

*This issue of Fast Focus is based on the presentations made by a group of economists, sociologists, and public policy and education experts at a national working conference hosted by IRP in March 2011, with financial support from the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services. The “Employment Prospects for Lower-Wage Workers: Easing the Implications of a Slow Recovery” conference, which was organized by Robert Haveman, Carolyn Heinrich, and Timothy Smeeding, featured presentations by leading researchers on the sources of U.S. labor market polarization and its impacts on workers with varying types and levels of skills. Issues of technological change, job-outsourcing, the decline of trade unions, and the effect of minimum wages were assessed. Conference participants explored the consequences of these developments on a variety of economic and social phenomena, including the growth of wage and income inequality, the demand for public transfers, and the health and well-being of displaced workers and their families. To view the conference PowerPoint presentations, visit IRP’s Web site at [www.irp.wisc.edu](http://www.irp.wisc.edu) and search for “employment conference.”*

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## Jobs, skills, and policy for lower-wage workers

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Enormous advances in technology and the changes in workplace organization that have followed them have created major challenges for those U.S. workers who lack higher schooling or the skills that are most in demand. More-open international borders—globalization—has led to the substitution of lower-paid foreign workers for U.S. workers. At the same time, demand for the services of lower-skilled workers has fallen.

Many such workers have become unemployed or underemployed, and in the adjustment process those who are working have found lower-paying jobs with few career possibilities and paltry nonwage benefits. These workers tend to be some of the nation’s most vulnerable—older, with little schooling, and often racial minorities or foreign born; many are recent school leavers or dropouts.

Others have abandoned the formal workforce and coped with their declining economic fortunes in ad hoc and often unproductive ways. Wage gaps between higher- and lower-skilled workers have increased, because of the falling demand for less-skilled workers and the failure of the nation’s higher education system to generate the more highly educated and skilled workers needed for the growing high-skill sector. The demand for SNAP (food stamps) and other public income supports has increased, as the eligibility for these programs has risen due to falling income. Lives have been disrupted, including the physical and mental health status of the affected workers and their families.

All of this has been exacerbated by the recent deep recession, during which unemployment and nonemployment rates of males in their prime working years (ages 25 to 54) reached an all-time high.<sup>1</sup> In fact, today, 20 percent of American men

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in the prime working age group are not working (compared to less than 5 percent in the 1950s); 35 percent of those without a high school diploma are out of the labor force. Some of these people have become recipients of disability benefits (or are in the process of applying for disability insurance).<sup>2</sup> While a decade ago, 5 million Americans collected a federal disability benefit, there are now over 8.2 million recipients. Many of the younger cohort have remained in school or enlisted in the military; others are doing neither.<sup>3</sup>

These developments bring to the fore major public policy issues, driven by both efficiency and equity concerns. In March 2011, the Institute for Research on Poverty held a one-day conference to explore these developments and to consider the potential and likely effectiveness of public policies designed to address this problem. Summaries of the presentations and commentaries follow.

## The polarization of job opportunities

The first session of the conference focused on the changing face of the U.S. labor market, its diminishing opportunities, growing wage gaps, and increasing demand for more-skilled, more-educated workers, all of which are displacing many prime-age workers, especially men.

### Fewer opportunities for middle-educated workers

David H. Autor<sup>4</sup> describes the polarization of U.S. employment demand, noting both long-term trends and changes influenced by the recent recession. Autor sees two important forces in the U.S. labor market on a collision course that will determine the trajectory of low-skilled and less-educated workers. The first is an increase in both high-skill, high-wage jobs and low-wage, low-education jobs that is reducing opportunities for middle-educated workers, especially high school graduates. The second is stagnating educational attainment—decline in high school graduation rates and decline in college attendance—particularly among men, which is worsening the job prospects for the less educated.

Autor notes that employment polarization is not new to the U.S. labor market. When examined over a thirty-year period and among a range of low-, medium-, and high-skilled jobs, polarization is a long-term trend, not specific to the recent deep recession. However, what is attributable to the recession is a large increase in the rate of polarization.

Another aspect of the U.S. labor market that has changed over the long term is the increasing wage gap between college- and high school-educated workers. This gap has grown more dramatically for men than it has for women. Not only do the college-educated earn more, but they enjoy better working conditions and more-generous benefits. Meanwhile, male earnings growth from 1973 to 2009 has been lackluster, except among those with graduate degrees.

Autor identifies two major forces driving job opportunity polarization. The first is technological change, with work-

ers being replaced by machines, creating demand for fewer, more-skilled workers to run and repair the machines. The second is trade, the staggering magnitude of growth in imports from China of goods that had been produced in the United States by U.S. workers. Autor refutes the assertion that his findings suggest a need for trade restrictions, but says rather that the trend deserves analysis and suggests a need for more-skilled U.S. workers in non-manufacturing jobs.

### The future of middle-class jobs

Harry Holzer<sup>5</sup> provides a similar perspective to that of Autor, but with some important departures. He questions whether the sharp polarization of job opportunities, with middle-skill workers hit hardest, is as extreme as many say it is. Holzer counters that although there has been a decrease in routine-task-production and clerical middle-wage jobs (which historically have been done by high school graduates), a large middle remains and it comprises a growing group of well-paying jobs.

Looking at long-term trends, Holzer asserts that measurement issues may contribute to differences of opinion, but in his analyses he sees that the middle has not diminished so much as it has evolved since 1980. The “new middle” involves more non-routine tasks and requires more skills and postsecondary education or training. Occupations that have grown in opportunity and wages include construction crafts, health technician, electrical/electronic technician, maintenance and repair (e.g., mechanical, information technology), and legal or protective services.

Touching on the policy implications of his findings, Holzer notes that recognizing the changes in job opportunities and skills that are in demand is essential to addressing the problem facing many less-educated and lower-skilled workers. He cites rigorous studies showing that Career Academies, Opening Doors, and I-BEST, among others, are effective for many workers and that administrative data support these claims. One caveat is that these college-only strategies do not address the needs of disadvantaged and displaced workers, for whom other responses should be developed.

### Commentary

Susan Houseman<sup>6</sup> observes that Autor and Holzer are largely in agreement about polarization of job opportunities, though they differ in emphasis.<sup>7</sup> She concurs with Autor that automation and trade are important causes of polarization, but also notes that, until recently, many studies have found only modest effects of trade on employment and wages, concluding that methodology may be responsible for these findings. The measurement of trade pressures generally uses one of two criteria: changes in relative prices of imports versus domestic products, or changes in import shares, which likely leads to understatement of trade’s true effects. Import price indexes do a poor job of capturing price changes when exporters to the United States and the goods they supply are unstable over time, and nominal share growth understates quantity share growth most in industries where import competition is greatest.

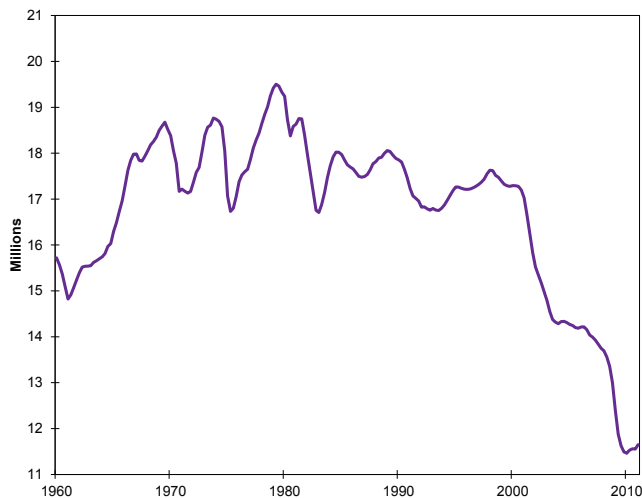


Figure 1. Manufacturing employment, 1960–2010.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Houseman points out that an examination of manufacturing employment jobs from 1960 to 2010 reveals a striking change during the recession of 2001: the typical rebounding of jobs after a downturn did not occur; manufacturing jobs continued to diminish, as shown in Figure 1. Therefore, it is plausible that trade would have had a significant effect on employment, especially manufacturing occupations, in the last decade. She notes that Autor, Dorn, and Hanson find that China accounts for 40 percent of manufacturing-employment loss with spillover effects on labor force participation rates,<sup>8</sup> and that their findings are consistent with those of Bernard and colleagues.<sup>9</sup>

What can policy do? Certainly increasing college attainment, especially in STEM (Science, Technology, Engineering, and Mathematics) will help; however, Houseman shares Holzer’s concern that having college attainment be the prescription for everyone is inappropriate. A large fraction of persons entering college never complete a degree, and a sizable fraction of degree-earners take jobs that do not require a degree. Houseman asks, Why do college graduates tend to earn more—is it a sheepskin effect or do they really have superior skills? There is the question of the distinction between didactic versus experiential learning. If the latter is indeed more effective, that would argue for greater emphasis on vocational education, internships, and apprenticeships and against mandatory college-preparation curriculum for all high school students.

Will job opportunity polarization continue? The past may not be a good predictor of the future. There does not seem to be a high correlation between offshoring and skill levels of jobs; for example, many high-level engineering jobs are being offshored. Another important consideration for the future is whether debates should focus on job polarization and inequality or on stagnant or declining incomes for a broad spectrum of the population. Increasing educational attainment is seen by many not only as a policy to address poverty,

but also as a policy to improve the global competitiveness of the U.S. workforce.

## Building the human capital needed for labor market success

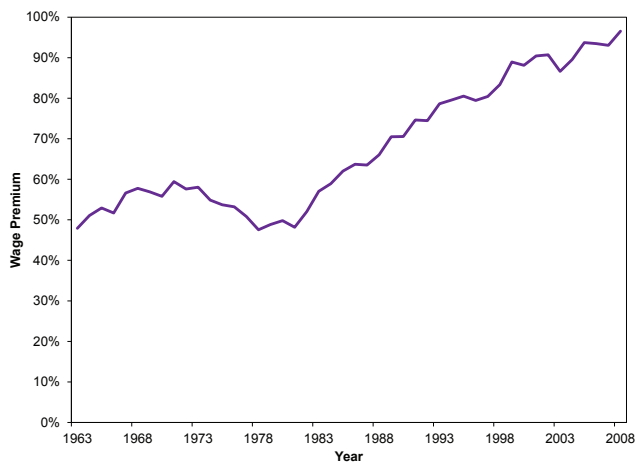
This session of the conference examines how to address the labor market polarization discussed in session one; define who are the winners and losers in the changing demands of employers and the changing education, skills, and training of workers; and explore how success can be increased for both the non-college-educated and the college-educated worker in response to changes in the labor market.

### Ability and success: Can colleges improve student outcomes?

James Rosenbaum<sup>10</sup> sees three recent revolutions in higher education: the labor market demand for the skills workers acquire in college, the huge growth in community college attendance, and more-open access to higher education. National data show that 89 percent of high school students plan to earn a bachelor’s degree and 80 percent of them enter college; however, a much smaller percentage of them actually succeed. In looking for approaches that work, especially for low-achieving students, Rosenbaum expands his view to include not only the individual student’s ability but also the ability of existing institutions to successfully educate nontraditional students. Institutional demands often determine students’ results. He asserts that as long as traditional four-year college procedures are used with nontraditional students, many disadvantaged students will continue to fail.

Community colleges and occupational colleges are two alternative routes that Rosenbaum has found to be effective with disadvantaged students. While 37 percent of community college students earn an associate’s degree in eight years, the rate jumps up to 71 percent if only students with a high grade-point average in high school are counted. Occupational colleges, on the other hand, have a 57 percent success rate, with 20 percent more students than those at community colleges earning an associate’s degree within eight years. Rosenbaum states that private occupational colleges have their flaws, but there is something public two-year and community colleges might learn from their success.

What works in occupational colleges’ approach includes putting all students on degree ladders—from certificates to associate’s degree to bachelor’s degree—so they know what they are working toward and how long it will take to get there and they earn quick credentials that lead to good jobs along the way to a bachelor’s degree. They also frontload success and backload obstacles; first courses are easy, engaging, and career relevant, then remedial courses are required and they are often integrated more with general education courses. Occupational colleges mandate advising and monitor students’ progress; help students who are slipping; and guide their job placement process. They provide “package



**Figure 2. College-to-high school weekly wage premium, 1963–2008.**

**Source:** The College Board, *Education Pays 2010*, Figure 1.7a, from D. Autor, 2010, *The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings*, Center for American Progress and the Hamilton Project.

deal” degree programs where the details of requirements are handled by the school, which is helpful to nontraditional students who have other obligations and demands on their time.

### Do collegiate resources matter?

Sarah Turner<sup>11</sup> focuses on bachelor’s degree attainment as one aspect of the postsecondary education landscape. While there has been a huge increase in the wage premium from high school diploma to college degree since the early 1960s (see Figure 2), the supply of skilled workers has not kept pace with the demand in the economy. Another notable trend is that the rate of college completion for men has dropped below that of women. So what is responsible for the lack of degree attainment, despite the demand for skilled workers? Academic difficulties, personal tastes (aversion to college), personal circumstances, and financial constraints (including credit constraints and rising college costs) are major impediments. An increase in student employment also contributes to lower completion rates. A big piece of what’s going on is that resources per student are stratified.

Exploring college choice in an effort to understand the failure to earn a degree, Turner hypothesizes about potential barriers to application, including failure to understand net price (which can differ appreciably from “sticker price”); poor understanding of expected benefits; insufficient guidance on application strategies; and barriers to receiving fee waivers. Policy, meanwhile, is shifting from access to attainment.

The need for more highly skilled workers is colliding with a weak economy and huge fiscal pressures that are leading to reductions in the share of government resources being devoted to postsecondary education. A risk here would be for public college and university leaders to respond to the dilemma by diluting the quality of a degree.

## Commentary

Richard J. Murnane<sup>12</sup> remarks that James Rosenbaum’s analysis of effective occupational college approaches begs the question of why more community colleges don’t adopt some of these effective practices. This is especially relevant given that the majority of first-generation students attend community colleges and because loan defaults are concentrated among students attending proprietary occupational colleges. A major policy challenge is finding ways to increase the effectiveness of the education system in preparing a labor force with skills well matched to labor force demands, and to do so in a way that increases rather than diminishes equality of educational opportunity. Rosenbaum and Sarah Turner concur on this point.

Murnane identifies the elements of a promising strategy to increase the educational attainments of young Americans, including stimulating the supply of programs that give students in-demand skills; doing more to inform students who enroll in particular programs of the payoffs of completion; providing choice among programs but not among courses; and offering career counseling and placement assistance.

## Aligning policy to address the problem of lower-wage workers

Presenters in this final session examine possible policy options to address the growing challenges for lower-wage workers and the increasing need for skilled workers. The views expressed were quite different in both perspective on the problems and their proposed remedies. The final commentary made an economic case for intervention in the low-wage labor markets.

### Is education reform the only answer?

Douglas Holtz-Eakin<sup>13</sup> focused on policy recommendations rather than citing research findings. He began by calling the federal budget outlook “horrific,” noting that the rising costs of “legacy” programs of the past such as Medicaid and Medicare are crushing discretionary programs in which an investment in the future might be made. In stark terms, the promises to the past are hampering the government’s ability to prepare for the future. Holtz-Eakin asserts that we need to think of the United States globally, not as an island, because many of the trends affecting us are global.

As for solutions to the problems facing lower-wage workers, he asked where action should be taken, at the federal or the state level. Education reform is needed, the K-12 system is clearly broken, and Holtz-Eakin doubts spending more money will fix the problems. He also criticized the unemployment and training system and expressed a need to spend money on “true investments” rather than transfers (such as Unemployment Insurance). If this is not done, he forecasts that unemployment will last even longer than it already has. An alternative course that Holtz-Eakin recommends is a



reduction in corporate tax rates so that the business sector invests more and creates jobs.

### How recessions affect lower-wage workers and policy implications

Till von Wachter<sup>14</sup> notes that during a recession, job losses and early labor market conditions affect some workers more than others and in different ways. His recent analysis of middle-skilled job losers shows they suffer lasting losses while low-skilled workers suffer only temporary losses. Similarly, middle-tier college graduates entering the labor market during a recession suffer permanent earnings losses while high school graduates and dropouts experience temporary losses. In brief, there are always plenty of low-paying jobs with few nonwage benefits, but middle-tier workers face more and longer-lasting challenges.

Although both groups suffer losses in earnings during an economic downturn, and the families of both groups potentially share in the effects of the loss of income, they have different needs and thus separate policy solutions are needed for each group. For example, while middle-skilled workers are targeted by Unemployment Insurance in the short-term, lower-skilled workers often lack the resources to smooth consumption in the short run.

Job training programs are seen as a possible policy option for workers, but von Wachter notes that establishing program outcomes has been difficult. Some studies have shown that some programs appear to raise employment, but their effect on wages is less clear. Effects of training programs for mature workers are even more difficult to establish. With the lack of strong evidence supporting training programs, von Wachter asks whether policy options that are not focused on labor supply should be considered.

For example, he cites increasing evidence that family resources affect child health and schooling. And the more poverty and inequality are passed on from one generation to the next, the greater the take-up of public assistance programs. There is increasing evidence that low-wage men sign up for Disability Insurance and Old-Age and Survivors Insurance Trust Fund early on in life, and von Wachter posits that wage stagnation might increase lifetime attachment to public programs. Von Wachter points to new research which suggests that inequality and wage stagnation may affect economic growth.

### Commentary

John Karl Scholz<sup>15</sup> made the economic case for intervention in low-wage labor markets, concentrating on two points. First, strong evidence indicates people suffer adverse consequences when they are unable to borrow against their future human capital. Children in poor families are unable to invest efficiently in their own potential, which results in wasted productivity, crime, and stronger intergenerational linkages in poverty. Whether caused by long-term credit constraints (bad home environment and/or bad parents) or by short-run credit constraints in financing college, this market failure

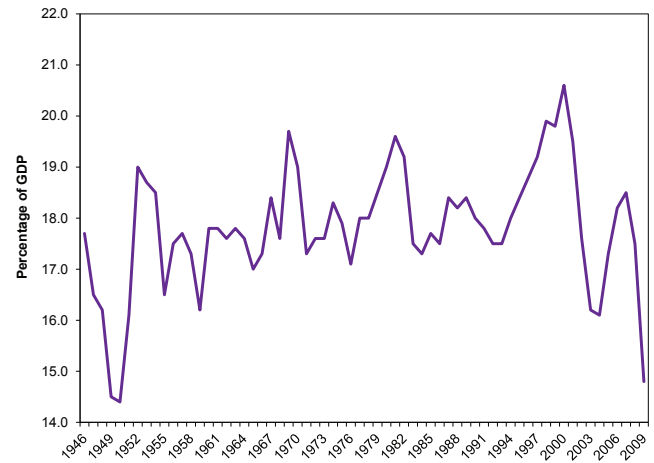


Figure 3. Tax revenue as a percentage of GDP, postwar period.

Source: U.S. Office of Management and Budget, Historical Tables, Table 1.2—Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930–2016. Available at <http://www.whitehouse.gov/omb/budget/Historicals>.

provides a rationale for early childhood interventions, safety net programs, and need-based financial aid.

The second economic case for low-wage labor market intervention rests in the strength of the U.S. economy derived from its flexible labor and capital markets—and the concomitant risks to communities and individuals when the ebb and flow of capital compromises their ability to earn a living. If the majority of people believe the deck is not stacked in favor of the “haves,” then society’s willingness to tolerate the damage caused by capitalism’s “creative destruction” phases will be enhanced. If, however, people see the fallout of economic decline as hurting the most vulnerable members of society who have no control over the forces leading to the consequences they face, then society is more apt to support a government safety net.

What should the safety net “toolbox” contain and how should the programs be funded? Scholz notes his frustration with those who express serious concerns about the deficit and yet ignore taxes. Citing the long-term decline (1946 to 2008, see Figure 3) in percentage of GDP that comes from tax revenue, with 2008 levels lower than they’ve been since 1950, he says that spending on antipoverty programs is also low by historical standards. Evaluations of training programs have shown that job training is no panacea, but there exists evidence of successful programs.<sup>16</sup> Employer-based wage subsidies are another promising option, as is shoring up the safety net, which is especially weak for childless individuals and families in deep poverty.

### Summary and Policy Implications

This IRP conference brought together leading scholars to address important topics on low-skilled, low-wage work—or nonwork. The importance of these issues to poverty research

cannot be overstated. By age 30, 70 percent of American men with a high school degree or less are fathers, and 62 percent of these men earn less than \$20,000 per year. A large number of these men no longer live with their partners and children and owe child support that they are unable to pay due to joblessness or low wages. When the roles of imprisonment and multi-partner fertility are also considered, the current situation is a recipe for social disaster and for a lost generation of young men who cannot find work that pays well enough to support a family or enter the middle class.<sup>17</sup> And the situation is not much better for low-educated women (i.e., with a high school degree or less by age 30).

Structural changes in the labor market suggest that traditional roads from high school to the middle class—in manufacturing and construction—are now largely closed to younger workers. Trade, immigration, and lack of demand all keep these people out of work. At the same time, there is evidence of a growing need for U.S. workers with skill training (but not a college degree) in non-manufacturing jobs.

While there has been a huge increase in the wage premium from high school diploma to college degree since the early 1960s, the supply of skilled workers has not kept pace with the demand in the economy. The overall rate of college completion has stagnated, and the traditionally higher rate for men has dropped below that of women. Increasing educational attainment is therefore seen by many not only as a policy to address poverty, but also as a policy to improve the global competitiveness of the U.S. workforce. But waiting for the formal education system to increase the supply of skilled workers is not working for the non-college bound, and for many who do attend four-year colleges, the road to completion is long and, too often, a dead end.

Unfortunately, for the fast-growing personal service sector, accounting for more than 20 percent of jobs today (retail sales, cashier, customer service, services for the elderly such as nursing home attendants), the very large majority of jobs pay wages that are below \$15 per hour.<sup>18</sup>

While more highly educated workers earn more than those with less schooling, college may not be the best route to stable employment for most low-skill young men and women, especially those whose prior training does not prepare them for four-year college success. Some ‘occupational colleges’ are guiding these young men and women to degrees with mandatory advising and monitoring of students’ progress in skill building; extra supports to students who are slipping; and guidance through the job placement process. We need to develop strategies to increase educational attainment among young Americans, which may include stimulating the supply of programs that give students in-demand skills; doing more to inform students who enroll in particular programs of the payoffs to completion; providing choice among programs designed to produce skills efficiently, and providing career counseling and placement assistance.

In order to meet these goals, both the public sector and employers must play more active roles. Second chance programs for ex-offenders are likely to avoid longer incarceration, the public budget costs of which are very high. Career Academies have succeeded mainly because of the connection that they facilitate between noncollege-bound workers who want to succeed in the labor market and employers who are looking for such employees and are willing to invest in technical training.<sup>19</sup> It may be that reducing corporate tax rates or initiating employer subsidies that are directly tied to employment of younger, lower-skill workers will be required.

Younger children and adolescents from poor families also need help to invest effectively in their own potential and to avoid wasted productivity caused by poor home environments, uninformed choices, or short-run credit constraints. Thus, there is also a strong rationale for early childhood interventions to help today’s younger children avoid the situation that their low-skill parents are now facing.

The way out of poverty is a good job, and in the short run, compensatory education, training, safety net programs, and need-based financial aid can help us achieve these aims. Perhaps now is the time for the nation, with Presidential leadership, to undertake a comprehensive effort to understand the future of work and employment in a new global environment. Such a review needs to address issues of the wage structure, standards of work time and work year, tax policy, mentoring and guidance within two- and four-year colleges, tuition and financial aid plans adopted by colleges, the structure of and public support for a modern K-12 schooling system, and the role of job and skill training programs in the nation’s evolving labor market. Is now the time for a high visibility National Commission on the American Workforce, appointed by the president with Congressional approval?■

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<sup>1</sup>See A. Sum and M. Turbskyy with S. Palma, *The Great Dislocation of 2007–2009 and Its Adverse Impacts on U.S. Workers*, Center for Labor Market Studies, Northeastern University, Boston, MA, April 2011. See also H. S. Farber, “Job Loss in the Great Recession: Historical Perspective from the Displaced Workers Survey, 1984–2010, NBER Working Paper No. 17040, May 2011.

<sup>2</sup>D. Brooks, “The Missing Fifth,” *New York Times*, May 10, 2011, p. A27. Available at [http://www.nytimes.com/2011/05/10/opinion/10brooks.html?\\_r=1&scp=1&sq=Brooks%20%20disability&st=cse](http://www.nytimes.com/2011/05/10/opinion/10brooks.html?_r=1&scp=1&sq=Brooks%20%20disability&st=cse).

<sup>3</sup>D. Leonhardt, “Men, Unemployment, and Disability,” *New York Times*, Economix Blog, April 8, 2011. Available at <http://economix.blogs.nytimes.com/2011/04/08/men-unemployment-and-disability/>.

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<sup>7</sup>S. Houseman, C. Kurz, P. Lengermann, and B. Mandel, "Offshoring Bias in U.S. Manufacturing," *Journal of Economic Perspectives* 25, No. 2 (2011): 111–132.

<sup>8</sup>D. Autor, D. Dorn, and G. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," MIT Working Paper, March 2011. Available at <http://econ-www.mit.edu/files/6613>.

<sup>9</sup>A. B. Bernard, S. J. Redding, and P. K. Schott, "Comparative Advantage and Heterogeneous Firms," *Review of Economic Studies* 74, No. 1 (2007): 31–66.

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<sup>16</sup>H. J. Holzer, "Better Workers for Better Jobs: Improving Worker Advancement in the Low-Wage Labor Market," Brookings Hamilton Project Discussion Paper No. 2007-15, Brookings Institution: Washington, D.C., 2007.

<sup>17</sup>T. Smeeding, I. Garfinkel, and R. Mincy, Introduction to "Young Disadvantaged Men: Fathers, Families, Poverty, and Policy," special eds. Smeeding, Garfinkel, and Mincy, *The Annals of the American Academy of Political and Social Science* 635 (May 2011): 6–21.

<sup>18</sup>L. Damme, "A Future of Low-Paying, Low-Skill Jobs?" New America Foundation Web site, May 23, 2011. Available at [http://newamerica.net/publications/policy/a\\_future\\_of\\_low\\_paying\\_low\\_skill\\_jobs](http://newamerica.net/publications/policy/a_future_of_low_paying_low_skill_jobs).

<sup>19</sup>J. Kemple with C. J. Willner, *Career Academies' Long-Term Impacts on Labor Market Outcomes, Educational Attainment, and Transitions to Adulthood*, MDRC, New York, NY, June 2008.

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