The low-wage labor market: Challenges and opportunities for economic self-sufficiency

Executive Summary

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Preface
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Executive Summary
The low-wage labor market has come increasingly into the policy spotlight following welfare reform, as states strive to move welfare recipients into employment. In this volume, experts in labor market analysis synthesize the current literature on the low-wage labor market and highlight important policy implications flowing from their review.

Characterizing the Low-Wage Labor Market

- Current research suggests the labor market is not-as classical labor market theory depicts it-a single unified market in which each worker is paid according to his/her additional value to the firm and is promoted to better-paid positions as that value increases. Rather, it has two largely separate sectors-a primary sector, which functions more or less as classical theory depicts and a secondary sector, which has few ladders to job advancement, little job stability, and more gender and racial discrimination than the primary market.

- Analysts of the secondary market focus on several types of workers, including workers with low hourly wages, workers with low skills, and workers whose annual earnings are low because they work only part-time or intermittently. These groups overlap but are not identical. Different policies may be necessary for different groups.

- The share of workers with low earnings is substantial. In 1997, for example, over a third of female workers had hourly wages that would be insufficient to lift a family of four out of poverty even if they worked full-year, full-time.

- The share of workers with low or near-low earnings is high and has been increasing, up from 36 to 41 percent over the past decade. The recession of the early 1990s was particularly difficult for low-wage workers, when nearly one million low-wage jobs were lost.

- Employment outcomes in the low-wage market vary greatly across regions, with lower unemployment rates for less educated women in the Northeast and Midwest compared to the South and West, and more favorable outcomes in the suburbs and rural areas compared to central cities.

Policy Interventions Affecting Low-Wage Labor Markets

- The low-wage labor market should be able to absorb the new entrants associated with welfare reform as long as the economy is healthy. The needed adjustments may take some time, however. In the short run, many welfare recipients leaving the rolls may have trouble finding employment. The large inflow of new entrants into the low-wage labor market could also reduce wage levels in that market.

- Policy interventions designed to help low-wage workers include raising the minimum wage, public service employment, worker-targeted tax credits, and employer-targeted tax credits.
Raising the minimum wage is not a strategy that is well targeted on the working poor, because the majority of the working poor are earning more than the minimum wage, and the majority of minimum wage earners are not poor (and include a substantial number of teenagers). Nonetheless, raising the minimum wage would likely improve the financial well-being for a substantial number of working poor adults, including nearly one million single parents.

Opponents to raising the minimum wage claim that it would reduce employment opportunities for low-wage workers. The weight of evidence indicates that this effect would be minimal and impact primarily teenagers who are typically not poor. Opponents also claim that raising the minimum wage would decrease the availability of employer-provided training. The evidence provides some support for this concern.

Subsidized public service employment (PSE) can increase earnings and the value of the output produced by low-wage workers. But PSE does not appear to create new jobs as much as shuffle workers around among existing jobs. The PSE evaluation evidence is restricted to older programs and more recent small-scale demonstrations, however.

The Earned Income Tax Credit (EITC) is an effective means for increasing labor force participation, particularly among single mothers.

Employer-targeted tax credits, such as the Work Opportunity Tax Credit and the Targeted Jobs Tax Credit, have received less favorable evaluations than worker-targeted credits. Most workers hired through such programs would have been hired in the absence of the credit.

Tax credits paid to employers developing economically distressed areas, such as those associated with Empowerment Zone/Enterprise Community programs, have been similarly ineffective in generating new jobs. More recent programs, which place greater emphasis on community building, may yield more positive results.

**Barriers to Entering the Low-Wage Labor Market**

- Major potential barriers facing workers entering the low-wage market include skills mismatch (including lack of transportation), discrimination, spatial mismatch, and lack of access to informal information networks.
- Skills mismatch is a serious difficulty for many disadvantaged workers, with at least 30 percent of long-term welfare recipients not meeting the basic job readiness requirements of employers.
- Discrimination negatively affects employment rates of African Americans, even when differences in skills have been taken into account.
- While there has been disagreement as to whether there is a spatial mismatch of jobs and workers, the majority of evidence does support the conclusions that the disadvantaged workers from central cities do have trouble getting to jobs located in the suburbs.
- Informal hiring networks account for between 25 and 60 percent of hires and are a particularly important hiring mechanism for entry-level employment, jobs that do not require college education, blue-collar jobs, and jobs with small employers. Such networks tend to be tightly knit and ethnically homogeneous. African American workers, in particular, tend to be excluded from them.

**Opportunities for Advancement and Benefits in the Low-Wage Labor Market**

- Job turnover is higher in industries where disadvantaged workers tend to find employment than in the primary labor market. Job turnover tends to have high costs for disadvantaged workers, leading to more periods of joblessness, reduced earnings, and reduced opportunities for formal training.
- Low-wage workers leaving welfare for work in the wake of welfare reform are likely to experience little wage growth. Although some studies suggest wage growth of about 4.5 percent over a year (which translates into only about $400 per year for a low-wage worker), other studies yield lower estimates. Even these may be on the high side, since they are based mainly on the experience of women who have left welfare voluntarily and found jobs.

**Conclusions and Policy Implications**

- The nation’s labor market will be able to absorb the influx of persons leaving the welfare rolls if the economy retains its current strength. There are a number of concerns, however, particularly in areas of the country with fewer opportunities for low-wage work, such as large urban areas and the South and West regions of the country.
- The jobs for which most welfare recipients can qualify, given their low skills and education, are concentrated in the secondary labor market—low wages, few fringe benefits, little opportunity for advancement, and high job turnover.
- The nine expert reviews of the literature on the low-wage labor market highlight several policy options for improving the wage, employment, and economic self-sufficiency outcomes of low-wage workers:
  
  **Policies to improve labor market access and job retention:** These include continued funding and support for programs that provide labor market information, job networking, job retention counseling, and career planning. Services such as child care and transportation also are important.
  
  **Policies to encourage or support occupational mobility/job advancement:** These include developing information networks and policies to encourage businesses to delineate skill requirements and career ladders for entry-level jobs, as well as on-the-job training for such career ladders.
  
  **Policies to raise the incomes of low-wage workers and enhance employment security:** These include the Earned Income Tax Credit, targeted public and community service jobs strategies, and minimum wage policies.
BACKGROUND

Increased emphasis on moving welfare recipients into employment as a result of welfare reform has raised questions about the labor market facing low-wage workers. What are the characteristics of this market (as opposed to the labor market as a whole)? Will it be able to absorb the welfare leavers? How is it affected by changes in the larger economy? What opportunities do low-wage workers have for advancement once they enter the labor market?

To help policymakers answer these questions, nine papers by experts in labor market analysis were commissioned by the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, to review current literature on the low-wage market and highlight policy implications that flow from the review. (The Data Appendix provides a statistical portrait of the labor market as a whole and the characteristics of low-wage workers.)

The important role of the low-wage labor market as welfare recipients and other economically disadvantaged persons move into employment is clear from the evidence marshaled in the review. There is a strong consensus that this labor market will be able to absorb people leaving the rolls, as long as the economy retains its current strength. However, there is often little opportunity for job advancement in this market. Suggestions made by the authors for improving economic opportunity for low-wage workers include ways to increase wages and sustain income directly, improve labor market access and job retention, support occupational mobility and job advancement, and enhance employment security.

CHARACTERIZING THE LOW-WAGE LABOR MARKET

The first two papers describe the low-wage labor market, how it varies over time, and how outcomes vary for different populations and regions. Jared Bernstein and Heidi Hartmann show how the labor market facing low-wage workers differs in important respects from the labor market as a whole. David Smith and Stephen Woodbury address how this market changes over time and through business cycles, and how it varies across different geographic regions.

What Is the Low-Wage Labor Market? As Bernstein and Hartmann point out, traditional labor theory views all workers as competing together in a single integrated market and being paid according to their marginal productivity (how much additional product they bring to the firm). In such a market, low-wage work can provide an opportunity to become employed in a stable job and advance up a career ladder. Theoretical and empirical work, however, suggests that the labor market is, in fact, divided into two largely separate sectors, often referred to as the primary and secondary labor markets. In the primary market, most jobs have opportunities for advancement, there is substantial job mobility, and workers typically have employment-related fringe benefits. In the secondary market, in contrast, there is generally considerable job instability but little opportunity to advance up the career ladder, few fringe benefits, and more gender and racial discrimination than in the primary market.

The workers in the secondary labor market of main concern to policymakers are those who are the primary source of income support in their households. Low-wage workers who provide secondary earnings to middle- or upper-income households are not viewed with the same concern in this policy area, nor are teens who earn low wages temporarily but whose human capital, current or future, gives them strong prospects for job advancement over their working lives.

It is important to note, as Bernstein and Hartmann do, that analysts view low-wage workers through different lenses. Some focus on those who earn low hourly wages, others on those who have low skills, and still others on those who, although their wage rates are somewhat higher, work too few hours (through involuntary part-time work) or too few weeks (through periods of lay-off or unemployment) to yield incomes above the poverty line on a yearly basis. The groups overlap but they are not the same. In particular, though many workers in the secondary market have low basic skills, some have higher skills but fall into the secondary market for other reasons. Different policy interventions may be needed for different situations.

Whatever choices analysts make to identify the low-wage market, the share of all workers who have low earnings is substantial. For example, as Bernstein and Hartmann note, 29 percent of all workers and 35 percent of females workers in 1997 had hourly wages that would be insufficient to lift a family of four out of poverty even if they were to work full-year, full-time. Poverty is a serious problem for many groups of workers, particularly minorities, the less educated, and women with families. Consider workers in the labor force for more than 27 weeks in 1996. Of those with no high school diploma, 16 percent had household incomes below the poverty line. The shares for black and Hispanic workers were 12 percent and 16 percent, compared with the poverty rate for all workers of 7 percent.

Poverty among workers can result from either low wages or spells of joblessness, particularly among the low-skilled. During 1997, according to Smith and Woodbury, the unemployment rates for men and women without a high school diploma were 13 and 14 percent. These are more than double the unemployment rates for men and women with higher levels of education.

Not all workers in the low-wage market lack education, however, as Bernstein and Hartmann explain. Of those workers with below-poverty hourly wages in 1997, for example, less than one-quarter lacked a high school diploma. But 40 percent had a high school diploma and 38 percent had at least some postsecondary education. As a result, new entrants to the low-wage labor market, particularly those coming from welfare, may find it difficult to compete with the more highly educated working poor.

Has the Low-Wage Labor Market Been Changing? The share of workers with low earnings has been rising in recent years. Bernstein and Hartmann document that the share of workers with below-poverty hourly wages has risen from 25 percent of all workers in the early 1970s to 29 percent in 1997. Smith and Woodbury find that the share of workers with low-wage or near-low-wage jobs (below $7.50 an hour) rose from 36 percent in 1988 to over 41 percent in 1997. And among workers in the labor force for more than 27 weeks in the year, the poverty rate for women without a high school diploma increased from 14 percent in 1988 to 19 percent in 1997. (For changes in the characteristics of the working poor, see Appendix Tables 3.1 to 3.4.)

The hourly wage gap between women and men has narrowed since the 1970s. But this primarily reflects steep wage declines for men rather than wage improvements for women. Although real wages for both men and women fell from 1973 to 1997, the sharpest decline occurred for men, according to Bernstein and Hartmann. Men with and without a high school diploma suffered real wage declines of 17 percent and 30 percent. Real wages for women during this same period fell much less, 16 percent and 3 percent for women with and without a diploma.

Bernstein and Hartmann emphasize that these wage declines occurred in spite of increasing education and work experience among workers and increasing returns to human capital. They suggest that at least some of the reason may be changes in institutional factors such as minimum wage laws, macroeconomic monetary policy, the role of unions, and international trade policies.

In spite of the narrowing gender gap in hourly wages, women remain disproportionately represented in the low-wage market.

How Was the Low-Wage Labor Market Affected by the Last Recession? The economy is currently strong, and unemployment is at its lowest point since 1970. Policymakers need to worry about how the low-wage labor market will fare during a future economic downturn, however, since Smith and Woodbury show that low-wage jobs are often the first to be cut during a recession Overall job
growth among hourly paid workers, though remaining positive, slowed during the recession of the early 1990s, for example. But job growth among low-wage (less than $5.15 an hour) workers was negative, with nearly one million jobs lost. The drop was particularly marked in occupations traditionally considered low-skill, such as sales, clerical, and household and personal services.

Unemployment increased for all workers during the recession of the early 1990s, with the increase being greater for low-skilled workers than for workers generally. Between 1988 and 1992, for example, unemployment for workers without a high school diploma rose from 12 percent to nearly 14 percent for women and nearly 17 percent for men. These compare with an increase from about 5 percent to about 7 percent for all workers. Unemployment might have been even higher among the less educated had it not been for a drop in the number of such workers, particularly women, competing for jobs.

Joblessness has continued to rise slightly for women without a high school diploma, even though unemployment rates had receded to their pre-recession levels for nearly all educational groups by 1997. Smith and Woodbury suggest this may be due to a declining demand for low-skilled workers between 1992 and 1997, combined with increased labor force participation for less educated women.

Do Minimum Wage Policies Improve Outcomes for Low-Wage Workers?

The next three papers in the volume explore the impact of specific policy interventions to raise income or increase employment (or some combination of the two) among the working poor. Gary Burtless examines the effects of recently enacted welfare reform legislation, which, while not directly targeted on the working poor, is likely to increase employment among many people with tenuous attachments to the labor force. Mark Turner examines the effect of changes in the minimum wage on the supply and demand for labor in the low-wage labor market. Burt Barnow summarizes evidence regarding the effectiveness of public service employment and targeted tax credits in increasing employment or raising income levels among the working poor.

Will the Low-Wage Labor Market Be Able to Absorb Welfare Leavers?In the short run, many welfare recipients leaving the rolls may have trouble finding employment, predicts Burtless, for two reasons. First, as indicated above, even during economically prosperous times, labor markets in particular regions or neighborhoods may offer very limited opportunities. Second, labor markets need time to expand and adjust, and welfare recipients may enter the job queue behind other, more qualified applicants. As of 1994, for example, 40 percent of recipients had not completed high school and roughly three-quarters of those on welfare had aptitude test scores that placed them in the bottom quarter of all test takers.

Burtless is more optimistic that the labor market will absorb the new entrants associated with welfare reform in the long run. Labor markets have more time to adjust, thus giving opportunities for employers to adapt to emerging markets and workers to adapt to new skill demands, changes in technology, or relocation of job opportunities. He is optimistic in part on Bureau of Labor Statistics projections that the labor market will create seven million additional low-skilled jobs over the next 10 years, and in part on the fact that the U.S. labor market has absorbed large inflows of new workers in earlier periods. From 1964 to 1989, for example, the labor force grew by over two million workers per year as the baby boom generation entered the labor market. The vast majority (95 percent) of these new job seekers were able to find work.

Even if the market can absorb all the welfare leavers, Burtless cautions that the large inflow of new entrants into low-wage labor markets could put downward pressure on wages—aggravating the policy concern that many jobs available to welfare recipients will not enable them to work their way out of poverty.

Do Minimum Wage Policies Improve Outcomes for Low-Wage Workers?Proponents of raising the minimum wage advocate it as a way of raising the incomes of working poor families. The idea is tempting, given that the legislated increases since 1970 (to a current level of $5.15 an hour) have failed to keep pace with inflation. In inflation-adjusted (real) terms, the minimum wage has fallen by 23 percent since 1970. (See Appendix Table 1.5).

However, according to Turner, the benefits of raising the minimum wage may be limited. First, the proportion of hourly wage workers paid at or near the minimum wage has fallen substantially since 1979, by nearly half for men and nearly two-thirds for women. Second, most of the 11.2 million workers currently earning the minimum wage are not poor. Over one-quarter are teens, for example, and of the teens and young adults working at the minimum wage, over half are enrolled in school and living in families with incomes at least 150 percent of poverty. (For information about wage rates, see Appendix Tables 2.4 to 2.6.)

Even so, of the six million adults working at the minimum wage, 1.4 million live below 150 percent of poverty and nearly one million are single parents. Increasing the minimum wage could improve their financial well-being despite its inadequate targeting of the working poor generally.

Opponents of minimum wage increases have long believed that such policies have the disadvantage of reducing job opportunities, because employers will eliminate bottom-echelon jobs rather than pay more than those jobs are worth in terms of the additional output they produce. According to Turner, a majority of the evidence indicates that any negative effects of the minimum wage on employment opportunities are small and occur primarily among teens, a group of less concern in this policy area than are low-wage adults and at-risk groups such as women and minorities.

Turner also looks at two other potentially negative consequences of a minimum wage increase. The first is that higher minimum wages could discourage teens to drop out of school to enter the labor market. Turner’s reading of the evidence suggests that this is probably not a valid concern, and that raising the minimum wage would not adversely affect educational attainment, although he notes contradictory findings and the need for additional research. The second potentially negative consequence is that higher minimum wages could discourage employers from providing training. Turner finds evidence supporting the validity of this concern—that increasing the minimum wage could negatively affect the availability of employer-provided training. One study, for example, found that raising the minimum wage to $6.15 an hour would reduce the probability of training by as much as 5.8 percentage points.
Does Public Service Employment Improve Labor Market Opportunities? Although many public service employment (PSE) programs have been sharply criticized in the past, Barnow finds that PSE can be effective in improving employment outcomes among the economically disadvantaged. Barnow reviews the history of PSE programs, including national programs operating during the Great Depression of the 1930s, and the Comprehensive Employment and Training Act (CETA) programs of the 1970s. Over the years, PSE has changed significantly with respect to funding levels, eligibility requirements, and the work activities themselves. For example, CETA was amended several times during the 1970s to focus eligibility on the more seriously disadvantaged, limit the length of participation, and limit the wages that could be paid to PSE employees.

Nonetheless, criticism of the whole approach persisted. There were concerns that PSE programs selected (created) from the best participants, thus minimizing any beneficial effect of the program on improving individuals’ job readiness. It was also felt that federal PSE funds were simply substituting for state and local funds, thus minimizing the job creation aspect of PSE. Significant federal involvement ended in 1982, when CETA was replaced with the Job Training Partnership Act (JTJA) and Work Opportunity Tax Credit (WOTC). PSE is now carried on to a more limited extent at the state and local levels.

Because there have not been any large-scale PSE programs since 1982, Barnow’s assessment of program effectiveness is limited to older studies and smaller-scale demonstrations. These, in fact, provide strong evidence that at least some PSE programs have had significant positive impacts on increasing the earnings of participants. Barnow reports on one program in which PSE increased the earnings of men and women on welfare by over $1,000 per year. On the important question of whether PSE creates new jobs rather than displacing existing ones, Barnow is less optimistic. The evidence regarding job creation, in his judgment, is much more ambiguous.

Are Tax Credit Programs Effective in Increasing Employment? Barnow also reviews tax credits as a means to increase employment among disadvantaged workers in the private sector. These credits can be paid to the worker—as with the Earned Income Tax Credit (EITC)—or to the employer—as with the Targeted Jobs Tax Credit (TJTC) or Work Opportunity Tax Credit (WOTC).

The EITC is intended to increase labor force participation by encouraging people to work who otherwise would not be drawn into the labor force at the prevailing wage. Barnow finds that the majority of evidence suggests the EITC is an effective means of increasing labor force participation among single mothers and raising the earnings of children. Furthermore, that the increased income associated with the EITC can provide a disincentive to work for some, particularly women in two-earner households. Subsequently, since the EITC does not directly create new jobs, it will benefit fewer workers in the overall labor market.

Employer-targeted tax credits such as the WOTC have been evaluated less favorably, according to Barnow’s review. Although targeted employer tax credits are popular among some policymakers, most evidence indicates that the majority of workers hired through WOTC or similar programs would have been hired anyway. In one program, for example, only 0.13 to 0.30 jobs were actually created for each new TJTC hire.

Tax credits paid to employers developing in economically distressed areas, such as those provided with the Empowerment Zone/Enterprise Zone programs, have been found equally ineffective in generating new jobs. Their primary effects have been to relocate economic activity from near the zone to within it, according to Barnow. These findings are based on results from much earlier programs. More recent programs are placing greater emphasis on community building, which may yield more positive results.

BARRIERS TO ENTERING THE LOW-WAGE LABOR MARKET

Many workers face serious barriers to employment, even when job openings are available. The next two pages in the volume address the problem of barriers. Harry Holzer identifies four major barriers to employment. Julia Henly focuses in more detail on one of these barriers—lack of access to information networks.

What Types of Barriers Do Disadvantaged Workers Face? Disadvantaged workers can face several barriers, including skills mismatch, spatial mismatch, discrimination, and insufficient information networks, according to Holzer’s analysis. When there are changes in demand for workers, adjustments in the types of labor available (supply) often lag by as much as several years, and many workers may not be well positioned to compete for jobs in the interim. Education/skills need to change to meet the new job demands. Where workers live needs to change to match the new job locations. And both these adjustments may be impeded by gender or racial discrimination and by lack of access to information networks.

Even for relatively low-skilled jobs, employers tend to seek basic skills such as job readiness, social skills, and basic cognitive skills, in addition to any job-specific skills. In a survey asking employers about what worker characteristics they look for in hiring entry-level workers, about half said they would not hire someone without a steady work history, two-thirds said they would not hire someone with a criminal record, and three-quarters said a high school diploma was "absolutely necessary" or "strongly preferred." Even for these basic job requirements, employees lack a high school diploma or GED, most score among the bottom 20 to 25 percent of aptitude test takers, and some studies estimate that at least 30 percent would not meet the basic job readiness requirements of employers. In addition, one-third of African American men ages 16 to 34 have a criminal record, with the rate rising to over 60 percent among young African American men who dropped out of school.

How important are spatial barriers? The big concern here is that disadvantaged workers living in central cities may have trouble getting to jobs in the suburbs. The importance of this factor, known as spatial mismatch, is in debate. But Holzer concludes that the majority of evidence indicates that African American employment rates are depressed by spatial mismatch (which includes lack of transportation as well as residential mismatch).

How Much Does Access to Information Networks Matter? Learning about job opportunities is a potential challenge for many disadvantaged workers, not only because of the geographic distance separating them from employers but also because many disadvantaged workers do not have access to the types of information networks employers use in seeking new hires.

Henly notes that informal networks are, indeed, one of the most widely used methods of job placement, accounting for between 25 and 60 percent of hires. Such informal networks are particularly important for entry-level hires, jobs that do not require college education, blue-collar jobs, and jobs with small employers. The earnings potential of a job appears very dependent on the characteristics of its referral networks, which is not simply a method for exchanging information, but a means for employers to screen applicants.

Such networks tend to be tightly knit and ethnically homogeneous, according to Henly, and African American workers are typically excluded from them. Because the networks are so important in the entry-level market, they may serve not only to help particular groups, but to exclude disadvantaged workers from entering the more favorable employment niches and ensure that they are retained in the less promising ones.

Formal employment agencies and other intermediary organizations have not been important sources of hires in the past. But Henly notes that since passage of welfare reform, intermediaries have become more common, reflecting a hope that they can play an important role in brokering employment for disadvantaged workers. Because such organizations provide screening (as well as training and other services at times), they can help fill the role of informal networks. Some organizations are showing promise in working with hard-to-serve populations such as ex-offenders. While some observers may be optimistic about the potential role of these organizations to some extent, like the effectiveness of WOTC, their influence remains unclear.

Learning opportunities appear to offer some promise for disadvantaged workers in the labor market. Although some programs have been sharply criticized, others have been more promising. Learning opportunities are beginning to produce higher wages and lower unemployment among disadvantaged workers, with some programs reporting wages 20 percent higher than baseline levels.
Policies to improve labor market access and job retention

The authors put forward several policy options for improving the wage, employment, and economic self-sufficiency outcomes of paying, concentrated in the secondary labor market, and subject to high turnover. Facing increased competition for jobs, spatial mismatch between jobs and job seekers, and lack of adequate public transportation. However, concerns about the situation facing low-wage workers, whether or not they are coming from welfare, remain. Experimental evidence regarding the impact of employment services was particularly discouraging. However, this in part reflects the fact that such experiments yielded only small increases in initial work experience.

One likely factor depressing wage growth for disadvantaged workers is the lack of employer-provided training. Many firms hiring disadvantaged workers tend to have less capital and provide less training to workers than firms hiring more skilled labor. Jobs in the service or clerical sector, for instance, provide substantially less training than jobs in the professional/technical or construction/maintenance fields (see Appendix Table 4.5). Not only do disadvantaged workers generally receive fewer hours of training, but the training they do receive is more often informal learning rather than formal instruction. This pattern holds true for female and minority workers, and for workers without a high school diploma. Job tenure influences the informal/formal mix. Workers having less than five years’ tenure with their current employer receive relatively more training overall than workers with over five years’ tenure but much less formal instruction.

For low-wage workers, the challenge of making ends meet is often compounded by lack of employer-provided benefits. Workers earning less than $8 per hour are much less likely than other workers to have benefits such as job-related health insurance for their families, paid leave, access to flexible schedule options, or dependent care benefits (for information about access to benefits, see Appendix Tables 4.1 to 4.7). About 61 percent of low-wage workers have access to job-related health benefits for their families, for example, compared with 87 percent for other workers. For many workers, the combined lack of wage advancement and lack of benefits led to increased job instability, which further hurt chances for future wage advancement and benefit receipt. Over one-quarter of employers surveyed said there was a waiting period of a year or longer before benefits were provided to new employees.

How Does Job Turnover Affect Low-Wage Workers? Job turnover is prevalent in today’s labor market, notes Lane. Almost one in three jobs is created or destroyed each year. Turnover also occurs when workers churn in and out of existing jobs. Four in ten jobs are occupied by new workers each quarter.

Although some degree of job turnover is a positive sign of flexibility and adjustment in the labor market, turnover can have high costs for disadvantaged workers. Unskilled workers tend to suffer lower annual earnings, reduced opportunities for formal training, and longer periods of joblessness each time they change jobs. Findings reviewed by Lane indicate that workers who are displaced from their jobs may suffer earnings losses of 10 to 25 percent up to several years later. Women and minorities are at higher risk for unemployment following displacement than men. (For information about employment status, see Appendix Tables 2.1 to 2.3.)

Not surprisingly, Lane reports that turnover is higher in industries where disadvantaged workers tend to find employment. Retail trade and business services, for example, account for only one in five jobs but nearly half of worker-based turnover.

CONCLUSIONS AND POLICY IMPLICATIONS

As long as the economy remains strong, the nation’s labor market will continue to absorb the inflow of would-be-workers leaving the welfare rolls. The labor force activity of low-skilled women overall has been rising, and employers in the current tight labor market are generally willing to hire welfare recipients. Historically, the labor market adapts to new supplies of workers as well as to new technology, industry shifts, and other structural changes in the economy; and it is very likely to do so again in this era of welfare reform.

However, concerns about the situation facing low-wage workers, whether or not they are coming from welfare, remain. Opportunities for work will not be strong in some areas of the country, and some workers may have difficulty entering and remaining in the labor market. In large urban areas with high concentrations of poverty and welfare recipients, for example, disadvantaged workers may face increased competition for jobs, spatial mismatch between jobs and job seekers, and lack of adequate public transportation.

In addition, because of their low skills and low educational levels, most welfare recipients will qualify for jobs that are relatively low-paying, concentrated in the secondary labor market, and subject to high turnover. Some labor economists also suggest that a large influx of welfare recipients, by increasing competition among low-wage workers for jobs, may depress wages.

The authors put forward several policy options for improving the wage, employment, and economic self-sufficiency outcomes of former welfare recipients and other low-skilled workers.

**Policies to increase wages and sustain income**

A modest increase in the minimum wage could increase the earnings of over one million parents (mostly single mothers).

Encouraging and simplifying the application of the EITC could increase the number of eligible families that use this tax credit. Also, retaining tax credits for hiring, such as the WOTC, could encourage some businesses to hire targeted worker populations, even though the overall effect on expanding employment is minimal.

**Policies to improve labor market access and job retention**

Continued funding and support for programs that provide labor market information, job networking, job retention counseling, and career planning may improve employment and job retention prospects for the poor who otherwise lack access to such information and assistance.

Low-income workers in general, and especially low-income working parents, tend to benefit from supports and services such as child care and transportation.

**Policies to encourage or support occupational mobility/job advancement**
Businesses and industries could be encouraged to delineate skill requirements and possible career ladders for workers who begin in entry-level jobs. In addition, financial incentives could be used to encourage businesses to provide on-the-job training for career ladders.

The continuing development of information networks should help workers better understand possible career opportunities and make more informed employment decisions.

**Policies to enhance employment security**

Targeted public and community service employment strategies could complement the regular labor market. For example, combining part-time public service employment with part-time regular employment might help a disadvantaged worker achieve full-time status if full-time work cannot be found in the regular sector. If designed well, public service employment can also provide substantive occupational experience and improved job skills.

Providing workers access to short-term (even part-time) community service jobs can serve as a bridge between jobs, to provide safety net income to workers not eligible for unemployment insurance.

Low-skilled workers, including most persons leaving welfare, can and do work, but they generally qualify initially only for low-wage jobs with high turnover and few benefits. Carefully designed public policies can help those workers remain continuously employed and thereby increase their incomes. Low-wage entry-level jobs can serve as a first step up the occupational career ladder, but only if the worker has access to services, information, further skills development, and support networks. Meanwhile, there may also be a need to consider policies to ensure a basic income safety net for working poor parents, especially during periods when they are between jobs.