ACKNOWLEDGMENTS

This brief is an update and extension of an earlier paper by Isabel Sawhill and Quentin Karpilow (2013). We especially want to thank Quentin Karpilow for his work on the labor market model used for this analysis. For a description of the model and the data used in the analysis, see Sawhill and Karpilow 2013.
Introduction

When Franklin Roosevelt delivered his second inaugural address on January 20, 1936, he thanked the “men and women of good will” who had elected him in a landslide, and issued them a challenge.

“I see one-third of a nation ill-housed, ill-clad, ill-nourished,” he said. “The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

All Americans aspire to join the middle class, but today many struggle to do so; 36 million working-age Americans find themselves stuck in Roosevelt’s impoverished “one-third.” To be sure, they are better off than in Roosevelt’s day, with new supports like the earned income tax credit, the child tax credit, housing vouchers, and Medicaid. In addition, the composition of this group has shifted from being disproportionately old to being disproportionately working-aged. The introduction and later expansion of Social Security and Medicare have greatly reduced poverty among the elderly. But among working-age adults and their children, progress has come more slowly. For whatever reason—low wages or lack of employment—these families are not achieving the American Dream.

The group we analyze throughout this paper is simply the poorest one-third of all families in the U.S. with an able-bodied head between the ages of 25 and 54 (hereafter struggling families or households).1 This group is larger than the population in poverty (although 83 percent of them fall below 200 percent of the federal poverty line, or FPL). All of them (by definition) are working-age (25 to 54) and able-bodied (that is, they do not report receiving disability benefits). We have focused on this group because we are interested in their connection to the labor market—or lack thereof. Do they have jobs? How much are they earning? How dependent are they on government benefits? And what might be done to help them climb the ladder and join the middle class?

We focus on shorter- and longer-term policies that might improve the economic prospects of these households. In the short-run, what they most need is jobs and higher wages. In the longer-term, they need more education and stronger families. Accordingly, we look at each of these paths to moving more low-income households into the middle class, showing what each might achieve based on new estimates of the impact of each strategy on their annual earnings. We use data from the Census Bureau’s March 2015 Current Population Survey (CPS), which gives us a snapshot of low-income households in 2015 and their incomes in the prior year (2014). And we use a model of the labor market developed at Brookings for the purpose of doing these policy simulations.

In brief, we find that:

• The struggling households we observed were surviving on an average household-size adjusted income2 of less than $16,000 in 2014. This contrasts to an average of $55,000 for the upper two-thirds.3
These households are disproportionately minority, poorly educated, and headed by single parents.

The most important reason for their low incomes is a “work gap”—the fact that many are not employed at all, or work limited hours.

Many are also handicapped by the lack of a second earner in the family.

When asked why they are not working more, the most important reason for women is “taking care of home and family” and for men it is being “ill or disabled.”

About 20 percent of the income of these low-income families comes from non-earned sources, such as government benefits; and because such benefits are underreported in the CPS, we believe this understates their reliance on such benefits or other sources of non-earned income.

When we simulate the impact of different policies on the earnings of this group, the biggest effects are associated with achieving and maintaining full employment and raising the minimum wage.

However, for selected target groups within the low-income population, even bigger improvements can be achieved by improving the amount of education they have or by increasing the number of two-earner families (either by assuming more second earners in households with a potential second earner or by more marriage or cohabitation among those that now have only one earner).

None of the policies we assess in our labor market model do very much to move the needle alone. The biggest impact on the economic well-being of these households is achieved by simply assuming that they all work full time.

Why they are not working more—the causes of the “work gap”—remain a puzzle. It may be that the low wages they are currently able to earn discourage work, especially if they have other sources of income; or it may be that they have a variety of problems that make it hard for them to get and keep a job in today’s labor market. Although we cannot rule out the possibility that their fortunes could be further improved by a much tighter labor market, many of them appear to suffer from structural unemployment or underemployment. We do not address what to do about structural unemployment in the current paper. However, on the basis of evidence showing a long-term decline in the employed proportion of the working-age population, especially among men, new policies may be in order—including subsidized jobs in the public or private sector.

Who are these struggling families?

Compared to those living in the top two-thirds, these low-income, working-age Americans are more likely to be Black or Hispanic, less likely to have a college degree, and less likely to be married (figure 1).
<table>
<thead>
<tr>
<th>Gender</th>
<th>Adults in bottom-third households (percent)</th>
<th>Adults in upper-two-thirds households (percent)</th>
</tr>
</thead>
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<tr>
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<td>54</td>
<td>49</td>
</tr>
<tr>
<td>Race</td>
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<tr>
<td>Age</td>
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<td>30-39 (inclusive)</td>
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<td>44</td>
</tr>
<tr>
<td>Single parents</td>
<td>18</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Author’s tabulations of 2015 CPS Annual Social and Economic Supplement.

What are their sources of income?

Figure 2 compares the median incomes of the bottom-third of working-age households and their counterparts in the upper two-thirds. The household income of the top two-thirds is more than three times higher than for the bottom third, mainly due to large gaps in earned income. While 92 percent of the top two-thirds households’ income comes from earnings, only 79 percent of the bottom third households’ income comes from earnings. In short, low-income households are much more dependent on government benefits and other sources of non-earned income.”
The low incomes reported by households with non-working heads may be due in part to underreporting of self-employment earnings, and public and private cash transfers in the CPS. Bruce Meyer and Nikolas Mittag (2015) suggest that underreporting is widespread, both because people don’t report receiving benefits from programs like TANF or SNAP, and because those who do report receiving such benefits underreport the amounts. By linking individual data from the CPS to New York State administrative data, they find that the CPS misses one-third of housing assistance benefits, 40 percent of SNAP receipts, and 60 percent of TANF receipts; they find that households in deep poverty (below 50 percent of the federal poverty line) underreport the amount of benefits they received by just over $1,400—or about 110 percent of their original reported income. We are unable to correct for underreporting of income in this analysis but warn readers that the CPS data we and many others use is likely to understate bottom-third incomes, especially income from public benefits or from informal sources. 

In addition to underreporting of income, the data we use do not include the value of some noncash sources of assistance, such as subsidized food, housing, or medical care.

Although we have not achieved Roosevelt’s dream of making sure that no one is ill-housed, ill-clad, or ill-fed (even after accounting for underreporting) we have made progress in that direction. The three largest sources of assistance for low-income households, other than Social Security, are Medicaid, SNAP (food stamps) and the Earned Income Tax Credit (EITC)—all of which were nonexistent before the 1960s. Studies that include these noncash benefits in measured income
show that there has been a substantial drop in the poverty rate since the 1960s. What such studies also suggest is that we have made far less progress in helping disconnected prime-age workers build more human capital.\textsuperscript{9}

The remainder of this paper centers on earnings rather than on total income. This focus has two motivations. The first is that earnings are better reported than non-earned income. The second is that we are particularly interested in the labor market prospects of the bottom third, and their ability to achieve self-sufficiency through work. We continue to adjust the earnings figures for family size throughout all simulations.

**Why do these households have such low earnings?**

The proximate causes of the earnings gap are easy to see: Those in the bottom third tend to have lower hourly wages than those in the top two-thirds (figure 3) and also work substantially fewer hours than those in the top (figure 4).\textsuperscript{10}

These data suggest that wages for our low-income, working-age households are very low, on average, and that an expanded EITC or a higher minimum wage could provide significant help. A higher minimum, for example, would not only raise wages for those below the new minimum, but it would also have ripple effects for those just above it, potentially helping many of these low-wage workers.\textsuperscript{11}

**Figure 3: Median hourly earnings for employed heads and secondary earners, 2014**

![Bar chart showing median hourly earnings for employed heads and secondary earners, 2014.](Source: Author's tabulations of 2015 CPS ASEC)
The work gap

Low earnings are a problem but an even greater issue is the amount of time spent working.

As shown in figure 4, nearly a fifth of bottom-third household heads are not working at all. Moreover, less than half of them are working full time.

When the head of working-age household is not working at all, a natural question is: how are they surviving? The answer is that a few (8 percent) are relying on the earnings of someone else in the household, and about half (51 percent) have non-earned income. The remainder (41 percent) report zero income. They may, of course, have unreported sources of income as noted above.12

Why are so many household heads not working?

Given the large numbers of low-income household heads who are not working and the large impact this has on their incomes, it is useful to look at what these individuals themselves say about why they aren’t working. Figure 5 shows self-reported reasons for not working in 2014.
For women, the most important reason given for not working is “taking care of home or family.” For men, the most important reason is being “ill or disabled.” Recall that we are excluding those who qualify for disability programs (SSDI or SSI), as well as adults under the age of 25, or over age 54.  

Tighter labor markets, however, do make a difference. Though female heads’ reasons for not working in 2014 are fairly comparable to those given in 2011, male heads were much more likely to report that they were unemployed because they couldn’t find work in 2011 (31 percent compared to 20 percent in 2014). The reason fewer men are giving this answer likely reflects trends in the overall unemployment rate, which fell from 8.9 percent in 2011 to just over 5 percent in 2015.

The backdrop for these low levels of employment is both a deep and prolonged recession and a secularly declining rate of labor force participation, especially among less educated men. The proportion of working-age men not attached to the labor market has gone from about 7 percent in 1970 to about 16 percent now. The recession may have exacerbated this trend but the trend has been underway for decades. When one compares the U.S. to other advanced countries, one sees lower levels of workforce attachment among working-age men (Sawhill 2015, 2016). See figure 6 below. U.S. women’s employment-to-population ratio is still above the OECD aggregate (70 percent vs. about 66 percent), but other nations are catching up, and passing us. In the late 1990s, prime age Canadian women saw their employment rate jump past the U.S. women’s rate; Germany and Japan have recently surpassed us as well. 

Source: Author’s tabulations of 2015 CPS ASEC
These cross-national data showing the U.S. with lower levels of employment among working-age men are inconsistent with arguments that nations with more robust safety nets produce a less motivated work force. A more likely set of reasons for the work gap is such factors as a lack of education and skill (including so-called soft skills and work habits); very low wages in the jobs that are available; the lingering effects of a deep and long recession that has eroded people’s skills and motivation or stigmatized them as unemployable; and the failure of social policies, such as child care and paid leave, to keep pace with the fact that women are now 40 percent of primary earners and that a large proportion of our struggling families are single parents. If we separate the U.S. employment-to-population numbers into our two groups (bottom-third and top two-thirds), we see a large disparity that has grown over time.\textsuperscript{15}

While the share of men who are employed at the middle and top has been quite stable since 1980, lower-income men’s work rates have declined by 11 percentage points (figure 7). As middle- and upper-income women have increased their work rates by 13 percentage points, employment among lower-income women has remained flat (figure 8). For both men and women, we see a growing bifurcation of the two income groups. It appears that those in the bottom third are, for one reason or another, no longer as attached to jobs as they once were.
Figure 7: Percent of 25-54 year-old male population working, 1980-2015

Source: IPUMS CPS; University of Minnesota

Figure 8: Percent of 25-54 year-old female population working, 1980-2015

Source: IPUMS CPS; University of Minnesota
At the same time, it is also likely that some combination of the underreporting noted above, income from informal activities, the availability of a safety net from other family members or one’s own savings means that not all of these nonworking household heads are in as dire straits as the data might suggest. Accurately capturing low-income household resources is a long-running challenge for survey administrators. John Thompson, Director of the U.S. Census Bureau, says the agency hopes to use administrative data to provide a more complete picture in the 2020 census, with a particular focus on the nation’s 6 million “hard-to-count households” (Thompson 2015).

Our findings are similar to those reported in a 2014 New York Times, CBS News, and Kaiser Family Foundation survey of non-working adults ages 25 to 54, which suggested that prime-age, non-working adults found themselves in a mix of situations, and had an equally diverse set of ways to support themselves and their families.16

Many of the non-working adults received public benefits. Among those who did not report being homemakers and said they were able to work, 32 percent participated in SNAP; 8 percent received disability benefits (SSI or SSDI). Many cobbled income together from other sources, like their savings (24 percent), another employed person in the household (34 percent), family and friends (33 percent), child support (12 percent), or unemployment benefits (7 percent).

Stepping back, 34 percent of all the men, including the disabled, had criminal records. A quarter of all the men said they would take a minimum wage job, but 44 percent said there were local jobs they would not take; some men may face less pressure to work now that fewer are married. Others had personal problems that made it hard for them to find and keep jobs; a third of all the men said they had health problems or a disability.

As David Leonhardt (2014) concludes, “the stagnation of incomes in recent years has been as much about the decline of work as about slow-growing wages.”

Another reason that bottom third households are floundering is because they are overly dependent on one earner. In today’s economy, one way that many families achieve and maintain middle class status is by sending a second adult into the job market. But this strategy is much less prevalent among low-income households. Lack of a second paycheck in our low-income families may be due to the fact that there isn’t a second adult in the household, or it may be that even when additional adults are present, they aren’t working. It seems to be some of both. Only 41 percent of low-income households with two working-age adults have at least two adult earners (figure 9). That figure is 83 percent in more advantaged households with at least two working-age adults. Furthermore, these second earners work full time in the majority of advantaged households, but only in 10 percent of low-income households (figure 10). (Full time employment is defined as 40 hours a week, 50 weeks a year.)
Figure 9: Number of adult earners in households with two or more working-age adults

Source: Author’s tabulations of 2015 CPS ASEC

Figure 10: Hours worked by other adults in household, 2014

Source: Author’s tabulations of 2015 CPS ASEC
Strategies to assist low-income, working-age Americans

The conventional remedies for helping these families become self-sufficient involve ensuring that enough jobs are available (maintaining full employment), paying higher wages, providing them with more education and training, and strengthening their families.

We simulated five hypothetical scenarios that look at how much these struggling families might be helped by closing the work gap, maintaining full employment, paying higher wages, and reducing the number of households dependent on only one income. Specifically, we look at what would happen to the earnings of these households if:

1. All household heads were employed and worked full time,
2. The labor market stayed at full employment (as defined by the Congressional Budget Office),
3. We raised the minimum wage to $10.10, $12, or $15 an hour,
4. More low-income individuals had at least a high school degree, or
5. Households headed by a single parent were instead headed by a married or partnered couple.

Results

Increased work among household heads

As we have seen, an important reason for these households’ low income is lack of employment. Some of the work gap derives from a lack of jobs, and some derives from individuals’ unwillingness or inability to take available jobs. Putting aside the reasons for their unemployment, our simulations suggest that there could be large earnings gains to low-income households if more jobs were available and these household heads were willing and able to work full time at their existing or predicted wage.

We find that if every low-income household head worked some—at their expected hours and wages—a 16 percent increase. If we assume that every currently employed low-income household head worked full time (40 hours a week for 50 weeks a year, or 2,000 hours), average low-income household earnings would rise by around 28 percent, or $3,400, to a total of $16,600. And if all household heads—whether currently employed or unemployed—worked full time at their expected wage, simulated household earnings rise by 54 percent, to roughly $19,200. This hypothetical simulation relies on strong assumptions, namely that an increase in hours worked would not affect wages (which could potentially fall if the labor force grew). They also rely on
predicted wages for those who are not currently working, based on the wages of employed adults with similar educational attainment, work experience, race, and gender. This procedure may over-predict expected wages since the group that is not working likely has unmeasured characteristics that would pull their wage rate down. Moreover, we are not arguing that the work gap would be easy to close or that all of our household heads could easily find work. But the simulations nonetheless provide a useful thought experiment that demonstrates the relative importance of the work gap in reducing household earnings and why it should be the focus of greater attention going forward.

Maintaining full employment

One way to potentially close some of the work gap is to maintain full employment, as modeled by the Congressional Budget Office. There is little question that the Great Recession had a devastating effect on the employment rates of lower income households.

As of 2011, the unemployment rate was 8.9 percent and almost a third of non-working male heads of low-income household said their lack of work was because they were unable to find a job. Comparisons of hours worked by low-income household heads in 2011 to that of low-income household heads in 2007 suggested that fewer low-income Americans were working full time post-recession (40 percent in 2011 versus 52 percent in 2007) and more were completely unemployed (18 percent in 2011 versus 12 percent in 2007).

By 2014, the unemployment rate was still 6.2 percent and mean earnings from wages and salaries for low-income households was $12,415. And while a higher percentage of low-income Americans were working full time in 2014 (44 percent) than in 2011, it still remained lower than the 52 percent who worked full time in 2007.

When we run our model using current CBO projections of the unemployment rate over the period 2014 to 2023, we find that we can expect mean earnings to increase to around $13,318 if unemployment hovers around 5 percent (see figure 11).

These simulations suggest the importance of achieving and then maintaining a full employment economy for low-income families. From a baseline value of $12,415, earnings rise to $13,318 in 2023, a 7 percent increase. Note that the CBO’s projected unemployment rate dips below 5 percent before rising slightly, which causes our simulated earnings to fall after peaking in 2018.

In the late 1990s, the unemployment rate dropped to around 4 percent and some economists believe we could achieve this level of employment again. Currently, there is no evidence that a 5 percent unemployment rate is creating any inflationary pressures. If we simulate a steady decrease in unemployment, until it reaches 4 percent in 2021, we find that bottom-third household earnings rise to $13,661 by 2023, a 10 percent increase from the 2014 baseline.
Raising the minimum wage

In his 2014 State of the Union address, President Obama called for an increase in the national minimum wage to $10.10 per hour. Now many are calling for $12 or $15 minimums. We simulated what would happen to earnings in low-income households if we increased everyone’s wages to at least $10.10, $12, or $15 an hour (figure 12).

Figure 12: Minimum wage simulations

Source: Author’s calculations using the 2015 CPS ASEC
Increasing the minimum wage to $10.10 could increase earnings from $12,415 to $13,610, or by 10 percent. This is only a modest increase, though the effect is larger for households that have at least one worker earning less than the minimum. This simulation may have either a downward bias (e.g., if higher wages induce more workers to take jobs or if a higher minimum wage causes companies to raise the wages of those already making above the minimum) or an upward bias (e.g., if a higher minimum wage has a dampening effect on employment due to higher business costs). But the weight of the academic literature suggests that an increase to $10.10 would have little or no negative effect on the level of employment of low-wage workers.\textsuperscript{19} The CBO (2014) evaluated a 2014 proposal to raise the minimum wage to $10.10 by 2016. It found that the proposal would reduce employment by 0.3 percent, or about 500,000 workers. But the confidence interval around that estimate was large; the authors were only 66 percent confident that the true effect would fall between “almost no employment effect” and a reduction of 0.6 percent, or about 1,000,000 workers. And the new minimum would likely raise the incomes of the 16.5 million workers that made less than $10.10 an hour in 2016; the net effect, CBO found, would be to lift 900,000 people out of poverty, and increase overall real income by $2 billion.

Higher minimums, unless phased in slowly or introduced selectively in high wage labor markets, would have more adverse effects. It may not be realistic to expect that employers would continue hiring at the same pace, particularly in areas outside major metros with lower costs of living. We’ll know more about the possible employment effects of a $15 minimum on major cities soon, as places like Seattle evaluate the effect of a $15 minimum (Hill et al. 2016).

Our own view is that the model’s estimate for raising the minimum to $10.10, at least, is conservative because it does not adjust for the effects of a higher minimum on wages just above the minimum or the fact that a higher minimum might encourage work. A higher minimum would also reduce reliance on government benefits.\textsuperscript{20}

*Improving education*

Ultimately, returning to full employment and improving pay for low-wage workers are downstream solutions. Low-income workers, on average, are less educated than higher earners and historical trends suggest that the positive association between earnings and education has tightened in the recent decades. Improving the educational attainment of low-income Americans is therefore key to improving their earnings potential.

For this reason we simulate the earnings effects of raising the high school graduation rate for the bottom-third of adults to 90 percent, and assume that half of the “newly” graduated go on to receive some form of post-secondary education (figure 13).
There is only a small impact on the average earnings of all bottom-third households, perhaps because this intervention only affects 15 percent of households. Among households for whom the simulation changed the educational attainment of an adult, the impact is much larger, increasing average income by $2,500 or 22 percent. For the households who “receive” a new high school graduate who goes on to get some college experience, the earnings effect is about $2,650, or a 23 percent increase. For households with heads that now graduate high school, but do not receive some college education, the effect is just below $2,500, a 20 percent increase from their baseline. While this simulation demonstrates the benefits of improving educational attainment levels, the size of the impacts suggests that improving high school graduation rates will not be enough to lift the earnings of low-income Americans very much, especially given that the earnings gains from a high school diploma are increasingly dwarfed by the gains from post-secondary degrees, and the evidence suggests that few of the marginal students who enter college are likely to actually graduate.

This trend makes it increasingly important to connect non-college graduates to the labor market through apprenticeships and job training programs (Holzer and Lerman 2014). The evidence on the effectiveness of job training programs is mixed; many programs that show positive impacts are small and scaling them remains a challenge (U.S. Department of Labor et al. 2014; Andersson et al. 2013). Effective programs tend to integrate students directly into the labor market, rather than confining the curriculum solely to the classroom. For example, one of the most effective forms of job-based learning, Career Academies, forms partnerships with employers to provide internship experience for students. In a randomized evaluation, MDRC found that Career Academies
increased young men’s average annual earnings by 17 percent, or roughly $3,700; the program also increased marriage rates (Kemple 2008). But the intensive curriculum is difficult to scale while maintaining program fidelity.21

**Strengthening families**

Single parents are disproportionately represented among low-income families—18 percent of our struggling households are headed by single parents compared to only 5 percent of those in the top two-thirds of the income distribution. The rising number of single-parent families has exerted an upward pressure on the poverty rate; our past work has shown that if the proportion of children living in single-parent families had remained at the same level as in 1970, the child poverty rate would now be about 5 percentage points lower (Sawhill 2014). While the relationship between family type and income is more complicated than a simple causal relationship from single parenthood to poverty,22 two incomes, even two low incomes, are better than one.

We explore the impact of adding a second-earner to single-parent families through a simulation that pairs low-income single-mother household heads with unrelated males.23 More specifically, we pair them with demographically similar but unrelated men based on education, race, and age. (For more information on the simulation, see the appendix of Sawhill and Karpilow 2013.)

Our simulation shows that pairing low-income mothers with demographically similar men would increase the average household earnings of the bottom-third modestly, by $508, or about 4 percent. The increase for the average household earnings of single mother households is larger—$3,113 or around 32 percent (figure 14).

**Figure 14: What If single mothers got a helping hand?**

Source: Author’s calculations using the 2015 CPS ASEC
Notably, we were not able to match all single mothers with demographically appropriate men. Roughly 37 percent of single mothers remain unmatched.\(^{24}\) In particular, our sample had a shortage of unrelated black males to pair with demographically similar black single mothers; 61 percent of black mothers and 26 percent of white mothers remain unmatched.

The modest increases in earnings are also partly due to our family-size adjustment. We divide household earnings by the square root of family size—so adding family members requires that we divide their raw incomes by a larger number. The modest effect also derives from men’s lower earnings. Among men we were able to match, personal earnings averaged $12,664. Among women we were able to match, personal earnings averaged $15,222.

**Conclusion**

The purpose of this paper has been to explore the reasons for the low incomes of the bottom third of working-age households and to provide a ballpark estimate of the relative efficacy of different labor market interventions. As summarized in figure 15, all of the simulated interventions have positive impacts on low income household earnings.

**Figure 15: Sorting out the reasons for low earnings among low-income household heads**

We still don’t fully understand why there is such a big work gap among these households and exactly how we could help them become more self-sufficient. It is even possible that self-sufficiency is the wrong goal for many of them, and that only a more adequate safety net at the bottom will help them have better lives.
Endnotes

1. See the appendix of Sawhill and Karpilow (2013) for details on the labor market model’s definition of the family unit. This definition groups primary families and related subfamilies into one family unit; we also identify cohabiting individuals as living in the same family. We count unrelated individuals living in the same CPS household, however, as belonging to separate units. Throughout the paper, we refer to these constructed units as “families” and “households” interchangeably.

2. To account for the economies of scale inherent in larger households, we adjust raw income by dividing it by the square root of the number of people in the household. This method of household income equalization also acknowledges that those economies diminish as household size increases. Intuitively, our adjustment assumes that households with four members have needs twice as great as those of single person households. For a detailed but accessible discussion of different equivalence scales, see Winship 2015.

3. The unadjusted median annual income values were $24,000 for the bottom third and $90,000 for the upper-income group.

4. Note that we excluded those on disability programs, like Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI), from our sample so those citing illness or disability are unlikely to be permanently disabled.

5. For an overview of potential policies to address structural unemployment, see Haskins and Sawhill 2015, and also Dutta-Gupta et al. 2016.

6. Income is adjusted for family size; see the appendix of Sawhill and Karpilow 2013 for more details.

7. These sources include unemployment and worker’s compensation, veteran’s benefits, rent, interest, dividends, public assistance, child support, social and supplemental security payments, retirement and survivor’s income, and other educational or financial assistance. Among those in the bottom third with non-earned income, child support payments represent the highest annual average amount (about $525) followed by Social Security payments ($454), educational assistance ($380), unemployment compensation ($298), and “financial assistance from friends or family” ($262).

8. Another issue facing the CPS is undercounting: the survey struggles to reach transient low-income residents, like some renters or people without stable addresses or contact information. This means there are more low-income and unemployed U.S. residents than CPS might lead one to believe. By comparing the CPS to the 2000 Census, John Schmitt and Dean Baker estimate that the employment rate would have been 1.4 percentage points lower in 2006 had
the CPS been able to reach these hard-to-count individuals. See Schmitt and Baker 2006 for more.

9. For more on the impact of transfer programs on poverty, see Fox et al. 2014. For more on education and job training, see Council of Economic Advisers 2009.

10. We define full time work as 40 hours a week for 50 weeks a year. Note that wages and hours worked are likely related since past research (and economic theory) suggests that employment is sensitive to how much one is rewarded for being employed.

11. Hours worked, in turn, are the product of weeks worked and usual hours worked each week. We make an attempt to correct for any bias in our estimates relative to more direct measures of hourly earnings. See the appendix Sawhill and Karpilow 2013.

12. Dube, Giuliano, and Leonard (2015) estimated the ripple effect of the increase in the federal minimum wage from $4.25/hr to $5.15 from 1996 to 1997. They found that a national retail company raised its wages by 30 to 40 percent across its entire hourly workforce, even though less than a 10th of the firm’s employees initially earned less than the higher minimum. Kearney and Harris (2014) find that a minimum wage increase could raise the incomes of almost a third of the workforce due to ripple effects. Increasing the minimum wage would also give low-income households more spending money. This produces a “multiplier effect”—workers that get raises increase their demand for goods and services provided by other low-income workers, which lifts those workers’ take home pay, too. See CBO 2014 for a discussion of the spending multiplier effect of an increased minimum wage among lower-income families.

13. When we looked at the characteristics of the small subgroup that is not working at all, we didn’t find that they differed a lot from other low-income adults in terms of their age, education, or race, although they were more likely to be female, much less likely to be married, and more likely to live alone.

14. It’s also notable that, among men who report not working because of school attendance, only 60 percent separately report being enrolled full time or part-time. For women, that figure is 67 percent.

15. Ibid.

16. It is not surprising that nonemployment leads to low income. What is surprising is the widening gap in employment rates over time. Work is less universal than it used to be.

17. The survey had a total sample size of 1,002 non-working adults age 25-54, 363 men and 639 women, and was conducted via telephone in November of 2014.

18. Where full time means 40 hours a week, 50 weeks a year.

19. As explained in more detail in Sawhill and Karpilow (2013), expected hours for
the unemployed are estimated from a regression that uses similarly-qualified employed adults. Expected earnings are calculated as the product of each individual’s predicted work probability, predicted earnings (conditional on working), and a retransformation factor, to account for the fact that earnings are logged.

20. Card and Krueger (1994, 2000) found essentially no employment effect from New Jersey’s minimum wage increase from $4.25/hour to $5.05/hour. CBO (2014) estimated the probable effect of raising the national minimum wage to $9/hour or $10.10/hour from 2014 to 2016, and found modest employment effects and large earnings gains for the $10.10 proposal. The $9 proposal had a correspondingly smaller effect on both accounts. See Schmitt 2013 and Neumark and Wascher 2007 for reviews of recent studies on minimum wage increases.

21. Sawhill and Karpilow (2014) found that raising the minimum wage to $10.10 would generate approximately $8 billion in new tax revenue and in cost savings from non-Earned Income Tax Credit means-tested programs over the next decade.

22. For an overview of youth apprenticeship programs, see Lerman 2014.

23. Note that the 5 percentage point effect above includes an adjustment factor for selection effects.

24. Note that we do not attempt to match women who have at least one other working-age adult in the household—a conservative approach to accounting for cohabitation.

25. This includes 61 percent of black mothers and 26 percent of white mothers. Part of this “shortage” of eligible men stems from the parameters we use to define which men are “eligible.” We only match men who live alone. Were we to expand the definition of “eligible” to men who were not cohabiting, but lived with other family members, the pool of eligible men would expand by roughly 40 percent, and the newly added men would have nearly $6,000 higher average annual personal earnings than the men we currently attempt to match. From this perspective, our matching simulation estimates should be seen as conservative. For more on the matching process, see the technical appendix from Sawhill and Karpilow (2013).
References


