LIVING ON THE EDGE:
AMERICA'S LOW-EARNING FAMILIES

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Executive Summary

One in three working families in America today find that employment does not guarantee a decent living standard. 40 percent of all children – 30 million kids – grow up in such households. These are the families who confound the American Dream: they "work hard and play by the rules" – and yet, they are not getting ahead in the modern economy.

Despite some significant differences, there are some common truths that define the experiences of families with children coping on low wages. They exist in the shadow of their aspirations, thanks to the deep economic insecurity bred by insecure, unrewarding employment. 74 percent of workers think that the American Dream is becoming harder to achieve and a dwindling number of people believe that life for their children's generation will be better than their own.

Economically, these families are squeezed – by declining wages and hours, coupled with rising living costs, particularly for essentials such as healthcare, housing and food. They are struggling to get by on a day-to-day basis, let alone find the resources to put into health insurance and college or retirement savings.

This paper explores the factors that lie behind the declining living standards of low-income households with children today. It shows how the recession has hit their economic opportunity and security hard. But look closer, and some worrying longer-term patterns suggest that a better metaphor for the current crisis in living standards is a 'lost generation', rather than a 'burst bubble':

- **Rising inequality:** since the 1970s, the incomes of the poorest fifth of American households have risen by 16 percent. The richest fifth have seen their incomes soar by 95 percent, and income of the richest 1 percent has increased by 281 percent

- **Stagnating wages in the middle:** while productivity grew by 19.8 percent between 2000 and 2007, the median hourly wage for men went up by just over 1 percent. Median income actually fell over the 2000-2007 business cycle.

- **Increase in low-quality, precarious work:** the 60 million new jobs added to the economy over the last generation are very different to yesteryear's blue-collar jobs. Nearly a third of all American jobs today pay below the median wage and do not offer health or retirement plans.

Globalization, trade, technology, immigration and changing business practices all play a part in explaining the declining living standards of America's low-earning families with children. But most also agree that public policy choices have done a great deal more for the rich than the poor, compounding the rise in inequality. From regressive tax cuts to the steady erosion of labor market institutions, workers and their families have lost out in recent years.

The decline of living standards described here is not a problem that is likely to disappear as the economy moves toward recovery. From retail, to restaurants, to home care, American lifestyles are sustained today as never before by low-wage service sector jobs. Low-wage

work is projected to be at the center of the economy in years to come, and with it come serious implications for the children and families of these workers. In this context, the paper outlines three key areas where further progress is needed:

- **Ensuring a decent income:** Tax credits have made a dramatic difference to the household budgets of low-earning families in recent years. But any sustainable long-term solution to addressing declining living standards demands a simultaneous focus on addressing low pay through improving market wages. At a minimum, this will require a new consensus on the role of a federal minimum wage, coupled with better enforcement of existing labor market regulations.

- **Encouraging quality work:** America has the weakest employment protection framework of the developed world, with few worker rights such as paid sick leave or childcare support and this needs to be addressed, as do the low levels career progression and occupational mobility for low-earners. Success in these areas will require a shift in the norms and practices of employers, as well as further government interventions.

- **Building economic security:** Low-earners need greater support to save for tough times. Innovative schemes such as child savings accounts should be encouraged, as well as a focus on longer-term savings as well. And there must be changes to ensure that the benefits of savings-related tax incentives flow the households most in need.

However global the changes that are affecting low paid workers and their families, there is still a central role for government, and for social and economic policies that protect against the vagaries of such changes. The proposals here are not exhaustive; however they highlight the huge potential for further action.

But the real challenge lies in reversing the loss of mass-upward mobility that can be traced in America over the last generation. This will take more than a discrete set of government policies, important though these are. As was the case in 1930s America, the scale of the challenge today demands a systematic response that involves public, private and civic action. The focus must be on mending the historic link between pay and productivity and reinvigorating the belief that the next generation will be able to fare even better. The goal must be to foster a broad-based prosperity that will provide low- and middle-income families with the economic security that has been seized from them over the last generation and create a pathway to a prosperous future for their children.

LIVING ON THE EDGE: America's Low-Earning Families[i]

> *"If you work 40 hours a week and you've got a child in the house, you will no longer be in poverty. It is an elemental, powerful and profound principle. It is not liberal or conservative. It should belong to no party. It ought to become part of the American creed."*
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> President Clinton, speaking in 1992

45 million people live in households that exist on less than 200 percent of America's official poverty line.[1] 40 percent of all children – 30 million kids – grow up in these households.[2] One in three working families find that employment does not guarantee a decent living standard. One in five families find that their wages, plus any benefits they receive, do not cover their household bills and living costs for the area in which they live.[3]

These are the families who confound the American Dream: wages make up the majority of the household's income and yet they are struggling to make ends meet. They work hard and play by the rules – and yet, contrary to President Clinton's vision, they are not getting ahead in the modern economy.

Life for low-earning families is a constant struggle – balancing precarious work with the demands of raising children, stretching meager wages to cover increasing basic costs such as food, fuel, and housing, and living permanently on the edge of crisis due to a lack of savings or insurance. In recent years, low-earning parents may have had a better chance of owning a house, or accessing credit than workless households, but this paper brings to light how they now face stagnating living standards, record levels of debt, and a bleak future.

This is significant for those working to combat child poverty for two reasons. First, it is a reminder that in today's economy, low paid work is as significant as unemployment in explaining child poverty. And second, by looking beyond income to consider these households' exposure to risk and their ability to build assets, the analysis here underlines the importance of considering standards of living as well as income alone.[4]

This paper explores the factors that lie behind the declining living standards of low-income households today. It makes the case for a renewed focus on social and economic policies that protect these families against the vagaries of a changing labor market. However it also shows that the scale of the challenge – to mend the broken link between economic growth and living standards and stem the tide of rising child poverty – will not be addressed by government action alone. This major challenge demands a systematic response that involves public, private and civic action. The goal must be to foster a broad-based prosperity that will provide low and middle-income families with the economic security that has been seized from them over the last generation and create a pathway to a prosperous future for their children.

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[i] For the purposes of this paper, where possible, 'low-earning families' are defined as households where at least one member has worked in the last 12 months, and where overall household income is less than 200 percent of the official poverty threshold ($44,100 for a family of four).

A SNAPSHOT OF LOW-EARNING HOUSEHOLDS TODAY

Given the numbers of low-earners in America today – one in three working-age households – it is not surprising that there is a great deal of diversity across these families. For some, low hourly wages means that however hard they work, they will struggle to achieve even the median income. For others, caring responsibilities or ill-health limit earning potential through low hours as well as low wages.

Over half of Americans now believe that life for their children's generation will be worse.

It is also a dynamic group: some young people will quickly progress, while others find that their low skills hold them back and they remain stuck in this group over their life. Changes in circumstance, such as the birth of a child or a break up, put people at risk of falling into the group. The recession has highlighted this dynamism, with some better-off households becoming low-earners for the first time, and other low-earners hitting an exhausting cycle between low-paid, temporary jobs, and unemployment.

Despite this diversity of experience, there are some common truths that define the experience of low-earning families. These families now report greater feelings of insecurity than any other part of the population. A 2007 poll found that 74 percent of workers think the American Dream is becoming harder to achieve; 80 percent say that 'no matter what you hear about the economy, working families are falling behind'.[5] The percentage of people saying they believe that life for their children's generation will be worse has crept up steadily in recent years, and many polls now show over half of Americans feel this way.[6]

These findings are not surprising. Low-earners and their children are caught between being 'too rich' to qualify for many of the state and federal poverty support programs, and yet too poor to do well out of private markets when it comes to housing, childcare or training, for example. And as we see below, their already vulnerable financial positions have been hit hard by the double whammy of a credit crunch and a recession of a severity not seen since the 1930s.

Exposed by the recession

The recession has taken a disproportionate toll on low-earning families thanks to their reliance on low-paid, insecure work for their household income. By the end of 2010, 14.5 million people were unemployed and more than one in ten American children had an unemployed parent – double the number of children in this situation in 2007.[7] Far from being the white-collar recession that was originally predicted, these job losses have disproportionately hit the industries and areas where low wages are concentrated. They are also affecting workers with low qualifications particularly hard, leaving many low-skilled workers struggling to find work again. Long-term unemployment

By the end of 2010, more than 1 in 10 American children had an unemployed parent.

(of six months or more) has remained stubbornly high – with an obvious impact on household budgets – and now accounts for 44.3 percent of all unemployed people.[8]

Losing out on hours can be as devastating as losing a job for families with children.

Losing out on hours can be as devastating as losing a job for families with children who were juggling income and outgoings week-to-week even before the recession hit. So-called 'involuntary part-time work' (where a person is working but would like more hours) rose by nearly a million over the course of 2010, to nearly 8.9 million people, or roughly two-thirds the number of unemployed Americans. Again, this underemployment is concentrated in the low-skilled, low wage sectors and occupations where workers are most likely to need more hours to avoid their children experiencing poverty.

If working extra hours was one way that low-earning households mitigated low wages before the recession began, the use of cheap credit to supplement earned income was another. The income-debt ratio more than doubled between 1987 and 2007, with the steepest rises in the middle of the income distribution.[9] In 2004, total debt (including mortgages, car loans and credit cards) was 125 percent of income for a median couple with two children.[10] Since then, the rapid contraction of cheap credit has made it much harder to 'smooth' over any gaps between income and outgoings.

The squeeze is not only coming from reduced income, but also from rising costs of basic goods – such as housing, food and fuel. 60 percent of low-earning families spend more than a third of their income on housing.[11] Looking at changes between 2000 and 2007, housing costs rose for low earners by 18 percent, and utilities were costing them 11 percent more. Inflation for basic foodstuffs was at 5.5 percent in 2008 – higher than the overall rate of inflation. As a consequence, low earners have experienced a 50 percent rise in food insecurity since 2000, as they make cut backs in food budgets to cover other rising costs.[12]

A deeper economic fragility

Beyond the daily grind of balancing budgets, there are some worrying indications of a deeper financial vulnerability for low-earning families. This vulnerability has been exposed by the economic downturn and the contraction of the consumer credit and mortgage markets, and exacerbated by the recent rises in the cost of living outlined above.

In 2010, only 8 percent of low-earning households could cover their costs for three months – compared to a national average of 51 percent.

Low-earning households have fewer safety nets than better-off families to protect them if times do get difficult. Nationally, four out of ten low income families have at least one parent who lacks health insurance.[13] Equally worrying are the numbers of families who are *under*-insured. It is harder to quantify this issue, but there is evidence that three-fourths of people filing for bankruptcy had insurance, but just not enough to cover high bills. As many as 10 percent of all bankruptcies cite the 'birth of a child' as a reason for filing, suggesting the increased vulnerability of these families once children are present and that many families are unable to insure themselves for anything other than their most basic needs.[14]

Beyond health insurance specifically, low-earning working-age households are much less likely than wealthier families to be saving adequately, with nearly two-thirds not having enough in the bank to cover their basic needs for a month. In 2010, only 8 percent of low-earning households could cover their costs for three months – compared to a national average of 51 percent.[15]

Many low-wage households with children exist in the shadow of their dreams and aspirations, thanks to the deep economic uncertainty bred by insecure, unrewarding employment.

So, debt becomes an issue as households turn to credit to cover gaps in income. One in five low-earners with debts faces a debt-to-income ratio of 40 percent or more. Low-earner household debts rose by an average of 24 percent between 1989 and 2007, and one in ten low-earning households had at least one payment that was over two months late in 2007.[16]

Looking at long-term financial security, low-earners were less likely to have a pension before the recession, even when their reduced access to occupational pensions is taken into account. According to the Federal Reserve, 70 percent of low earners lacked a retirement account in 2009.

Getting by, not getting on

The proportion of children in low-income households with at least one securely employed parent has dropped by 9 percent between 2000 and 2008, at the same time that the gap between higher-income families and low-income families with secure parental employment has grown by a third over this period.[17] Dealing with insecure employment and very tight budgets is deeply tiring and stressful work. Research by the UK-based Resolution Foundation noted that for low-earning families, economic, social and psychological wellbeing are closely intertwined. Economic opportunities and liabilities are deeply connected to financial capability, social capital and geography, for example.[18] While these links are harder to quantify, they are equally significant when it comes to assessing the living standards of low-earning households.

Families who are not sure of next week's income or hours of work inevitably are more focused on coping and surviving – on 'getting by' rather than 'getting on'. This sense of living on the edge and of 'just coping' makes it less likely that people will see or seize opportunities when they present themselves: many low-wage households with children exist in the shadow of their dreams and aspirations, thanks to the deep economic uncertainty bred by insecure, unrewarding employment.[19] A number of longitudinal studies conducted in the UK have found that any downgrading of employment status leads to an increase in depression. This is true even after controlling for other factors, such as previous levels of depression, income levels, marital status and so on.[20]

Such qualitative work is reinforced by the quantitative evidence about mobility at the bottom of the income ladder in America. A U.S. Treasury Department study in 2007, based on data from individual income tax returns, shows that one in three low-earners remain below median income across a ten-year period, and those who do move are most likely to move only to an adjacent quintile; meanwhile two in three higher-earners have succeeded in avoiding income drops and maintaining their position at the top of the income distribution.[21]

Other U.S. Census data shows how those with low skills and few qualifications are less likely to progress in life than better-qualified peers.

EXPLAINING THE LIVING STANDARDS SQUEEZE

What should already be clear is that the issues facing America's low-earning families are not simply the result of the recession. Instead, it is possible to trace a longer-term story of economic changes that have served to leave large numbers of households with children behind as the American economy grew in the late 20th century. These changes may not have had such a profound impact on low-earning families, were it not for the repeated failure of social and economic policy to mitigate against rising inequality and falling living standards for many hard-working Americans.

A rising tide?

The first of these long-term economic shifts is the breakdown of the historic link between economic growth and rising wages. America's post-war period was characterized by a narrowing of the income gap (which had reached historically high levels in the 1920s[22]) and a booming economy. Comparatively little international competition, strong unions, and a New Deal consensus about the importance of fairness meant that firms were passing on the fruits of growth to their workers. As the real incomes of all households rose in line with national growth and productivity, it seemed that an expanding economy was good news for everyone. In the words of President John F. Kennedy, a rising tide lifted all boats.

Since the 1970s, economic growth has continued. On average it has led to rising incomes for most taxpayers. But disaggregating this data tells a rather different story: the incomes of the poorest fifth increased by just 16 percent while the incomes of the richest fifth soared by 95 percent.[23] Looking more closely at the very top of the distribution reveals that incomes for the richest 1 percent have grown by an astonishing 281 percent. Some argue that these differences would be even starker if income from wealth, such as stocks and shares, were included in these calculations.[24]

As JFK's rising tide recedes thanks to a widening of the gap between the richest and poorest households, there have been concerning developments for children living in households in the middle of America's income distribution, too. From the 1970s onwards, low-wage family incomes have not kept up with economic growth. While the incomes of higher-income families have grown rapidly, less well-off children and their families have experienced slow, no, or negative growth. The wages of average working Americans have stagnated (and in fact declined for men), despite the ongoing growth at the national level.[25] And by 2008, children in high-income families ended up with a median family income that was 12.5 times greater than that of children in low-income families (at $150,338 versus $12,000)[26]. Taking a historical perspective, a man on the median wage today is earning 12 percent less than his father did,[27] with the implications reflected in the disparities above. Lane Kenworthy shows that if median wages in the U.S. had tracked growth in GDP between 1973 and 2010 (as it had from 1945 to 1973), then the median American household would have earned $60,000 more in 2008 than they actually did.[28]

Even if the year 2000, rather than the late 1970s, is taken as the starting point, the picture looks bleak – so much so that the Economic Policy Institute has christened this period 'America's lost decade'. While productivity increased by 19.8 percent between 2000 and 2007, the real median hourly wage for men went up by just over 1 percent, with most of this growth occurring between 2000 and 2003.[29] For the first time on record, median income did not rise over the 2000-2007 business cycle: in fact, it fell slightly, to $51,965. For families living between 100 and 200 percent of the poverty line, median income is just $33,500 today.

The recession is accelerating these trends, and U.S. Census figures show that younger working-age families are being hit particularly hard, with those in the 15-24 year old bracket experiencing a decline in household income of 4.4 percent between 2008 and 2009 alone – in contrast to the increase of 5.8 percent enjoyed by households over the age of 65. That said, it remains the case that children living in low and modest income households were already suffering: the Child and Youth Well-being Index (CWI) shows that three-fourths of the income declines between 2000 and 2008 occurred *prior* to the crash of 2007.

Precarious work

Since 1973, rates of job growth have remained high. However, the 60 million new jobs added to the economy since then are very different to the typical blue collar jobs of older generations. As the economy becomes increasingly service-driven, those manufacturing jobs – with relatively high wages, good job security, and substantial fringe benefits – are being replaced by jobs which are part-time, low wage and come with few, if any, benefits. In other words, the *quality* of jobs, as well as wages, is declining – with a number of negative consequences for the economic security of America's low-earning families with children.

Data suggests that the economy is producing 25-30 percent fewer 'good jobs' than it was 25 years ago.

Today, 23.1 percent of U.S. jobs are so-called 'good jobs' that pay over the median and offer health and retirement plans. But 29 percent of jobs have *none* of these qualities – a figure that is roughly constant with the 1970s data. By taking into account developments in human capital since then, however, this data suggests that the economy is producing 25-30 percent fewer 'good jobs' than it was 25 years ago.[30]

It is notoriously difficult to track changes in the quality of low paid work, as there is no simple measure such as that for tracking unemployment. However, in 2005, Francoise Carre and James Heintz estimated that 'precarious' employment accounted for 9.1 percent of all American jobs. Such insecure work is particularly concentrated at the lower end of the labor market. For example, the top five non-standard occupations are overwhelmingly low-paid – cashiers, truck drivers, waiters, cooks and janitors.[31]

The insecurity of modern low-wage work has obvious poverty risks as workers get caught in an exhausting revolving door between unrewarding, poorly paid work and spells of unemployment. While chronic poverty (living in poverty for 48 months) affected just over 2 percent of the population between 2004 and 2007, nearly a third (31.6 percent) of Americans had at least one two-month spell in poverty during this period, suggesting that the 'revolving door' phenomenon is widespread.[32]

Lacking money brings its own problems. But it also introduces other risks for low-earning families too, by limiting their ability to build up safety nets and assets as a means to greater economic security. For example, 41 percent of temporary workers are not covered by medical insurance, and 62 percent of part-time workers do not have access to, or are not eligible for, any employer provided health benefits. The latest Census data, released in September 2010, shows a worrying trajectory for health insurance, with increases in the numbers of uninsured in both 2008 and 2009, particularly in lower-income households.[33] Although changes were made in 2009 to expand health coverage for children in the U.S., the lack of adult health coverage will have implications for children if it affects their parents' ability to work.

Children who experience even a short period of poverty will grow up to earn less, achieve lower levels of education, and experience more poor health as adults than their peers who were able to avoid poverty altogether.

Figures like these should not only galvanize action to support families now. They should also be treated as serious warning signs for the future. Longitudinal analysis by First Focus shows how poverty, even short-term poverty, has a shockingly clear impact on children's potential for the future. Children who experience even a short period of poverty will grow up to earn less, achieve lower levels of education, and experience more poor health as adults than their peers who were able to avoid poverty.[34]

Overlooked by policy

In his 2011 State of the Union speech, President Obama commented that "the problems we now face are bigger than party and bigger than politics." He is right in the sense that the living standards of today's low-earning families have been shaped by the huge economic and social changes of the 20th century. Globalization, evolving business practices, technological change, and immigration all provide the vital backdrop for the issues described in this paper.

While most agree that these transnational trends help to explain the declining living standards of low-earning Americans today, most also agree that public policy choices made over the years since the 1970s have done a great deal more for the rich than the poor. From generous tax cuts, to the steady erosion of collective insurance mechanisms, to the decimation of union membership and the deregulation of the labor market, workers have lost out over the years – and as a result, so too have their children and families.

Some argue that this disempowerment of hard-working Americans was an explicit strategy by particular Presidents. But even those who reject this notion acknowledge the problem of policy 'drift' – in other words, the failure to update policy as the economic world evolves.[35] Given the pace of change today, this risk of drift is greater than ever.

Take Britain, which has historically done a better job of passing on the fruits of economic growth than the U.S. Even there, the speed at which wage inequality is growing has meant that policy must run fast to stand still. For example, tax credits have lifted one million children out of poverty in the U.K. since 2000, but the number of children in households needing tax credits in the first place (thanks to an expanding low wage labor market) has increased from two million to three million.[36]

And in the U.S., whether by accident or design, simple government expenditure figures show just how overlooked low-earning families are today. Contrast the $1.25 trillion spent on subsidizing employer-based health insurance – which low-earners are less likely to have – with the $60 billion that is spent on Medicaid and the Children's Health Insurance Program (CHIP) (for which all children in families living on less than 200 percent of the poverty line qualify). Compare the $69 billion spent on mortgage interest deduction with the $3 billion that goes to supporting mortgage subsidies for low-earning families.

The current crisis in low-wage families' living standards resembles a 'lost decade' more than a 'burst bubble', with problems beginning well before the latest recession.

Figures like these mean that thinking in terms of 'recession' and 'recovery' will not tackle the deeper problems faced by low-wage households with children in America. As this paper shows, the current crisis in low-wage families' living standards resembles a 'lost decade' more than a 'burst bubble', with problems beginning well before the latest recession. Rather than demanding a discrete set of policies, the challenge of improving living standards and increasing economic opportunity for low-earners and their families now needs to be the animating challenge and the driving force behind all government plans and industrial policy.

IS THERE ANYTHING TO BE DONE?

Some economists have argued that the future lies in the 'knowledge economy', pointing towards rapid growth in occupations requiring degrees and equivalent qualifications. And yet, from eating dinner out and shopping to home care and personal services, modern American lifestyles are sustained as never before by low-wage, low-productivity service sector jobs. While it is certainly true that high-skilled jobs are on the rise, so too are low-skilled jobs. Between 2008 and 2018, America's economy will add more than twice as many chefs and waiters than computer scientists, more than twice as many retail assistants than management analysts.[37]

Employment projections put together by the U.S. Bureau for Labor Statistics show that service industries will account for 96 percent of total employment growth between 2008 and 2018. Within services, the occupations of 'home health aides' and 'personal care and services' boast the fastest growth and the biggest numeric growth over the next decade. Their median wages in 2008 figures are just $20,460 and $19,180 respectively – not enough to sustain a family of four above the poverty line. While 27 percent of new jobs will require some form of degree, 53 percent of jobs will only require short- or medium-term on-the-job training. In other words, jobs requiring higher education are growing quickly, but by the year 2018, the majority of occupations will not require anything like this level of education.[38]

These projections underline the fact that low-wage work will be at the center of the economy in years to come. Given the breakdown between growth and wage improvements, policymakers cannot assume that a recovery from recession and a return to growth will improve the fortunes of today's low-earning families with children. Instead, America needs a long-term economic strategy that puts decent jobs and broad-based prosperity – rather than growth alone – at its heart. This has implications for the way in which deficit reduction is tackled and the relative emphasis it is given in comparison to a sustainable and robust industrial strategy.

There is also a need to build durable alliances for social and regulatory policies that will support and reinforce a fair economic strategy. This calls for more specific campaigning points for those seeking to improve life for families at the bottom of the labor market, as the following sections describe.

Debates about supporting low-earning families are at a critical point in America today. There is growing recognition – supported by an increasingly unarguable evidence base – that urgent action is required to address the divergence of living standards and lifechances for America's children. From the Carolinas to California, this has led to many rich examples of innovative local programs that are making a real difference to people's lives. The task now is twofold: first, to stimulate more of these local innovations, fast, in order to learn about what works. And second, to make the case for why these innovations matter, and how they can be translated into coherent policy frameworks at state and federal levels.

Ensuring a decent income

Successive U.S. Presidents of the post-war era ushered in a series of measures designed to protect workers and their families. The introduction of Social Security and a national minimum wage, coupled with high levels of unionization, meant that workers benefited from state and employer investment in their quality of life. The tax regime was more progressive, and the gap between rich and poor shrank from its previous high point in the late 1920s.

Any sustainable, long-term solutions to addressing declining living standards and rising child poverty demand a simultaneous focus on addressing low pay through improving wages.

Much of this architecture has been undone over the last generation. The national minimum wage, never indexed, eroded by 30 percent over the 1980s as Congress failed to uprate it for nine consecutive years. In 2010, it was worth less in real terms than it was in 1955. Deregulation of the labor market, coupled with global economic trends, has decimated the bargaining power of low-earners and led to a sharp reduction in job quality. The OECD now shows that America has the weakest employment protection framework of the developed world.

In an era of steeply declining union membership, tax credits have proved more popular politically than wage regulation when it comes to improving incomes for low earners. For President Clinton, who conducted a major overhaul of welfare in 1996, not only were tax credits an effective model of support, but they also lacked the stigma of 'welfare' and the perceived political difficulties of taking on employer practice, while reinforcing a message about the value of work.

There is no question that tax credits have made a dramatic difference to low-earning families in recent years. More children now exit poverty through the Earned Income Tax Credit (EITC) than through any other form of government assistance.[39] Recent analysis of the alternative poverty statistics shows how the expansion of the EITC (introduced as part of the 2009 American Recovery and Reinvestment Act, or ARRA) prevented poverty from rising in 2009 despite rising unemployment.[40] Indeed, it is estimated that the EITC moved 2 million children out of poverty in one year alone[41]. Therefore the decision by Congress in December 2010 to maintain the extensions of EITC and the Child Tax Credit that were introduced in ARRA was good news for low-earning families.[42]

However, any sustainable, long-term solutions to addressing declining living standards and rising child poverty demand a simultaneous focus on addressing low pay through improving wages. Historically the minimum wage has been seen as a contentious political issue in the United States, despite the fact that it can play a key role in addressing child poverty. As Jane Waldfogel argues, this must – and can – change. She notes that after the U.K. child poverty target was established in 1999, one of the key subsequent policy changes was the establishment of a national minimum wage in order to ensure an income above the poverty line for families with children.[43] To achieve a similar effect in the U.S. where a federal minimum wage already exists, it means indexing the federal minimum wage, so that it automatically rises in line with inflation.[44] It also means being supportive of local initiatives to introduce 'living wages' for low paid workers. Furthermore, anachronisms in the law that exclude home workers and others from coverage must be addressed, given that home health aides and personal care assistants are among the fastest growing and sizeable occupations in the U.S.

As well as extending fair wages, there is the equally urgent need to enforce existing rights. A recent study found that 26 percent of home care workers in New York and Chicago were being paid less than the minimum wage, with six out of 10 of those workers losing more than a dollar an hour, and seven out of 10 of them not being paid for overtime.[45]

Tightening up the legislation around minimum wages will not be easy. More robust economic research and analysis to explore the full costs of low pay for business competitiveness and staff turnover – and the full benefits of increasing family wages for low-earning households – is needed. The case for fair wages must be made in business terms, as well as on the basis of social and economic justice.

Quality work at the low end of the labor market

Since the 1996 welfare reforms, tax credits, childcare subsidies, and health insurance for children have all expanded, making a material difference for many low-earning families. But existing 'workfare' fails to address the fundamental problem: that low wage, low quality work continues to be a key part of the American economy, and it fails to provide a decent quality of life for millions of hard-working Americans and their families.

Campaigning for quality work means that low-earners should no longer lose out when it comes to 'work supports' – in other words, benefits such as paid sick leave, paid parental and medical leave, and flexible working rights. As this paper has shown, there is worrying evidence that the American jobs market is beginning to 'bundle up' very different kinds of jobs for different kinds of people: low paid jobs (like many of those offered through the Temporary Assistance for Needy Families program to vulnerable workers with children) are less likely to offer health insurance, pensions and training than higher-paid jobs. And yet a spell of illness for a family lacking health insurance or any other kind of safety net will almost certainly lead to crisis – and ultimately higher costs for both the family and for taxpayers.

The welfare-to-work reforms of 1996 were preceded by years of experimentation in local areas, spearheaded by governments, foundations and non-profit organizations. The time has come for another round of experimentation – this time focused not only on getting people into work, but on how to create decent, satisfying work. This has already begun – take for example the District of Columbia's recent legislation that requires employers to offer some paid sick leave for all workers. Campaigns by organizations such as the Center for Law and Social Policy and the National Employment Law Project, are crucial in publicizing these local successes, and making the case for mainstreaming them. Others need to get on the bandwagon and add to its momentum.

Work supports designed to help families manage their caring responsibilities – such as childcare subsidies or paid time off – are of particular significance when thinking about a family's living standards. For low-earners, the option of 'buying in' support or outsourcing personal care does not exist: in many cases the costs of this care exceed the salary a low-earner can bring in. In this light, the current support available is depressing: although states are permitted to use the federal childcare block grant they receive to support any family living below 185 percent of the poverty line, just 12 percent of those eligible actually receive support.[46] Low-earners spend 14.5 percent of their income on childcare – nearly three times as much in percentage terms as higher-income families.[47]

As well as expanding and better targeting limited work supports, there is also a need to enforce what worker protection exists. The Center for American Progress shows that in the 1950s, there was one inspector for every 46,000 workers. By the 1990s, this had dwindled to one inspector for every 150,000 workers.[48] Expanding legislation for decent conditions will be a hollow victory if it is not properly enforced across all sectors.

Quality work is also about giving people the opportunities to learn and progress in their careers. Like many other developed countries, America needs to do more to better integrate the adult skills and employment systems. In particular, the U.S. needs to look hard at how to tackle the fact that educational attainment (particularly for boys) has not kept up with the increasing value of the gains attached to that educational attainment. In other words, fewer people are gaining a college degree at precisely the time that this achievement is becoming more valuable relative to other, lesser qualifications.[49]

Addressing career progression and mobility is not only an agenda for government. Advocates need to win over companies through making a commercial business case for 'high road' employer practices. The Center on Wisconsin Strategy has campaigned extensively, with considerable impact, to encourage more firms to invest in their workers over the long term. They argue that workforce development lies at the heart of any high-road strategy: it not only helps firms to remain competitive (through addressing skill shortages and improving productivity) but it also prepares workers for employment that offers higher wages and opportunities to advance into promising careers.

Building economic security

Unlike many poorer families living below the poverty line, low-earning households are not generally financially excluded: most of them are part of mainstream banking services. However, they are much less likely than higher earners to own investment products. They are less likely to own insurance products or have pension plans. They are less likely to be offered competitively-priced loan products for cars and homes. While this means that they are not excluded from daily life in the way poorer households can be by financial isolation, it does mean that low-earning families are struggling to build assets.

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From housing to savings, assets matter. 71 percent of children born to high-saving, low-income parents experience social mobility over a generation, compared to only 50 percent of children of low-saving, low-income parents.[50] So, while income (and therefore, consumption) is traditionally the measure of economic wellbeing, the ability of a family to build up assets is equally crucial to their chances of achieving economic security for them and their children. Assets can be converted into safety nets and into springboards such as a new home, a college education, or savings for retirement. As the New America Foundation has argued, "the path to upward mobility and stability is usually paved with assets."[51]

Saving is challenging for everyone. But market failures, poor public policies, and individual behaviours make it even harder for low-earning households to put money aside for 'rainy days' or to make longer-term savings for college, home ownership and retirement. This is an area that is rich in innovation. There are many organizations, such as Doorway to Dreams Fund, who are drawing on the latest behavioural psychology and testing out what incentives and structured savings opportunities work for low earners. Experiments include child savings accounts, matching schemes, prize-linked savings, and schemes connecting tax credits with savings goals. These pilots need to continue, and they need to be evaluated carefully. Successful schemes need to be translated into policy frameworks which can then be applied across all states. They need to be used to stimulate the private market, encouraging the financial service industry and others to develop financial products and services that genuinely meet the needs of low-earning customers fairly.

Changes to the tax system are needed alongside the encouragement of these innovations. Asset-building policies already consume significant amounts of government expenditure. In total, America spends an impressive $400 billion helping taxpayers to build assets, mostly through the tax system. Current approaches are extremely poorly targeted at those who need it most however: half of this money goes to the top five percent of tax-payers – those people earning more than $167,000 each year. A middle class household making $50,000 a year would receive less than $500 in benefits a year from the most expansive of these federal policies. In contrast, a family on $100,000 would get about $2,000, and a household bringing in more than $1 million would receive $95,820 in annual support.[52]

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If there is any chance of reversing America's rapidly-growing inequality, this gross unfairness must come to an end. There needs to be a fundamental shift in the American tax system to ensure that low-earners benefit from asset policies too. This is particularly true in the field of longer-term savings – in other words, pensions and retirement schemes. The federal government will spend over $140 billion on supporting retirement savings in 2011 – mainly through tax breaks for 401(k)s and Individual Retirement Accounts. And yet we know that low-earners are less likely to be offered such schemes by their employers, and less likely to take them up even if they are on offer.

Here, the work by the New America Foundation and others on the development of a refundable Savers Credit could make a material difference to low-earning families. Similarly, the proposal to develop a 'portable' 401(k) – one which would offer good tax incentives for low earners and potentially even a matched element – is promising. Equally the growing number of firms who are offering 'opt-out' rather than 'opt-in' retirement plans should be encouraged to spread the word to other employers.

All of these are incentives to encourage low-earners to save. Equally important is the need to remove disincentives. Here, building on a proposal put forward by the President last year, the asset tests for means-tested programs could be standardized across states and schemes, ensuring that low-earning families are not disqualified from such programs for possessing some assets, such as a car, or retirement and college savings accounts.

SOME CONCLUDING THOUGHTS

What should be taken from this unfolding story about America's low-earning families? First, the importance of a sharper account of who the 'squeezed middle' are and what has been happening to them, as part of a wider story about the state of working America today. Here the focus needs to be on how overall standards of living are changing – rather than on income alone. This account is particularly important for those advocating to reduce poverty and child poverty as they decide how to prioritize their efforts and frame the issues. Work that does not provide a sufficient income is now as much to blame for poverty as unemployment. Those seeking to tackle child poverty need now to direct their efforts at the world of work, as well as at the world of welfare.

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Second, that however global the changes that are affecting low paid workers, there is still a central role for government, and for social and economic policies that protect against the vagaries of such changes. As Robert Reich's latest book shows, policy and political frameworks to address seemingly insuperable structural changes have made a difference in the past, and will be vital in forging a sustainable and equitable future.[53] The range of proposals put forward in this paper are not by any means exhaustive, but they do highlight the huge potential for further action to address that issues faced by low-earning households in the modern economy.

Finally, there is a lesson about the goal to aim for. It is easy to fall into a trap of thinking that the central question is one of deficit reduction versus growth. The severance of the historic link between productivity and wages in the decades before the 2007 crash should be a reminder that economic growth alone will not solve the squeezed middle problem. The focus instead needs to be on fostering a broad-based prosperity – a prosperity that will provide low- and middle-income families with the economic security that has been seized from them over the last generation and create a prosperous future for today's children.

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