Subsidizing Increased Employment for the Urban Poor: What Labor Market Problems Might Justify It?

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What Labor Market Problems Might Justify It?

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1. Introduction

Current U.S. political fashion calls for pushing all the poor into jobs immediately. The neoliberal approach is to do so through various sorts of subsidies for increased employment of the poor, ranging from public service jobs, subsidies for private employers who hire the poor, and subsidies for the wages the poor receive. Moderate conservatives sometimes also back this approach, but more hardline conservatives simply want to cutoff welfare benefits outright and let the poor find their own way in the labor market. Finally, some liberals believe that the whole approach of aggressively substituting jobs for welfare could make the poor and their children worse off.

This paper summarizes the specific problems in labor markets that might justify a government policy of targeting the poor for special assistance to increase their employment or wages. I will identify specific "market failures"—failures of the private market to achieve socially optimal results—in labor markets that might reduce the employment and wages of the poor from what would be socially optimal. Among the factors that commonly cause private markets to fail are: external benefits or costs to other groups that are not taken into account by parties to market transactions; imperfect information; discrimination; distortion of prices so that they do not reflect marginal costs of production and marginal benefits to consumers. In addition, I will consider "market failure" to include the failure of private markets, even if efficient, to achieve a socially desirable income distribution.
Table 1

**LIST OF POSSIBLE LABOR MARKET FAILURES THAT MIGHT JUSTIFY GOVERNMENT INTERVENTION TO INCREASE THE EMPLOYMENT OR WAGES OF THE POOR**

<table>
<thead>
<tr>
<th>Failure Description</th>
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<tr>
<td>Employment may be more effective redistributional method than just giving the poor money.</td>
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<tr>
<td>Jobs may provide large economic benefits to the poor, and jobs that pay higher wage premiums may provide particularly large economic benefits to the poor.</td>
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<tr>
<td>The market may fail to recognize the true productivity of the poor.</td>
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<tr>
<td>The market may fail to provide the poor with sufficient human capital.</td>
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Table 1 lists the labor market failures I will discuss. For each market failure, I will discuss the evidence that we have and need to have to evaluate its importance. I will also discuss the policy implications of each market failure. The existence of a private market failure does not necessarily mean that government intervention will improve things. But identification of such a market failure at least suggests what problem government intervention might attempt to address.

Beyond the labor market problems that are the focus of this paper, there may also be social "externalities" from greater employment of the poor—external benefits for other groups in society from reduced crime, lower welfare costs, better parenting of kids, improved neighborhood quality, and improvement in the "image" of some metropolitan areas. These external benefits may be important. If the benefits are large, there is greater economic
rationale for subsidizing the employment of the poor. There may also be greater political support for subsidizing the employment of the poor if such benefits can be demonstrated. Despite their importance, I will not discuss these external benefits much here, due to limitations of time and space and a belief that understanding problems in the labor markets facing the poor is a necessary first step.

2. Employment vs. Income Transfers for Redistribution

Whether it is more desirable to help the poor through increasing earnings or non-earnings income raises difficult ethical issues of mutual obligations between the poor and the non-poor. Do the poor deserve unconditional assistance from the non-poor, to be used as the poor best see fit? Or should that assistance be conditioned on the poor making some contribution in return for government assistance, such as through providing work?

Rather than addressing these difficult ethical questions, I want to ask a narrower question: Is helping the poor through employment assistance more effective in some sense in redistributing long-run economic and social well-being towards the poor? At least part of the social support for employment approaches to poverty rests on the implicit belief that such programs, if successful, may enable individuals to permanently escape poverty on the basis of their own earnings. The American public wants the poor to work. I suspect this support for work would not be as strong if the poor's employment must be continually subsidized through various government transfers. Escaping poverty through one's own earnings seems likely to enhance one's sense of independence, self-esteem, and social reputation. The individual's "social income" in this case is probably greater than achieving the same monetary income
through income transfers from the government or private charity. The old cliché is that it is better to teach someone to fish than to give them a fish. Do employment approaches to helping the poor seem to have any promise for helping the poor to permanently escape poverty through their own earnings? Do these programs "teach fishing" or just give away fish?

Research on local labor markets suggests that short-run employment experiences can permanently affect labor market outcomes. The evidence suggests that a one-time shock to local labor demand—for example, a shock that increases a metropolitan area's employment growth for one time period only, but permanently increases the metropolitan area's employment from what it otherwise would be—increases the local labor force participation rate for at least eight years after the shock and perhaps permanently (Bartik, 1993b).¹ Local labor demand shocks also appear to allow individuals to move up to better paying occupations, and stay in those jobs for at least eight years after the shock. These effects of growth on occupational upgrading are particularly strong for those with less education and African-American (Bartik, 1991). This evidence from local labor markets can only be partially convincing, however, because this research only shows that short-run demand shocks have long-run effects on local labor market average outcomes. This research does not directly show that the short-run employment experiences of individuals have long-run consequences for those same individuals.

There is some direct evidence of long-term effects on earnings of individuals' employment experiences (Osterman, 1988; Ellwood, 1982; Bartik, in process). Osterman finds

¹ This assertion is challenged in a well-known paper by Blanchard and Katz (1992), but re-estimates suggest that their conclusion is due to limitations in their model's specification (Bartik, 1993b).
that being unemployed more than 21 weeks reduces an individual's earnings by around 70 percent more than five years later. Ellwood finds that 26 extra weeks of unemployment for a young person reduces their wages by ten to 20 percent at least three years later, and perhaps as long as ten years later. My own current research finds that, for a sample of individuals whose initial family income was around the poverty line, ten percent more work hours in a particular year increases their earnings ten years later by almost five percent.

My own recent research also addresses the issue of whether the long-term effects of employment experience depend on the type of employment experience, in particular what wage this employment pays. The answer is that it does matter—employment experience this year at a low wage will not increase earnings as much ten years later as employment at a high wage would. However, even employment experience at a very low wage is associated with significantly higher earnings ten years later.

One criticism of all these studies is that the correlation between an individual's employment this year and their economic fortunes some years later does not reflect causation, but rather unobserved characteristics of individuals that affect their economic success in both years. All three studies attempt to control for observed prior characteristics of individuals that might affect their earnings, but it is difficult to adequately control for the many unobserved characteristics that also affect individuals' economic success.

The possible long-run effects of greater employment experience seems consistent with the results of experiments with job training programs and welfare-to-work programs. According to Greenberg and Wiseman's analysis of 13 welfare-to-work experiments, "[s]ome of the measured impacts...do appear to decay, but others seem to persist or even grow over
time." (Greenberg and Wiseman, 1992). Greenberg and Wiseman emphasize that most of these programs only followed impacts for a few years, making it difficult to be definitive about time trends. One of the few employment program studies that did provide really long-term follow-up is Couch's analysis of the long-term effects on AFDC moms of the supported work program (Couch, 1992). This program, which provided structured employment experiences and counseling for AFDC moms and other groups, was evaluated by comparing the earnings of program participants with the earnings of a randomly chosen control group. Couch found that supported work increased AFDC moms' earnings in 1979, the first post-program year, by $248 compared to the control group. Good data were not available for 1980 or 1981. In subsequent years, supported work participation in the 1975-78 period is estimated to have increased the earnings of AFDC moms by $437 in 1982, $456 in 1983, $525 in 1984, $413 in 1985, and $375 in 1986. There is no real sign of decay in the earnings effects of supported work even eight years after the program was conducted.

As the supported work results indicate, the average long-term effects of increased employment through employment and training programs, although statistically significant, are usually quite modest in dollar value. Similar modest dollar effects are found for the welfare-to-work experiments (Greenberg and Wiseman, 1992; Gueron and Pauly, 1991) or the evaluation of the federal Job Training Partnership Act (Bloom et al, 1994) An important open question is whether these modest average effects are due to large effects for a few persons, or small effects for a few persons. If these programs at least produce large dollar effects for a few persons, perhaps these programs do have the potential to help at least some individuals to "learn how to fish." The challenge to policymakers and research is then to identify what
combination of program characteristics and personal characteristics can result in long-run success. If this can be done, then such programs may deserve to be pursued. Society might wish to pursue such programs even if on a benefit-cost basis, it might be economically more efficient to just pay out welfare benefits. Society quite properly might regard an increase in income for the poor due to long-run earnings increases to be more socially valuable than income that is dependent on government transfers.

3. Special Benefits of More and Better Jobs for the Poor

The "person-on-the-street" would probably regard it as obvious that being employed provides benefits over being unemployed, and that some jobs are better than others. Conventional economic theory, however, holds that in a perfect market the wage paid to the last person hired is exactly equal to their "reservation wage," that is the value of their time in whatever alternative they have to working. In addition, conventional economic theory holds that all wage differences across jobs will either reflect differences in worker quality or differences in the amenities of jobs.

Recently developed "efficiency wage models" provide theoretical support for the belief that market wages may exceed reservation wages, and market wages on some jobs may exceed wages on other jobs even without differences in worker skills or job amenities. Efficiency wage models assume that higher market wages may increase worker productivity. Productivity may increase for many reasons: higher wages provide a motive for workers to want to work hard to keep their jobs, even if employers find it difficult to detect shirking; higher wages result in a better applicant pool and reduce the burden on imperfect employer screening to pick
out quality workers; higher wages may reduce the quit rate and hence reduce turnover costs for employers; particular wage levels or differentials across jobs may be perceived as "fairer" by workers and increase worker morale and effort.

A number of studies have provided empirical support for efficiency wage models. These studies have shown that wages differ across industries by large amounts, often by as much as 20 to 30 percent. Higher wage premium industries seem to have lower quit rates, suggesting that the higher wage rate is not simply a compensating differential for poor working conditions. Other studies have challenged the efficiency wage model. It is inherently difficult to prove or disprove whether wage differentials across different industries or firms are due to difficult-to-observe efficiency wage considerations or instead due to other unobservables, such as job amenities (Katz and Summers, 1989).

Efficiency wage models may provide a rationale for government intervention to change the number and types of jobs, and may provide a rationale for special assistance targeted at the number and types of jobs held by the poor. If the wage rate on additional jobs created exceeds the reservation wage of workers who might be hired for that job, there is an economic rationale for subsidizing that job creation. If wages on some jobs provide economic surpluses to workers that exceed such surpluses on other jobs, there is an economic rationale for subsidizing a shift in the industry mix towards these higher surplus industries. If the reservation wages of the poor are particularly low, then there is an economic rationale for subsidizing job creation targeted at the poor.

The little direct evidence we have on reservation wages does not suggest that the differential between market wages and reservation wages is particularly large for
disadvantaged groups. Holzer, for example, found that black youths and white youths have similar reservation wages, even though the market wages in jobs actually obtained by black youth are on average lower than in the jobs obtained by white youth (Holzer, 1986). The average reservation wages of the unemployed do appear to be lower in high unemployment local labor markets, dropping by one to two percent for every one percent increase in the local unemployment rate (Jones, 1989). This suggests that there may be an economic rationale for policies that would create jobs in high unemployment local labor markets. All of these reservation wage studies could be criticized on the grounds that it is very difficult for individuals to clearly state what wage is the lowest wage at which they would be willing to accept a job. People may state the wage they expect or want instead of the lowest wage they would be willing to accept.

Indirect evidence from studies of the effects of local growth, and studies of guaranteed employment programs, could suggest that the gap between market wages and reservation wages may be higher for disadvantaged groups, but this evidence also has other interpretations. The overwhelming majority of studies find that the short-run effects of shocks to national or local labor demand disproportionately benefit blacks and the less educated (Bartik, 1993a, 1993b provides reviews). Boston's experience during the "Massachusetts miracle" of the early and mid-1980s is instructive. From 1980 to the height of the Boston boom in 1988, poverty rates among black families in Boston dropped from 29 percent to 13 percent, whereas black poverty rates increased in other central cities. White poverty rates also dropped, but not nearly as much, from 11 percent to six percent (Osterman, 1991).
Studies of a job guarantee program for disadvantaged youth, the Youth Incentive Entitlement Pilot Projects (YIEPP) program, also shows a large responsiveness of disadvantaged groups to changes in economic opportunities. The YIEPP program, conducted from 1978 to 1981 in four cities, provided guaranteed part-time school-year and full-time summer jobs, at the minimum wage, to all disadvantaged 16-19 years old who stayed in school and met academic and job performance standards. Of those eligible for the program, a higher percentage of black youth than of white youth participated (63 percent versus 22 percent). During the program period, the employment rate for young disadvantaged blacks in the demonstration cities increased to a level similar to that of young disadvantaged whites, whereas typically the employment rate of disadvantaged black youths is much lower than that of whites. (Farkas et al, 1982).

Different interpretations can be given to these findings. One interpretation is that the reservation wages of disadvantaged groups are relatively low compared to their market wages. During normal unemployment rate periods, disadvantaged groups are rationed out of jobs they are capable of taking. An alternative interpretation is that labor markets in fact clear, without a large gap between reservation wages and market wages. However, disadvantaged groups may have a much higher elasticity of labor supply in response to slight changes in wages and working conditions. The debate between these two interpretations may seem academic, but is quite crucial for policy. If the latter interpretation is correct, and labor markets in fact clear, then increases in the take home pay of the poor due to measures such as the earned income tax credit are likely to increase the employment of the poor, because many more poor will seek jobs and find them. On the other hand, if the former interpretation is correct, and labor
markets fail to clear, then such labor supply measures will need to be accompanied by some sort of boost to labor demand.

Under either interpretation, boosting overall labor demand would increase the employment of the poor, as this would likely boost both employment opportunities and wages for the poor. But policymakers considering a boost to overall labor demand would have to consider the potential adverse effects of lower unemployment rates on inflation and worker productivity. Policies that attempted to target increased labor demand towards the poor would be less likely to cause inflationary pressures. But the design of such policies would have to consider that employers may attach a stigma to being a member of some disadvantaged group, and be less likely to hire them (Burtless, 1985). We need to consider why employers may be less likely to hire the poor, a subject to which I now turn.

4. Poor Information and Discrimination May Lead Businesses to Fail to Recognize the True Productivity of the Poor

The evidence suggests that many businesses have considerable difficulty in accurately identifying employees who will be consistently productive. A recent study by Bishop, based upon a survey of members of the National Federation of Independent Business, finds that "Managers of small and medium firms were very often unpleasantly surprised by the performance of new hires. After six months on the job, more than one-quarter of new hires were producing less than 75 percent of what was anticipated when they were hired." (Bishop, 1993, p. 336). These hiring problems happen in part because many of the factors that influence productivity are hard to measure before hiring. For example, Bishop found that an employee's "work habits," "people skills," and "learning ability" helped predict productivity
and worker turnover. However, these factors did not help the employee predict the productivity of the employee before hiring.

Faced with quite imperfect information, employers try to use methods of hiring that will increase their ability to get workers with higher quality levels of these intangible factors. Many small and medium-sized employers do much of their hiring through recommendations from employees or friends of the employer. This practice, while it seems to be effective in increasing the average productivity level of those hired (Bishop, 1993), of course makes it more difficult for groups with less "job contacts," such as the poor or minorities, to get access to jobs. In addition, many employers are increasingly doing their hiring through temporary help agencies, which allows the employer more leeway in trying out new employees before making a hiring decision.

Another employer response to imperfect information is to discriminate against black or lower-class jobseekers, based on preconceptions about the likely productivity of such jobseekers. Kirschenman and Neckerman's interviews with 185 Chicago employers give some insight into employers' rationales for such discrimination. According to one Chicago manufacturer interviewed, "I would in all honesty probably say there is some [discrimination against blacks] among most employers. I think one of the reasons, in all honesty, is because we've had bad experience in that sector, and believe me, I've tried. And as I say, if I find—whether he's black or white, if he's good and, you know, we'll hire him. We are not shutting out any black specifically. But I will say that our experience factor has been bad. We've had more bad black employees over the years than we had good" (Kirschenman and Neckerman, 1991, p. 212). In addition to race, employers sometimes also discriminate based
on social class, neighborhood, and gender. According to another Chicago employer, "We have some black women here, but they're not inner city. They're from suburbs and...I think they're a little bit more willing to give it a shot, you know, I mean they're a little bit more willing [than black men] to give a day's work for a day's pay." (p. 217)

In addition to such interview studies, there is now some more direct evidence of racial discrimination in hiring, beyond the well-known indirect evidence from studies showing that white and minority wage rates and earnings differ after controlling for observed personal characteristics. Several "audit" studies suggest that black or Hispanic job seekers are less likely to get a job offer than are similar white job seekers. In these audit surveys, matched white and minority "testers" were recruited, given similar fake resumes, and sent to the same firm to apply for the same advertised job. In the Washington, D.C. study, in 19 percent of the cases the white "tester" was offered the job whereas the black "tester" was offered the job six percent of the time. In Chicago, the white "tester" was offered the job ten percent of the time, compared to five percent of the time for the black tester (Fix and Struyk, 1992). Similar differential treatment of white versus Hispanic "testers" was found in similar audits of employer hiring behavior in Chicago and San Diego. In contrast, an audit study of Denver did not find any evidence of employer discrimination against black or Hispanic "testers" in favor of whites. It seems that overt racial discrimination in hiring may vary quite a bit from one metropolitan area to another. These differences could reflect differences in employer preconceptions about the likely productivity of different racial groups, perhaps based on the character of the local labor markets, or perhaps based on differences in the "culture" of employers in various labor markets.
One policy implication of these findings is that we may need to figure out more creative ways of dealing with employer discrimination against minorities. Using "testers" can perhaps provide objective evidence of racial discrimination, at least at large companies that make many hiring decisions. But if discrimination is at least in part motivated by imperfect employer information about job seekers, policies that provide employers with better information on disadvantaged job-seekers also seem needed. Policies that force or even subsidize employers to hire the disadvantaged may face significant problems if employers perceive such policies as likely to lead to hiring of less productive employees. For example, an experiment with wage subsidies for welfare recipients found that welfare recipients who were urged to inform employers (accurately) that if they were hired the employer could claim a tax credit for hiring a welfare recipient, were significantly less likely to be hired than a randomly chosen control group of welfare recipients that was not so urged (13 percent hire rate for the "advertised wage subsidy" group versus 21 percent for the control group) (Burtless, 1985). One interpretation of this result is that employers believed welfare recipients would be less productive, and therefore discriminated against job seekers who revealed their welfare recipiency status.

A number of employment/training programs for the poor are making some attempt to address these problems with poor employer information on jobseekers. Many local Job Training Partnership Act agencies employ "job developers" who seek to place JTPA graduates with area employers, particularly JTPA graduates who are eligible for "on-the-job training" wage subsidies to employers for the first six months of hiring. These job developers frequently work closely with employers in trying to screen JTPA graduates to make sure that employers
know the strengths and weaknesses of who they are hiring. The much acclaimed "America Works" program in New York City, a private for-profit agency which has a performance based contract to place welfare recipients in jobs, also has job developers who seek to reassure employers about the quality of those disadvantaged persons they hire. In addition, the very brief one-week "training" approach of America Works bounces from the program any welfare recipient who shows up late for any training session. This simple policy also helps increase the quality of persons referred by America Works to employers, although it also at the same time makes it more likely that they would have succeeded on their own. Finally, Cleveland is currently developing an initiative under which disadvantaged job seekers would receive help from a for-profit temporary help agency set up by the Cleveland Urban League. This for-profit agency would have strong incentives to work closely with employers to assure reasonable quality of disadvantaged persons who are hired through the agency, and would give employers a chance to assess a disadvantaged worker's productivity before making a permanent hiring commitment.

The issue with all these policy initiatives is whether they can provide sufficiently valuable information to employers about disadvantaged workers to significantly change employers' hiring decisions in favor of at least some disadvantaged persons. Some suggestive evidence so far comes from the National JTPA evaluation (Bloom et al, 1994). This evaluation found that OJT, which emphasizes the job development aspect of job training, had significant impacts on the earnings of adult JTPA participants compared to a randomly-chosen control group of non-JTPA participants. JTPA participants in classroom training, on the other hand, did not show significant earnings increases compared to the control group. In addition,
the Manpower Demonstration Research Corporation's evaluation of California's welfare to work program found that one county, Riverside County, appears to have had far greater effects on participant earnings than the other 5 counties participating in the experiment (Friedlander et al, 1993). One factor that appears to differentiate Riverside County from the other experimental counties is its much more aggressive use of job developers. This may mean that Riverside County does a better job of providing employers with accurate information on the welfare recipients they are being asked to hire.

5. Worker Turnover, Poor Information, and Inadequate Resources Lead to Insufficient Investment in the Human Capital of the Poor

Economic theory suggests several reasons why there might be insufficient investment in the human capital of the poor. First, because of high expected worker turnover among disadvantaged workers, firms may be reluctant to invest much resources in training the poor. The social loss from this lack of business-supported training is particularly great if the training would have been for skills that would be generally applicable to a number of jobs. Second, both employers and workers might have insufficient evidence on the benefits and costs of training—what it would do to productivity and wages. Third, a poor individual will not be able to finance much extensive training on their own.

In part because of these problems, governments in the U.S. invest extensively in elementary and secondary education, community colleges, and colleges and universities. Such educational institutions of course do provide many skills that are valuable in the labor market. But school-based education may be only an imperfect substitute for job training with a heavy firm influence. Job training that has extensive firm control or input can be more attuned to the
skills and technologies that firms actually use. Job training that is on a work site or organized by an employer will, from a worker's perspective, probably seem more likely to be relevant to their future economic success, so workers may be more motivated to participate in and work hard at such training. Finally, firms may have some institutional advantages over schools in delivering training that is immediately productive in the workplace. The marketplace puts pressure on firms to be flexible in how they run training programs, and gives firms and their workers an incentive to run training in a high quality manner.

The counter-argument to this position is that, beyond the academic basics of reading and math and socialization that schools and families are supposed to impart, worker productivity could mainly depend either on skills specific to one firm or on the quality of the match between the worker and the firm, not on general skills that firms might teach. If this is true, subsidizing firms to do training could be a mistake. We would expect firms on their own to have good incentives to do firm-specific training, as this training will not make workers more attractive to other firms and encourage turnover. If productivity depends a great deal on the quality of the worker-firm match, then worker turnover is efficient because it will gradually lead to more productive matches between firms and workers. According to a leading labor economist, James Heckman, "Job shopping promotes wage growth. Turnover is another form of investment not demonstrably less efficient than youth apprenticeships." (Heckman, 1993)

The empirical evidence on job training, worker turnover, and the disadvantaged suggests the following:
1. **A great deal of firm-based training is going on.** In large U.S. firms, 1.8 percent of the wage bill is spent on formal training programs (Lynch, 1994). Informal training may be even more important. Bishop (1991) estimates that only five to ten percent of worker training is formal training by training personnel. Most training is informal training watching others do the job, being shown how to do the job by a supervisor, or being helped by coworkers. Bishop estimates that for a new worker in small and medium sized firms, the cost of training during the first three months ranges from 25 percent to 60 percent of the trainee's potential output. This cost estimate includes the value of the training time devoted by training personnel, supervisors, co-workers, and the trainee.

2. **Much of the training conducted by firms seems quite general.** Many employers and workers state that the kind of training that is going on would be useful at other jobs. For example, Parsons (1990) reports that from 38 percent to 45 percent of young out-of-school male workers respond "very true" when asked whether "the skills you are learning would be valuable in getting a better job." There is also some evidence that training on one firms increases wages and productivity at other firms. Lynch (1992) finds that one year of off-the-job training with a previous employer increases wages with a subsequent employer by ten percent. Bishop (1994) estimates that formal-training on-the-job from a previous employer reduces time required for training by the current employer by 17 percent, and increases a worker's initial productivity on his/her new job by ten percent, but has no effect on current productivity (at the time of the interview). Bishop also estimates that off-the-job training on a previous job, while it has no effect on a worker's initial productivity on his/her new job, raises current productivity by 16 percent. One problem with all these estimates is that it is
difficult to control for unobserved characteristics of individuals that might make them a generally "better worker," which might both increase their wage and productivity on the current job and increase their probability of receiving some training in previous jobs.

3. **There is little evidence that worker wages are reduced to implicitly finance the general training they receive.** Even if firms finance general training, there need be no market failure if they are essentially acting as agents for their workers in a competitive market. In such an economic model, workers would accept lower initial wages with an employer in exchange for receiving general training, and then receive higher wages when their training is completed. Unfortunately for this theory, the research literature in general finds insignificant (Parsons, 1990) or significantly positive associations (Lynch, 1992) between the worker's current wage and current engagement in training. These estimates could be biased, for similar reasons to what was discussed above: higher quality workers may get more training and higher wages. Alternatively, perhaps there are efficiency wage considerations or institutional barriers that prevent wages from adjusting downwards so that workers can finance training.

4. **It is difficult to distinguish between informal training on-the-job and the learning-by-doing that happens on the job.** From a policy perspective, "firm-sponsored training" is some identifiable investment activity undertaken by the firm that requires the firm to make some explicit commitment of resources. Learning-by-doing simply happens due to the content of the job, and does not have any immediate obvious opportunity cost. Of course, firms may seek to design jobs in order to increase learning-by-doing, both in order to increase productivity of workers and to attract workers to the firm. But as a practical matter it would
be impossible to separate out the "learning by doing" motivations for designing a job from other motivations.

Parson's analysis above reveals the problem: are workers learning skills on the job due to training investments made by them or their employers, or simply in the normal course of their job duties? Bishop's analysis discussed above also discovers quite large effects of "relevant prior work experience" (as perceived by the firm) of a new employee, compared to "irrelevant work experience." Substituting ten years of relevant experience for ten years of irrelevant work experience is estimated by Bishop (1994) to raise a worker's productivity by 33 percent when hired and 20 percent six months after hiring. Does more relevant work experience proxy for more training investments by previous employers, or does it simply reflect learning-by-doing?

5. **Disadvantaged groups receive less firm-sponsored training than other groups.** According to Tan (1989), 13 percent of male high school dropouts reported that they had received company sponsored or OJT to improve their skills on their current job, compared to 32 percent of male college graduates. For females, 12 percent of high school dropouts receive company sponsored training or OJT to improve schools, versus 27 percent of college graduates. Across racial groups, only 15 percent of black males reported receiving company sponsored training or OJT to improve job skills, compared to 23 percent of white males. Nineteen percent of black females reported receiving such training, compared to 21 percent of white females. In addition, across different occupations, managers, professional, and technical employees are the most likely to receive company training (Lynch, 1990).
6. Worker turnover rates are quite high, particularly the rates for younger workers and disadvantaged workers. For example, among male high school dropouts who were employed as of age 29, only 68 percent are in a job that will eventually last at least one year, compared to 89 percent of age 29 employed college graduates (Karoly and Klemran, 1994). For employed high school dropouts who are age 20, only 49 percent are in a job that will eventually last at least one year. In surveys of participants in Project Match, a welfare to work program in Chicago, 46 percent lost their first jobs obtained within three months, 60 percent within six months, and 73 percent within a year (Berg, Olson, and Conrad, 1991).

7. High worker turnover for disadvantaged workers seems to be closely related to poor work habits and problems with personal relationships with supervisors and co-workers. In focus groups conducted by the Upjohn Institute with employers of inner-city residents in Kalamazoo, most employers felt that the number one problem preventing inner city residents from getting stable employment and escaping poverty was a "poor work ethic." Upon probing focus group members, "poor work ethic" mostly seemed to consist of not showing up at work in a timely fashion, and conflicts with supervisors and co-workers.

In followup interviews to determine why Project Match participants lost their jobs, problems with timeliness or personal relationships at work often showed up as contributing causes. One restaurant manager commented on one of the Project Match participants "At the last minute he called in sick. Well, that set us all behind about an hour. And I was really, really mad at him because he didn’t call—he had his girlfriend call in...which made me really mad. Because, I just, there’s no reason for that." (Berg, Olson, and Conrad, 1991, p. 17) One Project Match participant, who quit a job as an office assistant, complained about being
ordered about by a secretary with more seniority: "I just felt like she enjoyed bossing me around...I don’t like people who press me all the time." (p. 19). Some Project Match participants lost jobs in part because of problems with co-workers: "A grocery store bagger got into a fist fight with a co-worker... One waitress was accused by her fellow waitresses of pocketing their tips. A dishwasher stopped coming to a job where he felt ignored an abused by restaurant staff and management. A restaurant manager said she fired one woman in part because she disrupted the rest of the staff." (p. 25)

Another study focused on why many graduates of New Chance, a training/employment program for young, high school drop-out welfare recipients, quit or were fired from jobs they obtained. (Quint, Musick, and Ladner, 1994). Again, timeliness and personal relationships showed up as key issues. One woman was given a week’s suspension from her nursing home job because she was late because her boyfriend drug dealer was in jail and couldn’t get the kids off to school for her. According to the authors of this study, "Delores resented her week’s suspension and seemed to think that her supervisor should excuse her lateness because she believed she had a good reason for that lateness... She exemplifies this comment by one New Chance staff member: 'They [the program enrollees] think a good excuse for not doing something is as good as doing it.'" The authors go on to comment that "Many [New Chance participants], out of both idealism and naivete, seemed to think of the workplace as a democracy, with all employees being treated equally. They came to find instead that the workplace is characterized by hierarchical relationships, with different expectations and privileges attached to different positions on the organizational ladder. They also discovered that because they were at the bottom rung, they received the fewest perks. This was a common
cause of resentment." The author's survey of participants found that conflict with a supervisor was the most common reason reported for deciding to leave a job.

These problems impeding worker training have led to many government efforts over the years to increase training of the disadvantaged. Historically, most of these training programs have been "second chance" programs that attempt to help the disadvantaged after they have left school, from the Manpower Development and Training Act of the 1960s to the Comprehensive Employment and Training Act of the 1970s to the Job Training Partnership Act of the 1980s and 1990s. JTPA has received the most sophisticated evaluation, using random assignment to determine the effects of JTPA training (Bloom et al, 1994). The preliminary results of this evaluation reveal that JTPA seems to increase adult woman's earnings by around 17 percent ($847 per year) in months 19-30 after entering training, and increases adult men's earnings by around 11 percent ($856 per year). The effects of training appear to be greater for "on-the-job training" (OJT) and job search assistance than for classroom training. OJT involves local JTPA agencies paying wage subsidies to employers who agree to hire JTPA participants and provide training. On the other hand, JTPA does not have any significant positive effects for youth. This is consistent with other studies of job training programs for youth, which generally fail to find significant positive effects.

Given all this information, policymakers face some very difficult dilemmas. There is clearly a case that firms may not have the proper incentives to provide sufficient general training to disadvantaged workers. Firm training appears to be productive on a variety of jobs, but worker turnover among the disadvantaged is high and the disadvantaged receive less training. On the other hand, some of the most valuable training seems to be difficult to
distinguish, if it is distinguishable at all, simply from work experience. This makes it difficult to fund this training without running the danger of providing huge subsidies to all kinds of firms who might have hired disadvantaged workers anyway. Finally, at least some of the disadvantaged need "job skills" that amount to socialization skills. Firms are probably not well equipped to have the tolerance necessary to impart these skills. On the other hand, schools and families are apparently not doing a good enough job with some disadvantaged persons of imparting these skills either.

These dilemmas, and the poor record of youth "Second Chance" training programs, have led to increased interest in a wide variety of "school-to-work" programs. These programs seek to make school training more relevant to the needs of employers, by involving employers in program design, and by incorporating work experience into the school day. These programs also seek to teach students a "work ethic." As of yet, there is no really hard evidence on these programs' effectiveness.

6. Conclusion

There is significant evidence that in some cases, social intervention can make a permanent difference to the employment and earnings prospects of the poor: it is possible to teach people to fish. There is fairly good evidence that inadequate employment opportunities, discrimination, poor employer information, and problems with the human capital of the poor are all factors that impede moving the poor into a higher earnings and employment life course. What we lack is adequate knowledge of what programs can deal with these problems in a cost-effective way.
Beyond the issue of whether a specific program works for a particular group of persons, there is the issue of the macro or aggregate effects of employment-oriented problems of the poor. If a program increases the job skills or employment opportunities of one group of disadvantaged persons, what does this do to the job prospects of other participants in the labor market? What is the impact of this program on wage rates and inflation rates? We have virtually no evidence on these crucial issues.
References


