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To: President-Elect Barack Obama
CC: U.S. Congress
From: Shriver Center

In re: Antipoverty Recommendations

1. Strengthen Civil Rights
2. Reform Health Care
3. Fortify Safety Net
4. Solve Federal Fiscal Problem
5. Preserve Affordable Rental Housing
6. Exercise Executive Clemency
7. Foster Career Advancement
8. Link Economic and Workforce Development
9. Ensure Quality Child Care for Workers
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11. Legalize Immigrants
12. Guarantee Leave Policies for Women



Better Jobs for Poor Workers: Linking Economic and Workforce Development to Fight Poverty

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In recent years a new and different approach to workforce development for the poor has gained some traction around the country. In this approach, states make workforce development in general—including job training for the poor—part of their economic development strategy.

That raising the potential earnings of low-income workers is a critical part of any effort to reduce poverty has long been recognized. Beyond efforts simply to induce the poor to work more, such as welfare reform and expanding the earned income tax credit, a primary way to improve the earning capacity of the poor is to improve their skills through more education and training.

Indeed, this notion of skill building has been embodied in most federal workforce development efforts, such as the Workforce Investment Act and its various legislative predecessors.¹ Yet workforce development under the Act remains poorly funded; indeed, funding in real terms and relative to the size of the U.S. economy has fallen precipitously since the late 1970s.² Further, questions remain about the cost-effectiveness of these skill-building efforts.

What are the arguments for and against integrating economic and workforce development as a way to increase the earnings of low-income workers? Have any efforts to improve the skills of the poor been brought to scale? Is there evidence that increasing training to increase pay works—in other words, is this cost-effective, relative to other approaches? Overall, how should the integration of the economy and workforce

¹The Workforce Investment Act replaced, in 1998, the Job Training Partnership Act, which succeeded the Comprehensive Employment and Training Act in 1982. See my *Workforce Development and the Disadvantaged: New Directions for 2009 and Beyond* (Sept. 2008) (unpublished manuscript, on file with the Urban Institute).

²Since 1979, funding for employment and training activities at the U.S. Department of Labor has fallen by more than two-thirds in real dollars and by well over 80 percent relative to the size of the U.S. economy. Of the money currently spent, significantly less goes to job training for the disadvantaged than before. While Pell grants for the poor (funded by the Higher Education Act) partially offset this trend, they do not fully do so. See my *Workforce Development as an Antipoverty Strategy: What Do We Know? What Should We Do?*, in *CHANGING POVERTY* (M. Cancian & S. Danziger eds., Russell Sage Foundation) (forthcoming 2009).

development figure in our antipoverty strategies in the coming years? These questions and the ramifications of the answers are what I focus on here.

I. Prospects and Limitations

What is the rationale for linking workforce and economic development, especially for the poor?

State economic development policies have traditionally involved financial inducements and assistance to large employers.³ Critics say that these policies result in zero-sum activities across states which bid against one another to attract these employers and which transfer large amounts of public resources to these companies, but otherwise these economic policies generate little net gain for the public.⁴ But, as employers increasingly worry about their ability to find workers with the requisite skills in various locations, the logic of incorporating workforce development into economic development has become more apparent. A range of skill needs involving not only strong communication and problem-solving abilities, but more specific occupational credentials as well, has risen in many critical employment sectors. Employers routinely report difficulty finding workers with the skills they seek, especially in tight labor markets (such as those of the late 1990s) but even in markets with more slack.⁵

The news media and various public figures, such as Microsoft's Bill Gates, often stress the need for more highly educated

workers in the "STEM" fields (science, technology, engineering, and math) and the information technology sectors in order for the United States to remain competitive in these fields. In reality, skilled workers are in short supply in many "middle-skill" occupations requiring postsecondary education or training but less than the four-year college degree required in the STEM and informational technology fields.⁶ Many of these middle-skill workers are found in health care fields, such as licensed practical nursing or radiological technology, in the skilled construction trades, and in installation, maintenance, and repair jobs in a wide range of industries. Highly skilled manufacturing workers, especially machinists, remain in critically short supply, despite the shrinkage of manufacturing employment in recent years.⁷ These middle-skill jobs in health care, construction, and manufacturing—high-paying jobs in high-demand economic sectors—can often be filled by workers without a four-year college diploma but still require a certain degree of training.⁸

Many states report difficulties and shortages of people able to fill critical, middle-skill-level occupations; as a result, states are less able to attract or retain employers.⁹ An added worry is that the imminent retirement of baby boomers will exacerbate these difficulties.¹⁰ Indeed, the retirement of baby boomers will likely slow the growth of worker educational attainment at both the middle and the top of the skills distribution, as baby boomers are largely replaced in the labor mar-

³See, e.g., Timothy Bartik, *JOBS FOR THE POOR: CAN LABOR DEMAND POLICIES HELP?* (2001).

⁴*Id.*

⁵For a fuller discussion of the demand for and supply of workers into middle-skill jobs, see HARRY J. HOLZER & ROBERT I. LERMAN, *AMERICA'S FORGOTTEN MIDDLE-SKILL JOBS: EDUCATION AND TRAINING REQUIREMENTS IN THE NEXT DECADE AND BEYOND* (2007), www.skills2compete.org/atf/cf/%7B8E9806BF-4669-4217-AF74-26F62108EA68%7D/ForgottenJobsReport%20Final.pdf.

⁶*Id.*

⁷*Id.*

⁸*Id.*

⁹According to economic theory, labor market shortages should not persist over time, as long as employers can adjust their wages (to attract more or better workers) or recruiting and training policies. But these market adjustments often work imperfectly, even in the long run, in the presence of various "market failures" (such as imperfect information among workers or employers, credit constraints, wage rigidities, etc.) (see Workforce Development, *supra* note 1).

¹⁰See, e.g., Holzer & Lerman, *supra* note 5; see also *RESHAPING THE AMERICAN WORKPLACE IN A CHANGING ECONOMY* xvi–xvii (Harry J. Holzer & Demetra Nightingale eds., 2007), along with several of the papers contained in that volume. See also David Ellwood, *The Sputtering Labor Force of the 21st Century: Can Social Policy Help?* (Nat'l Bureau of Econ. Research, Working Paper No. 01-022, 2001), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=274155.

ket by less-educated immigrants.¹¹ But immigrants are relatively more concentrated than U.S.-born workers at both the bottom and the top of the education spectrum.¹² Thus any prospective shortage of skilled workers may be most pronounced in middle-skill jobs.¹³ Nor are these prospects likely to be changed by “offshoring” jobs to China, India, or elsewhere.¹⁴

As state officials seek workers to educate and train for jobs that are more difficult to fill, such as those in health care and construction, attention has focused on the poor. Indeed, new approaches have been developed in recent years to train poor workers for jobs in sectors with growing demand at the middle-skill job level. For instance, from community colleges or other providers, workers receive education or training (and ultimately some marketable credentials) in “sectoral” programs targeted toward growing sectors with good paying jobs at local firms.¹⁵ Labor market “intermediaries” help ensure that workers are hired once trained, and intermediaries also arrange for supportive services, such as child care and transportation, when needed.¹⁶ Other training models, such as those that build “career ladders” or fund upgrading for “incumbent workers,” involve even closer work with employers to build job progression that is not necessarily there

at the outset; appropriate education and training can help low-income workers move to better-paying jobs.¹⁷

Some prominent examples of these programs have been developed around the country.¹⁸ They include the Extended Care Career Ladder Initiative in Massachusetts, Project Quest in San Antonio, Focus: Hope in Detroit (which trains machinists for the auto industry), and the Wisconsin Regional Training Partnership for manufacturing.¹⁹ Several states, such as Pennsylvania, New Jersey, and California, have developed major incumbent worker training programs to upgrade frontline workers (though not always poor ones) into better jobs.²⁰ Kentucky and Portland, Oregon, have developed “career pathways” for workers that combine community college education with other supports to prepare the poor for jobs in key industries.²¹ Career academies, which provide occupational training and work experience to high school students and other forms of high-quality career and technical education, can also serve at-risk youth in high school as well as lower-income adults.²² And several states, including Pennsylvania and Washington, have systematically built the analysis of labor demand in key growing industries into their workforce development plans.²³

¹¹*Id.* In general, each successive generation of U.S. workers is better educated than the preceding generation. As immigrants replace U.S.-born baby boomers, their lower level of education counteracts this tendency.

¹²Those at the “top” have college degrees or higher, while those at the “bottom” of the spectrum have at most a high school diploma. See, e.g., George Borjas, *Immigration Policy and Human Capital*, in *Reshaping the American Workplace*, *supra* note 10, at 187.

¹³See Holzer & Lerman, *supra* note 5, at 20.

¹⁴Many of the middle-skill jobs described above in health care or elder care, construction, and other sectors cannot be offshored, as the work must be done here in the United States. Even if American labor markets in general are negatively affected by these forces, the specific skills required in these sectors and their relatively short supply should still generate fairly high earnings in these jobs (*id.* at 22).

¹⁵See my *Better Workers for Better Jobs: Improving Worker Advancement in the Low-Wage Labor Market*, HAMILTON PROJECT UPDATE (Brookings Inst., Washington, D.C.), Dec. 2007, http://www.urban.org/UploadedPDF/1001118_better_jobs.pdf.

¹⁶*Id.*

¹⁷*Id.*

¹⁸See Karin Martinson & Pamela Holcomb, *Urban Institute, Innovative Employment Approaches and Programs for Low-Income Families* (2007), www.urban.org/UploadedPDF/411467_employment.pdf.

¹⁹*Id.*

²⁰*Id.*; see also *Better Workers*, *supra* note 15.

²¹*Better Workers*, *supra* note 15.

²²*Id.*

²³ *Id.*

Aside from the efforts noted above by states to work with employers and training providers, most of the innovative efforts involving workforce and economic development have been fairly small. Funding is often provided by private foundations rather than the Workforce Investment Act; private foundations are more flexible about performance requirements and other criteria that often limit the pooling of funds across multiple sources, including federal Pell grants and funds from the Temporary Assistance for Needy Families.²⁴ Recent efforts, such as the National Fund for Workforce Solutions, to raise the scale of these funding operations are only now getting under way, but the need for greater infusion of federal and state funds remains.²⁵

Both “sectoral” and “incumbent” worker training target specific firms or economic sectors and make it possible for trainees to get good paying jobs—jobs that are often hard to fill. However, “sectoral” and “incumbent” worker training has potential problems. In light of the limited resources available in the public sector, funds should be used for new training and not to create windfalls for firms which are being paid to hire and train some of these workers themselves at the firms’ own expense. As long as funding is focused on the poor, such windfalls are unlikely to be created since employers on their own are reluctant to invest much in training the poor.²⁶ But tensions inevitably arise as states face pressure to fund education and training for more highly skilled workers. If the training is focused too narrowly on the poor alone, industry interest in participating is much more limited, and political support is weaker as well.

There are other reasons why education and training efforts for the poor might not work. If an individual’s basic skills are poor, the individual’s ability to master various kinds of occupational training is doubtful. If a person’s motivation is weak, the person’s willingness to expend the effort to complete any required coursework is questionable. For poor parents, especially single parents, the pressure of juggling work and family responsibilities may preclude any such efforts. Employers may be unwilling to relinquish paid work time for training, while the workers cannot afford to forgo pay and do not have the time after work to invest in schooling. A stipend during training, on top of child care and other services for families, can certainly help in these situations, although these are not readily available to the poor.

II. Improving Education and Training for the Poor

Several studies purport to show that sectoral training raises the earnings of disadvantaged workers by comparing the earnings of individuals before and after such training. But evidence from more rigorous evaluations of the cost-effectiveness of job training programs for the disadvantaged has often been mixed.²⁷ The National Job Training Partnership Act evaluation in the 1990s showed a quite positive impact per dollar spent for disadvantaged adults, although the total dollar impact on earnings was modest (and eventually faded away).²⁸ These results tell us little about the kinds of programs discussed above, specifically the ones that target growing sectors with middle-skill jobs, which were not very

²⁴See Workforce Development, *supra* note 1.

²⁵The National Fund for Workforce Solutions has been established by the Ford, Annie E. Casey, Hitachi, Knight, and Weinberg foundations, along with the U.S. Department of Labor (see www.nfwsolutions.org/ (last visited Aug. 19, 2008)).

²⁶Employers tend to invest more in workers who have stronger basic skills and prior work experience and whom they expect to remain long enough in their jobs so they can earn a return on their investments. For these reasons, private employer training in the United States tends to be heavily skewed toward professional and managerial employees (see Workforce Development, *supra* note 1).

²⁷By “rigorous” I mean evaluations that use random assignment to treatment and control groups among potential participants, or a statistical methodology that arguably approaches that standard.

²⁸Results for disadvantaged youth in the Job Training Partnership Act also showed no positive impact on earnings over time. Evaluations of the Job Corps show some early impact tending to fade over time. Other evaluations of employment programs for youth, such as the Service and Conservation Corps, are under way (see *Workforce Development as an Antipoverty Strategy*, *supra* note 2).

prevalent at the time of the Job Training Partnership Act study.²⁹

Perhaps the only sectoral-type program that has been rigorously evaluated is the Center for Employment Training, which originated in San Jose, California, and has since been replicated in other locations.³⁰ An evaluation of the original program yielded strong evidence of positive impact and program cost-effectiveness, but a study of the replication effort failed to find any impact over the long run, although questions remain about how to interpret the findings.³¹

But a number of other findings strongly suggest that training programs that lead to secondary or postsecondary credentials, along with work experience and ties to key economic sectors, can be effective for disadvantaged workers.³² For instance, career academies show a strong impact on the earnings of at-risk young men for as much as eight years after high school, without deterring them from obtaining postsecondary education.³³ Statistical studies repeatedly show that at least a year of community college, and especially the attainment of a certificate or degree, can raise the earnings of disadvantaged youth or adults.³⁴ Studies of incumbent worker training suggest benefits for both employers and employees.³⁵ Rigorous evaluation of a number of programs that combine employment or training with support services, job placement assistance, and financial supplements has generated positive results as well.³⁶

Much work remains to be done to show exactly what works and for whom in the realm of workforce development for the disadvantaged. But here I am suggesting that there is enough positive evidence to merit continuing experimentation with, and an ongoing evaluation of, various approaches. The notion that “nothing works” for disadvantaged youth and adults, and that investments in education should be made only at very early ages or only for cognitive skills and higher education, is clearly incorrect.³⁷

III. A Promising Trend Deserving Support

Many states are seeking to integrate their economic and workforce development policies in order to prepare their workforces for jobs in industrial sectors that are likely to be in high demand over the next few decades. Whether these policies will serve the interests of disadvantaged workers is not yet clear. But, despite the clear limitations and potential pitfalls of this “integration” approach, and despite a lack of rigorous research evidence to date on the cost-effectiveness of economic and workforce development integration, this is a promising trend that deserves greater support in both state and federal policy.

In other articles I outline some proposals for changes in federal policy that would support state efforts to increase training for the poor in order to increase in-

²⁹*Id.*

³⁰See the Center for Employment Training website, www.cetweb.org/index.php (last visited Aug. 19, 2008).

³¹See CYNTHIA MILLER ET AL., MDRC, *THE CHALLENGE OF REPEATING SUCCESS IN A CHANGING WORLD: FINAL REPORT ON THE CENTER FOR EMPLOYMENT TRAINING REPLICATION SITES* (2005), www.mdrc.org/publications/453/execsum.html.

³²See *Better Workers*, *supra* note 15.

³³See JAMES J. KEMPLE & CYNTHIA J. WILLNER, *CAREER ACADEMIES: LONG-TERM IMPACTS ON LABOR MARKET OUTCOMES, EDUCATIONAL ATTAINMENT, AND TRANSITIONS TO ADULTHOOD* (2008), www.mdrc.org/publications/482/overview.html.

³⁴See Robert Lerman, *Career Focused Education and Training for Youth*, in *RESHAPING THE AMERICAN WORKPLACE*, *supra* note 10, at 67.

³⁵See *Better Workers*, *supra* note 15.

³⁶*Id.*

³⁷For instance, James Heckman, a Nobel Prize-winning economist at the University of Chicago, argues in several influential papers that investments in skill formation are effective only at very early ages. The extent to which the empirical evidence supports this viewpoint remains very debatable (see, e.g., James Heckman *Schools, Skills and Synapses* (Nat'l Bureau of Econ. Research, Working Paper No. 14064, 2008)).

come.³⁸ For instance, I would substantially increase funding for the Workforce Investment Act (or whatever legislation might replace it in 2009 or beyond) and use it to help states integrate workforce and economic development more systematically, while making sure that service provision is focused on less-educated adults and youth, including but not necessarily limited to the poor.³⁹ I also outline a new competitive grant program that would fund states to develop “worker advancement” systems for disadvantaged youth and adults and bring them to scale.⁴⁰ The federal government would match new state and local expenditures on training and supportive services and financial supplements for the poor.⁴¹ The grants would ultimately cover most states and would be renewable over

time.⁴² States would be required to evaluate their efforts and disseminate results, while statewide performance measures would be used to encourage states to develop cost-effective policies and bring them to scale.⁴³

Whatever specific path is chosen next year, what seems sensible is for the federal government to support the efforts of states to merge workforce and economic development, thereby improving the earnings capacity of the disadvantaged and thereby fighting poverty. And, in the meantime, antipoverty advocates can lobby for more state and local resources to be invested in programs to help integrate workforce and economic development, and they can help steer their clients toward existing training opportunities at the local level.

³⁸*Better Workers*, *supra* note 15; see also *Workforce Development*, *supra* note 1.

³⁹*Better Workers*, *supra* note 15.

⁴⁰*Id.*

⁴¹*Id.*

⁴²*Id.*

⁴³*Id.*

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