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Employment Research

APRIL 2005

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and Stephen A. Wandner
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the Workforce Investment Act

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Vol. 12, No. 2

Employment Research is published quarterly by the W.E. Upjohn Institute for Employment Research. Issues appear in January, April, July, and October.

The Institute is a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

W.E. Upjohn Institute
300 S. Westnedge Avenue
Kalamazoo, MI 49007-4686
(269) 343-5541
www.upjohninstitute.org

Randall W. Eberts
Executive Director

Christopher J. O'Leary, Robert A. Straits,
and Stephen A. Wandner

Reconsidering Job Training and the Workforce Investment Act

Federally funded job training in the United States has been administered under the Workforce Investment Act (WIA) since July 2000. The original WIA provisions expired in 2004, and deliberations over reauthorization in the previous Congress produced only a temporary extension. The 109th Congress is considering new proposals for WIA reform. A new book published by the W.E. Upjohn Institute for Employment Research, *Job Training Policy in the*

Federally funded job training accounts for less than one-tenth of the total annual job training investment in the United States.

United States, provides background for the current legislative debate.

The book discusses the history of federally funded job training policy since the 1960s, the evidence on job training effectiveness, the systems used to monitor performance of program management, institutional arrangements for job training under WIA, investments in job training by private U.S. employers, public job training efforts in other countries, and the prospects for innovation in federal job training policy.

Under WIA, employment services are divided into three tiers: core, intensive, and training services. Universal access is available to all job seekers wanting core services. Core services are limited to self-service and other services requiring minimal staff time—job interview referrals, labor market information, and some job search assistance services. A smaller number of workers get access to intensive services that include counseling, testing, assessment, and may include job search workshops or job clubs. Only a small number of workers are referred on to job skill or occupational training.

In fiscal year 2001, federally funded training expenditures totaled nearly \$6.4 billion, of which about two-thirds was provided by WIA, with the remainder contributed by a variety of other federal agencies. In the same time period, state-funded job training totaled about \$600 million, while privately financed job training dwarfed all public efforts and totaled over \$60 billion. Federally funded job training accounts for less than one-tenth of the total annual job training investment in the United States, and WIA provides only a portion of the federally financed total.

According to reports by state workforce agencies sent to the U.S. Department of Labor, in program year

2001, WIA provided training to 425,000 U.S. workers, with 241,000 participants subsequently entering employment. By contrast, programs funded under the Wagner-Peyser Act served about 19 million U.S. workers who registered for labor exchange services with state workforce agencies. Twelve million of these registrants received staff-assisted core and intensive services in the one-stop centers around the country.

This book reviews the major issues in WIA-financed public training programs. It provides background and history for these programs. Their effectiveness and efficiency are judged by past impact evaluations of WIA and its predecessor programs and by performance measurement systems. Key aspects of programs are examined, including the newly implemented individual training accounts (vouchers) and eligible training

Barnow and Smith question the usefulness of performance measurement based on gross outcomes and offer novel improvements that could yield a more reliable system.

provider lists, as well as the continuing use of private and public training service providers.

To support effective public management of federally funded job training programs, performance management systems have been in place for more than 20 years. Burt Barnow and Jeffrey Smith review the genesis of performance management under the Job Training Partnership Act (JTPA), examine current practices under WIA, and offer suggestions for improvement. They recognize and discuss the risk of adverse incentives for program administrators to "cream skim" applicants in an effort to achieve high measured program success. They also contrast the timeliness and relevance of performance reports under JTPA based on sample surveys of participants to the lag in evidence available under WIA from the census of participants provided from quarterly wage record administrative

data. Performance data under WIA are not available in time for use in the annual program planning cycle. Observing a zero correlation between outcomes measured by performance reports and program net impact estimates, Barnow and Smith question the usefulness of performance measurement based on gross outcomes and offer novel improvements that could yield a more reliable system for guiding program management and planning.

Job training effectiveness and efficiency has been evaluated throughout the 40-year history of U.S. programs. Based on his recent comprehensive book on the subject (Barnow and King 2000), Christopher King provides a summary of what is known about job training effectiveness. King reports that job training effectiveness varies widely with respect to different demographic groups of participants.

Job training policy of the federal government has been aimed at promoting labor market success for economically disadvantaged adults and youth, and helping experienced workers displaced by structural change to regain employment in areas of rising labor demand. King provides an overview of evaluation studies investigating the effectiveness of job training for these groups. Among economically disadvantaged participants, job training is estimated to raise the earnings of women, have small positive effects on the earnings of men, but yield negligible impacts on earnings of youths. The earnings gains for adult women increase in both the short and long run, but the gains are not large enough to lift participants out of poverty. Impacts for men are positive but not as large as those for women. No significant effects are found on either female or male youth. However, evidence from evaluations of the federal Job Corps training program for disadvantaged youth suggest that intensive residential interventions can yield significant long-term earnings gains.

Among disadvantaged adults examined as part of the national field experiment evaluating JTPA training with random assignment, the pattern of effectiveness was similar to that for other studies of job training for

the disadvantaged. Adult women had sizeable earnings gains (up 5 percent) over seven years, while adult men had modest earnings gains (up 1 percent but insignificant) over seven years. This same general pattern of results across sexes was found for different types and durations of training, with the biggest gains observed for on-the-job training (OJT) combined with job search assistance (JSA).

Regarding the effectiveness of alternative training types, there is no evidence that more costly and intensive

Among economically disadvantaged participants, job training is estimated to raise the earnings of women, have small positive effects on the earnings of men, but yield negligible impacts on earnings of youths.

training interventions yield greater earnings gains. There is limited evidence suggesting that earnings gains produced by training tend to persist over the long term. Lower-cost interventions like short-term unpaid OJT and JSA have positive impacts and positive net benefits. Supported work combined with skill training produced larger and more durable impacts. OJT combined with JSA had larger impacts than classroom training. Community colleges deliver a sizeable proportion of publicly funded classroom training, and there is evidence that community college training in math and science yields the greatest earnings gains.

The only random trial field experiments evaluating job training for dislocated workers were conducted in Texas and New Jersey in the 1980s. The Texas evaluation examined JSA and JSA with training. Earnings impacts for women were substantial and lasting over time; impacts for men were positive but modest and short lived. However, adding training to JSA did not increase earnings impacts. The New Jersey reemployment experiment tested JSA, JSA plus training, and JSA plus a cash bonus targeted to dislocated workers. All three treatments

had positive impacts, but only JSA alone was cost-effective. A long-term follow-up of the New Jersey experiment found that the positive employment and earnings impacts of interventions gradually diminished within six years.

Under the original WIA administrative rules, job training was a service of last resort. The emphasis was on work first. Referrals to training, or issuance of training vouchers and ITAs, only occurred after core and intensive services had been demonstrated inadequate to gain reemployment. Participants found their way to training after a series of failures. The work-first emphasis of WIA was intended to achieve near-term labor market impacts at low cost. U.S. Department of Labor administrative interpretation of the WIA work-first emphasis has been relaxed in recent years to permit greater local discretion in job training referrals. It is not universally true that any job is a good job, but evaluation studies have found that combining work

Evaluation studies have found that combining work experience with job training tends to produce better labor market success.

experience with job training tends to produce better labor market success.

Job Training Policy in the United States also examines the administrative challenges associated with early WIA operations. Ronald D'Amico and Jeffrey Salzman review the focus of WIA training and the extent to which the new arrangements are successful. They look at a wide number of implementation issues, including 1) who has access to training, based on eligibility criteria for training and the guidance of customers to training; 2) who provides training; 3) limits on training choice caused by caps on the dollar limits of training, as well as by time limits; 4) individual training accounts (ITAs)—how they are administered and who are eligible training providers; and 5) the extent of use of ITAs, as well as variations between workforce areas in the use of ITAs.

2005 Grant Program Notice and Dissertation Award Deadline

This year's grant program has two new features. First, we have added a Priority Research Topic: the effects of health care costs on labor demand. Second, there are two competitive review rounds for the 2005 grant program. Other research topics are also accepted. The deadline to apply for research grants under the second funding cycle is August 2, 2005.

The deadline for the 2005 Dissertation Award is Friday, July 1, 2005.

With job training under WIA provided by a broad array of public and private enterprises, there are big differences in training providers about which little is known. Janet Javar and Stephen Wandner examine the community of eligible job training service providers. The great majority of job training slots are provided by public two-year technical and community colleges, but the largest number of job training providers are private profit-making enterprises. Within categories of providers there tend to be similarities in the client types. Nonprofits and community-based organizations usually focus on providing training services to youth and disadvantaged adults, while for-profit training enterprises mainly serve adults and dislocated workers. The customer group served by community colleges is the most diverse.

Since community colleges serve both traditional students planning to matriculate to four-year institutions and experienced workers seeking a second chance in the job market, there has been some difficulty in properly measuring WIA program performance. The original WIA guidelines required every training institution to report on the employment success of all training participants. This methodology caused measured performance of community colleges to look inferior. Employment is the immediate goal for trainees at nearly all proprietary training institutes, while advancement to a four-year college or university is the aim of many community college students. Community colleges objected to the rules for performance

evaluation, and administrative practice has changed somewhat to accommodate the institutional realities. Performance measurement aspects of WIA reauthorization should properly account for practical differences across job training providers.

ITAs are a new and important part of WIA, and the book includes a chapter on the topic by Paul Decker and Irma Perez-Johnson. This chapter describes a field experiment evaluating ITAs for the U.S. Department of Labor. Operations for the ITA experiment were completed in early 2004, and the final evaluation

Performance measurement aspects of WIA reauthorization should properly account for practical differences across job training providers.

is scheduled to be available late this year. The ITA experiment investigated the question, What is likely to be the best design for a training voucher program? The experimental design involved comparative assessment of three alternative ITA designs: maximum choice, guided choice, and structured choice. Maximum choice is most like the theoretical concept of unrestricted free choice by voucher holders. Guided choice is a model similar to that used by most local workforce areas today. It involves guidance given by local workforce agency counselors, but with the ultimate occupational and training-provider choice made by the customer. The structured choice model is similar to guided choice,

with the final twist that customer choices can be vetoed by a WIA one-stop training counselor. In addition to reviewing the design of the experiment, the chapter examines prior evidence on ITAs, the practical working of a consumer reports system on provider performance to inform choice, and the establishment of eligible training provider lists.

To supplement the examination of publicly provided training, Robert Lerman, Signe-Mary McKernan, and Stephanie Reigg examine the scope of employer-provided training in the United States. Starting with an examination of theoretical models identifying circumstances when it would be profitable for private employers to provide job training for employees, an investigation into the extent of employer-provided training is given. The authors

Short-term training can be effective for those with significant work experience, and linking job search assistance to job skill training is more effective than providing either intervention separately.

use micro data on employers from four distinct sources to investigate which employers provide training, which employees get trained, what type of training is provided, and altogether how much training is done. The essential lessons are that larger enterprises provide formal training to a greater share of employees, and employees who have higher levels of formal education are more likely to get employer-provided job training. The most common topics covered are management, sales, computer skills, and team building. Taken together, private employers provide 90 percent of all job training done in the United States, and employer-provided training increased dramatically over the past 25 years, keeping step with the increasing complexity of tasks performed at work.

Lori Kletzer and William Koch examine the U.S. experience with publicly funded job training in an international context. They compare the

United States with Canada, Germany, Japan, Sweden, the United Kingdom, Hungary, and Korea. The group includes both mature developed economies and rapidly advancing emerging market economies. There is a wide range in the level of public support for job training with Germany, Sweden, and Canada at the top of the list as a percentage of gross domestic product, the bottom range includes the United States on a par with the modest expenditures in the United Kingdom, while expenditures in Hungary and Korea are in the middle range. Some essential lessons emerge from the examination which looked at the range of public employment policies in place, their effectiveness, and practices for targeting services to particular groups. Those most well prepared by the formal educational system are best able to benefit from short-term public job training when the need for adjustment emerges. Women tend to benefit more from formal training than do men. Close links to the private sector can improve the chances that job training will be successful. The private link operates both by assuring market relevance for training and by increasing the opportunity for practical experience. Short-term training can be effective for those with significant work experience, and linking job search assistance to job skill training is more effective than providing either intervention separately.

Job Training Policy in the United States should be read along with the companion volume, *Labor Exchange Policy in the United States*. Just as the job training reform bill passed by the House of Representatives in the previous Congress would have created a single "adult program" that would have consolidated the current adult, dislocated worker, and public labor exchange components of the WIA into a single program, these two books provide a combined summary of the experience and prospects for job training and labor exchange services in the United States. *Labor Exchange Policy in the United States* found that the referral of workers to job openings and provision of job search assistance were cost-effective. These books can help policymakers examine the elements of job training,

labor exchange, and job search assistance to best identify new ways to provide improved services to workers and employers.

Christopher O'Leary is a senior economist and Robert Straits is administrator, both at the Upjohn Institute. Stephen Wandner is a senior economist at the U.S. Department of Labor. This article reflects the opinions of the authors and not those of either the U.S. Department of Labor or of the W.E. Upjohn Institute for Employment Research.

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Kevin Hollenbeck and Kelly DeRango

Focus: HOPE

Using Unsecured Student Loans to Self-Finance Job Training for Disadvantaged Workers

Focus: HOPE is a faith-based organization in Detroit that engages in many community development activities. A major activity is the provision of training to adults, most of whom come from economically disadvantaged backgrounds. Training is offered in skilled machining and in information technology (IT) occupations to individuals who have achieved a high school diploma or GED.

Started in 1967 in response to the Detroit riots, Focus: HOPE was founded with a mission of civil and human rights and community healing. Within a few years of its inception, the agency began to provide skills training to the unemployed and underemployed

Faced with major reductions in public job training dollars and recessionary pressures squeezing the machining enterprise, Focus: HOPE devised the innovative plan to charge tuition for its training.

individuals in the city. The training was paid for through charitable contributions, public job training funds, and through a unique self-funding mechanism: Focus: HOPE became a manufacturer of machined parts. (Customers included the "Big 3" auto companies and the U.S. Defense Department, among others.) The manufacturing business provided direct on-the-job training, and sales provided revenue that was used to support training.

About 10 years ago, faced with major reductions in public job training dollars and recessionary pressures squeezing the machining enterprise, Focus: HOPE devised the innovative plan to charge tuition for its training. Because of the rigorous training requirements, Focus:

HOPE had no difficulty meeting the accreditation standards necessary for its students to access governmental grants-in-aid, such as Pell grants. The residual balance not covered by such aid is financed by an unsecured student loan, which, unlike most student loans, requires a weekly co-payment.

Upjohn Institute Evaluation

In 2003, Upjohn Institute staff won a competitive bid to receive Ford Foundation funding to evaluate the adult training programs at Focus: HOPE. Two features comprise this evaluation: a study of the loan fund and a net impact analysis of the training. This multiyear evaluation is still in progress, but we have identified some preliminary findings.

The primary finding is that the tuition/student loan innovation has been a struggle for Focus: HOPE. On the one hand, most students have been eligible for Pell grants or other educational grants-in-aid (public and private), which have on average covered about one-third of the tuition. But on the other hand, the loan fund has experienced an extremely high default rate. Roughly two-thirds of students who have completed their training and had their loans activated are in default.

Upjohn Institute staff have designed and programmed a simulation model of the loan fund to determine the fiscal sensitivity of the fund to parameters such as the interest rate, late fee, or co-payment structure of the loans. The results of the simulation model clearly indicate relatively little sensitivity to the parameters of the payment structure. Individuals who made any payments tended to maintain their payments—in other words, defaults emanated mainly from individuals who never made any payments. Part of the Institute's focus is

to suggest ways to improve the viability of the loan fund. Based on preliminary evaluation, Focus: HOPE should, to the extent possible, 1) target its recruitment and admissions efforts at students with characteristics that are correlated with higher loan repayment rates (part of the Institute evaluation will conduct econometric analysis of repayment behavior), and 2) provide education and training on money management and debt repayment, such as through the GreenPath program.

The net impact analysis part of the evaluation is examining labor market and noneconomic outcomes for students who enrolled in Focus: HOPE and a

The primary finding is that the tuition/student loan innovation has been a struggle for Focus: HOPE.

comparison group of students who applied to and scored high enough to enroll in the program but chose not to. While this evaluation design is not a controlled experiment with random assignment, the comparison group has characteristics that make it a relatively strong benchmark. The members of the comparison group all applied for Focus: HOPE, indicating that they had comparable levels of knowledge about the program and the initiative to apply. Furthermore, Focus: HOPE requires certain levels of attainment in reading and mathematics to qualify for admission, and all of the comparison group members were chosen only if they scored high enough to qualify.

Two main sources of data are being used to track program outcomes. A comprehensive telephone survey of a random sample of students and comparison group members is supplementing administrative data from the State of Michigan's wage record data. Results from the first wave of the survey suggest positive impacts of Focus: HOPE training, although these impacts are of limited magnitude. Relative to their employment rates at the time of application, the Focus: HOPE students showed a 26-percentage-point increase

(from approximately 29 to 55 percent), whereas the comparison group increased by 19 percentage points (from about 36 to 55 percent). Furthermore, placement into manufacturing or IT, which would be a training-related placement for the Focus: HOPE students, was higher. Approximately 34 percent of the employed Focus: HOPE students worked in manufacturing or an IT position, whereas only about 22 percent of the employed comparison group students were in such a position.

The comparison group members had slightly higher levels of wages, hours per week, job tenure, and health insurance coverage, although the differences were not statistically significant. This occurred because many of the comparison group members were employed and gaining tenure during the time that the Focus: HOPE students were receiving training. Wages and health insurance coverage are, of course, highly correlated with tenure.

Conclusions

Very preliminary analyses from a multiyear evaluation of the Focus: HOPE training and loan programs suggest that the loan fund has a serious default issue with which it needs to resolve. Upjohn Institute analyses of repayment behavior and thorough review of loan procedures during the coming years should contribute to an amelioration of this problem.

So far, the net impact analyses have focused on a limited set of short-run labor market outcomes. Focus: HOPE has had, at best, a limited positive impact on individuals moving into employment and, hopefully, careers in machining or IT. Future analyses will examine longer-term employment outcomes, as well as savings, wealth, and expenditure effects. When the study is completed, we will have a clear picture of the viability of using unsecured loans for training disadvantaged adults.

Kevin Hollenbeck is a senior economist and Kelly DeRango is a research fellow, both at the Upjohn Institute.

Staff Working Papers

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The Wage Effects of Schooling under Socialism and in Transition: Evidence from Romania, 1950–2000

Staff Working Paper 04-108

Daniela Andren, *University of Gothenborg*
John S. Earle, *Upjohn Institute, Central European University*

Dana Sapatoru, *Upjohn Institute*
November 2004

We estimate the impact of schooling on monthly earnings from 1950 to 2000 in Romania. Nearly constant at about 3–4 percent during the socialist period, the coefficient on schooling in a conventional earnings regression rises steadily during the 1990s, reaching 8.5 percent by 2000. Our analysis finds little evidence for either the standard explanations of such an increase in the West (labor supply movements, product demand shifts, technical change) or the transition-specific accounts sometimes offered (wage liberalization, border opening, increased quality of education). But we find some support for institutional and organizational explanations, particularly the high productivity of education in restructuring and entrepreneurial activities in a disequilibrium environment.

Some Reflections on the Use of Administrative Data to Estimate the Net Impacts of Workforce Programs in Washington State

Staff Working Paper 04-109

Kevin Hollenbeck, *Upjohn Institute*
October 2004

The purpose of this paper is to reflect on the results, methodology, and processes used in a series of net labor market impact studies done for the State

of Washington over the past six years. All of the studies relied on administrative data and used a technique referred to as quasi-experimental evaluation. The program interventions were the federal- and state-funded workforce development programs. The paper sets out eight “reflections” for analysts and policy makers to consider. These reflections identify lessons learned and uncertainties or issues that need more consideration and scrutiny.

Personal Reemployment Accounts: Simulations for Planning Implementation

Staff Working Paper 04-110

Christopher J. O’Leary, *Upjohn Institute*
Randall W. Eberts, *Upjohn Institute*
May 2004

The proposed Back to Work Incentive Act of 2003 recommended personal reemployment accounts (PRAs) that would provide each eligible unemployment insurance (UI) claimant with a special account of up to \$3,000 to finance reemployment activities. Account funds could be used to purchase intensive, supportive, and job training services. Any funds remaining in the PRA could be paid as a cash bonus for reemployment within 13 weeks, or drawn as extended income maintenance for exhaustees of regular UI benefits. Personal reemployment account offers would be targeted to UI beneficiaries most likely to exhaust their UI entitlements using state Worker Profiling and Reemployment Services (WPRS) models. The draft legislation called for a budget of \$3.6 billion for PRAs, with the money to be committed over a two-year period. This report provides a simulation analysis of questions relevant to implementation of PRAs by states. The analysis is done using data for the state of Georgia. Simulations rely on recent patterns of intensive, supportive, and training services use.

New and Recent Books

Leaving Welfare

Gregory Acs and Pamela Loprest

Welfare recipients left the rolls in surprising numbers following enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. This exodus led many researchers to ponder the fate of welfare leavers, prompting an array

of studies that examine how former recipient families fared during the first years after welfare reform. It also made researchers wonder whether welfare reform was a success

in terms of helping leavers find work and reach self-sufficiency, or whether leaving welfare has been made merely an end in itself.

Acs and Loprest compile findings from a host of leaver studies to provide a bottom line assessment of what was learned. They compare welfare leaver outcomes across geographic areas and the nation as a whole. This allows them to paint a comprehensive picture of the employment, income, and hardships families experience after leaving welfare. Furthermore, the authors go beyond summarizing results to draw out major findings, to put these findings in the context of national results, and then to discuss what the findings mean for welfare reform in general. They also propose ways to enhance income support programs that would help welfare leavers economically and encourage them to stay in the workforce. Also included is a discussion of the long-term prospects for job retention and earnings growth for individuals who want to work, as well as their potential participation in programs such as food stamps and Medicaid.

133 pp. \$40 cloth ISBN 0-88099-311-1
\$15 paper ISBN 0-88099-310-3. 2004.

Welfare and Work Experiences in Six Cities

Christopher T. King
and Peter R. Mueser

~ NEW ~

King and Mueser examine changes in welfare participation and labor market involvement of welfare recipients in six major cities during the 1990s. By focusing on these six cities (Atlanta, Baltimore, Chicago, Fort Lauderdale, Houston, and Kansas City) they are able to glean the extent to which differences in state and

local policy, administrative directives, and local labor market conditions contribute to the trends in caseloads, employment, and well-being observed among

former recipients. This allows the authors to identify recipient flows and patterns of employment in the six cities before and after welfare reform, and to draw conclusions that go beyond existing studies.

Furthermore, analysis of job spells for both welfare and nonwelfare individuals provides unique insights about the welfare-to-work experience and how it relates to work in low-wage jobs generally. This leads to a number of major conclusions that will be of interest to policymakers and researchers.

200 pp. \$40 cloth ISBN 0-88099-319-7
\$17 paper ISBN 0-88099-318-9 / 2005.

Helping Working Families

The Earned Income Tax Credit

Saul D. Hoffman and
Laurence S. Seidman

"...a must-read for anyone who is interested in what is known about the EITC." *Social Service Review*

"This book represents an enormous effort on the part of the authors to amass evidence on a wide range of

policy issues related to the EITC, to distill them into a form that is accessible to a variety of audiences, and to organize and present them in a clear and coherent form. [This book]

will instantly be the standard reference for anyone wanting an overview of the complex issues regarding the EITC and the best available evidence on its effects." *Industrial and Labor Relations Review*

A "Noteworthy Book in Industrial Relations and Labor Economics for 2002."

Selected References, Industrial Relations Section—Princeton University

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