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In class, we have framed poverty in four different ways: poverty in terms of deviance, dependence, economic growth and capability, and political disenfranchisement. In this paper, I will focus on the controversies within the frame of poverty in terms of economic growth and capability, drawing from Peter Gottschalk's "Inequality, Income Growth, and Mobility: The Basic Facts" and Chapter two: "Changing Economy" of Rebecca Blank's *It Takes a Nation: A New Agenda for Fighting Poverty*.

First, I will give some background on the relationship between poverty and the economy. Poverty rates are closely tied to the economy. Historically, an expanding economy has resulted in declining poverty rates and vice versa. For example, the Great Depression during the 1930s created terrible destitution and poverty, while the 1960s enjoyed a huge economic expansion and watched poverty rates plunge. This relationship between poverty and the economy allowed the government to use economic growth to battle poverty. Until the 1970s, this was a very popular strategy because it assisted the poor while also benefiting the non-poor. Since then, this formula has broken down. No longer does the "rising tide lift all boats." The past two decades have suffered rising poverty rates despite increasing mean income. Economists have pointed to many facts about the shifts in distribution of earnings and employment. However, the real controversy lies in the explanation of these patterns. Rebecca Blank believes that due to declining demand for less-skilled workers, the nature of jobs available to less-skilled workers has worsened: wages have fallen, fringe benefits and career opportunities have become more limited. Therefore, she concludes that employment-based strategies are no longer as effective a way to fight poverty. Peter Gottschalk believes that the growth in

wage inequality is caused by the rise in the price of skill due to higher wages for skilled workers and lower wages for less-skilled workers. Therefore, he says, changes in the absolute income of the poorest are due to growing wage inequality and decreasing wage mobility as the economy grows. He also points out that not only does the rising tide fail to lift all boats, but that even people in the same boat do not stay together. Like Blank, Gottschalk concludes that demand-side shifts are to blame: the rise in the price of skill has led to the increasing inequality of the distribution of labor market income. While Blank and Gottschalk have few direct disagreements, there are subtle differences in their approaches in explaining the failure of economic expansion to reduce poverty.

Rebecca Blank's argument describes how the changing economy for less-skilled workers has disrupted the relationship between economic growth and poverty, and concludes that job earnings alone cannot push a family out of poverty. She first explains how economic expansion led to reduced poverty rates during the economic boom from 1961 to 1969. She then describes the changes in the economy that led to the breakdown of this relationship. Blank cites falling wages as the prime factor; she claims they account for the reduced involvement in the labor force and compound the negative effect of the deteriorating nature of jobs. She also notes that job availability for the urban poor has become more limited due to the geographical shift of employment opportunities from cities to suburbs. Finally, she says that jobs are not the solution to poverty; the poor need additional public and private support.

Plummeting poverty rates during the 1960s can be traced to the combined effects of increasing job availability and higher wages. Generally, the number of available jobs increases during economic expansion. The unemployed or the discouraged workers, who

can now take advantage of the increased job availability, benefit more than those who are already employed. Another important factor was that wages rose with the expansion. “Each one percent expansion in the economy over the 1960s was associated with a \$2.18 increase in weekly wages after inflation for workers in low-income families” (Blank 55). Increased job availability and higher wages slashed the poverty rate from 22 percent in 1960 to 13 percent in 1970.

Economic growth no longer reduces poverty because the previous associations among economic expansion, wages and job availability no longer hold. From 1983 to 1989, the economy grew an average of 3.7 percent each year (it grew 4.3 percent per year during the 1960s). Unemployment fell and low-income households were working more—at faster rates than during the ‘60s boom—but the poverty rate only fell about four percent. The difference this time around was that for the poorest ten percent of the population, weekly wages fell 32 cents for each one percent expansion in the economy. From 1992 to 1993, poverty rates actually rose even as the economy grew. Whereas wages and job availability rose together in the 1960s, the last two decades saw falling wages offset the effect of lower unemployment. The empirical evidence presented in this section clearly supports Blank’s claims about the historical relations between poverty and the economy based on the effects of expansion on unemployment and wages—and breakdown of those relationships due to the changes that occurred in recent years.

Blank claims that the declining wages have led to decreased involvement in the labor force. It is reasonable to believe that as wages fall, the inclination to work also falls. This has been especially apparent among less-skilled males. Besides the effect of men who stayed in school longer, earned higher wages and retired earlier, the low

employment rates reflect the increasing number of males who are completely dropping out of the labor force. The share of male high school dropouts in the labor force went from 86.8 percent in 1970 to 72.3 percent in 1993 despite a seven percent increase in GDP per capita over the same period. Blank attributes this to the discouraging effect of falling wages: a 22.5 percent decrease for high school dropouts from 1979 to 1993.

“Over the 1980s...when wage divergence became more acute, the decline in less-skilled men’s labor market behavior can be almost entirely explained by the decline in their wages” (Blank 69). Among less-skilled females, work opportunity and wages did not change much: wages for high school dropouts fell 6.3 percent. Accordingly, their labor market involvement remained relatively constant: from 1970 to 1993, the share of female high school dropouts went from 41.7 percent to 43.3 percent. Drops in wages and job options for the less-skilled have been accompanied by huge increases for higher-skilled workers, both male and female. College-educated males saw a 9.8 percent increase in wages and involvement in the labor force remained constant: 94.1 percent in 1970 compared to 92.7 percent in 1993. Women of the same skill-level experienced a 27.1 percent increase in wages and labor force involvement increased from 63.6 percent to 81.9 percent. Therefore, Blank concludes, wage trends are very important factors in work behavior.

“Those who have experienced wage increases in recent years are working more, particularly the more-skilled men and women; those who have experienced stagnant wages show little change in their work effort, particularly less-skilled women; those who have experienced declining wages show declines in work effort, particularly less-skilled men” (Blank 72).

Blank's statement about more-skilled men working more does not hold up according to her graphs: the only section of the population with increased work force involvement were those with some post-high school training, and that was only a 2.4 percent increase, compared to a 5.9 percent decrease for high school graduates and a 1.4 percent decrease for college graduates. However, I believe this is a minor contradiction; her main point about the connection between wages and work behavior mostly holds up.

However, Blank's argument concerning overall job availability is somewhat confusing. She claims that employment has been growing right along with the expanding labor force, and that overall job availability has not changed much over the years. Confusingly, she also states that "while job availability may not have deteriorated overall, it could still have declined for some" (Blank 58). She goes on to say that poor workers face much more difficulty finding work than high-wage workers. For example, high school dropouts have an unemployment rate five times the rate of college-educated workers. She also notes that black workers for every skill level have unemployment rates twice that of white workers, and that the rate for women has fallen more than it has for men. However, she claims that over the long term, job availability has not deteriorated; it has merely failed to improve for the less-skilled, blacks and Hispanics. "For the working poor, unemployment is as high and job availability is as limited as it has always been" (Blank 60). Later, she states that geographical changes in the labor market have resulted in increased problems for the inner-city poor. As jobs move from the city to suburbia, less-skilled workers in urban communities are faced with broken job networks and increased travel difficulty. When the job network breaks down, low-wage workers are especially hard hit because most blue-collar jobs are obtained through personal

connections, claims Blank. Also, because blacks and Hispanics have been excluded from suburban housing, and commuting from the city to the suburbs is costly and time-consuming, they are unable to join the network of suburban jobs. Exclusion from economic opportunity has contributed to more limited job availability and increasing poverty for urban poor. “Urban ghettos and their inhabitants have become more isolated from the regional economies that surround them. Within these neighborhoods, job availability has become more limited” (Blank 75). She seems to contradict her earlier claim that work opportunities for less-skilled workers have not changed. I believe she is attempting a nuanced argument about job availability while emphasizing that its overall stability indicates the importance of other factors on poverty such as changes in work behavior and the nature of jobs, which she describes in other sections. However, she needs to be more careful about not contradicting herself. While she does not ever say this, it can be inferred that unemployment rates have not reflected rising poverty and worsened work opportunities because people are simply dropping out of the labor force. Her argument would be clearer if she stated this explicitly.

Besides the drop in wages, the nature of jobs available to less-skilled workers has deteriorated in other ways. Health insurance provisions and pension benefits have decline over the past two decades, reinforcing the negative effect of falling wages. Also, although career opportunities have improved for females, they have worsened for males. No longer does the job ladder reach from stock boy to company president; there is a gap at the more upwardly mobile entry-level management positions, where MBAs and other post-college degrees are becoming increasingly required.

Blank claims that the decline in demand for less-skilled workers is the primary reason for falling wages. She rejects two arguments that claim the problem is on the supply side: that less-skilled workers are less prepared for jobs these days due to failing schools and broken families, and that the increase in immigrants has pushed down the wage rate. High schoolers are performing better on standardized achievement tests since 1970. And if family structure was the problem, women would be affected in the same way as men, but they haven't. She argues that the workers' skills are not changing, but job demands are: "the problem is that the jobs open to these workers are demanding more (or at least different) skills than before. Strong muscles, with limited literacy and numeracy, are not adequate for today's jobs" (Blank 65). What's confusing about this statement is that earlier, she downplayed the effect of deindustrialization on job availability for less-skilled workers. "Widening wage distribution...is not driven by the shift from manufacturing to service sector jobs" (61). Her claim about immigrants is that cities with larger amounts of immigrants do not show evidence of greater wage inequality or higher unemployment among native workers. I don't buy this argument and she does not produce any statistics to support her claim. Blank claims that the two primary explanations for declining demand for less-skilled workers are the increasing internationalization of the U.S. economy and technological changes in the U.S. economy that require a more skilled workforce. She explains that more involvement in the global labor market introduces high competition for low-wage workers from developing countries, disadvantaging U.S. workers with low skills. I don't believe that this is an important enough factor to contribute significantly to the decreasing demand for domestic workers. This would only be a problem if U.S. workers were traditionally shipped out to

foreign factories, foreign workers were shipped in to work in domestic factories. Granted, U.S. companies set up shop in developing countries (instead of in America where it would provide jobs for less-skilled workers) because they can find cheaper labor there, but I believe these are jobs that would be mostly filled by immigrants anyway. Blank claims that technological advances have replaced less-skilled workers. She states that both manufacturing companies and the service sector have begun to use machines and computers to reduce the need for human labor. However, this is only one way of looking at the effect of advanced technology. In macroeconomics, we learned that the economy always wants to increase productivity. Machines and computers allow fewer people to produce the same amount. However, most companies are not satisfied with that end; they want to produce more with the same amount of labor. Therefore, technological advances do not necessarily indicate a drop in demand for human labor.

Blank's final point is that due to falling wages and declining job opportunities for less-skilled workers, employment is becoming a less effective solution to poverty. She gives examples of how much a less-skilled worker in a single-parent family with two children, a two-parent family with two children and a single adult would have to earn weekly in order to escape poverty, assuming no public or private assistance. She found that only 22 percent of single mothers, 72.5 percent of married fathers and 59.8 percent of single adults earn enough to escape poverty without assistance. Therefore, she concludes, there must be some additional sources of income because employment is not enough to escape poverty.

Peter Gottschalk begins by stating that during the 50s and 60s, increases in poverty during recessions were more than offset by decreases during expansions.

However, during the last two decades, the increases in poverty were larger than the decreases as the economy went through recessions and expansions. From 1973 to 1994, a 27 percent increase in mean income per capita was accompanied by an overall 31 percent increase in poverty rates. He attributes this to the growth in wage inequality and demographic changes such as the rise in single mothers. Gottschalk states that family income includes several factors including private income sources, taxes, and other expenses, but he focuses on labor market earnings to simplify his argument.

Beginning in the 1970s, wage dispersion increased rapidly as mean wages grew slowly, reflecting falling wages for the lowest income groups and rising wages for the highest income group. Inequality increased in years regardless of whether unemployment was rising or falling. Therefore, he claims, the steady rise in inequality indicates a real shift in the economy rather than cyclical changes. The rapid growth in dispersion—the rich got higher wages and the poor got lower wages—also accounted for the phenomenon of rising poverty rates despite increasing mean income. He then discussed the variance in changes in inequality across and within groups based on gender, race and education.

Among women, real weekly wages did not fall between 1973 and 1994 for any percentile according to Gottschalk's graphs, although the increases were tiny at the bottom and much larger for the top (he does not explain what this percentile refers to, but I believe it has to do with income levels). Note that Blank's graph indicated a 6.3 percent decrease in weekly wages for female high school dropouts from 1979 to 1993. Among men, however, all changes in real weekly wages for the same period for those below the 78th percentile were negative. Similarly, for males, only the college graduates experienced a positive change in weekly wages according to Blank's graph. It is

interesting that the authors drew these graphs based on tabulations from the same source: the March Current Population Surveys. I prefer Blank's graphs because they correlate percent changes in average weekly wages to skill level. Gottschalk's vague "percentiles" have no meaning for me, and do not indicate any further revelations that might be useful in analyzing the changes in wages. Gottschalk's other graphs are similarly frustrating. His second graph shows that the percent difference in wages between the 90th and the 10th percentiles among females decreased much more rapidly than they did among males, resulting in a convergence of the lines around 1969/70. After 1970, the wage differential among males increased faster than it did for females, but for both, inequality increased steadily until 1994. His third graph charts decreasing wage gaps between males and females and blacks and non-blacks, but this does not explain the growing wage inequality. These graphs only seem to be useful in showing that race and gender do *not* account for the growing wage inequality. However, skill level in terms of education and experience does show itself to be a significant factor in the rise in inequality. The college premium has increased rapidly since the early 1980s, indicating that the price of skills has been rising. Gottschalk says that between 1973 and 1994, the "difference between the earnings of college and high school graduates with 1 to 5 years of experience" more than doubled (Gottschalk 30). His graph clearly shows that the college premium for recent college graduates with 1 to 5 years of experience went from 0.37 in 1973 to 0.53 in 1993. This increase is clearly less than double. I'm not sure how he interpreted his own data, but his conclusion seems incorrect. Anyway, Gottschalk's point is that there was a huge growth in wage inequality because the increases in the college premium were due to two factors: decline in real wages of high school graduates (20 percent) as well as the increase

in wages of college graduates (five percent). He mentions that the drop in wages for workers without college education, coupled with the fact that they were increasingly dropping out of the labor market, clearly indicated that high school graduates were facing a declining pool of jobs. (Blank, if you recall, denied this claim, saying that job availability had not changed. But she had also contradicted herself later, citing technology and geographical shifts as causes for the decline in demand for less-skilled labor.) In macroeconomics, a drop in wages is associated with rising unemployment because tougher competition for jobs drives down wages. Gottschalk also mentions that the experience premium increased for both males and females over the past three decades. However, the premium for males leveled off in the 1990s, while it continued to increase for experienced females. Even so, the gap between males and females has remained roughly the same since 1963. Gottschalk concludes this section by saying that increased differences between different groups are not the only changes; differences within groups with similar characteristics have also increased.

Within groups of workers with the same gender, race, education or experience, inequalities between the 90th percentile and the 10th percentile were also large. Gottschalk claims that within-group inequalities accounted for 50 percent of the total increase in inequality for males and 23 percent for females. He admits that this finding presents a difficult question, and offers two possibilities. One is that unobserved ability (in addition to education and experience) was reaping a higher reward. This means that groups of workers that seem similar actually do have an unobserved difference. The other possibility is that jobs were becoming more unstable. He claims that a third of the increase in within-group inequalities is due to fluctuations in yearly earnings.

Gottschalk very briefly notes the changes in the distribution of unemployment. He observes that the least skilled workers experienced the largest drops in employment and weekly wages. He does not make the connection between these two trends, as Blank did in describing falling wages as a factor in declining involvement in the work force.

Gottschalk's final point is that mobility can reduce the level of income inequality measured over several years. Measures of mobility are important because they provide information about what percentage of low wage workers in a given slice of time had low earnings in following slices of time. He stresses that only increasing mobility can reduce a rising trend toward inequality. However, out of the few studies that have researched earnings mobility, none has found any increase. Finally, Gottschalk concludes that the rise in inequality reflects a decline in the earnings of less-skilled workers due to the rise in the price of skill.

Blank presented a very normative argument that emphasized falling real wages to show that employment was no longer an effective solution to poverty. Gottschalk focuses on describing the changes in inequality due to economic shifts in a more documentary style with less commentary about why these changes were happening. He notes that the primary academic focus is on labor market incomes because labor economists were the first to notice the changes and because they are very capable of analyzing changes in the relative supply and demand of less-skilled labor. For the most part, Blank and Gottschalk's data match up, but they focus on different aspects. I found Blank's graphs and charts much clearer and more supportive of her claims. Gottschalk's graphs were more difficult to understand quickly. I believe that despite some apparent contradictions, Blank offers a better, more persuasive argument with data presented in a

very clear way to supports her claims about the relationship between education and wages. Gottschalk provides a very sound economic argument to explain the growing inequalities; yet, his confusing graphs and vague wording make it difficult to understand his points. His use of regressions and the scale at which he drew them were not nearly as effective as Blank's bar graphs and the scale at which she drew her regressions. Also, Gottschalk merely states facts, which as Blank says, "virtually all analysts" agree upon. I prefer Blank's argument to Gottschalk's because she provides a wider examination of the causes that led to the anomaly of rising poverty during economic expansion—and actually offers suggestions on why wages are falling.