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The working poor

How much do we need to earn just to get by in today's society? In the US the figure for a family of four, including both parents, ranges from \$27,000 a year in rural areas to \$52,000 in one of the big cities, according to estimates produced at a London-based symposium this week.

Eileen Appelbaum, the Rutgers University professor who outlined the figures at a Future of Work symposium organised by the Economic and Social Research Council, said the national median was about \$33,500. Yet in 2001 some 34m Americans - about 24 per cent of the labour force - were earning less than \$8.70 an hour (\$17,400 a year), a figure she described as close to the poverty line for a family of four.

People rarely mention the poverty line these days. Reports of earnings tend to be dominated by the seven-figure salaries awarded to the bosses of big businesses. So the revelation that so many Americans can be classified as "working poor" is a reminder of the broadening inequalities in the world's richest nation.

The original poverty line - the concept of Charles Booth, the Victorian shipping magnate and social reformer - was set at 10 to 20 shillings a week for an average family of four or five in Victorian Britain.

Booth, who listed the classes from A (the underclass) to H (the upper middle class), appears to have understood the concept of corporate and social responsibility long before it made the "nice-to-have" lists informing the trendiest of company agendas.

But after he suggested the establishment of a state pension (adopted 15 years later), his influence on government policy declined, being overshadowed partly by the collectivist economics of Sidney and Beatrice Webb that demonstrated little regard for the lower orders. Beatrice Webb once described the working class as "stupid, and in large sections sottish with no interest except in racing odds".

It is heartening, then, to find a modern study of labour economics that is closely in touch with the realities of work for so many. Prof Appelbaum's work on low-paid Americans, soon to be published as a book,* is an indictment of US corporate sector short-termism and the way that deregulation and cost-cutting, principally of wage bills, has been tolerated and sometimes encouraged by successive US administrations.

She is particularly critical of the corporate obsession with shareholder value that, she says, has neglected a greater fiduciary responsibility to the wider community. She blames these changes partly on the growth in mutual funds that has strengthened the power of investors to insist on ever-increasing profits and efficiencies.

But wage-cutting policies, she says, have exacerbated the declining value of the minimum wage. In 2001 this was \$5.15 an hour, some 28 per cent lower in real terms than the figure in 1974 of \$7.18 an hour, expressed in 2001 dollars.

"This decline in the real minimum wage has allowed firms to respond to economic pressures by cutting the real wages of their lowest-paid workers," she says. "Had this not been possible, at least some employers would have chosen the alternative

response of investing in workers' skills or capital equipment to improve productivity."

Other remedies she suggests include a national commitment to a living wage to increase demand for goods and services. This equivalent of the "rising tide that floats all boats" has its roots in Keynesian economics, popular immediately after the second world war, a period of unprecedented economic growth in the US when incomes were far more evenly distributed than they are today.

Prof Appelbaum's work and other recent economic studies suggest that it is time for the US and the UK to re-examine their 25-year infatuation with free market economics. At the same time, governments must rethink their interventionist policies.

A Financial Times survey this week revealed that UK government regional investment grants were failing to stimulate employment on anything approaching the scale originally envisaged.

In the same week, a study published by the Centre for Economic Performance highlighted differences in the relative pay of skilled workers in different regions of the UK.** This noted that the relative wages for skilled workers were a third lower in the South East, which has the highest living costs in the UK, than in Wales or Scotland, thereby questioning policies that steer skill-intensive industries towards regions with high levels of unskilled labour. The study found that companies needed to pay more for their skilled labour in regions where there was a scarcity of qualified workers.

Each of these studies illustrates the complexity of labour markets. Nevertheless there seems to be a broad consensus among academics on the relationship between education and skills training, economic performance and earnings potential.

Prof Gerhard Bosch, vice-president of the Institut Arbeit und Technik in Gelsenkirchen, Germany, told the ESRC symposium that higher educational and skills qualifications were reflected in higher employment rates and higher earnings. According to his calculations, every additional year of schooling for individuals across the European Union equates to an additional 6.5 per cent in their earnings.

Put simply: the more you learn, the more you earn.

His conclusions would appear as important for the US as they are for Europe, since Prof Appelbaum notes that most low-paid workers in the US have no educational credentials beyond a high-school diploma.

We may argue about modern definitions of poverty but it is difficult to ignore Prof Appelbaum's conclusion that "income inequality threatens the social fabric of our society and the stability of our democracy".

Private enterprise has proved itself incapable of exercising the responsibilities that promote equitable rewards across society and government has proved almost equally inept at social intervention. The need for greater social partnership on training and lifelong education, therefore, is becoming a matter of urgency.

**Low-Wage America, How Employers Are Reshaping Opportunity in the Workplace, edited by Eileen Appelbaum, Annette Bernhardt, and Richard J. Murnane is published by the Russell Sage Foundation. **All is Not Equal, a study by Andrew Bernard, Stephen Redding, Peter Schott and Helen Simpson was published in the summer issue of CentrePiece, the magazine of the Centre for Economic Performance.*

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