Chapter One | Introduction: Advancement and the Low-Wage Labor Market

With the passage of federal welfare reform legislation in 1996 and its subsequent implementation around the country, a lot more attention has been focused on the low-wage labor market. The focus of the old system on income maintenance has been replaced by a new emphasis on the temporary nature of cash assistance and the centrality of work.[1] Publicly funded education and training have also received less emphasis in this environment, relative to "work-first" approaches. As a result, the welfare caseload of poor single women with children has fallen dramatically, and their participation in the workforce has risen as well (see Blank 2003; Meyer and Rosenbaum 2001).[2]

But, while employment and earnings have increased for these women, new concerns have arisen about their prospects for job retention and especially advancement in the labor market. Indeed, the extent to which welfare reform has reduced poverty has been much smaller than its effects on employment thus far (see Blank 2003; for evidence on and discussion of retention and advancement issues for welfare recipients in the labor market, see Holzer and Stoll 2001; and Strawn, Greenberg, and Savner 2001). Furthermore, progress in raising employment rates among other groups—particularly low-income minority men—has been much less impressive; if anything, employment rates among less-educated men have declined rather than risen in recent years. New efforts and approaches can be found on this front as well, especially regarding specific groups such as ex-offenders in the labor market.[3]

Of course, concerns over the advancement prospects of low earners in the labor market are also not new. At least since the 1960s, much has been written by social scientists and policymakers about improving the em-

ployment and earnings prospects of disadvantaged workers—whether through education and training programs to increase their "human capital," or through employment programs to augment their job opportunities, or through antidiscrimination efforts to equalize the opportunities they face in the labor market (for evidence on recent trends in the labor force activity of less-educated young men, see Holzer and Offner 2002; for additional material on ex-offenders, see Travis, Soloman, and Waul 2001; and Holzer, Raphael, and Stoll 2004).

But before we consider new policies to raise employment or reduce poverty further among these groups, it would be helpful to understand more about the low-wage labor market—how it operates, whom it rewards, and what "works" for workers there in generating better employment and earnings outcomes. Despite decades of empirical research, we know surprisingly little about the low-wage labor market along certain dimensions.

To take one example, our knowledge about how workers fare in the low-wage labor market over the long term is fairly weak. Of course, some people are in this market temporarily as new labor market entrants or as workers recently displaced from better jobs (for evidence on the earnings losses experienced by displaced workers, see Jacobson, Lalonde, and Sullivan 1993).[4] Others are there voluntarily, often as students or part-time homemakers. But for those who are persistent low earners owing to weak skills, lack of job-readiness, or other labor market barriers (such as discrimination or lack of child care), relatively little is known about the extent to which they ultimately progress in this market and how they do so if and when they do.

We do know that publicly funded training programs for disadvantaged workers in the United States to date have not greatly enhanced the earnings of low-wage workers, at least partly because these programs are funded at relatively low levels in the United States, and partly because some have fairly limited effectiveness (for reviews of the evidence on the cost-effectiveness of training programs for the disadvantaged, see Lalonde 1995; Friedlander, Greenberg, and Robins 1997; Heckman, Lalonde, and Smith 1999).[5] Indeed, these limited returns to general training have led some analysts and policymakers to advocate "work-first" policies, especially for those on welfare, as the best way for them to achieve earnings gains over time. But has either approach generated much success for low-wage workers in the labor market over the long run? Are there other approaches that have had greater success?

A related set of questions involves the degree of worker attachment to specific employers over time and the extent to which such attachment leads to earnings growth. For instance, we might distinguish between la-

bor market returns to job *retention* as opposed to job *mobility.* The former involves the returns to seniority (or "job tenure") with a particular employer and implies that workers enjoy wage growth and promotions over time owing to on-the-job training and the accumulation of skills and work experience specific to that employer. The latter involves the returns to moving to better jobs, where prospects for higher wage levels and growth are better over time. The relative returns to "job-staying" or "job-leaving" might be important pieces of information for workforce development specialists who are trying to help low earners advance in the job market. Yet, except for a few studies (which we review here), we know relatively little about these relative returns for those in the low-wage labor market.

Of course, it is also unlikely that "one size fits all" in this regard. Some workers may do better gaining additional job tenure through retention, especially if they land a good job in the first place, while others might do better by moving out of a relatively low-wage or "dead-end" job. Presumably, those who have the opportunity to move will choose (or "self-select") that option, while others will not. We would be reluctant to suggest policies based on one or the other option in general, without knowing more about the relative opportunities and preferences of the workers making these choices.

On the other hand, knowing more about the general patterns of job-staying and job-leaving in the low-wage labor market and the earnings growth associated with each type of behavior informs us about the general possibilities associated with each type of strategy. Finding differences across individuals in these patterns or "pathways" to success, by race-gender or other demographic characteristics, would further inform us about what works for different kinds of workers. Any such differences might also suggest differences in the job opportunities available to workers in various demographic groups, and part of any strategy might involve equalizing opportunities across these groups.

But what determines these opportunities in the first place? Of course, the skills that workers bring to the labor market are hugely important here. A wide range of basic skills—including both cognitive and noncognitive skills (the latter being rooted in basic attitudes toward work and in job-ready behavior)—seem relevant to earnings opportunities. The ability of low earners to gain and keep employment and to progress in the labor market also seems to reflect a range of personal characteristics and "barriers," such as physical and mental health, child care needs, and transportation problems.[6]

But once we control for whatever skills individuals bring to the low-wage labor market, their opportunities may also depend importantly on the quality of the *firms* and *jobs* to which they have access. In other words,

labor market outcomes may depend not only on the characteristics and behaviors of workers on the *supply* side of the labor market but also those of the firms and jobs on the *demand* side, and especially on the interaction between the two. In the jargon of economists, the extent to which workers are "sorted" across firms and the quality of the "match" between them helps determine retention and mobility behavior as well as earnings levels and their growth over time.[7]

Since the interaction between workers and firms may be quite important, understanding the nature of these interactions in the low-wage labor market may be critical to developing appropriate policies to assist workers there. Important questions then arise, such as:

- Which low-wage workers get matched to which kinds of firms in this market?
- To what extent are differences in employment outcomes across workers explained by the quality of the firms to which they are matched?
- What are the characteristics of firms and industries that generate better outcomes for initial low earners in this market? How do these firms evolve over time, and where are they located?
- Do the pathways to success, in terms of firms and industries, vary across demographic groups, especially by race-ethnicity and gender? Do these differences suggest differential access to good firms and jobs across these groups?
- When does it make sense for low earners to change jobs, and when should they stay? Do some jobs offer better opportunities for on-the-job training and wage growth for low earners than others, and is there some trade-off between initial wage levels and their growth over time across jobs?
- Are there policy options for improving this matching process for low earners?

One set of answers to the last question might focus on the efforts of *intermediary* institutions in the labor market, which have become more important and gained more attention in recent years. These institutions play a third-party role in labor markets and help match workers to firms by providing job placement services to both. Many also provide other services to one or both parties, such as training (either general or customized to fit the needs of particular employers), work supports (such as transportation and child care assistance), or the building of "career ladders." Some, like temporary employment (or "temp") agencies, are private and

for-profit firms. Others, like America Works, STRIVE, the Center for Employment and Training (CET), and QUEST, are well-known examples of private nonprofit firms in this area. Some intermediaries reflect joint union-management efforts; some focus on particular sectors of the economy (for a broad discussion of labor market intermediaries, including discussions of the programs listed here, see Giloth 2003). Although a lot of descriptive information about these intermediaries has appeared, little systematic analysis of their effects on the low-wage labor market has been undertaken to date.

Thus, a great deal remains unknown about the extent to which workers progress in the low-wage labor market over the long term, the relative effectiveness of job retention and mobility, the extent to which success and the pathways to it differ across demographic groups, the role of matches to the right kinds of firms, and the role of intermediary agencies in helping workers achieve better matches.

THE GOALS OF THE BOOK

We hope to generate at least some answers to these important questions. We will do so by analyzing the experiences of workers who have low earnings that persist for at least some period of time—in this case, three years. We will explore the extent to which their earnings grow subsequent to this initial period and the extent to which some workers "escape" the low-wage market, either partially or fully.

We are interested in whether these subsequent outcomes differ across demographic groups within the low-wage labor market. We will also explore the relative returns to staying or leaving jobs and how these experiences vary with the characteristics of firms as well as workers. We will look at the extent to which good outcomes for low earners are associated with characteristics of local geography—such as where they live and where the better jobs are located—and we will explore the evolution of these firms and jobs over time as well. Our analysis will also extend to the role of one kind of intermediary—specifically, temp agencies—in helping to match low earners to better firms.

Of course, one reason for our limited knowledge on these issues has been a lack of good data on both workers and firms. In particular, the data available on firms have been quite limited and are usually based on cross-sectional surveys at particular points in time and places, with fairly modest sample sizes. Although we have learned a great deal from these data (as we discuss later), our ability to answer the broader questions posed here depends heavily on having panel data on both workers and firms in large samples and over long periods of time. Large samples are needed to

compare outcomes across many different demographic groups and different states or regions of the country; having panel data over long time periods enables us to follow the progress of initial low earners over the long term.

To our knowledge, only one dataset is available that meets all these needs: the Longitudinal Employer-Household Dynamics (LEHD) file at the U.S. Census Bureau. The LEHD data begin with the universe of state-level Unemployment Insurance (UI) wage records for a sample of states over most of the 1990s and beyond the year 2000. The UI wage records are *panel data on all individual workers and their employers* in the sectors of the economy that are covered by UI in each state. These individual records are then linked, wherever possible, to micro survey data on individuals—such as the Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP). The data are also linked on the firm side to the various economic censuses that are available.

The result is an enormous file with data on workers linked to firms over periods of several years. The data combine administrative with survey data on both sides of the market, thus generating rich information on workers and firms and the matches between them. The data have been painstakingly constructed over several years by the LEHD staff at the Census Bureau, a process that is still under way. What we present here is based on a subsample of major states for which the UI data are available over a lengthy (nine-year) period and have already been linked to household data.

THE PREVIOUS LITERATURE

Before describing the outline of this book and our general findings in the rest of this chapter (and the LEHD data in more detail in a subsequent chapter), it is worthwhile to review in a bit more detail what we have already learned from the previous research literature on low earners.

Turnover, Retention, and Earnings Growth Among Unskilled Workers

Ever since Jacob Mincer's classic treatment (1974) of the returns to labor market experience, economists have worried that high rates of job turnover might hurt the earnings progressions of low-wage workers. On the other hand, labor economists have long realized that job mobility can also play a positive role in generating earnings growth.

The extensive literature on worker turnover is reviewed in Parsons (1986) and Farber (1999); more recent contributions include Royalty (1998),

Lane (2000), and Holzer and Lalonde (2000). These works clearly demonstrate that low-skilled workers experience more job turnover than others, though the rate of turnover strongly declines with age and with tenure on the job. Furthermore, low earners are more likely than others to experience involuntary turnover—layoffs or discharges rather than quits. Their turnover is also more likely to result in a period of non-employment rather than direct movement into another job. But, conditional on an individual's skills, age, and tenure, job characteristics also seem to affect worker turnover. Thus, higher wages on the job seem to exert an independent negative effect on turnover, as do other job characteristics (for the effects of wage levels on turnover, see Parsons 1986, and Holzer and Lalonde 2000; for evidence on the effects of unionization or health insurance benefits on job turnover, see Freeman and Medoff 1984; Currie and Yelowitz 2000).

What are the effects of turnover versus job retention on the future employment and earnings of low earners? Not surprisingly, the effects of turnover are generally more negative when the turnover is involuntary (Bartel and Borjas 1981) and, similarly, when it results initially in non-employment rather than another job. Lengthy periods of non-employment not only result in earnings losses but also seem to have at least some negative effects on future wages and perhaps employment by reducing the accumulation of work experience and job tenure among low earners (for earlier evidence on how periods of non-employment affect the future wages and employment of young people, see Ellwood 1982, and Meyer and Wise 1982; for more recent evidence, see Neumark (2002); for an analysis of how periods of non-employment remain lengthy for young black men despite intervening spells of employment, see Ballen and Freeman 1986). In fact, Tricia Gladden and Christopher Taber (2000) show quite clearly that the wage returns to actual time spent working are similar (in percentage terms) for less-skilled and more-skilled young workers, but that the former experience less wage growth because they spend less time working. Nevertheless, since turnover itself responds to wage levels (and perhaps the potential for wage growth on jobs as well), the observed relationship of turnover to wages might reflect the effects of the latter on the former, as well as vice versa.

Although it is clear that the non-employment associated with turnover can be quite harmful to low earners, it is much less clear that turnover per se has negative effects. For instance, David Neumark (2002) finds quite mixed effects of turnover on the wage growth of young workers. The potentially positive effects of turnover on wages arise from the fact that voluntary moves may reflect successful mobility from lower- to higher-wage jobs. Indeed, Robert Topel and Michael Ward (1992) have demonstrated quite convincingly that a large part of early wage growth for young work-

ers reflects mobility rather than wage growth within the same job. Unfortunately, this analysis was done on data that mostly reflect the 1960s and have never been replicated for a sample of adult low-wage workers.

The issues of turnover, retention, and wage growth also came up fairly frequently when welfare reform was being debated, as well as in its aftermath. Work by Alan Hershey and Donna Pavetti (1997) suggests that job turnover among former welfare recipients is very high, while Gary Burtless (1995) shows very little earnings growth among those leaving welfare. More recently, Harry Holzer and Michael Stoll (2001) and Holzer, Stoll, and Douglas Wissoker (2001) have shown much more retention among welfare recipients who left the rolls and were hired in the late 1990s. However, most evidence still suggests that wage growth for these women has been quite modest (for a review of this evidence, see Strawn, Greenberg, and Savner (2001); see also Cancian and Meyer 2000; Johnson 2002).

Interactions and Matching Between Workers and Firms

The research literature on the interactions between workers and firms in the low-wage labor market focuses primarily on two questions: What determines the extent to which workers with particular characteristics are matched to firms with particular characteristics? And what are the effects of these matches on worker earnings?

On the first question, a large body of work now exists that documents the varying access that minorities have to different kinds of employers. Holzer (1996) and Moss and Tilly (2001) have systematically explored the effects of employer skill needs, geographic location, and attitudes on the hiring of black and Latino workers. These studies followed the earlier work by William Julius Wilson (1987, 1996) and John Kasarda (1989) and the ethnographic work of Joleen Kirschenman and Kathryn Neckerman (1991), which highlighted shifting technologies, geography, and preferences on the demand side of the labor market (for the effects of changes in technology and industry structure on wages and employment more broadly, see Bound and Freeman 1992; Berman, Bound, and Griliches 1994; Autor, Katz, and Krueger 1998).

More recent work in this tradition has been done by Holzer and Stoll (2001) on employer demand for welfare recipients and by Holzer, Raphael, and Stoll (2004) on demand for ex-offenders. Important work on immigrants and employers has been done by Roger Waldinger (1996), among others, that focuses on employer preferences for immigrants over native-born minorities and also on the immigrant niches or networks that develop in particular industries over time (for evidence on the stronger

networks and greater success of informal job search among Latinos relative to blacks, see Falcon and Melendez 2001).

A different strand of literature focuses much less on race and ethnicity and more on the recruitment and screening methods used by employers, especially the choice between formal and informal methods; these then affect not only who gets hired but the quality of the match between worker and firm (see Rees 1966; Holzer 1987a, 1987b; Bishop 1993). In short, it is clear that less-skilled workers have differential access to employers, even controlling for their skills, based on their race-ethnicity and geographic location, and on employer attitudes and behaviors in the hiring process.

Regarding the effects of employer characteristics on wages, there has been a very long debate between those who stress the importance of worker characteristics and those who stress the effect of the job in the low-wage labor market. Recent versions of this debate have included the controversies over "dual labor markets" in the 1970s and over "efficiency wages" in the 1980s (on dual labor markets, see Doeringer and Piore 1971; on efficiency wage theories, see Katz 1986; for a broader discussion that covers both topics, see Rebitzer 1993). Aside from these controversies, empirical evidence has clearly indicated that individual workers' wages are influenced by the size, industry, unionization, and other characteristics of the firms for which they work and that the differential access of workers to employers described earlier must have consequences for their employment and earnings outcomes (see Krueger and Summers 1987; Brown, Medoff, and Hamilton 1990; Freeman and Medoff 1984).

But how much does variation across firm characteristics account for variation across workers in earnings, especially at the low end of the labor market? Until recently, the lack of extensive matched data in the United States on workers and the firms that employ them has limited our ability to fully answer this question (for reviews of this literature, see Abowd and Kramarz 1999; Haltiwanger et al. 1999). But the creation of the LEHD has enabled researchers to begin to explore these questions for the United States (for some earlier papers using the LEHD data, see Haltiwanger, Lane, and Spletzer 1999; Holzer, Lane, and Vilhuber 2003). We hope that the data presented in this volume will enable us to understand the importance of access to firms and match quality in the low-wage labor market much more clearly.

Labor Market Intermediaries

As we noted earlier, the literature on the role of intermediaries in the low-wage labor market has been largely descriptive. The available work on temp agencies is summarized in Autor and Houseman (2002b) and in

Lane and others (2003). Autor and Houseman (2002b) also document the growth of temp agencies in the labor force and demonstrated that those who work for temp agencies have lower earnings and benefit levels than do comparable workers. But whether this reflects more about the unmeasured characteristics of the workers than about the temp agencies remains unclear in this work, as does the effect of the agencies on the quality of subsequent labor market matches and outcomes for these workers. Recent work by Autor and Houseman (2002a) on the results of randomly assigning low-wage workers to temp agencies versus other services in Michigan has generated more positive outcomes associated with the temp agencies, though this work remains in progress.

More broadly, very few intermediaries have been rigorously evaluated. One exception to this is the study of the CET that is summarized in Melendez (1996). Unfortunately, this work is based only on a single site in San Jose, California. More recent attempts by the U.S. Department of Labor to replicate the CET at other sites and evaluate its effectiveness by random assignment are still under way. Other attempts to improve on worker-firm matching in the low-wage labor market, through transportation and other services, have similarly generated no clear results to date.[8] Similarly, major efforts to combine training, job placement, and other services to both workers and firms have not been rigorously evaluated.[9]

Thus, a great deal remains unknown from earlier work about pathways to earnings growth, the importance of firms, and the ability of third-party institutions to improve on the matching process between workers and firms in the low-wage labor market. This volume may help to fill these gaps to some extent.

THE OUTLINE OF THE BOOK

We present evidence in this book on how low earners did during the 1990s using the LEHD data for five states: California, Florida, Illinois, Maryland, and North Carolina.[10] These states cover a wide range of geographic regions in the United States and are quite diverse in terms of worker demographics and industrial concentrations. In chapter 2, we provide a fuller description of the LEHD data, both for these states and more broadly.

Chapter 3 looks at persistently low earners in these labor markets; by our definition, such earners are prime-age workers who have earned less than $12,000 (in 1998 dollars) for at least three consecutive years.[11] This definition is based exclusively on data from the UI wage records, plus some demographic data that have been appended to them. We consider the characteristics of both the workers themselves and the firms for which they worked during this period; the latter characteristics include industry,

firm size, turnover rate, and the earnings premium that the firm provided to workers of a certain skill level. The process by which low earners are matched to firms should be better understood on the basis of this work.

In chapters 4 and 5, we provide more evidence on how persistently low earners fare in subsequent years in the labor market. In chapter 4, we analyze the extent to which low earners transition out of this status in subsequent years. This analysis focuses on individual transitions across specific (or "discrete") earnings categories—which we describe as partial or complete "escapes" out of low earnings—and it considers the characteristics of workers who make successful transitions and the characteristics of the firms for which they work. The extent to which different demographic groups of low earners achieve success with different kinds of firms is also highlighted here. Some analysis of general (or "continuous") measures of earnings growth are presented as well, using both summary data and multiple regression techniques. And as an additional check on our ability to use administrative data alone when analyzing unskilled or disadvantaged workers, we analyze subsamples of these data that are matched to the CPS, which makes more available data on workers' education, wages, and family incomes. This last analysis appears in an appendix to chapter 4.

In chapter 5, differences in success rates for job-stayers versus job-changers are highlighted, thereby enabling us to better understand the relative returns to job retention (and the accumulation of tenure) versus mobility across jobs for these workers. We also consider different combinations of retention and mobility over longer periods of time—that is, we look at the notion that it might make sense for low earners to change jobs under some circumstances (for example, if they are in dead-end jobs) and then stay in a good job when they find one. In this chapter, we also analyze the effects of work for temp agencies on subsequent success, and we consider the effects of accumulation of job tenure with any employer (as advocated in "work-first" approaches) or experience with higher-wage employers on subsequent success.

Chapter 6 presents more evidence on the firms that hire and/or advance low earners in large numbers. We consider the extent to which these characteristics vary across firms in the same industry and whether they persist over time. By better understanding these firms and their characteristics, we may gain some insights into those firms where low earners seem to be relatively more successful over time.

Chapter 7 presents data on the geographic locations of low earners versus those of other workers and the locations of lower- versus higher-wage employers. Inferences about the extent to which these spatial factors affect the matching process, and therefore the earnings prospects of low earners, are considered as well.

Finally, we summarize our findings in chapter 8 and discuss their implications for policy and for further work. Both the strengths and limitations of this analysis are discussed there as well.

OUR MAJOR FINDINGS

The major findings of this analysis can be summarized as follows:

1. *There is considerable mobility into and out of low earnings categories over time.* Of all prime-age workers who are low earners for at least three years, over half transition out of the low earnings category in the subsequent six years, but most make fairly modest progress in earnings, continuing to earn less than $15,000 a year at least some of the time. The extent of success varies across demographic groups, with white males having the highest rates of transition out of low earnings. Personal skills have important effects as well.
2. *The characteristics of employers are highly correlated with earnings and with transitions out of low-earnings status.* Working in a higher-wage industry (such as manufacturing, construction, and wholesale trade), working in a larger firm, and working in a firm with low turnover are all associated with better pay for initial low earners; working for a firm that pays positive wage premia is especially important. The sectoral pathways to success differ somewhat across race-gender groups as well: for instance, black men are underrepresented relative to whites and/or Latinos in construction and manufacturing jobs, suggesting differential access to high-quality jobs across groups.
3. *Job-changers have substantially higher rates of earnings growth over time, and higher transition rates out of low earnings, than do job-stayers.* Job changes account for most complete transitions out of low earnings and even for most partial transitions. The improved characteristics of the firms at which job-changers subsequently become employed are a major reason for these workers' relatively greater improvements in earnings. Furthermore, returns to tenure are higher at firms that pay higher wage premia than at those that pay lower wages, reinforcing the benefits of moving to higher-wage employers. On the other hand, job retention can be important as well: the highest earnings gains among low earners are achieved by those who transition to better employers early and then accumulate more tenure in these newer jobs.
4. *Low earners who work for temp agencies have higher earnings in subsequent jobs.* Furthermore, this effect is totally accounted for by the quality of the jobs that these workers hold in subsequent periods. Temp agencies

thus appear to improve the quality of subsequent job matches for low earners. There are also some general returns to accumulating tenure on any earlier job (though these are relatively small) and for working earlier at a high-wage firm.

5. *The characteristics and behaviors of particular firms affect opportunities for low earners, as do their geographic locations.* Even within detailed industries in particular states, there is a great deal of heterogeneity in terms of which firms hire low earners and provide them with opportunities to advance. But the firms that provide these opportunities do so persistently, and so they can be identified on the basis of past performance. Low earners are located farther away from good job opportunities than are nonlow earners, and these geographic differences suggest that the access of low earners to good jobs is limited by spatial factors in metropolitan areas.

Taken together, these findings suggest that, while training and skill remediation are important, the process by which workers are matched to firms in the low-wage labor market also has large and important effects on the outcomes we observe for these workers. Policies that seek to improve the access of low earners to higher-wage firms and industries could have major payoffs. Job placement and training policies for low earners need to be better integrated, and sequential employment strategies should perhaps be developed for moving low earners across jobs in ways that generate better earnings growth for them. The results on temp agencies also suggest that these firms—and perhaps intermediary institutions more broadly—could play an important and positive role in improving the earnings of these workers over time.