

# Helping Poor Working Parents Get Ahead

## **Federal Funds for New State Strategies and Systems**

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# HELPING POOR WORKING PARENTS GET AHEAD

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In the United States today, roughly 11 million low-income families have working parents. Few are young. Most work full time and struggle without such on-the-job benefits as health insurance and parental leave to support their children. And few move up to markedly better jobs.

We believe that many of these low-income workers and their families could benefit greatly from state-level *advancement systems* that provide more education and training, greater access to higher-paying jobs, and more robust financial incentives and supports. Below, we build on proposals recently developed by Holzer (2007) to help working poor adults, hard-to-employ adults, and the at-risk youth who likely will become one or the other. Throughout, though, we concentrate especially on the plight and needs of low-income working parents.

### **Low-Income Working Parents in the United States: What Is the Problem?**

In recent years, relatively low-wage workers have faced mounting difficulties. Those with only high school diplomas or less education saw their earnings fall throughout much of the 1980s and 1990s, compared with those with more education. The numbers of workers congregated at the bottom have also risen in recent years as new waves of unskilled people—particularly single mothers and immigrants—have entered the job market and as low-paid jobs have formed faster than those in the middle of the wage distribution (Autor, Katz, and Kearney 2006). But millions of workers in two-parent families with native-born household heads, either white or minority, also number among the ranks of low-income working parents (Holzer 2007).

In a dynamic labor market, many earning little today might fare better tomorrow—*if* they develop more skills and work experience or land better jobs. Yet, prospects for upward mobility for prime-age workers who have never earned more than low wages are not good. Even in the tight labor markets of the late 1990s, several

recent studies show (Anderson, Holzer, and Lane 2005; Connolly, Gottschalk, and Newman 2003), only small fractions of these workers enjoyed significant and lasting wage increases. Most simply lacked the basic skills and education needed to advance.

Table 1 tells the story. Perhaps most striking are the differences in educational attainment of parents at different income levels. Not surprisingly, those in poor or low-income families are much more likely to have dropped out of high school and much less likely to hold an associate's or bachelor's degree. Indeed, fully one-third of parents in poor families and over one-fifth of those at 100–200 percent of the poverty level lack a high school diploma or GED, compared with just 6 percent of those in other families. Over 70 percent of poor parents and over 60 percent of those with low incomes have no more than a high school diploma or GED. Only 30 percent of those with higher incomes lack these credentials. And over half of those above 200 percent of the poverty level have at least an associate's degree—a skill indicator that only 12 percent of the poor and 18 percent of those at 100–200 percent of the poverty level possess.

Within income categories, fewer clear patterns emerge. But, even families with two parents or long hours on the job have low incomes if educational levels are low. Indeed, educational attainment gaps between income levels would be greater still if income levels were considered over several years—capturing only persistent poverty and not more transitory spells—or if stricter definitions of educational attainment were used.<sup>1</sup>

Another problem is that training is often less than successful. The goals of training for low-income workers can be undermined if trainees have a low skill base and little work experience. And advanced training or college-level work is often out of the question for workers with minimal English proficiency. Meanwhile, family obligations keep many working parents from completing training or graduating from school, and such public programs as TANF and the Workforce Investment Act (WIA) generally emphasize work over skill development. Finally, many families cannot afford training or schooling, whether costs come as fees, tuition, or reduced earnings from lost working time.

If low educational attainment limits the incomes of many parents and their families, a lack of access to higher-wage firms and sectors compounds their difficulties. According to Andersson and colleagues (2005), pay can vary greatly among workers of a given skill level, depending on whether theirs is a higher-wage or lower-wage employer, and getting jobs in firms with better advancement opportunities, wages, and benefits greatly improve the odds that these lower-wage workers will escape poverty.<sup>2</sup> Yet, without occupational training and marketable early work experience, many workers cannot land opportunity-rich jobs. Other problems—whether weak information and contacts, a “spatial mismatch” between residences and job locations, or discrimination—also limit access to good jobs, while problems with health, transportation, and child care often block progress when individuals do find work (Holzer and Stoll 2001).

These problems trace back at least partly to an underfunded and fragmented workforce-development system with too few “pipelines” or “pathways” linking workers to training providers, employers, and work supports (Osterman 2007). Funding for WIA and its local workforce investment boards (WIBs) has declined dramatically over time, even though the program is now supposed to provide “core” and “intensive” services (including training) to broad ranges of adults, youth, and displaced workers. WIA's underfunded One-Stop Centers—designed to improve access to jobs, training, and supports—have limited capacity and too few partnerships with business. While Pell grants and other supports for the working poor (such as the earned income tax credit and child care) have grown over time, funding remains limited and key groups of workers are ineligible for these supports.

**Table 1****Educational Attainment of Family Head (percent)****Families under 100% FPL**

	HS dropout	HS diploma or equivalent	Some college but no degree	Associate degree in college*	BA or higher
<i>All</i>	33.46	37.77	16.89	6.15	5.72
<i>Family type</i>					
Single-parent	30.68	39.87	18.39	6.62	4.44
Two-parent	40.23	32.66	13.24	5.02	8.85
<i>Work status</i>					
High	38.37	37.48	14.30	5.32	4.54
Medium	30.24	39.38	18.63	6.90	4.85
Low	26.06	40.99	19.52	7.85	5.58
No work	34.93	36.10	16.75	5.90	6.31
Self-employed	26.87	38.59	18.42	5.98	10.15

\* Occupation/vocation program or academic program

**Families between 100% and 200% FPL**

	HS dropout	HS diploma or equivalent	Some college but no degree	Associate degree in college*	BA or higher
<i>All</i>	22.04	38.39	21.09	8.52	9.96
<i>Family type</i>					
Single-parent	17.08	39.83	24.95	10.02	8.11
Two-parent	26.59	37.06	17.55	7.14	11.66
<i>Work status</i>					
High	22.90	40.12	19.85	8.04	9.09
Medium	20.97	35.38	23.35	9.12	11.17
Low	18.08	29.66	32.18	8.72	11.37
No work	25.07	35.81	22.16	8.25	8.71
Self-employed	16.75	35.81	21.80	11.04	14.59

\* Occupation/vocation program or academic program

**Families above 200% FPL**

	HS dropout	HS diploma or equivalent	Some college but no degree	Associate degree in college*	BA or higher
<i>All</i>	5.89	24.79	19.16	10.97	39.19
<i>Family type</i>					
Single-parent	7.21	28.79	24.26	12.55	27.20
Two-parent	5.55	23.76	17.84	10.56	42.29
<i>Work status</i>					
High	5.64	24.71	18.78	11.30	39.57
Medium	7.11	28.01	22.02	9.05	33.80
Low	11.75	24.03	22.59	8.31	33.32
No work	14.68	30.02	28.44	5.71	21.15
Self-employed	5.70	23.45	19.19	10.44	41.22

\* Occupation/vocation program or academic program

Source: March 2007 Current Population Survey

Note: High work intensity includes families with at least one parent working full-time, full-year; Medium intensity includes families working full-time, part-year and part-time, full-year; Low intensity includes families working part-time, part-year.

## Promising Approaches and Evidence on Cost-Effectiveness

The foregoing discussion indicates that less-educated workers will be hard pressed to advance without

- at least some postsecondary training and relevant work experience;
- better access to higher-wage employers and economic sectors; and
- other financial supports and services.

Besides various well-established programs that are well known, dozens of small new programs have emerged in states and localities to spur worker advancement by chipping away at the impediments described above (Martinson and Holcomb 2007; Duke, Martinson, and Strawn 2006). Most programs provide job training, basic skills development—often leading to certification or an associate’s degree—and such supports and services as job-placement assistance, child care, or transportation. Often, the training is geared to growing sectors with higher-wage local employment opportunities, and the programs (described in the appendix) try to involve employers.

Typically, a local organization acts as a “labor market intermediary” to bring together training providers (usually community colleges), employers, and workers. Skillful intermediaries can help disadvantaged workers gain access to better jobs, partly by reducing discrimination and providing information to employers as well as job placement assistance to workers. Key to success are getting employers’ confidence, addressing their legitimate business needs, and acquiring sector-specific knowledge of those needs (Giloith 2003). Intermediaries can also package work supports and services like child care and transportation together, making it easier for lower-income parents and other low-wage workers to keep their jobs.

### Four Strategies

Broadly speaking, most newer training programs build on one or a combination of four strategies: instructional accommodations, partnerships with the employers, financial incentives, and supports and services.

#### *Instructional Accommodations*

To improve educational and economic outcomes, curricula reforms at community colleges and other training programs need to cater to low-income parents’ specific needs.

For those not yet ready for college or training, “bridge programs” can increase low-skilled individuals’ access to higher levels of training. Often lodged in community colleges, bridge programs try to bring students’ academic skills up to entry level for college credit courses or other advanced programs. The end goal is access to training and even regular degree programs. For example, the Kentucky Ready to Work Program provides certificate, diploma, and associate’s degree training, a work-study component, and case management at community and technical colleges to TANF recipients. For busy parents, completing basic skill requirements before training can take too long and seem too far removed from their career goals, so many bridge programs integrate vocational and basic skills development, condense instruction time, and connect participants to jobs and employers.

Other instructional reforms are geared specifically to low-income parents trying to juggle work, school, and family demands. For those who qualify for postsecondary education, modularized curricula allow students to combine education and work or to cycle in and out of education programs as time permits. Similarly, multiple program entry and exit points and accelerated programs with flexible scheduling at night and on weekends eases conflicting demands on parents’ time. Portland Community College in Oregon offers flexible short-term training programs, including “chunked” curriculum (preparatory courses in one or two terms to build skills for an entry-level job), cohort learning, job-readiness instruction keyed to job requirements and advancement options in a specific industry, short-term internships, and job-placement services.

### *Employer Partnerships*

While many skill-upgrade initiatives are based in the public or private education system, efforts featuring strong business involvement are also important skill-building venues. In training conducted through employer partnerships, skill upgrades are offered at the worksite or through educational institutions that design training to reflect business needs. To accommodate low-income parents, employers can provide full or partial release time for training. Often, the curricula include basic skills and English as a second language (ESL).

“Sectoral” programs link training to employer needs in specific labor markets—like health care or elder care—where jobs for workers without college degrees are likely to be more plentiful and higher paying. Such programs give low-income job seekers more shots at local or regional employment opportunities by anticipating the needs of individual and clusters of employers. For instance, District 1199C, Philadelphia’s largest health care worker union, worked with more than 50 health care employers to found its Training and Upgrading Fund to promote entry into the health care field and train health care employees to move up a career ladder.

A subset of sectoral initiatives aims to develop career “pathways” or “ladders” to higher-paying jobs. Often, no obvious path leads low-wage workers through a progression of more responsible and better-paying jobs where they can get more skills and experience under their belts. To deal with this problem, career ladder programs provide courses and curricula connected to different jobs on a ladder, with extensive supports for students (that are further detailed below).

“Incumbent worker” or customized training programs are typically state-administered programs that give grants to individual businesses to partner with training providers that offer job-specific training for incumbent workers and new hires at a particular company (rather than within a specific industry). The New Jersey Workforce Development Program, for instance, gives grants to partnerships of employers and training providers to train and upgrade the basic skills of incumbent workers. Employers must match state funds one for one by paying their employees’ wages during training (usually, at the worksite).

Finally, several high-quality “career and technical education” programs for students in high schools or community and technical colleges—including “Career Academies” and “Career Pathways” programs—combine academic and occupational training with work experience to help young people get better-paying jobs in growth industries and services.

### *Financial Incentives*

Another promising way to develop low-income students’ skills is to offer financial assistance beyond Pell grants. Paying for school is particularly hard for low-income parents because many of them lack high school diplomas and attend part time, so they aren’t eligible for standard grant programs. Georgia’s HOPE Grants Program covers tuition, fees, and books for nontraditional students (including those without a high school diploma or GED) to enroll in certificate and nondegree programs, even if participants attend part time or take only one course.

Financial incentives awarded to those who progress well in training may also encourage program completion and help students meet their expenses. Typically, such incentive payments are made at intervals, starting with enrollment and continuing at predetermined milestones, especially rewarding staying enrolled and passing courses. Most such awards are big enough to help students pay for school-related support services (such as books, child care, and transportation) but not tuition.

A final type of financial incentive aims to help “make work pay.” The federal government offers an earned income tax credit (and nearly half of all states have followed suit for state income taxes), which raises incentives for low-wage workers to accept and keep jobs. Not necessarily stairways to higher-wage employment, such incentives may still boost annual earnings and invite greater wage growth over time by keeping workers in their jobs.

### *Supports and Services*

Many low-income students might benefit from more intensive services to support their skills training and help them balance work, school, and family demands so they can complete training or degree programs. Academic guidance and counseling, tutoring and other academic supports, job-search assistance, personal guidance and counseling, career counseling, and such support services as child care, transportation, and book and supply resources are all options.

Many promising skill-development programs combine student supports with curricular and other adaptations for low-income individuals. Often, the package delivered by programs surpasses what students typically get through schools or workers get from their employers. Students in the Denver Community College Essential Skills Program are assigned a case manager who works with them for as long as they are in the program and during their first year of employment. Like their counterparts in such sectoral initiatives as the 1199c Training Funding, staff provide academic and career counseling, guidance on financial programs, referrals to support services, and job-placement and job-coaching services.

### **Current Local and State Efforts**

Numerous state and local examples of education and training initiatives that embody one or more of the approaches sketched above are well known. Some, like Career Academies, have been widely replicated, but many promising innovative programs are too small to dent local poverty rates or raise employment or earnings levels. Some programs are purely local and are run by private not-for-profit organizations; state governments have tried to implement others on a broader scale.

Many of the promising initiatives reviewed in the appendix combine multiple strategies and provide relatively comprehensive services. Some combine financial incentives with support services. Others integrate curricula and instructional adaptations for low-skilled individuals into employer-driven training programs.

Similarly, as promising as relatively small local efforts are, larger city- or statewide programs have the scale needed to help many more workers. The Kentucky Ready to Work, New Jersey Workforce Development Program, and Georgia Hope Grants all operate statewide. Relatively large-scale sectoral and career-ladder initiatives include the Wisconsin Regional Training Partnership, Massachusetts Extended Care Career Ladder Initiative, and the Kentucky Career Pathway program. Many states view these initiatives as part of their economic development strategies—ways to strengthen sectors threatened by shortages of skilled workers and attract businesses to the state.

Overall, these examples exhibit the potential for states to scale up programs for the working poor, especially parents. Many states keen on nurturing such sectors as health care, construction, and skilled manufacturing—where employers need help recruiting and retaining workers—already back such activities and offer incentives to expand them. But further expansion requires more federal funding and support, along with more serious evaluations of which efforts are most cost-effective.

### **Evidence on Program Effectiveness**

The estimated impacts of employment and training programs for the working poor are mixed at best. Most promising programs have not yet been evaluated using random assignment methods in experimental designs, and results have been questioned even in some cases where these research methods have been used.

Nevertheless, some reasonably clear inferences can be drawn from this literature:

- **The returns to a year or more of community college training for less-educated youth or adults appear strong.**

Econometric studies show a modest rate of return (e.g., 5–8 percent a year) for a year of community college and about 14 percent a year for an associate’s degree for the overall population in the 1990s (Kane and Rouse 1999). Returns are minimal for those earning less than one year of credits. But more recent data for young people (Marcotte et al. 2005) show stronger returns, even for those earning only occupational certificates.<sup>3</sup> Returns for students with the weakest academic preparation, including TANF recipients, have been strong as well (Mathur et al. 2004).

- **The modest training investments funded over the past two decades by WIA and its predecessors (like the Job Training Partnership Act, or JTPA) have improved earnings only modestly, but the rate of return per dollar spent has been substantial.**

The National JTPA Study from the early 1990s (Lalonde 1995) showed substantial earnings increases that lasted through the 30-month follow-up—even though training expenditures were very modest.<sup>4</sup> Other studies using fairly rigorous nonexperimental methods have shown comparable increases for WIA participation in recent years despite lower expenditures on training, and note considerably higher earnings improvements (e.g., \$2,000 and above) under JTPA in Massachusetts later in the 1990s.<sup>5</sup> Increasingly, these training programs were housed at community colleges and geared toward meeting labor demand.

- **While returns to education and training for TANF recipients in most mandatory programs have been very limited, returns are greater for the best programs and those with training most attuned to the labor market.**

Of the 11 sites in the National Evaluation of Welfare to Work Strategies (NEWWS) the strongest results were observed in the Portland, Oregon, sites where participants’ earnings jumped by roughly 35 percent—over \$2,000 a year. The Portland program combined a strong “Work First” ethos with selective access to training at community colleges, and service providers encouraged participants to apply and wait for higher-wage jobs rather than simply accept the first job available (Hamilton et al. 2001). Sites emphasizing basic education but only limited links to employment or job training produced smaller impacts. Also, a nonexperimental analysis of three sites in the NEWWS evaluation (not including Portland) found that high school nongraduates in basic education activities had substantially larger increases in longer-term earnings if they also participated in job training (Bos et al. 2001).

- **Sectoral and incumbent worker training programs have shown positive results in a few experimental studies and very promising outcomes in various nonexperimental studies.**

So far, experimental evaluation results are in for only one sectoral program—the Center for Employment and Training (CET). The original program in San Jose, California, yielded strong results (Melendez 1996), but efforts to replicate this model across the country showed insignificant earnings improvements (Miller et al. 2005).<sup>6</sup> Results from other random assignment studies of sectoral programs are pending. Meanwhile, simple and much less rigorous “before-after” comparisons of wages and earnings for participants in sectoral programs have shown impressive outcomes (e.g., Osterman and Lautsch 1996).<sup>7</sup> Incumbent worker training has improved workplace performance in Michigan (Holzer et al. 1993) and worker outcomes in California (Moore et al. 2003).

- **High-quality career and technical education for youth and young adults clearly raises their employment and earnings persistently.**

Rigorous evaluation of Career Academies (Kemple 2004) finds earnings increases for youth, and especially at-risk young males, for at least four years after they graduate from high school. Evaluations of Tech Prep and other kinds of vocational education in high school and community colleges also suggest positive impacts on employment outcomes (Lerman 2007).

- **Earnings supplements and supports for the working poor clearly lead to more work and greater annual earnings, though not necessarily to higher wages.**

Econometric studies of the EITC clearly show that current and former TANF recipients who got the credit during welfare reform worked more afterward. Experimental evaluations of Canada Self-Sufficiency Project (SSP) and the Minnesota Family Independence Program (MFIP) also show strong impacts on work activity, especially when the earnings subsidies are tied to full employment and persist for years (Michalopoulos and Berlin 2001). Child care subsidies clearly raise hours worked among low-income single mothers (Blau and Currie 2005). And the earnings subsidies and job guarantees in New Hope raised the earnings of low-income young men, especially those who had been out of work before the program began (Duncan, Huston, and Weisher 2007).

- **The right combination of services, supports, and financial incentives (even without training) can increase the earnings of the poor.**

The rent subsidies, job-placement assistance, and social supports for work provided in Jobs Plus clearly raised the earnings of poor (and mostly nonworking) families in an experimental evaluation (H. Bloom, Riccio, and Verma 2005). The modest financial incentives and services experimentally evaluated at the Employment Retention and Advancement (ERA) sites have shown some promising results, though they vary by site.<sup>8</sup> Attendance of low-income youth and adults at community colleges can also be raised by providing adequate financial assistance, especially if it is tied to program completion (Scrivener and Pih 2007; Brock and Richburg-Hayes 2006).

Overall, much remains uncertain about exactly what is cost-effective in advancement programs for low-income adults and youth. Yet, the evidence on the four program types described here seems fairly positive. Specifically, job training at community colleges for the working poor or at high schools for at-risk youth and clear connections to employers seems cost effective in rigorous studies and very promising in less rigorous ones, especially if basic skills are integrated with occupational training. Financial incentives and combinations of supports and services also show some evidence of positive impacts.

## **The Proposal: Federal Funding for State Advancement Systems**

To help disadvantaged adults and youth move ahead, a new federal funding stream is needed to support promising and innovative advancement initiatives at the state and local levels. In this proposal, “advancement” is defined broadly to include efforts to help the current working poor, hard-to-employ adults (including ex-offenders and noncustodial fathers), and “at-risk” youth (either in or out of school). Our greatest emphasis here, however, is on removing the barriers often faced by low-income working parents who need training or education to advance.

This funding stream would help and reward states for building comprehensive programs or *systems* to promote advancement—whether statewide or regional within states. Either way, some activities should be *regional* (or metropolitan) since most local labor markets are. Making this structure work might require local workforce investment boards within the same metropolitan area to coordinate their efforts; but since they already help build partnerships and develop stronger links among employers, training providers, and low-income groups, coordination should be relatively easy. Local one-stop centers could also link workers to training providers, employers, and supports and services. Since our proposal uses some of the institutions that are part of the current workforce system, it could be seen either as a complement to the current Workforce Investment Act or as part of a broader effort to reform it.

At least initially, *competitive* grants would be awarded to selected states. These funds would *match* increases in public and private expenditures on the most promising approaches to training less-educated workers for good private-sector jobs and for other financial supports for low-income workers.

To obtain the grants, states (or localities) must agree to spend more of their own funds than they now do on training for low-income workers and would-be workers. Grant applicants would have to present strategies for reaching each of the three target populations listed above. Examples of approaches that might be funded include integrating basic skills and college-level curricula and instruction, accelerating course content, linking credit-bearing college programs to business workforce needs, mapping and developing career and educational pathways, adapting postsecondary offerings to worker schedules, expanding worksite learning opportunities, increasing financial supports for tuition and program completion, providing supportive services (like child care or transportation services) and case management, and expanding state-level earned income credits against taxes.<sup>9</sup>

Preference in funding would go to state-level initiatives that combine several promising strategies. States would have the leeway to design programs to fit their economies, the demographic profile of their low-income populations, and their current policies and programs. Innovation in program development would be valued, but so would plans to bring promising existing programs to scale. Ultimately, performance in generating higher employment and earnings among low earners will be the most important criterion for funding renewal—though the initial grants will be made on expectations of success and programs' capacity to address the problems of low-wage workers described here.

Matching funds would be available only for programs benefiting disadvantaged workers or youth and for *new* expenditures on top of current state and local funding. Other federally provided funds, such as Pell grants, could be used though not matched. That only new (or “marginal”) funding would be matched should reduce the chances that states and localities will simply repackage their current efforts when applying for funding. As with the TANF law in 1996, some “maintenance of effort” requirements for current state and local expenditures will be needed. However bureaucratically cumbersome and however manipulable by states, these requirements have helped preserve earlier state expenditures on behalf of their low-income populations (Greenberg 2002). New public expenditures by states and localities, private employers, or workers could all be matched.

To qualify for grants, states would have to form partnerships with local WIBs, community colleges/high schools or other training providers, employers or industry associations, and intermediaries.<sup>10</sup> Currently, some states' economic development efforts already involve WIA-funded workforce systems and target employers in key growth industries—such as construction and health care—that provide better paying jobs for non-college graduates. States could plan to expand such activities or develop new ones and build the capacity of one-stop offices to improve access to all the supports available to low-income workers.

These institutional arrangements—packaged with funding for supports and services and for training—would constitute state and local advancement systems that build on but surpass current workforce efforts and make it much easier for disadvantaged populations to participate in skill-building activities and get better jobs. No longer fragmented, the services they need to gain advancement should be more effective as a result.

Of course, such partnerships cannot be built overnight, and the institutional capacity needed to achieve significant scale takes time to develop. Thus, all grants to states would be long term—for at least five years—with the expectation that expenditures for services might be back-loaded. Investments in “system building” might even be exempt from matching requirements, allocated through “planning grants” instead of operating funds. And the relevant state and federal agencies (like the U.S. Department of Labor and its state counterparts) would also have to expand their capacity for overseeing and reviewing grants and for delivering local technical assistance.

Even though the program would ramp up slowly over many years, giving states time to plan carefully, several states (say, 5–10) would be given grants in the first few years, so state and federal agencies can learn from these pioneering efforts. All grants would also be renewable and expandable to other locales and industries, but no renewals would be automatic.

Indeed, program renewal and expansion would depend on performance measures for program participants (such as earnings before and after training) provided by the states, and data on advancement rates among the larger pool of low earners. Of course, labor market performance measures for program participants in WIA and other programs can cause “creaming” and program admissions games, so states would also have to provide data about advancement rates and employment and earnings for critical populations in the state more broadly—looking at program participants and nonparticipants alike. To encourage states to bring these programs to scale, states with high rates of low-income worker advancement overall would get renewed most quickly and receive large bonuses.

As part of oversight and especially grant renewal, all state grantees might also be required to conduct rigorous nonexperimental program evaluations using administrative data on earnings and on individual receipt of program services or supports. The types of evaluation that would be acceptable have been fairly well formulated by researchers and can be implemented fairly easily with available administrative data.<sup>11</sup>

Some funds would also be set aside for more rigorous evaluations in select sites commissioned by the U.S. Department of Labor. The results of these evaluations would be disseminated to the states, along with those from nonexperimental evaluations as part of a broad federal effort to generate new knowledge about what works in workforce development and to provide related technical assistance to the states. Since random assignment methods are not always appropriate for evaluating broader systems with many components, other statistical methods will need to be developed and used in those cases.<sup>12</sup>

In this way, all states could learn from one another about what services and supports seem most cost effective. Applicants for new grants and for renewals over time would draw on “state of the art” knowledge about cost-effectiveness. Meanwhile, states would still be free to make choices based on their industries, population profile, institutional environment, and policy traditions. Ideally, a “learning system” that generates new knowledge on the cost-effectiveness of innovations would emerge and evolve, and the new system would prompt states to implement and replicate the most cost-effective approaches and bring them to appropriate scale.

## **Program Costs and Expected Benefits**

We propose an annual federal expenditure of up to \$5 billion a year on this program. At least initially, costs should be kept to \$1–2 billion a year, as grants averaging \$100–200 million are awarded to approximately 10 states. But, as grants to many more states are awarded, the program costs will grow too.<sup>13</sup>

Currently, WIA’s three primary funding streams combined total just over \$3 billion a year, and with funding for other programs (like adult education, the Job Corps, and the Employment Service) total funding is over \$5 billion. But WIA’s predecessors in the late 1970s and early 1980s were better funded; indeed, nearly \$20 billion would now be spent on WIA if real funding had remained at 1979 levels, and over \$40 billion if the program had maintained its size relative to that of the U.S. economy.<sup>14</sup>

Very roughly, what will the \$5 billion annual expenditures proposed here buy? To estimate, let’s assume that the program operates for ten years and thus costs the federal government \$50 billion, while generating another \$50 billion in new state, local, and private expenditures, for a total of \$100B. Let’s also suppose that 60 percent of that total is spent on training, at an average annual cost of \$6,000 per trainee—about what a full year of community college costs on average and roughly what many sectoral programs spend per participant, though markedly more than what JTPA, WIA, or incumbent worker training typically cost.<sup>15</sup> Another \$4,000 per student could be spent on income stipends to supplement Pell grants for low-income adults with children. That’s \$10,000 per trainee, so roughly 600,000 people could be trained a year, or 6 million over the decade—or up to 7 million, if we factor in freed-up resources from program dropouts.<sup>16</sup> The additional 40 percent of funds (at \$4,000 per person a year) would be spent on financial and other supports (like expansion of state

EICs, child care, job placement services, post-employment services, etc.) for an additional 1 million working poor residents each year.

In this scenario, we assume that the average earnings increase would initially be \$2,000 a year—consistent with the estimates of impacts from JTPA in Massachusetts, CET in San Jose, and NEWS in Portland in either random assignment or rigorous econometric studies. Assuming that the average trainee is 30 years old and that the impact of training decays over a work life of 30 years, the average training impact is \$1,000 in extra income a year for three decades. The present discounted value of these extra earnings per worker would be approximately \$20,000 each; and, with as many as 7 million additional workers trained in this example, the extra training over 10 years could generate as much as \$140 billion in extra income over time.<sup>17</sup> In addition, we assume that the \$40 billion spent on financial supports and services, at \$4 billion a year, generates \$2 billion a year of extra earnings, for a total of about \$15 billion over the decade in present value.<sup>18</sup>

Overall, then, our \$50 billion federal investment, plus the additional \$50 billion invested by states/localities and the private sector, generates roughly \$155 billion of additional earnings, in present value. Roughly a quarter of all low-wage low-income workers would get some training, and others would receive services and supports.<sup>19</sup> Not only would low-income parents have more income over the long run, but their children would likely benefit since researchers have shown that the academic performance, cognitive achievement, and behavior of children respond to their parents' incomes (Duncan 2005).

Besides the \$155 billion gains for workers, states would gain more tax revenue, and they might save on incarceration and Medicaid payment costs.<sup>20</sup> Employers should benefit from lower turnover costs, lower vacancies during tight labor markets, and higher productivity.<sup>21</sup>

Of course, this exercise should be viewed as suggestive at best since the impact estimates that undergird it are highly uncertain. But, even if these estimates are off by an order of magnitude, the program's social rate of return justifies the investment.

## Concluding Comments

The proposal outlined here would create a new federal funding stream for innovative and promising state and local initiatives to improve the advancement rates of low-wage workers, especially low-income working parents. The program would distribute funds competitively, match new state/local public and private expenditures, require hard evidence of progress for funding renewal, and give bonuses to strong performers. It would also generate new evidence on exactly what works and does not work, giving states compelling reasons to implement and expand or replicate effective programs.

Does this proposal duplicate activities that WIA and other programs fund or could fund? Any overlap would be slight. Mostly, the new effort would complement current WIA-funded efforts. It would also free up some WIA funds for other activities not covered now by this proposal. Recall here that WIA funding (relative to its predecessor programs, CETA and JTPA) has declined by nearly 70 percent in real terms since the late 1970s. In addition, Title I of WIA currently provides just over \$3 billion of formula funding for adults, youth, and displaced workers (in addition to funding for the Job Corps and some other smaller programs). By most accounts, current funds are stretched very thin (Frank and Minoff 2005), covering local one-stop centers and spent mostly on the “core” and “intensive” services now mandated by WIA. Over half of those served currently by WIA adult services are not low-income workers (U.S. Department of Labor 2007), and the displaced workers are even much less likely to be low income.

The new system envisioned would likely strengthen WIA and could be seen as part of a broader effort to reform it. Expenditures on one-stop offices and other local WIB programs—both part of the institutional system outlined above—could be viewed as complementing the new advancement efforts outlined above.

The proposed system also complements Pell grants, which cannot fund support services for low-income students and innovative efforts to link community colleges and employers.

In the past few years, the U.S. Department of Labor has spent several hundred million dollars on initiatives that overlap some with our proposal. Its High Growth Job Training Initiative (targeted at 14 economic sectors nationwide), its Community-Based Job Training Grants, and its Workforce Innovations for Regional Economic Development (WIRED) program fit into this category. But, to date, neither the cost-effectiveness nor the administrative accountability of these programs has been backed up by adequate evidence (Lordeman and Levine 2007). Our proposal would build on what is known to better target funds to low-income groups and to maximize accountability and cost-effectiveness.

Although the evidence on the cost-effectiveness of the types of programs for which we argue is limited, there is enough to go on. The competitive nature of the grant process described here would make initial and, especially, continuing funding contingent on the prospects and achievement of good performance over time. What is more, funding for continuing or expanding state programs would hinge on developing stronger evidence of cost-effectiveness from evaluations now under way, and technical assistance and dissemination of state and local “best practices” are built into the proposed system.

Finally, the costs of these integrated initiatives and lingering questions about their likely cost-effectiveness must be balanced against *the clear costs of doing nothing* about a large and profoundly serious problem that engulfs many millions of U.S. workers and their families. Indeed, costs to the nation when children grow up under the wings of parents who either earn little or cannot find work dwarf the costs of investing in enhanced worker employment and productivity relative to expected benefits.<sup>22</sup>

## APPENDIX: PROMISING EXAMPLES OF JOB ADVANCEMENT PROGRAMS

This appendix briefly describes the promising initiatives that are illustrative of the approaches outline above.<sup>23</sup> As discussed, while some programs clearly represent a singular approach, numerous programs mix multiple approaches and combine strategies.

### **Instructional Adaptations**

- Denver Community College Essential Skills Program (ESP)—Enrolling about 250 students a year, ESP is a multioccupational certificate “bridge” program that prepares individuals with low skills for entry-level jobs and higher-level training programs. Training is available in five areas: information technology, early childhood education, financial services and accounting, community health, and medical clerking. With a focus on serving TANF recipients, ESP classes provide work-readiness preparation followed by short-term basic skills and occupation-specific training combined with job experience in a career pathway and a range of support services.
- Kentucky Ready to Work (RTW)—This program assists individuals enrolled in degree and certificate programs in the Kentucky Community and Technical College System by providing job skills and life skills training, academic success training, counseling, mentoring, service referrals, and assistance securing and retaining employment. The program also provides participants with work-study opportunities in both private and nonprofit settings that are relevant to their fields of study. In fiscal year 2005, more than 2,500 TANF recipients were served.
- Portland Community College Career Pathways—Portland and Mt. Hood Community colleges’ Career Pathways program provides a wide range of short-term training programs designed to be flexible for working students. Key components include “chunked” curriculum (offering courses in one or two terms to build skills for an entry-level job), cohort learning, job-readiness instruction focused on job requirements and advancement options in a specific industry, paid internships, and job placement services. Serving about 200 students annually, most programs are between 14 and 18 college-level credits and last either one or two semesters. Students can enter at four different points of the year. Students are assigned a case manager who provides support services and career counseling.

## Employer Partnerships

### *Sectoral Training Programs*

- Cooperative Home Care Associates (CHCA)—Developed by the Paraprofessional Health Care Institute in the Bronx, CHCA is a worker-owned home health care cooperative that trains and employs home health care aides. Founded on the belief that higher-quality jobs will lead to higher-quality care, CHCA aims to restructure the long-term care industry by serving as a model employer that offers higher wages and benefits, supportive services, full-time work, opportunities for career growth, and reduced turnover. The program provides classroom training, on-the-job training, and peer mentorship. As employees of CHCA, trainees are guaranteed a paid wage for a minimum of 30 hours a week, receive free health insurance, and earn dividends. Internal career ladders offer employees the opportunity to move into higher-paying administrative positions. More than 900 workers are members of the cooperative, and more than 200 a year join annually and receive training.
- Capital Idea—Initiated in 1999, Capital Idea operates several training programs to provide low-income individuals, who traditionally have not had access to college-level careers, with pre-college- and college-level training in growth occupations. The program focuses on providing training in jobs that pay at least \$13 an hour and provide benefits and opportunities for advancement in the health, technology, and accounting fields. Capital Idea works with area businesses to develop the programs and training components. The program targets unemployed and underemployed adults with incomes up to 200 percent of the federal poverty level and pays for all training costs including tuition and fees; it also provides child care, transportation, and emergency assistance. Capital Idea serves approximately 100 new students a year.
- AFSCME 1199c Training and Upgrading Fund—Funded through 1.5 percent of gross payroll by participating hospitals, nursing homes, and other providers in Philadelphia, this program provides training and career ladders for certified nursing assistants (CNAs) and licensed practical nurses (LPNs). Each student is placed with a case manager to provide ongoing career and personal counseling. In 2005, the program provided training to over 4,000 individuals.
- Wisconsin Regional Training Partnership (WRTP)—WRTP is a nonprofit association of businesses and unions that has served employers, employees, job seekers, and unions in the Milwaukee area since 1996. WRTP works in several industries including manufacturing, health care, construction, and hospitality. Firms that join WRTP agree to develop education and training programs on site or at community colleges and provide a payroll contribution. In return, they receive technical assistance to strengthen technology and workplace practices, improve the skills of incumbent workers, and recruit and train new workers. Nearly 100 employers with about 60,000 workers participate.

### *Career Ladder Programs*

- Kentucky Career Pathways—Operating at all 16 community and technical colleges in the state, this initiative generates partnerships with businesses and has developed “pathways” in health care, manufacturing, construction, and transportation. It mostly targets incumbent workers for training and upgrading with their companies. Participating institutions are encouraged to offer curriculums in modularized formats, at alternative times (such as evening and weekends), and at alternative sites, such as at the workplace. Colleges are also encouraged to integrate intensive student support systems including improved advising, mentoring and career counseling strategies. Currently more than 1,100 workers are participating.
- Arkansas Career Pathways—Instituted at 11 community colleges (out of 22) around the state, the program has created career pathways in various sectors and has served about 2,000 workers in a short time. The program features training programs that are clearly and closely linked to real local job opportunities upon graduation; “bridge” classes providing basic skills and workplace competencies that bring students to skill levels required for college entry; “fast track” two-semester developmental

education programs that provide contextualized instruction to reach skill levels required for advanced college courses; and intensive support services offered by a case manager that provides academic advising and access to other supports, including child care and transportation.

- Massachusetts Extended Care Career Ladder Initiative (ECCLI)—ECCLI aims to improve the quality of nursing home care through instituting career ladders and promoting skill development and other supportive practices among nursing home staff. The program provides grants to nursing homes and home health agencies that may partner with other long-term care facilities, community colleges, WIBs, and others to create new career ladders for direct care staff and to address staff training, work environment, and quality of care issues. Partnerships involve 15 community colleges around the state and more than 150 nursing homes (about 20 percent of the total). More than 7,500 workers have participated to date. Most are CNAs seeking to upgrade skills and perhaps become LPNs.

#### *Incumbent Worker Programs*

- New Jersey Workforce Development Program—Operated by the New Jersey Department of Labor and all 19 community colleges in the state, the program funds incumbent worker training through grants to employers. It also includes the Supplemental Workforce Fund for Basic Skills, to finance basic education related to work. In fiscal year 2006, the latter program alone funded over 14,000 individuals. The program pays for the cost of the training, while employers pay workers wages while they attend classes (usually at the worksite). The programs are financed by Unemployment Insurance (UI) taxes on both employers and workers.
- Pennsylvania Incumbent Worker Training Fund—The Incumbent Worker Training Fund is a large-scale statewide initiative to enhance the skills and earnings of incumbent workers in key targeted industries. The program provides grants to regional partnerships throughout the state between multiple employers, workforce development systems, and educational institutions and has trained more than 4,000 individuals. Begun in 2005, the program is complemented by the Workforce and Economic Development Network of Pennsylvania that provides grants to 28 community colleges to deliver basic skills to workers at their employer.

#### **Financial Incentives**

- New Hope—Begun as a demonstration project based in Milwaukee, New Hope supplements the low earnings and benefits in private-sector jobs with a monthly earnings supplement, subsidized health insurance and child care, and other benefits, while providing transitional jobs for those who have difficulty finding their own employment. The demonstration project served approximately 1,300 individuals over a four-year period.
- Jobs Plus—A demonstration program operated in a series of public housing projects around the country, Jobs Plus combines financial assistance (through reductions in rent), job placement services, and social supports for work. Jobs Plus operated in six housing developments across the country, with about 300–500 housing units in each development.
- Georgia’s HOPE Grants Program—Operating statewide since 1993, the HOPE Grants Program covers tuition, fees, and books for nontraditional students (including those without a high school diploma or GED) to enroll in certificate and non-degree programs, even if they are attending part time or taking only one course. This program supplements Georgia’s widely recognized HOPE Scholarship Program that provides merit-based scholarships to high school graduates. While it is not a need-based initiative, the HOPE Grants Program is designed to address the financial needs of adults who do not qualify for the scholarship program or for the federal Pell grant program. In 2005, approximately 40,000 low-income individuals received a HOPE grant.

## **Supports and Services**

While there are programs that focus primarily or exclusively on providing enhanced student supports, most of the innovative job advancement initiatives combine student supports with curricular and other adaptations for low-skilled individuals. While part of a package of broader services, the support services are generally provided by staff assigned to work with individuals enrolled in the program. For example, in the Denver ESP and Kentucky Career Ladder program, students are assigned a case manager to provide assistance with both training, personal, and support service issues (including child care and transportation) throughout their tenure in the program and often for a period after they find employment. Many of the sectoral initiatives including CHCA, the 1199 Training Funding, and Capital Idea also include staff who provide a wide range of support services.

## NOTES

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<sup>1</sup> Those with GEDs should be included among high school dropouts rather than graduates (Cameron and Heckman 1993), but the Current Population Survey (CPS) combines these categories. Also, there is some evidence that the CPS overstates the number of high school graduates, relative to administrative data from high schools, though the magnitude of the overstatement remains disputed (Swanson 2004; Mishel and Roy 2006).

<sup>2</sup> Employers often choose whether to compete based on higher productivity and lower turnover versus lower costs and higher turnover within their sectors. These choices are often labeled the “high road” and “low road” approaches to employer competition. See Appelbaum, Bernhardt, and Murnane (2003).

<sup>3</sup> Men with vocational associate’s degrees earned 30 percent more than those without, while women had 40–47 percent higher earnings with academic or vocational degrees.

<sup>4</sup> On the other hand, JTPA programs for youth showed no significant positive effects. Also, positive impacts for adults diminished somewhat over the five years of the follow-up study and ultimately became insignificant (U.S. General Accounting Office [GAO] 1996), though they did not disappear.

<sup>5</sup> See Mueser, Troske, and Gorislavsky (2005) for the evaluation of WIA impacts and Raphael, Stoll, and Melendez (2003) for JTPA in Massachusetts. Both studies use various techniques to match workers on observable characteristics, including work history. Heckman, Lalonde, and Smith (1999) indicate that selection bias in the studies of training impacts is much less severe when individuals are matched on the basis of local labor markets and extensive employment histories. For evidence of the declining expenditures on training under WIA, see Frank and Minoff (2005).

<sup>6</sup> The control group in this study received an unusually large amount of community college training and enjoyed strong earnings growth. The “high-fidelity” CET sites—those that implemented the original CET model most faithfully—were all in California, where access to community college and other training opportunities is unusually high.

<sup>7</sup> For a summary of these results, see Conway, Dworak-Munoz, and Blair (2004).

<sup>8</sup> For example, the Illinois sites that provided job-search assistance and higher-wage placement to TANF recipients seeking full-time employment have generated significant earnings gains (D. Bloom et al. 2005). The three sites in Texas that provided modest financial incentives—no more than \$200 in monthly stipends for up to 12 months—generated some employment gains in Corpus Christi and Fort Worth but not in a third site. Service provision in South Carolina and Minnesota sites has generated few employment impacts to date, but post-employment services in Riverside, California, have increased average earnings by nearly \$1800 over a two-year period (Navarro, van Dok, and Hendra 2007). Many ERA sites have reported difficulty recruiting the working poor to participate.

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<sup>9</sup> We believe that new state expenditures on earned income credits for low-income workers should be included in these efforts and should be matched with federal dollars. But, as many states are already expanding these credits on their own, the amounts of federal dollars spent in this manner should perhaps be capped, to limit the chance that federal dollars are supplanting those that states would be spending anyway.

<sup>10</sup> For large employers and industry associations that span many states, the U.S. Department of Labor might facilitate broader arrangements and help individual states make these connections.

<sup>11</sup> Heckman and colleagues (1999) argue that, if program participants and nonparticipants are covered in the same data, matched within local labor markets, and use at least a few years of pre-program earnings history, serious selection biases in nonexperimental evaluations can be substantially reduced. This could be accomplished by any state, using its unemployment insurance earnings records and merging them with data on program participation. The ADARE project funded by the U.S. Department of Labor in several states has indicated how this can be done, and that high-quality evaluations (like that of Mueser et al. 2005) can be generated by this process.

<sup>12</sup> The evaluation of Jobs Plus, a program to spur employment in public housing projects, develops some statistical methods appropriate for evaluating area-wide systems (H. Bloom et al. 2005).

<sup>13</sup> The analysis here borrows heavily from Holzer (2007).

<sup>14</sup> See GAO (2003) for a listing of the many federal programs through which funding of employment and training can be obtained. Despite the rather lengthy list, the vast majority of funding comes from WIA, TANF, HEA, and a few other sources.

<sup>15</sup> While this example assumes a full year of training and stipends, the programs for low-income parents that we reviewed above often provide part-time or intermittent training for these workers over longer periods.

<sup>16</sup> Assuming that roughly a third of those who enroll drop out before completing the program, and that they do so on average after going halfway through the relevant program, implies that dropouts consume one-sixth of these resources and generate little or no effects. But this implies that an additional 1 million workers can be enrolled with the resources freed up. Since most studies of impacts include program dropouts in their calculations (i.e., they measure the effects of “intent to treat” rather than the actual effects of receiving the treatment), it is reasonable to include the dropouts in our estimates of the numbers of workers affected by the program.

<sup>17</sup> These calculations assume a 3 percent discount rate.

<sup>18</sup> For example, Grogger (2003) shows that a \$1,000 increase in the maximum EITC benefit generates a \$600 increase in annual earnings. Impacts of child care on earnings are highly varied, but at least some estimates show effects comparable in magnitude to that of the EITC. The returns to a dollar spent on job search assistance or job placement are also usually very high.

<sup>19</sup> Assuming that the 20 million or so low-wage and low-income workers at any point in time would translate into 25–30 million or so over a decade, given entry and exits from their ranks.

<sup>20</sup> For states with a 5 percent income tax, the extra income would generate an additional \$8 billion in tax revenue alone, thus offsetting a significant portion of the state’s investment.

<sup>21</sup> Employers might be able to save some money by having at least some of their current training expenditures subsidized, or even by reducing wages if the labor supply of low-income workers expands. But given the low current expenditures by employers on training for this group, and little evidence to date on wage reduction associated with the EITC, we expect these effects to be very modest.

<sup>22</sup> Holzer and colleagues (2007) calculate that \$500 billion worth of output each year in the United States is either lost or wasted because of the lower productivity, poorer health, and high crime rates of people who grew up in poverty.

<sup>23</sup> See Osterman (2007), Martinson and Holcomb (2007), and Duke and colleagues (2006) for more details.

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