



*The Institute for Research on Poverty (IRP) at the University of Wisconsin–Madison, in collaboration with the Center for Health and Social Policy (CHASP) at the University of Texas at Austin, launched a major research initiative, “Building Human Capital and Economic Potential,” in late 2012 (see <http://www.irp.wisc.edu/research/humancapital.htm>) to enhance our understanding of how policies and programs can build economic self-sufficiency by increasing labor market skills, employment, and earnings, particularly among low-skilled and disadvantaged populations. This initiative, generously supported by the Smith Richardson Foundation and the Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, culminated in a three-day conference that was held in Madison, Wisconsin, July 16–18, 2014.<sup>1</sup> This Fast Focus issue describes the key themes and research undertakings in this initiative, the findings presented, and some of the policy ideas advanced at the conference. Two briefs that go into greater detail about the policy ideas will soon be available on IRP’s and CHASP’s websites.*

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## Building human capital and economic potential

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Employment is the primary pathway out of poverty for most non-elderly adults, yet cyclical and longer-term structural economic changes have reduced employment and wages for many workers, particularly those in low- and middle-wage labor markets. Even though the unemployment rate is no longer rising in the aftermath of the Great Recession, widespread concern persists about the labor force participation rate, which is at its lowest levels since the late 1970s. Furthermore, more people are working part-time because they cannot find full-time jobs, and much of the recent increase in hiring has been concentrated in low-wage fields. Stagnating wages and lower employment levels exacerbate income inequality and have worsened the life chances of children born to low-educated parents.

These economic and labor market trends and their implications for policies and programs to help families achieve economic self-sufficiency were examined at a recent conference on “Building Human Capital and Economic Potential.” This brief explores the event’s papers and discussion, and the final conference commentary, which emphasized policy recommendations.

### Changing labor market conditions and employment opportunities

In the opening conference session, Jesse Rothstein addressed the central question of whether cyclical changes (that reduce labor demand) or structural changes (that shift demand away from particular low- or middle-skill groups) account for continuing depressed employment levels and anemic wage growth, particularly among low-skilled workers.<sup>2</sup> He noted the gravity of the recent recession, particularly the significant drop in employment among teenagers and young adults. His findings suggested that employer demand for low-skilled workers has not declined more rapidly than in other recessionary periods, and that policy responses should focus on increasing aggregate labor demand.

Importantly, although human capital investments won’t help solve our short-run demand problems, Rothstein pointed out

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that if we fail to respond adequately, the problems will impede human capital accumulation by limiting work opportunities for those least attractive to employers. His analysis also suggested that the current labor demand shortage may be influenced by longer-term structural changes that might require workers to pursue additional schooling and training.

### **Effects of labor market changes on families**

David Autor's work with colleagues David Dorn and Gordon Hanson goes further in exploring the potential longer-term consequences of limited labor market opportunities for low-skilled and disadvantaged populations.<sup>3</sup> They used local labor market shocks, identified with cross-industry and local labor market variation in import competition, to assess the effects of changing labor market opportunities on men's and women's employment, earnings, marriage rates, fertility, and nonmarital births.

They found that trade shocks increase the number of children living in single-parent households, with more children born to teen mothers and more men never marrying. These effects were especially strong for young black males. Although the impacts of trade shocks on family structure in the aggregate are not large, they are substantial among the low-educated and low-income population and significantly increase the number of children living in poverty.

New research by Marianne Page and Xiaohan Zhang also addressed the effects of economic changes—cyclical variation in economic conditions over nine recessions and across the 50 states, dating back to 1934—on the next generation.<sup>4</sup> They examined the relationship between individuals' labor market outcomes and the health of the local economy at conception and other stages of childhood. Although existing arguments and evidence suggested that economic downturns may negatively affect children's long-term chances for economic success, they found very small effects on children's eventual educational attainment, wages, income, and work. Discussion of these findings at the conference focused on the possibility of offsetting effects in recessionary periods, such as changes in family structure or the number of siblings, which might have mitigated the anticipated negative effects.

### **Changing employment arrangements and job quality**

In two separate examinations of declining job quality, Flavio Cunha, and Marcus Dillender with Carolyn Heinrich and Susan Houseman explored labor market and policy changes that are contributing to stagnating wages and increasing use of part-time, temporary, and short-hours work arrangements.<sup>5</sup> Cunha's research was motivated by the observation that fewer mothers are working, and that this is particularly true of low-income single mothers, for whom additional earnings could have important beneficial effects for their children. He assessed whether the jobs available to less-educated mothers, which increasingly have unattractive attributes such as limited and inconsistent hours and low wages, are discouraging their employment. Cunha estimated (in simulations of mothers'

labor supply) that women's reduced work hours due to volatile and unpredictable work schedules (that make it difficult for them to balance work and family) significantly reduce their human capital accumulation over time.

Dillender and colleagues point out that the employer mandate in the Affordable Care Act (ACA), which aims to raise compensation for low-income workers and improve their access to health care benefits, could potentially have the unintended consequence of exacerbating these job quality problems. Employers may sidestep the mandate by shortening hours, hiring more temporary or on-call staff, or outsourcing to small firms not covered by the mandate. They estimate that up to 7 million workers—particularly the less-skilled—or approximately 5 percent of the workforce, are vulnerable to these policy changes, and that potential effects on staffing arrangements are highly uncertain.

Our understanding of the ACA employer mandate continues to evolve, as does the interpretation of the law, and near-term responses of employers will also depend partly on the future tightness of the labor market and other economic conditions such as inflation. Cunha's analysis also pointed to the need for modifications to the Fair Labor Standards Act (FLSA), which has no provisions or protections for workers in regard to the scheduling of employee work hours (outside of child labor provisions).<sup>6</sup>

## **Supporting low-income families and their efforts to become self-sufficient**

As Richard Murnane reflected at the conference, public policies profoundly affect low-income families, and income support programs are particularly important in helping to mitigate the effects of poor labor market conditions and the instability of low-wage work on low-skilled and low-educated families.<sup>7</sup> Over the past several decades, antipoverty policies and public welfare benefits have transformed from primarily providing guaranteed income supports to a work-based safety net. A number of researchers at the conference considered the effectiveness of both existing and prospective income, employment, and other safety net strategies and policies for supporting low-income families while helping them build human capital or get a toehold in the labor market.

### **The role of income supports in low-income families' human capital development**

The Earned Income Tax Credit (EITC) combined with the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) have been among the most important policies working to reduce the risk of child poverty. Bradley Hardy, Timothy Smeeding, and James Ziliak examined trends in spending on the work-based safety net, which were increasing long before the Great Recession, and confirmed that noncash benefits and refundable tax credits perform well in reducing poverty.<sup>8</sup> Arguing that earnings alone are insufficient to raise incomes above the poverty line in the

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current labor market, they noted that other sources of support are needed to keep families with children from poverty. They also reported that the joint use of SNAP and the EITC increased dramatically since 2000 and that, together, these programs encourage work and provide important income support that compensates for low wages and part-time or reduced work hours.

There is also growing evidence of strong linkages between earnings supplements for working parents and their children's educational and labor market outcomes. Along these lines, Dayanand Manoli and Nicholas Turner studied the potential use of the EITC as a tool for providing timely income support (i.e., financial aid) to encourage college enrollment among children of EITC recipients.<sup>9</sup> The authors used abrupt shifts in the EITC benefit and tax schedules that affect the size of tax refunds to examine how a large increase in tax refunds is spent by families. They found that a \$1,000 increase in tax refunds received in the spring of a child's high school senior year increased college enrollment by 1 to 3 percent. Although the EITC is not designed to decrease credit constraints for students seeking to attend college—and may not be the best way to do so, as Susan Mayer suggested—their results highlight another potential positive externality regarding the ways that the EITC may contribute to human capital accumulation.<sup>10</sup>

Laura Tach, Sarah Halpern-Meekin, and Kathryn Edin also considered the potential role of the EITC in promoting human capital development by exploring its possible use in paying for higher education among EITC recipients.<sup>11</sup> They drew on tax-time surveys completed with more than 300 low-income tax filers and 115 in-depth interviews with families to understand their use of EITC tax refunds. They found that more often than not, the EITC was not used to fund recipients' higher education. This contrasts with the findings of Manoli and Turner above, possibly suggesting that EITC recipients' use of the benefit to fund their own postsecondary education may differ from the decisions they make for their children. Despite the aspirations among many of these individuals for additional education, they were often constrained by debt and financial hardship; participants in their study also described the uncertain payoffs of educational investments. Furthermore, the EITC was often seen as a reward for work. Tach and her colleagues considered the possibility of revisions to the EITC to encourage greater educational investments, such as an altered EITC schedule for students, a capped match for using the EITC for education expenses, and maximum refunds for those enrolled in higher education.

### **Increasing employment and labor demand**

In addition to the EITC, a number of different strategies for better supporting low-income families in their efforts to increase their self-sufficiency were investigated by David Neumark.<sup>12</sup> If an important current concern is slack labor demand, as Rothstein's work suggests, and employers take advantage of the EITC to increase hiring at lower wages,

there may be other policy options for producing job gains that will be less costly. In particular, Neumark looked closely at the more recent evidence on strategies that offer subsidies to employers through hiring credits. He found that state hiring credits that target the unemployed and include a recapture provision (that compels payback of the credit if job creation goals are not met) are among the most promising in increasing employment.<sup>13</sup> He also found some limited evidence of positive effects of the use of TANF Emergency Funds in increasing employment among the long-term unemployed.

Neumark's work spurred discussion about whether expanding the EITC for childless adults is a viable policy option, or whether a broader scaling up of a program like New Hope—which offered earnings supplements and child care to full-time workers in high-poverty areas—may provide better support for low-income families. Such a package of supports could be particularly beneficial to low-income single mothers working in part-time jobs with highly variable hours, as described by Cunha, Dillender, and colleagues, as well as Tach and colleagues.

Both David Neumark and Arindrajit Dube discussed whether increasing the minimum wage would be an effective strategy for helping low-income families.<sup>14</sup> Neumark argues that because the minimum wage targets low-wage workers rather than low-income families, the benefits of a minimum wage increase in reducing poverty among low-income families would come at the cost of reducing their employment to some extent; he is particularly concerned about longer-run effects of pricing young, low-skilled individuals out of the labor market. Dube alternatively finds that while a higher minimum wage would moderately reduce the share of individuals with incomes below 50, 75, and 100 percent of the federal poverty line, the most definitive effects of an increase in the minimum wage would benefit those at the lower end of the income distribution (i.e., at the 10th and 15th percentiles).

### **Helping the hard-to-employ**

There was general consensus at the conference that labor market conditions are becoming even less favorable for low-educated, low-wage workers, and that no single policy option would alone provide sufficient additional support for families. However, there was also agreement that a gradual increase in the minimum wage, combined with other short-term policy efforts to incentivize employer hiring and increase aggregate labor demand could help assuage potential detrimental effects on the employment prospects of the lowest-educated and other hard-to-employ workers.

Dan Bloom's work evaluating a wide variety of demand- and supply-side programs and policies to aid the hard-to-employ confirms just how challenging it is to help those with the most significant barriers to work to get a toehold in the labor market and maintain employment.<sup>15</sup> His research examined programs that attempt to affect employment outcomes by

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helping job seekers (e.g., increasing their employability, skills, and motivation) and by helping to make connections between prospective workers and employers as well as influencing employer hiring decisions (e.g., transitional-jobs programs). Overall, the evidence he presented shows limited or small effects of these programs with regard to improving the employability and labor market outcomes of the hard-to-employ, although there is more evidence of success for women than for men.

Bloom highlighted New Hope, which offered subsidized community service jobs to those who could not find employment and showed (in a random assignment evaluation) positive effects on employment, income, and children's well-being, as a notable exception to this pattern. However, he and others acknowledged the difficulties encountered in scaling up effective programs of this type. The rapid scaling up of programs such as Year Up and Career Academies might be more closely watched not only for evidence of their continued success and the role of employer involvement and job guarantees for those who complete training programs, but also for lessons on how to take these programs to broader scale (in terms of size and geography) and at an affordable cost.

## **Building human capital among youth and young adults**

The declining economic prospects of many low-skilled workers and the increasing volatility of the low-wage labor market also raise questions of how programs intended to build human capital (e.g., career and technical education), in combination with a work-based safety net, can bolster the employment and economic well-being of workers and their families. The wages received by those entering the formal labor market with modest levels of human capital are low—indeed, for men, below where they were in the 1970s in real terms—and there is no evidence to suggest that earnings growth alone will be sufficient to raise incomes for those below or near the poverty line. This suggests that education and training are likely to be a necessary part of any effort to improve the economic stability and well-being of low-wage workers, over and above the role of complementary income support programs.

### **Overhauling career and technical education**

Although there is little disagreement with the idea that there are potential benefits for individuals and society from greater investments in human capital, limited resources necessarily constrain the scope and liberality of such efforts. At the same time, research presented at this conference suggests that there is more that can be done with existing resources to more effectively build human capital, particularly among youth and young adults in low-income households. As Richard Murnane commented, this is going to require better connecting low-income students to the world of middle-class jobs and overhauling community colleges. Indeed, Robert

Lerman's research shows that although the United States spends more heavily on education, it does far less well than its peer countries in providing high-quality occupational training for young people and in blending vocational and on-the-job training at younger ages.<sup>16</sup>

In addition, a growing body of research points to the importance of offering young people, particularly low-income and disadvantaged youth who might otherwise drop out of high school, education and training opportunities that they see as relevant to their future job prospects and that provide a career context for learning. Work presented by Kevin Stange and Daniel Kreisman pointed out that career and technical education (CTE) versus a more academic focus is not a “binary” choice—that is, most students balance CTE course-taking with other academic courses in high school—and curriculum choice is part of a continuous learning process in which students gain information on their capabilities that is revealed over time through course-taking.<sup>17</sup>

Their research findings confirm a growing concern that an exclusive focus on improving academic rigor in U.S. high schools can constrain choices of the non-college bound (who generally take more vocational courses) and reduce their gains from education. They presented evidence that high school vocational course credits are positively related to wages, particularly for those with a high school degree. Furthermore, they showed that vocational course-taking did not reduce high school completion or college performance for those who enrolled in postsecondary education.

Shaun Dougherty's research explored some of these issues in greater depth in the context of Massachusetts's regional vocational technical school (RVTS) programs, which are distinguished from some other CTE efforts by their formal public-private partnerships aimed at developing program offerings that mirror demand in the labor market.<sup>18</sup> Dougherty found CTE to be more effective at increasing student graduation rates in RVTS than in traditional “comprehensive” schools, and his work also provided a window into some of the facets of CTE in RVTS that make a difference. For example, CTE programming in RVTS is not just about a different curriculum; students often work with the same teachers over multiple years, and concentrate intensively on CTE by alternating weeks of CTE courses with weeks of more traditional academic coursework. The quality of program infrastructure is also important, and RVTS programs have some potential advantages with regard to autonomy in budget expenditures. Dougherty's work raises the question of whether the RVTS model should be more widely adopted for CTE in high schools.

### **Employer-led training**

Lerman also addressed the lack of CTE and work-based learning opportunities for youth, particularly in the face of declining work experience as today's youth are less likely to be accumulating valuable workplace skills from employment

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(due to high youth unemployment rates) than in the past. He points out that employer-led training helps to address these gaps between what one learns at school and how this knowledge is applied at the workplace in the context of a given occupation. He also argues that the relatively high returns to employer-led training have been largely ignored in public policy, with very little government involvement in coordinating its provision and supporting it with technical assistance or other resources.

At the conference, Lerman focused, in particular, on apprenticeships as one category of employer-led training that has received little formal attention in the United States, despite the urging of international nongovernmental organizations to expand apprenticeships as a way of dealing with high youth and young adult unemployment, as has been done in other countries. He cited recent research showing very high returns to U.S. apprenticeship programs in several states, in which employers are quickly recouping their investments and generating positive spillovers in the labor market. Lerman also pointed out that the expansion of apprenticeships at low cost is feasible. He calculates that the United States could generate about 4 million apprenticeships, or 10 times the current number of apprenticeships, at about one-fourth the cost of current spending on Pell grants. He also argues for extending Pell grants and other subsidies for postsecondary education and training to cover apprenticeship opportunities.

### **Improving postsecondary education outcomes**

A considerable part of the conference discussion around these issues turned toward how we can improve the community college system, the primary system through which the bulk of young people seek to increase their skills and improve their employment opportunities. Michal Kurlaender and Ann Huff Stevens used administrative data from California—which is home to the largest community college system in the United States, and in which two-thirds of all California college students go for postsecondary education—to investigate the returns to specific vocational certificates and degrees.<sup>19</sup> Overall, they found positive and often substantial returns to vocational education, although the returns varied widely across the four categories of degrees awarded (ranging from associate of arts/sciences degrees to 6- to 18-credit certificates) and CTE fields. The higher returns to vocational education observed for women were driven almost entirely by the awarding of degrees in health-related fields. Men tended to concentrate more heavily in public and protective services, where returns were lower. Outside of the health occupations, returns tended to be larger for shorter-term certificates, with many returns in the neighborhood of 10 percent.

Harry Holzer, with colleagues Benjamin Backes and Erin Dunlop Velez, drew on administrative data from Florida, including K-12 and postsecondary education and earnings (before, during, and after higher education), which also allowed for in-depth analyses of economic returns to alternative postsecondary education options.<sup>20</sup> They reported

strong returns to enrollment in technical fields at all levels, and particularly so for health, business administration, and legal pursuits. The lowest returns tended to be for those taking humanities courses, which may be driven by students who were planning to transfer to four-year colleges but didn't make the transition due to basic skills deficits (that should have been remediated at the secondary education level) or financial constraints. In general, the authors concluded that the program or field of study choice mattered greatly for college completion and earnings, and that economically disadvantaged students were faring more poorly in the postsecondary education system than their more advantaged counterparts.

The similarities among these two sets of findings raised a number of questions about how we can provide more useful information to both students and college advisors about the returns to educational choices, which might better direct students toward higher-return programs (factoring in their preferences and existing skills). Katharine Abraham suggested a policy change that would incorporate counseling on college course-taking and program selection as a requirement for receipt of federal financial aid, in order to ensure that students get better guidance at the start of their postsecondary education.<sup>21</sup> Both she and Harry Holzer argue that there is also a need to provide stronger incentives for educational institutions to generate information on program outcomes and make it available to students seeking to attend their programs. Holzer suggested performance-based subsidies for student completion and earnings in order to make both institutions and individuals more responsive to labor market opportunities and needs. Katharine Abraham also mentioned the importance of having mechanisms in place that could direct more funding to the more effective programs or those in higher demand.

### **Concluding thoughts**

Both short- and long-term changes in the economy have made life more challenging and may have worsened the life chances of children in low-income, low-educated households. The length of the Great Recession and ongoing tepid labor demand (five years after the recession's official end) have complicated our policy efforts to provide adequate support for low-income families and improve their human capital and labor market opportunities.

The research and policy discussions at the "Building Human Capital and Economic Potential" conference generated both ideas and questions about the policy directions we should pursue. There was substantial consensus that we need to improve coordination among high schools, community colleges, and employers in order to increase the effectiveness of our human capital building efforts.

Experimentation with raising the minimum wage is already occurring across states and localities, and this will help us

to understand the cost of policies that generate higher take-home pay for low-income workers. The concerns raised about job quality—and particularly low-wage, limited hours, part-time, and temporary employment arrangements that are increasingly used by employers—will require further investigation and forward thinking. Outside of modifying fair labor standards laws, are there other ways to discourage the use of these arrangements, which leave workers and families with unpredictable work schedules and uncertain total compensation? One recently introduced bill, the Schedules that Work Act, proposes to address this issue by giving employees greater rights in requesting changes to their work schedules, and in certain industries, more predictable and stable schedules.<sup>22</sup>

Finally, whereas the research at this conference demonstrated the important role that the EITC and SNAP have played in supporting work and providing a safety net for low-income families, there are policy innovations coming to light or in the early stages of testing about how to more effectively help more of the near poor and hard-to-employ. Questions were raised about the potential benefits of expanding the EITC to childless adults, which has been recommended in the President's 2015 budget and other recent congressional proposals. Most of these proposals would lower the age of eligibility and raise the maximum credit, which should increase its effectiveness at bolstering employment and reducing poverty.

In two separate policy briefs that draw from the work of the researchers and conference participants that we featured here, we further consider some of the most promising policy ideas and solutions to flow from the “Building Human Capital and Economic Potential” initiative.<sup>23</sup> ■

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University of California, San Diego, where he is director of the Center on Emerging and Pacific Economics, and he is a research associate at the National Bureau of Economic Research.

<sup>4</sup>Marianne Page is a professor of economics at the University of California, Davis. Xiaohan Zhang is a doctoral candidate in the economics department at the University of California, Davis.

<sup>5</sup>Flavio Cunha is an associate professor of economics at Rice University. Marcus Dillender is an economist at the W. E. Upjohn Institute for Employment Research. Carolyn Heinrich is Sid Richardson Professor of Public Affairs at the Lyndon B. Johnson School of Public Affairs, Affiliated Professor of Economics, and director of the Center for Health and Social Policy at the University of Texas at Austin. Susan Houseman is a senior economist at the W. E. Upjohn Institute for Employment Research.

<sup>6</sup>See <http://www.dol.gov/elaws/faq/esa/flsa/015.htm>.

<sup>7</sup>Richard Murnane is Juliana W. and William Foss Thompson Professor of Education and Society, Harvard Graduate School of Education.

<sup>8</sup>Bradley Hardy is an assistant professor in the public administration and policy department of American University. Timothy Smeeding is Arts and Sciences Distinguished Professor of Public Affairs at the University of Wisconsin-Madison. James P. Ziliak is Professor and Carol Martin Gatton Endowed Chair in Microeconomics, in the Department of Economics, University of Kentucky, Lexington.

<sup>9</sup>Dayanand Manoli is an assistant professor of economics at the University of Texas at Austin. Nicholas Turner is a financial economist in the Office of Tax Analysis, U.S. Department of the Treasury.

<sup>10</sup>Susan Mayer is a professor at the Irving B. Harris Graduate School of Public Policy Studies and the College at the University of Chicago.

<sup>11</sup>Laura Tach is an assistant professor in the College of Human Ecology at Cornell University. Sarah Halpern-Meekin is assistant professor in the Human Development and Family Studies Department at the University of Wisconsin-Madison. Kathryn Edin is Bloomberg Distinguished Professor at Johns Hopkins University.

<sup>12</sup>David Neumark is a professor of economics and director of the Center for Economics and Public Policy at the University of California, Irvine.

<sup>13</sup>David Neumark explains in his paper that recapture mechanisms lead to more effective credits, by either enforcing job creation goals or by encouraging only firms that could actually meet those goals to apply for credits.

<sup>14</sup>Arindrajit Dube is an associate professor of economics at the University of Massachusetts Amherst.

<sup>15</sup>Dan Bloom is director of the Health and Barriers to Employment Policy Area at MDRC.

<sup>16</sup>Robert Lerman is an institute fellow in labor and social policy at the Urban Institute and professor of economics at American University.

<sup>17</sup>Kevin Stange is an assistant professor of public policy at the Gerald R. Ford School of Public Policy at the University of Michigan. Daniel Kreisman is an assistant professor of economics in the Andrew Young School of Policy Studies at Georgia State University.

<sup>18</sup>Shaun Dougherty is an assistant professor of education leadership and policy at the Neag School of Education at the University of Connecticut.

<sup>19</sup>Michal Kurlaender is an associate professor in the School of Education at the University of California, Davis. Ann Huff Stevens is a professor of economics and the director of the Center for Poverty Research at the University of California, Davis.

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<sup>22</sup>See <http://www.clasp.org/resources-and-publications/publication-1/schedules-that-work-act-CLASP-3.pdf>.

<sup>23</sup>The policy briefs will be available by mid-October 2014 on the websites of IRP (<http://www.irp.wisc.edu/research/humancapital.htm>) and CHASP (<http://www.utexas.edu/lbj/chasp/>).

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