

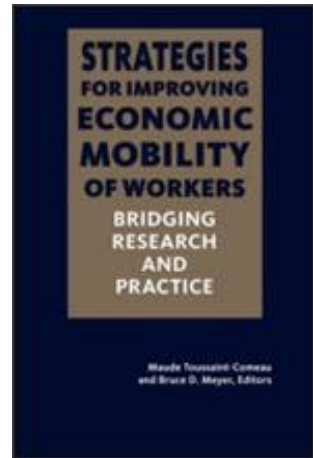
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# What Might Improve the Employment and Advancement Prospects of the Poor?

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## 9

# What Might Improve the Employment and Advancement Prospects of the Poor?

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During the past few decades, millions of less-educated workers have poured into the labor market in the United States, many as a result of welfare reform and immigration. But, while many of these workers have become successfully attached to the labor market, their wages often languish. Indeed, the wages of low earners (i.e., those at the tenth or twentieth percentile of all workers) have stagnated over time, relative to those at the middle or top of the labor market (Blank, Danziger, and Schoeni 2006). Advancement prospects for these workers also appear quite limited (Andersson, Holzer, and Lane 2005; French, Mazumder, and Taber 2006).

In addition, millions of other potential workers—especially black men from low-income families and neighborhoods—fail to attach regularly to the labor market at all. If anything, while the employment rates of single poor mothers improved quite dramatically in the 1990s, the labor force activity of less-educated black men continued to decline, as it has for each of the past several decades.

In this chapter, I review some research evidence on the causes of low earnings among the working poor and on the causes of weak labor-market activity among low-income men. I then consider some potential policy responses to these problems.

## **THE WORKING POOR AND THE NONATTACHED: WHAT ARE THEIR PROBLEMS?**

In an economy that continues to reward skills at ever-higher levels, the skill deficits of the poor (relative to the nonpoor) are their greatest handicaps. These deficits include the following:

- Poor levels of education, including high rates of dropping out of high school;
- Weak cognitive skills and problem-solving abilities;
- Weak “soft” skills, including written and verbal communication; and
- Lack of occupational training and specific experience that would grant access to particular high-demand sectors of the economy, such as health care and construction.

For the nonattached, a lack of general work experience often signals to employers that applicants may have difficulties with even basic levels of job-readiness.

However, earnings in the labor market depend not only on worker skills but also on employer policies and practices. Of course, some sectors—such as construction, durable goods manufacturing, and transportation—clearly pay higher wages than others for workers of a given skill level. But even within very detailed industries and localities, employers often choose to pay more or less than their competitors to workers of comparable skills. Employers paying higher wages choose to compete on the basis of higher productivity and lower turnover, while those paying lower wages compete on the basis of lower compensation costs (Appelbaum, Bernhardt, and Murnane 2003). Furthermore, these employer wage premiums can account for large fractions of the observable differences in earnings across workers (Abowd and Kramarz 1999). In sum, “good jobs” contribute to higher earnings as well as “good skills.”

But poor workers have very limited access to good jobs. This lack of access can be attributed to lack of information, lack of informal contacts, weak transportation, and employer discrimination—especially for minority workers (Holzer 2004). Poor access might inhibit workers from receiving the kind of on-the-job training and work experience

that help build skills as well as pay. And if high-wage employers are becoming scarcer in the labor market as employment in some sectors shrinks (e.g., durable goods manufacturing) and newer competitive forces (e.g., from employers like Wal-Mart in retail trade) drive out higher-wage employers, then it will become even more difficult for the poor to gain the higher-paying jobs that still exist. On the other hand, as baby boomers retire from key sectors of the economy, replacement demand might generate new job availability in these sectors for many less-skilled workers.

The working poor suffer from other problems besides poor skills and limited access to good jobs. Many suffer from repeated job turnover and have difficulty retaining employment. Of course, not all job turnover is bad—indeed, voluntary turnover is often associated with strong job growth, especially for young workers (Andersson, Holzer, and Lane 2005; Topel and Ward 1992). But involuntary job instability might be caused by poor work performance, or by frequent absenteeism and tardiness, which are associated with difficulties in child care, transportation, or health (Holzer and LaLonde 2000; Holzer and Stoll 2001). Low wages can also limit workers' incentives to retain jobs.

Finally, millions of low-income (especially African American) men fail to develop consistent labor-market attachments for a variety of additional reasons. Growing up in poor and fatherless families and in highly segregated schools and neighborhoods, many boys and young men fall behind quickly and then disconnect from school at very early ages (Edelman, Holzer, and Offner 2006; Fryer and Levitt 2004). Once this disconnection occurs, these young men often fail to further develop their skills or complete school, and many obtain very little formal work experience of any kind. Furthermore, they also become more likely to engage in other nonmainstream behaviors, such as illegal activity and fathering children out of wedlock (Hill, Holzer, and Chen 2009).

The combination of criminal activity and unwed fatherhood almost guarantees that these young men will become incarcerated and also that they will receive child support orders (Holzer and Offner 2006). Upon release from prison, their ex-offender status will further inhibit their labor market prospects, as employers become even more reluctant to hire them and as their own skills and labor market contacts further depreciate (Holzer, Raphael, and Stoll 2004, 2006). Indeed, employer reluctance to hire those with criminal records might even cause these

employers to engage broadly in “statistical discrimination” against less-educated black males (Holzer, Raphael, and Stoll 2004; Pager 2003).

Added to this, those who are noncustodial fathers almost certainly will be in arrears, or debt, on their child support orders, since the orders remain in effect while they are incarcerated. Those in arrears face very high tax rates on their limited earnings—up to 65 percent. And, since the child support collections are not always passed through by states to low-income families if they have been on public assistance, the incentives for the fathers to work in the formal economy and make these payments are very low, if they can escape detection by the child-support enforcement system.

Finally, it is important to note other problems and barriers that limit the labor force activity of various groups, including current or former welfare recipients. These individuals, often referred to as the “hard to employ,” frequently have physical or mental health disabilities, substance abuse problems, and very poor skills and work experience (Bloom and Butler 2007; Danziger et al. 2000).

## **POLICIES TO IMPROVE ADVANCEMENT AND LABOR MARKET PARTICIPATION**

Given the somewhat different situations and problems experienced by the working poor as opposed to those who are largely not attached to the labor market, somewhat different policy prescriptions apply to each group.

For the working poor, their advancement prospects would be best served by a combination of further job training, job placement assistance, and other supports and services, which would enable them to get access to better jobs in the labor market. Community or vocational colleges provide credentials that private sector employers will respect. However, work experience in the relevant sector might also be necessary. And, since there are clearly well-paying jobs available in certain high-demand sectors of the economy, strategies in which labor market intermediaries help link workers to existing jobs with engaged employers might offer the best chance of success (Giloith 2004).

These strategies now come in many forms (Holzer and Martinson 2005). They include the following:

- *Sectoral training*, in which training is targeted towards key high-demand sectors in the economy and intermediaries work with local employers in these sectors to place trained workers into jobs;
- *Incumbent-worker training*, in which training is provided by employers to workers whom they have already hired, to improve their chances of upward mobility in the firm;
- *Career-pathway development*, in which intermediaries work with employers on devising new combinations of career education and work experience, to create more pathways for workers (incumbent or prospective) to attain good jobs and promotions in their industries; and
- *Apprenticeships and internships*.

The intermediaries—which can include community-based organizations or various not-for-profit or for-profit companies—might direct workers to the relevant sources of training and then to employers who will hire them. They thus help less-skilled workers to overcome the informational problems (and perhaps discrimination) that can limit access to better jobs. Assistance with child care or transportation is sometimes provided as well. Financial assistance to pay for training—in the form of Pell Grants or other supports—can also be arranged. And other forms of enhanced financial incentives to encourage work can be used as well, such as enhanced Earned Income Tax Credit (EITC) benefits at the state level or rental subsidies for those maintaining employment who live in public housing.

Are these approaches cost-effective? Rigorous evaluation results have often been lacking to date. Some rigorous evidence does show positive impacts that are large enough to make programs cost-effective (this evidence comes from the Job Training Partnership Act [JTPA] evaluation, the Portland site in the National Evaluation of Welfare-to-Work Strategies [NEWWS], the evaluation of the Center for Employment Training [CET] in San Jose, and a few other studies), though the overall evidence is somewhat mixed.<sup>1</sup> A great many promising but non-rigorous evaluations of other strategies are available. Somewhat stron-

ger evidence of positive impacts exists for incumbent worker training (though not necessarily for the poor) and for work supports such as the EITC and the public housing rental subsidies in Jobs Plus (Holzer 2007a).<sup>2</sup> Evidence from the more recent Employment Retention and Advancement project (ERA), which has sites around the country, has generated mixed results, though the interventions at most sites have been very modest.<sup>3</sup> Clearly, much more evaluation work needs to be done in this area.

What about efforts to improve labor market participation among youth? A sensible strategy here would center on three broad goals (Edelman, Holzer, and Offner 2006): 1) improving education and employment outcomes while preventing early disconnection, 2) extending the EITC to childless young adults to improve their incentives to accept low-wage jobs, and 3) reducing the various barriers and disincentives that ex-offenders and noncustodial fathers face in the labor market.

Strategies to improve early outcomes and prevent disconnection would involve the following four approaches: 1) utilizing youth development efforts aimed at adolescents (like Big Brothers/Big Sisters or the Harlem Children's Zone); 2) creating multiple pathways to success in high schools, including high-quality Career and Technical Education (CTE) options (such as apprenticeships and the Career Academies—see Kemple and Scott-Clayton [2004] and Lerman [2007]) as well as options stressing direct access to higher education; 3) “second chance” programs (such as Youth Build and the Youth Service and Conservation Corps) and dropout prevention or recovery efforts; and 4) the resurrection of community-based models like the Youth Opportunity Program, which has created employment centers in low-income neighborhoods that track at-risk youth and refer the youth to available services. The available evidence suggests that at least some of these approaches are cost-effective, but in other cases more evidence is needed.<sup>4</sup>

Options for extending the EITC to childless adults appear in Berlin (2007); Edelman, Holzer, and Offner (2006); and Raphael (2008). The notion that this category of young men might potentially be quite responsive to these incentive programs receives support in evaluations of New Hope (Duncan, Huston, and Weisner 2007) and in statistical estimates of “labor supply elasticity” (or the responsiveness of work effort to net wages) by Grogger (1998) and others.

Efforts for ex-offenders include prisoner reentry programs, like the Center for Employment Opportunity, which provides a paid but temporary “transitional job” for each participant (Bloom et al. 2007); early evaluation evidence shows little impact by this program on earnings over time but a sharp reduction in recidivism for those who move quickly from prison into the program. Legislative or executive efforts among states to reduce the many legal barriers at the state level that limit employment options and other rights for ex-offenders (Holzer, Raphael, and Stoll 2004) are also important.<sup>5</sup> For noncustodial fathers, arrears management efforts and full “pass through” of collections to families would offer the best chance of success. Suspending the accumulation of arrears during incarceration should also be considered.

Finally, efforts to improve the skills and work experience of the poor and their access to good jobs would likely be more successful if more such jobs existed. Higher minimum wages (in real terms) and greater ability of workers to organize would be helpful—so long as wages are not raised to levels that generate substantial unemployment.<sup>6</sup> Perhaps some local economic development efforts (such as Community Benefit Agreements) that reward firms that are providing good jobs and training might also be helpful in this regard, though more careful study of their impacts is needed at this time.

While the cost-effectiveness of all of these approaches has not yet been established, the enormous costs of doing nothing for these young men (as measured in terms of the costs of crime and incarceration, poor health, and intergenerational effects) must be considered as well. Greater financial support at the federal level should be available for these efforts through higher funding of Pell Grants, the Workforce Investment Act, and other legislative vehicles such as the Second Chance Act for prisoner reentry programs. At the same time, the federal government should incentivize and assist states and localities as they devise their own programs and policies along these lines, while also requiring rigorous evaluation.<sup>7</sup>



## Notes

1. For instance, the positive impacts of JTPA tend to fade over time, though they remain large enough to make the program cost-effective. All other sites besides Portland in NEWS showed a lack of cost-effectiveness over time. The CET replication across the country did not generate positive impacts over time, though the “high fidelity” sites in California (in other words, those that adhered most closely to the original CET model) showed strong earnings growth among both treatment groups and controls where the latter attended community college in large numbers.
2. For example, a quasi-experimental study showed that incumbent-worker training grants in Michigan in the late 1980s led to productivity improvements among workers that presumably improved their earnings over time, while somewhat more descriptive evidence in California also suggests positive impacts on worker earnings. The EITC has clearly raised the employment rates of low-income single mothers, while Jobs Plus has also improved employment rates among public housing residents.
3. Hamilton (2008) shows that sites in Texas that supplemented the EITC with additional earnings subsidies generated higher earnings among workers over time, while a site in Illinois that helped workers find and apply for better jobs generated positive impacts as well. Community-based groups in Riverside, California, that provided a range of employment services also had positive impacts on the earnings of low-wage workers there.
4. The Big Brothers/Big Sisters program and Career Academies have proven to be clearly cost-effective in experimental evaluations. Econometric evidence suggests similar positive impacts of Tech Prep and other CTE models. Early evidence for the Youth Service and Conservation Corps (in a short-term, random-assignment evaluation) was also very positive, while more descriptive evidence on the Youth Opportunity program was quite positive relative to other high-poverty neighborhoods during the same time period.
5. The Legal Action Center in New York and the Sentencing Project in Washington, D.C., have led efforts to induce states to reconsider the restrictions on employment and voting rights that exist for ex-offenders. Florida, among others, has recently undertaken a review of these barriers and has made some efforts to reduce both kinds.
6. A legislative proposal known as the Employee Free Choice Act would make it easier for workers to organize into unions without representation elections, though more competitive labor markets might still restrict their ability to raise wages without generating employment losses. See Hirsch (2008) for a good discussion of these issues.
7. In Holzer (2007b), I propose a new competitive grant by the federal government to states that build “advancement systems,” in which the federal government would match new state and local expenditures while providing substantial technical assistance and requiring formal evaluation.

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