THE HAMILTON PROJECT
Advancing Opportunity, Prosperity and Growth

POLICY BRIEF NO. 2007-15 DECEMBER 2007

Better Workers for Better Jobs: Improving Worker Advancement in the Low-Wage Labor Market

LOW-WAGE WORKERS in the United States are falling further and further behind their higher-earning counterparts. In response to the growing problem of wage inequality, many promising state and local initiatives have emerged to offer much-needed training, financial supports, and job placement assistance to low-income workers. But these initiatives are often too small to have a significant effect on poverty or on employment rates, and they lack the rigorous evaluation methods needed to determine their effectiveness and allow sound information on what works to be spread more widely.

In a discussion paper for The Hamilton Project, Harry J. Holzer of the Georgetown Public Policy Institute and the Urban Institute proposes a new federal funding stream to identify, expand, and replicate the most successful state and local worker advancement initiatives. Under the proposed Worker Advancement Grants for Employment in States (WAGES) program, the federal government would offer up to $5 billion annually in matching funds for increases in state, local, and private expenditures on worker advancement initiatives. This amount would supplement the current $3 billion in federal funding spent on worker advancement. Initially, the WAGES program would require states to compete for federal grants, encouraging innovation and knowledge sharing among states. Holzer argues that the program would significantly increase the lifetime incomes of low-wage workers while developing and disseminating high-quality data on successful program design.

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THE CHALLENGE

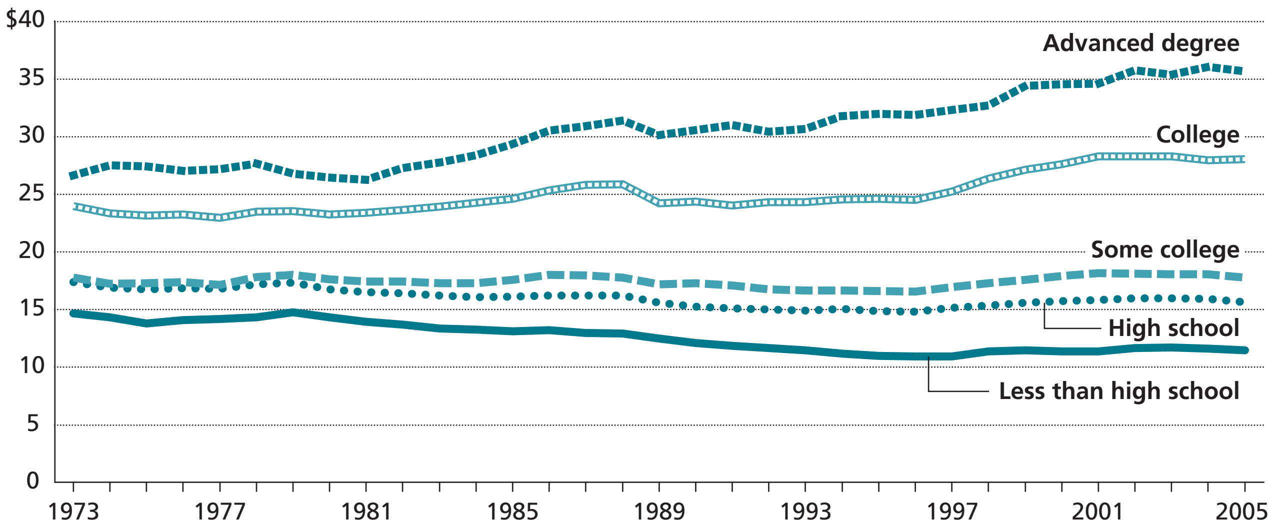
Although low-wage jobs exist in every society, the disparities between low-income and higher-income workers in the United States are growing more rapidly than in other countries. New technologies, increased globalization, and the weakening of policies and institutions designed to protect workers have contributed to income inequality. The inflation-adjusted incomes of workers with less than a high school education have declined since 1980, while the earnings of workers with at least some college education have risen. The loss of relatively well-paying manufacturing and clerical jobs has caused a "hollowing out" of the middle of the income distribution. The 20 million low-wage workers in the United States have largely been excluded from the prosperity enjoyed by other Americans.

Holzer defines low-wage workers as those who earned less than $7.73 an hour in 2003, or roughly half the average hourly wage. At this wage a family of four would fall below the poverty line even with one wage earner working full-time and year-round. Yet in 2003 fully 22 percent of all workers made less than this amount. To be sure, some of these workers were teens or young adults whose wages have since grown or are expected to grow, or they were the second or third wage earners in their families. But 61 percent of low-wage workers were 30 years or older, and about half of low-wage workers—11 percent of all workers—lived in families whose total income was less than twice the poverty line.

These trends are even more severe for men, especially young black men. Employment among young low-income men declined in the 1980s and began to stabilize for white and Latino men in the 1990s. For young black men, however, labor force activity has continued to decline into the present decade as a result of diminishing job networks, high rates of incarceration, and "disconnection" from school and work.

In theory, a dynamic labor market should allow low-income earners to work their way into well-paying, reliable jobs. Holzer and two colleagues recently put this proposition to the test. They analyzed whether

Men's real hourly wage by education, 1973-2005 (2005 dollars)



Source: *The State of Working America 2006-07*, table 3.18.

low-income workers, defined as those earning less than $12,000 a year, were able to increase their earnings over an extended period. The study found that even modest income gains were difficult to achieve. Only 27 percent of low-income earners increased their wages to a consistent annual level of $15,000 during the nine-year study period. The study found even more striking results for less-educated workers: only 15 to 20 percent of workers with a high school diploma or less had escaped low wages after nine years. In 2004 individuals with no high school diploma accounted for 19 percent of all workers but made up 43 percent of low-wage workers.

Given these barriers to even modest improvements in earnings, Holzer argues that many low-wage workers would benefit from workforce advancement programs. He identifies three groups in particular. First are the working poor: adults who are consistently employed but have low earnings. Most efforts to assist the working poor are focused on industry-specific training that can lead to better jobs and higher earnings. These sectoral programs have been shown to have positive and generally large effects on earnings. An experimental evaluation of the San Jose Center for Employment and Training, for example, identified a $2,000 annual increase in earnings among participants. Similarly, a national study of the Job Training Partnership Act (JTPA) showed earnings increases of $800 for women and $700 for men for modest investments in training.

The second group consists of at-risk youth and high school students not planning to pursue a college degree. In addition to apprenticeships, these young people generally benefit from career and technical education (formerly known as vocational education), in which high schools and community colleges train students for jobs in specific sectors of the economy, such as information technology or health care. Career and technical programs appear to be among the most successful worker advancement initiatives, with studies showing increased earnings of

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10 percent for low-income workers overall and up to 18 percent for at-risk male youth.

The third group, "hard-to-employ" individuals such as ex-offenders and persons with disabilities, may benefit from special efforts to support their employment. Transitional jobs along with intensive case management can prepare these individuals for full-time employment. These individuals may also benefit from services such as job placement assistance, child care subsidies, wage supplements, and referrals for substance abuse rehabilitation or mental health care. An initial evaluation of the ex-offender transitional jobs program at the Center for Employment Opportunities indicates significant declines in recidivism and less certain results on employment and earnings.

Several state and local worker advancement programs geared toward supporting these groups have emerged across the country. Many use innovative approaches and promising models, but most are too small and poorly funded to have a measurable effect on poverty and employment rates. Furthermore, with few objective measures or rigorous evaluations, states and localities have limited ability to assess the effectiveness of these initiatives or adopt best practices. Without a new approach, haphazard and inefficient funding for worker advancement programs is likely to continue.

Key Highlights

The Challenge

The following problems point to the need for a new funding stream for worker advancement programs:

- **Real wage stagnation.** Since the 1970s, real wages have stagnated for the 20 million low-wage workers in the United States. Half of low-wage workers, or 11 percent of all workers, live in families with a household income below twice the poverty line.
- **Lack of mobility.** A recent study showed that only one-quarter of the lowest-income earners were able to achieve even modest increases in income over an extended period.
- **Insufficient assistance.** Many state and local initiatives, though promising, lack the funding and scale to have a significant effect on poverty or employment rates.

A New Approach

Holzer proposes the Worker Advancement Grants for Employment in States (WAGES) program to identify, expand, and replicate the most successful worker advancement initiatives:

- **The WAGES program would offer up to $5 billion annually in federal grants** for state, local, and private worker advancement initiatives, which include training programs, job placement assistance, and financial supports such as wage supplements.
- **Grants would be competitive,** encouraging states to develop innovative and comprehensive worker advancement plans targeting the working poor, at-risk youth, and the hard-to-employ.
- **The new funding stream would create a "learning system"** by requiring rigorous evaluation of worker advancement initiatives, disseminating high-quality data on program design, and rewarding states that use proven-effective models.

A NEW APPROACH

Holzer calls for a new federal funding stream to identify and expand the most successful state and local worker advancement initiatives. Under his proposed WAGES program, the federal government would offer matching funds of up to $5 billion a year for new expenditure by state and local governments and private firms on training and work supports. States would be required to submit worker advancement plans detailing their programs for low-income workers, especially the working poor, at-risk youth, and the hard-to-employ. These plans would also outline proposed partnerships with workforce investment boards, community colleges and high schools, employers, and workforce intermediaries. To prevent states from simply replacing their current expenditures with federal funds, the federal government would only match new state and local spending for qualified initiatives.

Initially, federal grants through the WAGES program would be awarded competitively to encourage states to scale up their most successful initiatives and adopt best practices from other states and localities. The few states chosen to participate in these initial years would attempt to expand and evaluate the most promising programs, and through competition states would be discouraged from simply copying past efforts that have produced mediocre results. The WAGES program would start small, offering $1 billion to $2 billion in each of the initial years, and increase its grants over time to the full $5 billion a year to ensure efficient use of funds and adequate institutional capacity to absorb new spending. For the same reason, grants would generally be long-term, covering at least a five-year period.

Grant renewal would play a central role in identifying and expanding successful programs. The federal government would require states to evaluate and report the effect of their initiatives on program participants and disadvantaged workers more broadly.

Eventually grants would be made available to all states, with bonuses for states showing high rates of advancement. States would therefore have an incentive to use available information about best practices in applying for new grants or grant renewal. Other states and communities that based their own initiatives on these proven-effective methods would be more likely to receive federal grants in the future. Competitive grants and grant renewal would create a "learning system" in which states would exchange information and adjust their programs based on increasing evidence about what works. The federal government would supplement the state evaluations with funding for a few large randomized evaluations and rigorous empirical studies.

Despite the uncertainty surrounding the effectiveness of worker advancement initiatives, Holzer argues, best estimates from past programs indicate that the WAGES program would produce cost-effective results. With the federal government matching $5 billion a year in state and local spending, total new expenditure on workforce advancement over one decade would equal $100 billion—$50 billion in federal funds and $50 billion in state, local, and private funds. In an example designed to measure the potential impact of this proposal, Holzer assumes that 60 percent of this money would be spent on workforce training and the remaining 40 percent on financial services and supports, including wage supplements and job placement assistance. He estimates that spending $60 billion on worker training, at $6,000 to $10,000 per trainee, would serve about 7 million workers over the decade. Based on evidence from programs under the Job Training Partnership Act and the Center for Employment and Training, Holzer predicts that this intensive, targeted training would translate into a $20,000 total increase in lifetime earnings (at present value) for the average participant. Spending $60 billion on workforce training could thus yield about $140 billion in benefits. Similarly, the $40 billion spent on financial services and supports would, over the decade, serve about 1 million participants at $4,000 per participant per year. Again Holzer estimates that lifetime earnings would increase by about $20,000 per participant. In total, then, the $100 billion cost could produce $160 billion in benefits for participants.

These estimates, while not precise, reflect the best available evidence from past job training evaluations, which show positive, if small, impacts from workforce advancement expenditures. Econometric

Promising State and Local Worker Advancement Programs

The WAGES program would identify and expand the most successful state and local worker advancement initiatives. Some examples include:

STRIVE: Originally an East Harlem program that has since been replicated in other cities, STRIVE offers training and job placement programs for hard-to-employ workers, including a large number of ex-offenders. The program has nearly 3,000 graduates each year with a job placement rate of almost 70 percent.

Virginia Path to Industry Certification: Virginia's high school credentialing program encourages high school students to earn industry credentials through career and technical education sequences. In the 2005-06 school year, over 7,500 Virginia students earned industry credentials, choosing from more than 180 certifications approved by the Virginia State Board of Education.

Instituto del Progreso Latino: This institute offers basic education and job training in targeted sectors of the economy to Latino immigrants in the Chicago area. Each year the Instituto serves 14,000 individuals, with over 5,000 participants receiving workforce training.

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studies indicate that one year of community college translates to 5 to 8 percent higher earnings, while an associate's degree yields a 15 to 27 percent increase in earnings. The best programs financed under Temporary Assistance for Needy Families (TANF) show rates of return of up to 35 percent. The uncertainty of these estimates reveals the need for more rigorous evaluations and studies under the WAGES program.

Questions and Concerns

The WAGES program brings up various questions and concerns about the use of federal funding.

Would the WAGES program simply duplicate funding from other programs? Holzer notes that the WAGES program might overlap with other workforce advancement funding, especially funding from the 1998 Workforce Investment Act (WIA), which authorized the federal government's current major job training efforts. But the WIA's funding has decreased by nearly 90 percent in real terms since the late 1970s, and its budget is stretched too thin to enable it to expand local programs. In contrast, Holzer argues, the WAGES program would provide highly targeted funding for the most promising initiatives and generate data to improve the efficiency of spending.

There is also the possibility of overlap with Pell grants for higher education tuition assistance. Holzer argues that the amount of overlap would actually be quite minimal, since Pell grants have failed to keep pace with tuition increases. In addition, Pell grants exclude many groups who would benefit the most from worker advancement programs, such as part-time working students and students with criminal records. They also provide no funding for much-needed initiatives, such as support services for low-income students or partnerships between community college and employers.

Would expanding programs under WAGES have adverse effects on the labor market? There is a concern that spending a large amount of money on highly effective programs could result in a sudden increase in the number of capable workers in a locality, perhaps driving down wages. Holzer responds that the influx of newly productive workers from these training programs would likely have little effect on wages or employment rates in a national labor market that employs roughly 150 million workers at any given time. Such a large, dynamic labor market should be able to absorb these newly productive workers with very little added competition for jobs or downward pressure on the wages and employment of those already working in these sectors.

Would the WAGES program just encourage states to spend more money rather than spend existing money more efficiently? Some critics argue that the matching funds mechanism would simply encourage states to spend more rather than spend efficiently. Holzer responds that the program design of WAGES would promote efficient spending. The competitive nature of the grant provision process would require states to develop comprehensive plans for how they would spend the money and implement evaluation methods. The federal government would select for participation only those states that develop programs in the most cost-effective manner and incorporate up-to-date information from other states. Grant renewal would also provide an opportunity to reward cost effectiveness. Holzer also proposes that performance incentives such as bonuses for high success rates be maintained even after grants are extended to all states.

CONCLUSION

Holzer argues that entire communities stand to benefit from improving workforce advancement programs. State and local governments would incorporate highly effective programs into their economic development strategies. They could also see ripple effects in low-income communities as more workers participate in advancement programs and more young people train for well-paying jobs in the local workforce. Businesses would gain from having more skilled workers, and their efforts to train workers would be bolstered by federal funding.

The tangible benefits of the WAGES program are thus likely to outweigh its costs. But more importantly, Holzer notes, the cost of this proposal pales in comparison to the cost of doing nothing. The price that society pays when millions of children grow up in impoverished households, with parents who are disadvantaged or disconnected from the workforce, is incalculable. Such children are more likely themselves to be disconnected from school and work as they grow older, especially if they see few attempts by society to make work pay. In expanding workforce advancement initiatives, the WAGES program would not only reach today's low-income workers but also provide young people with the incentive and support to pursue education, stay connected to the workforce, and escape the cycle of poverty.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *Better Workers for Better Jobs: Improving Worker Advancement in the Low-Wage Labor Market,* which was authored by:

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Additional Hamilton Project Proposals

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- **Employment-Based Tax Credits for Low-Skilled Workers:** The earned income tax credit currently offers far fewer benefits to low-skilled childless workers than to workers with children. This proposal would expand the earned income tax credit for childless workers and provide a wage subsidy to workers in economically depressed urban areas.
- **Fulfilling America's "Make Work Pay" Promise:** In the mid-1990s, the New Hope pilot program demonstrated success in requiring full-time work from participants in exchange for services such as income supplements, health care, and child-care assistance. This paper proposes scaling up New Hope nationally, starting in five states.
- **A Strategy to Reward Work and Reduce Poverty:** Thirty-six million Americans live in poverty and inequality is increasing. The paper addresses these challenges through a three-part strategy. First, reward work through expanded tax credits. Second, prepare people to succeed by making long-term investments in human capital. Third, provide a safety net and help people rebound from economic difficulties.

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy—strikingly different from the theories driving economic policy in recent years—calls for fiscal discipline and for increased public investment in key growth-enhancing areas. The Project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country's economic policy.

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The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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