one highly-unionized female-dominated job that now pays a living wage (a wage equal to the average man's wage economy-wide). Higher wages in turn will likely lead to more capital investment and higher productivity which, in turn, can accommodate higher wages.

Public sector job creation is an additional alternative, especially in geographic areas where private development is insufficient. Rebuilding the U.S. infrastructure should not be limited to construction of roads and bridges (primarily male jobs), but should also include building and maintaining an infrastructure of child care, after-school care, eldercare, and health care community-based centers. Such projects can be well-targeted to the communities who need them most.

The government should be the employer of last resort, providing jobs whenever and wherever the private economy cannot. Through borrowing the government can use periods of slack in the private economy simultaneously to undertake much needed maintenance of the public sector and to even out the cyclical peaks and valleys of private sector employment.

Programs that encourage entrepreneurship may also lead to the generation new jobs but they are necessarily small-scale programs. When large numbers of jobs are needed to provide employment to the un- and non-employed, government funding and operation of large-scale jobs programs are needed.

V. Improving Income Security for Workers

■ The Problem: Despite widespread agreement that employment policies should be responsive to the needs of working families, IWPR research demonstrates that American workers incur enormous earnings losses (an estimated 100 billion dollars annually) as a result of childbirth, illness, or illness of a family member. These losses are disproportionately borne by women and by men of color. Taxpayers' share of these losses (through unemployment insurance, SSI, food stamps and AFDC) amount to an estimated 8 billion dollars per year. Earnings losses are greatest among those workers who do not have job-protected leave. These workers are more likely to be low-wage workers than are those who have employer-provided leave plans.

■ The Solution: The proposed Family and Medical Leave Act would entitle employers to take a reasonable amount of short-term family or medical leave without risk of termination of employment. The costs to employers of such a national policy is substantially less than the costs to workers and taxpayers of not having this policy. Having a national leave policy would reduce the costs to workers and to society of the socially necessary tasks of childbirth, child care and eldercare, or illness.

In addition to *unpaid* family and medical leave, states should be encouraged to follow the model of New York, New Jersey, California, Rhode Island, and Hawaii and set up state Temporary Disability Insurance systems. These systems should be expanded to provide income replacement for family care needs as well as for disability and illness. A reasonable