

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

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I. Introduction

During the past few decades, millions of less-educated workers have poured into the labor market in the U.S., especially 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., at the 10th or 20th percentile of all workers) have stagnated over time, relative to those at the middle or top of the labor market (Blank et al., 2006). Advancement prospects for these workers also appear quite limited (Andersson et al., 2005; French et al., 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 paper, I review some research evidence on the causes of low earnings among the working poor and weak labor market activity among low-income men. I then consider some potential policy responses to these problems.

II. 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:

- 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, like health care and construction.

For the nonattached, a lack of general work experience often signals difficulties with even basic levels of “job-readiness” to employers.

But earnings in the labor market depend not only on worker skills, but also on employer policies and practices. Of course, some sectors – like construction, durable 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 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 et al., 2003). Furthermore, these employer wage premia can account for large fractions of 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 helps 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 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 be 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 high turnover rates 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 (Topel and Ward, 1992; Andersson et al., 2005). But involuntary job instability might be caused by poor work performance, or by frequent absenteeism and tardiness that is associated with difficulties in child care, transportation, or health (Holzer and Lalonde, 2000; Holzer and Stoll, 2001). Low wages can also limit worker 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 (Fryer and Levitt, 2004; Edelman et al., 2006). 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 non-mainstream behaviors, like illegal activity and fathering children out of wedlock (Hill et al., 2008).

The combination of criminal activity and unwed fatherhood almost guarantee that these young men will become incarcerated and also 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 have further depreciated (Holzer et al., 2004; Holzer, 2007a). Indeed, employer reluctance to hire those with criminal records might even cause them to engage broadly in “statistical discrimination” against less-educated black males (Holzer et al., 2004; Pager, 2003).

Furthermore, those who are non-custodial fathers almost certainly will be in “arrears,” or debt, on their child support orders – as the orders remain in effect while they are incarcerated. Those in arrears face very high tax rates on their limited earnings – up to 65%. And, since the child support collections are not always “passed through” to low-income families who 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,” often have physical or mental health disabilities, substance abuse problems, and very poor skills and work experience (Danziger et al., 2000; Bloom and Butler, 2007).

III. Policies to Improve Advancement and Labor Market Participation

Given the somewhat different situations and problems experienced by the working poor and by 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* that 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. But 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 chances of success (Giloith, 2003).

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

- Sectoral training;
- Incumbent-worker training;
- Career-ladder development; 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, like enhanced EITCs at the state level or rental subsidies for those maintaining employment who live in public housing.

Are these approaches cost-effective? Rigorous evaluation results are often lacking to date. Some sporadic bits of rigorous evidence emerge (from the JTPA evaluation, the Portland site in the National Evaluation of Welfare to Work Strategies, the evaluation of the Center for Employment Training in San Jose, etc.), while a great deal of promising

but nonrigorous evaluations on other strategies are available. Somewhat stronger evidence exists on incumbent worker training (though not necessarily for the poor) and on work supports like the EITC and the public housing rental subsidies in Jobs Plus (Holzer, 2007a). Evidence from the more recent Employment Retention and Advancement project (ERA) around the country has generated very mixed results, though the interventions at most sites have been very modest. 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 around three broad goals (Edelman *et al.*, *op. cit.*): 1) Improving education and employment outcomes while preventing early disconnection; 2) Extending the Earned Income Tax Credit (EITC) to childless young adults, to improve their incentives to accept low-wage jobs; 3) Reducing the various barriers and disincentives that ex-offenders and non-custodial fathers face in the labor market.

Strategies to improve early outcomes and prevent disconnection would involve youth development efforts aimed at adolescents (like Big Brothers/Big Sisters or the Harlem Children's Zone); creating "multiple pathways to success" in high schools, including high-quality Career and Technical Education (CTE) options (like the Career Academies and apprenticeships – see Kemple, 2004 and Lerman, 2007) as well as those stressing direct access to higher education; "second chance" programs (like Youth Build and the Youth Service and Conservation Corps) and dropout prevention or recovery efforts; and the resurrection of community-based models like the Youth Opportunity program, which created employment centers in low-income neighborhoods that tracked at-risk youth and referred them to available services.

Options for extending the EITC to childless adults appear in Edelman *et al.*, Berlin (2007) and Raphael (2007). The potential responsiveness of young men to these incentive programs appears in evaluations of New Hope (Duncan *et al.*, 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, that provides a paid but temporary "transitional job" for each participant (Bloom, 2006); and legislative efforts to reduce the many legal barriers at the state level that limit employment options for ex-offenders (Holzer *et al.*, 2004). For non-custodial fathers, arrears management efforts and full "pass through" of collections to families would offer the best chances 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 displacement. Perhaps some local economic development efforts that reward firms

providing good jobs and training might also be helpful in this regard.

While the cost-effectiveness of all of these approaches has not yet been established, the enormous costs of doing nothing for these young men (measured in terms of the costs of crime and incarceration, poor health and intergenerational effects) must be considered as well.

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