

BROOKINGS

Report

Jobs for the working class: Raising earnings among non-college graduates

Harry J. Holzer Monday, April 23, 2018

Donald Trump's election as U.S. President in 2016, and the ongoing surge of populism here and abroad, bring much-needed attention to the plight of workers without college degrees— otherwise known as the “working class. Our focus here is on how to help them improve their employment and earnings.

As is well known, the employment and earnings of these workers have stagnated and fallen far behind those of college-educated workers in recent decades; and, among non-college educated men, both employment and earnings have fallen substantially. Economists have widely attributed these trends to ongoing automation and globalization in labor markets, weakening institutional supports for workers (like collective bargaining and minimum wages), and also weakening work incentives—the latter created by a combination of falling wages and available public benefit programs like Social Security Disability Insurance, or SSDI (Eberstadt, 2016; Krueger, 2017; Abraham and Kearney, 2018). Furthermore, the spread of the opioid crisis, and the large numbers of American men with criminal records, are likely results of the weakening job market and serve as further barriers to finding work. At the same time, few economists and policy analysts have generated compelling policy agendas to improve the working class' employment opportunities.

In this brief, I hope to lay out such an agenda. Before doing so, I first summarize the most important factors currently limiting job market success for non-college educated Americans. I then develop a policy agenda to address these factors.

I argue that a sensible policy agenda should: 1) Improve *education and skills* among non-college educated workers but also create better *jobs* that reward their skills; 2) Improve *job availability* in depressed geographic regions; 3) Reduce *barriers to work* associated with opioids and criminal records; and 4) Strengthen *work incentives*, by “making work pay” and reforming some income support programs to encourage more employment and training among recipients.

Factors Limiting Labor Market Success

The single greatest factor limiting the employment outcomes of non-college graduates today, quite obviously, is their lack of college degrees or any other postsecondary credential that the labor market strongly rewards. While the high average returns to college degrees in America have motivated most American youth and many adults to enroll in some type of college, completion rates remain low, especially among first-generation college students and those from lower-income families (Holzer and Baum, 2017). In addition, too many students complete degrees with little or no labor market reward (like those in “general studies” or “liberal studies”) at community colleges or default on debts accumulated while there.

But, besides the *supply* of skills among U.S. workers, other factors on the *demand* side of the labor market contribute to weak outcomes as well. For one thing, while employers complain a great deal about their inability to recruit and retain skilled workers, their willingness to train workers has been weak and declining over time (Cappelli, 2016). There are sometimes good reasons for this (Holzer, 2016), including various market failures (like imperfect information, wage rigidities or coordination failures). Currently, tight labor markets help raise the provision of training and pay rates more broadly, though much too slowly to offset the decades-long stagnation or declines experienced by non-college educated workers.

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But there are other signs of employer reluctance to pay workers more. For instance, many firms are rapidly turning their workers into independent contractors (Katz and Krueger, 2016), thus eliminating any need to improve their compensation or invest in their skills. Various “non-compete agreements” in employment contracts appear to be spreading, as are other noncompetitive practices limiting labor market competition and efficiency (Shambaugh and Nunn, 2017); and irregular work schedules and wage theft by employers seem to be rising too (Weil, 2014).

And, in a labor market where employers can often choose to compete by taking either the “high road” or “low road” in worker compensation (Ton, 2014; Osterman, 2018)—i.e., by either investing in worker productivity and performance or lowering labor costs at any price—many seem to increasingly choose the latter option. Since high-road employment is a “public good” that the labor market provides at below-optimal levels, policies to encourage it are justified.

In addition, despite the overall tightness of the U.S. job market, too many non-workers reside in economically depressed regions today where overall labor demand appears weak (Austin et al., 2018). Technology and trade shocks have greatly limited employment options there, while the migration of workers away from them is slower today than in earlier eras (Shambaugh and Nunn). And the ability of such regions to recover economically from tech and trade shocks has been uneven—with large metropolitan areas like Pittsburgh, Cleveland, and Chicago recovering from earlier manufacturing losses by building strength in health care, higher education, and other services, while smaller metro and rural areas often enjoy no such recovery.

In these and other regions, millions of less-educated workers also face barriers to labor force activity due to opioid use and criminal records. The dependence of non-working adult men on painkillers (Krueger, 2017) is strikingly large, with 30-40 percent reporting daily use; and the prevalence of criminal records has grown dramatically as well. While we have long known that ex-offender status among African-American men is a major barrier to their employment, Looney and Turner (2018) find as many as a third of *all* non-working 30-year old men hold such records.

Finally, even where work is available to many non-college graduates, its attractiveness has been limited by falling wages and available public benefits when they don't work. Falling relative wages of non-college workers likely cause many potential job offers to fall below their "reservation" (or minimally acceptable) wages for many individuals, especially when disability programs are potentially available as alternative income sources (Autor and Duggan, 2003; Liebman and Smalligan, 2013).^[1] Receipt of food stamps and Medicaid has also grown over time, while cash assistance to the nonworking poor has declined (Hoynes and Schanzenbach, 2018); but the former can be used as income supports in both working and non-working families.

Accordingly, the extent to which these benefit programs discourage work in the non-college population appears quite limited (Abraham and Kearney); and the strong impacts of such programs on the health and well-being of adults and especially children in recipient households are important (Hoynes and Schanzenbach). Still, encouraging work among non-college educated adults will require both policies to "make work pay" (through higher minimum wages and more generous tax credits for low-income workers) as well as sensible reforms in benefit programs that encourage employment and training while protecting access for those who need such support but cannot work.

An agenda to improve earnings outcomes for the working class

1. Better Skills and Better Jobs

The most obvious way to improve the earnings prospects of non-college educated workers is to help more attain the postsecondary credentials that the labor market rewards, even below the bachelor's degree. Strong labor market rewards for some associate degrees and even certificates have been well-documented (Backes et al., 2015), and efforts to increase their attainment deserve support.

This will require a range of policies to better support disadvantaged students, improve the institutions they attend, tie these students and institutions more closely to the job market, and reform systems of public financial aid at the federal and state levels.

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Our efforts should begin with providing more supports for disadvantaged students at community colleges that clearly raise completion, as demonstrated in evaluated programs like ASAP and Stay-the-Course (Gupta, 2017; Evans et al., 2017). Reforms in developmental education for underprepared students (Scott-Clayton, 2018) and expanding access to loans with income-based repayment to reduce defaults (Dynarski, 2018) appear important. Allowing access to federal financial aid for students in short-term or even non-credit programs of strong labor market value has some merit too, though safeguards and limits on such actions (to prevent another explosion of for-profit schools exploiting these program) are critical.

But the community colleges also need both financial assistance and stronger incentives to respond to the labor market (Holzer and Baum). A new federal "Race to the Top" for community colleges could target assistance to expanding classroom capacity in high-demand fields and other reforms in return for greater accountability of institutions when receiving state subsidies, based at least partly on later employment outcomes of their

students (Deming and Figlio, 2016; Holzer, 2018). At the same time, the for-profit institutions that charge so much and generate so many defaults among low-income students need ongoing regulation as well (Cellini et al., 2017).

And employer participation in sector-based training partnerships with colleges and apprenticeship programs deserve more state and federal support. Given their proven effectiveness, we don't fully understand why employer participation is currently limited; and claims by conservatives that the high costs of apprenticeship deter employer participation are overblown.^[2] Still, combinations of financial rewards and technical assistance for such employers are growing at the state level and should be encouraged by the federal government and evaluated.

More broadly, the "public good" benefits generated by high-road employers merit public support. Governments could reward employer actions like apprenticeship or profit-sharing, on the one hand; or desirable outcomes like high compensation levels relative to industry averages, on the other (or both). Besides using the "bully pulpit" to encourage more high-road practices, political leaders could also use preferences in contract procurement for high-road employers, grants and tax credits, technical assistance (through programs like the Manufacturing Extension Partnership in a range of services), and even bonuses in Medicare or Medicaid funding for high-road hospitals and nursing homes (Osterman, 2018) to incentivize and assist employers adopting such practices.

Since we have little evidence to date on exactly which such public practices are cost-effective, considerable experimentation and evaluation should occur with federal support. And using "sticks" like moderately higher minimum wages and regulations that limit the use of "non-compete" agreements and other anticompetitive behaviors by employers are important too. Of course, more protection for public and private collective bargaining rights would also encourage more high-road employer activity.

2. Aid to Depressed Regions

One way to address rising disparities in employment outcomes across regions would be to help more workers relocate to areas with stronger economies. But the rising persistence of these differentials while mobility is declining also suggest a need to geographically spread

prosperity more evenly (Austin et al.).

Is there evidence to support such efforts? The apparent success of federal Empowerment Zones in the 1990s in raising earnings among residents (Busso et al., 2013) is encouraging, as are other models of local “inclusive economic development” (beyond those that merely involve efforts of states and localities to bid large employers away from each other).^[3] On the other hand, evidence on efforts in small metropolitan and rural regions, rather than low-income neighborhoods in major metro areas, remains more limited.

Accordingly, new federal efforts to encourage such activity in depressed regions should be made, while allowing for experimentation and evaluation along the way. A major competitive grant program to states and localities is likely the best way to proceed, with strong preference given to regions with persistently high unemployment. Using subsidized jobs in the public or private sectors to spur employment would be strongly encouraged (Dutta-Gupta et al., 2018), along with efforts to build infrastructure and broadband connectivity between such regions and more prosperous areas nearby.

3. Reducing Barriers to Work

Efforts to reduce opioid dependencies, both by preventing new addictions and ameliorating existing ones, are just beginning in many areas. Federal support for such efforts should clearly be a high priority.

Regarding criminal records, a strong body of evidence is emerging on what does and doesn't work. For instance, “ban the box” regulations that limit the rights of employers to ask applicants about criminal histories seem counterproductive, since they reduce employer willingness to hire black men in general (Doleac, 2016). But some positive effects of “transitional jobs” and “work release” programs for offenders have been found (Bloom, 2016; Berk, 2008).^[4] Other efforts to improve their employment opportunities—by expunging old records among non-recidivists or providing certificates documenting successful participation in training or employment—are promising too.

Stronger enforcement of federal and state anti-discrimination laws that forbid broad refusal to hire those with felony convictions (since they generate “disparate impacts” on black men) would likely help as well. And programmatic efforts to raise employment among non-custodial fathers (as in the Texas NCP Choices program), along with arrears management and other supports, could be important too.

4. Improving Work Incentives: “Make Work Pay” and Benefit Reforms

Perhaps the easiest way to “make work pay” without great fiscal cost is to raise the minimum wage, as over 30 states have chosen to do since the last federal increase in 2009. But we still find some evidence that minimum wage increases can reduce employment, especially in the long run. Accordingly, I favor moderate increases in the minimum wage at the federal and state levels (generally below \$15 an hour).^[5]

At the same time, greater generosity in the Earned Income Tax Credit (EITC), especially for childless adults who currently receive little, is clearly warranted.^[6] The absence of such an increase in the recently passed tax legislation was appalling, given the massive cuts targeted to high-income households with little evidence of positive effects on employment outcomes for anyone. In addition, public “wage insurance” for those who lose well-paying jobs and obtain new employment at lower wages should expand, while we should also create individual “lifelong learning accounts” based on payroll deductions (with progressive government match rates for low-income workers) to retrain workers displaced by future automation.

Regarding income support programs, potential reforms in Social Security Disability Insurance (SSDI) to increase work among the disabled have been advocated by both liberals and conservatives, since the current program can create incentives for permanent nonemployment.^[7] And increasing opportunities for work and serious job training among SNAP (food stamps) or Medicaid recipients might make sense too.

But there are several caveats. First, no major programmatic changes should be implemented without clear evidence of their effects, which does not yet exist. Second, a range of work supports (like transportation and child care) and access to community

college training for disadvantaged individuals should accompany any such programmatic changes, along with careful assessments of individual work capacity. Third, as the AEI-Brookings poverty report (2015) argued, recipients should not be sanctioned unless program administrators have actually offered them an appropriate work activity, which they have declined. All of these efforts would require significant additional public resources.

Accordingly, current efforts by states to impose Medicaid work rules on recipients or by House Republicans to expand work requirements in SNAP should be halted until stronger evidence of their effectiveness has been generated and more financial support for their careful implementation is provided.

Conclusion

Federal and state efforts to improve earnings among non-college educated Americans should focus on: 1) Improving education and skills programs at community colleges while incentivizing employers to create better jobs; 2) Raising job availability in depressed geographic regions; 3) Reducing barriers to work associated with opioids and criminal records; and 4) Strengthening work incentives by “making work pay” in low-wage jobs and reforming income support programs like SSDI.

The agenda outlined above requires significant new expenditures at both the federal and state levels. While some actions, like efforts to spur employment in distressed regions, should grow slowly until more evidence is generated about their cost-effectiveness, the overall package of policies outlined above should be implemented robustly.

Of course, the federal fiscal outlook has been severely damaged in the past few months by the passage of reckless tax cuts as well as spending increases. Since the tax cuts are extremely regressive and will likely have very small, if any, positive impacts on this population, rescinding some if not all tax cuts to allow new spending of the type outlined here makes sense, in my view.

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Footnotes

1. 1

At least some of the rising receipt of SSDI over time reflects an aging population and the growing presence of women in the workforce. But there is also evidence of greater dependence on SSDI when labor markets weaken, even when personal health does not. A literature on employment among rejected SSDI applicants shows that most do not work afterwards, though this might reflect discouragement and the long period without work during the application period.

2. 2

Reports of costs totaling \$100,000 or more per apprentice are flawed, since they mostly include wage payments in return for labor provided. Direct costs to the firm of setting up and administering the apprenticeships are vastly lower.

3. 3

See Bartik (2016) and Donahue et al. (2017).

4. 4

Evidence to date on transitional jobs program show employment increases among participants during the life of the program, though these mostly fade away when funding ends. The Center for Employment Opportunities in New York generated important drops in recidivism, but other evaluated programs did not.

5. 5

See the summary of the literature by the Congressional Budget Office (2014), plus new evidence by Sorkin (2016) showing more negative effects in the long run than the short one. Employment losses are likely nonlinear, thereby rising more than proportionately with each dollar added to the statutory minimum.

6. 6

A pilot program called Paycheck Plus in New York has been the latest attempt to spread EITC eligibility to adults without children. Evaluation results to date show significant employment increases for women but much less for men.

7. 7

See Leibman and Smalligan (2013).