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Connecting the Disconnected: Improving Education and Employment Outcomes Among Disadvantaged Youth

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ABSTRACT

Connecting the Disconnected: Improving Education and Employment Outcomes Among Disadvantaged Youth

In this paper we will briefly review recent trends in employment outcomes for disadvantaged youth, focusing specifically on those who have become "disconnected" from school and the labor market, and why these trends have occurred. We then review a range of policy prescriptions that might improve those outcomes. These policies include: 1) Efforts to enhance education and employment outcomes, both among in-school youth who are at risk of dropping out and becoming disconnected as well as out-of-school youth who have already done so; 2) Policies to increase earnings and incent more labor force participation among youth, such as expanding the eligibility of childless adults (and especially non-custodial parents) for the Earned Income Tax Credit (EITC); and 3) Specific policies to reduce barriers to employment faced by ex-offenders and non-custodial parents (NCPs). We also consider policies that target the demand side of the labor market, in efforts to spur the willingness of employers to hire these young people and perhaps to improve the quality of jobs available to them.

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I. Introduction

Even before the Great Recession began at the end of 2007, employment outcomes among disadvantaged and/or less-educated youth, and especially young men, had been deteriorating over time. Both their levels of earnings and their employment and labor force participation rates had decreased for a few decades. Among young black men, the declines in employment and labor force activity have been particularly pronounced, while their rates of incarceration have risen dramatically. As a result, the fractions of these young men who are “disconnected” from school and work have risen.

Unfortunately, the Great Recession appears to have worsened these outcomes. Since 2007, employment rates have declined the most among young, less-educated and/or minority men – in other words, mostly the same groups whose employment and earnings had already been worsening earlier. The recession has not only been severe but also very persistent, with relatively little labor market recovery observed nearly five years after it began. Therefore, the worsened employment outcomes we see for disadvantaged youth will last for many years, potentially leading to “scarring” – in terms of permanently lower earnings in the future – for many young people.

In this paper we will briefly review recent trends in employment outcomes for disadvantaged youth, focusing specifically on those who have become “disconnected” from school and the labor market, and why these trends have occurred.

We then review a range of policy prescriptions that might improve those outcomes. These policies include: 1) Efforts to enhance education and employment outcomes, both among in-

school youth who are at risk of dropping out and becoming disconnected as well as out-of-school youth who have already done so; 2) Policies to increase earnings and incent more labor force participation among youth, such as expanding the eligibility of childless adults (and especially non-custodial parents) for the Earned Income Tax Credit (EITC); and 3) Specific policies to reduce barriers to employment faced by ex-offenders and non-custodial parents (NCPs).

Since these policy prescriptions tend to focus on labor supply forces – or the skills and behavior of the youth themselves - we also consider policies that target the demand side of the labor market, in efforts to spur the willingness of employers to hire these young people and perhaps to improve the quality of jobs available to them. Specifically, we suggest an initiative – almost surely impracticable under current fiscal and political realities - to create transitional employment in national and community service targeted mostly at young people with the greatest difficulty finding stable employment.

In each of these cases, we review the evaluation evidence below and identify programs and policies that have had significant impacts on employment outcomes of disadvantaged youth. If done together and at sufficient scale, we believe that this combination of supply- and demand-side policies could have a substantial positive impact on employment among our disconnected youth. At the same time, we are well aware of the deeper problems in our society that must be addressed if we are to create truly equal opportunities for all of our young people. The intersection of race (and ethnicity) and poverty features disproportionately low quality schools, disproportionate incarceration, and a continuing incidence of discrimination based on race and ethnicity.

Finally, we discuss the implications of recent developments in education and labor market policy for this population. While there has been some significant innovation in K-12 education (spurred by the Race to the Top funds and other initiatives) and some temporary funding under the American Recovery and Reinvestment Act (ARRA) for training and public employment, there has been no broader effort to improve education or employment outcomes for at-risk or disconnected youth. The American Graduation Initiative that the Obama Administration proposed during 2009, that would have funded a range of efforts at community colleges, might have provided a vehicle for such efforts; but funding for the proposal has been extremely limited. And proposed innovation funds for youth in the Workforce Investment Act (WIA) remain limited as well. The nation's dismal fiscal situation implies very limited and perhaps reduced resources in the future for any such efforts. We will discuss these developments in the recent past and their implications for disconnected youth over the next several years.

II. Recent Trends in Outcomes and their Causes

We begin by reviewing trends in employment among less-educated youth over the past three decades, and their recent changes during the Great Recession.

In Table 1, we present full-time school enrollment and employment rates, as well as hourly wages, among less-educated youth (i.e., those with only a high school diploma or less but including those currently enrolled in higher education), aged 16-24, at three points in time: 1979, 2007 and 2010. Employment rates are calculated for all young people in the sample, as well as only for those not enrolled in school full-time. Since 1979 and 2007 are both peak years, in terms of our place in the economic business cycle, comparing outcomes between those years enables us to infer secular trends in these outcomes over the past three decades; and, since 2010 represented

the trough of the recession (in terms of unemployment and other labor market effects), comparing outcomes for 2007 and 2010 allows us to gauge the effects of the Great Recession. All results appear separately by gender and race.¹

The results of Table 1 include several notable findings, some of which are already known while others are not. The most striking finding is the dramatic rise between 1979 and 2007 in full-time enrollment rates among youth, which nearly doubled for this group. Enrollment generally rose more among females than males and more among whites than minorities. While the rise in enrollment rates is encouraging, other evidence indicates that rates of college *attainment* – in other words, the fraction of Americans who complete their courses of study and earn postsecondary degrees and credentials - have risen much less rapidly than enrollment (e.g., Goldin and Katz, 2008), especially among young people from lower-income backgrounds.

But, quite importantly, we also note that much of the increase in enrollment comes at the expense of employment – and much more so among less-educated young men than women. In other words, among young men who are not enrolled full-time at school – whom we might consider part of the potential youth labor force among the less-educated – employment rates have fallen quite sharply over time.² These employment declines among potential workers are quite pronounced among both young white and black men, though the declines for black men are larger in percentage terms (in other words, as a proportion of their employment rates in 1979 which start off much lower than those of whites). And, if we adjusted these numbers to include those who are or have been incarcerated, the downward trend for young black men would look

¹ These computations are drawn from the Outgoing Rotation Groups of the Current Population Survey (CPS-ORG). We thank Marek Hlavac for generating this table for us.

² Though part of this decline might represent the fact that the average skill levels of those who remain nonenrolled likely fall as enrollment rates rise, this does not appear to explain the overall trend (Holzer and Offner, 2006).

considerably worse.³ We also note that trends in average hourly wages roughly parallel those of employment – with young less-educated women achieving slight growth in real wages over three decades while those of young men fell, likely encouraging many of them to drop out of the labor market (Juhn, 1992).

Finally, we note the apparent effects of the Great Recession – which seems to have led to modest rises in school enrollments for this population and very steep declines in employment, which again have been greatest among less-educated men. And this recession has not only been severe but very persistent; as of early 2013, over five years after the recession began, the recovery observed so far in the labor market has been very modest, and virtually all economists expect that it will recover quite slowly over the next several years. This implies that young people will likely be “scarred” by a loss of work experience over several years and a lack of upward mobility through different jobs (von Wachter, 2010; Kahn, 2010).⁴

What other outcomes of young people vary by race and gender, in ways that might reflect differences in the opportunities they face? In Table 2 we present tabulations of a range of outcomes by race and gender for a national sample of young people in their early 20s.⁵ We

³ Employment rates for less-educated young men calculated using the standard definitions of labor force participation and overall enrollment show greater declines since 1979 among blacks than whites. See Holzer and Offner, *op. cit.* Furthermore, the incarcerated are generally not included in measures of the “noninstitutional population” that are calculated from CPS data, and low-income men tend to be undercounted more generally even when not incarcerated. If the incarcerated were added to our population measures, but not to employment counts, our estimated employment rates out of the population would be lower for all groups of men but especially less-educated black men, who have the highest incarceration rates in the US (as well as the worst population undercounts); their employment declines over time would also be more severe than what we observe. Unfortunately, we do not have access to group-specific incarceration (or undercount rates) that would enable us to correct these measures.

⁴ While the nation’s unemployment rate dropped by about 2 percentage points (from just over 10 percent to below 8 percent) between 2010 and 2012, most of this drop was caused by falling labor force participation rather than rising employment rates. Employment rates among youth have only barely improved in this time period. We have also seen a dramatic reduction in voluntary employment changes (quits) in this recession, which usually enable young workers to increase their wages and salaries by moving into better jobs early in their careers.

⁵ These tabulations are based on young people aged 22 through 24 in the 1997 cohort of the National Longitudinal Survey of Youth (NLSY97). See Hill et al. (2009) for a fuller description and analysis.

include measures of academic achievement (e.g., grade point average and test scores) and amount of schooling attained (dropping out of high school or finishing a bachelor's degree), as well as having children outside marriage and ever incarcerated.⁶

The results show large continuing large gaps by race, and some by gender, along all of these dimensions. In general, women outperform men in academic achievement and attainment, while minorities continue to lag behind whites. Black women report the most children outside of marriage, while black men are most frequently incarcerated, as is widely known.⁷ Disturbingly, young black men do worse on virtually every outcome measure than any other race/gender group.

What might account for these ongoing gaps in employment and educational outcomes as well as other personal measures, and for the differential rates of progress that we see? Why have young women gained relative to men on most outcomes, even surpassing them in education, while less-educated young men and especially black men lag so far behind?

A full treatment of these issues clearly lies beyond the scope of this paper. Gaps in educational achievement and attainment by gender and race (as well as family income) have been much discussed elsewhere (e.g., Magnuson and Waldfogel, 2008; Jacob, 2003; Cornwell et al., 2011), as have been the labor market gains of women relative to men in recent years (Blau and Kahn, 2000) and racial patterns in unwed childbearing and incarceration (e.g., Wolfe and Wu, 2001; Western, 2006).

⁶ Most of these results are based on self-reports of respondents except for incarceration, which is often determined from whether or not the individual was incarcerated at the time of the interview. Self-reports on incarceration between interviews or having children outside marriage might still be downward-biased.

⁷ Since many fewer men than women report having children outside marriage, the differences might reflect the effects of custody on these self-reports or that fathers tend to be older and outside the relevant age group.

For our purposes, we limit ourselves to the following observations. First, there is little doubt that less-educated young men, and black men in particular, have been very negatively affected by changes in the economy that limit the demand for their labor. The structural changes that have reduced relative demand for less-skilled labor have most been induced by two forces: 1) *globalization*, including rising imports of goods and services, offshoring of production activities, and immigration; and 2) *technological change*, which is “skill-biased” (since it reduces employment more for less-educated than for more-educated workers). Together, these forces have almost certainly hurt less-educated men more than women, who seem to adapt better to many service-sector jobs; and they hurt black men most of all, especially in the industrial Midwest as good-paying manufacturing jobs have disappeared (Bound and Freeman, 1992; Bound and Holzer, 1993).⁸ Institutional changes that reduce compensation on lower-wage jobs – such as declining rates of unionization and lower real levels of the minimum wage – have likely contributed to these problems, though economists continue to debate the extent to which market or institutional forces account for these trends (Autor et al., 2008; Card and Dinardo, 2007). And the recent recession has clearly hurt less-educated young men more than any other group, because it has reduced the demand for their labor (especially in cyclical industries like construction and manufacturing) more than others.

Second, we believe that some youth – especially black youth – who are now “disconnected” both from school and the labor market, have responded to what appears to them to be a decline in long-run employment opportunities by giving up on mainstream possibilities and institutions.

⁸ Before the current decade, most economists believed that technological change was a more powerful force than globalization in raising inequality. This view has changed somewhat since 2000, given the rising imports of manufactured goods from China as well as the growth of offshoring of production jobs more broadly (Hanson, 2012; Haskel et al., 2012). Economists have also debated the extent to which immigration reduces the employment or earnings of native-born workers (Borjas, 2003; Card, 2005). The general consensus is that these impacts are mostly quite modest, but somewhat more negative for high school dropouts and for the least skilled workers more generally (Holzer, 2011).

This is especially true for those who have not only dropped out of school and the labor market but also become incarcerated and/or non-custodial parents in such very large numbers, with one-third of all young black men becoming incarcerated by age 35 and up to one-half fathering children outside marriage. We describe this process more fully in our earlier book (Edelman et al., 2006).

Figure 1 depicts how this process has occurred, at least in the labor market.⁹ The figure shows an adverse (or inward) shift in labor demand, of the type that has likely occurred for less-educated men because of the economic forces described above. This demand shift leads to a withdrawal of labor force activity along a supply curve that is quite “elastic,” or responsive to perceived (negative) changes in rewards. In other words, as young men perceive diminishing rewards to their labor in the market, they have less incentive to participate in that market, and so they withdraw from it. To the extent that some less-educated young men also remain in the labor market but have trouble finding jobs at market wages (especially during recession periods), the result is high unemployment and low labor force participation.¹⁰

Along with this withdrawal from the legal or formal labor market, we also have seen growing participation of young men in illegal activities. Almost certainly this process occurred for young black men during the 1970s and 1980s, when the relative rewards they faced for legal work were declining and the perceived rewards to illegal work were growing (Freeman, 1992). Since that time, crime has fallen markedly but incarceration has risen very dramatically, especially among less-educated African-American men (as noted above). Among its many pernicious effects on low-income individuals, their families and communities (e.g., Western, 2006; Alexander, 2010),

⁹ This graph first appeared in Holzer (2009).

¹⁰ If wages were downwardly “rigid” when labor demand shifts in Figure 1, then we could observe involuntary unemployment. As drawn, the figure merely shows lower employment and labor force activity at the second “equilibrium” point in the labor market after demand has shifted away from these workers.

very large numbers of young men are now “marked” with criminal records that reduce employer willingness to hire them even further (Pager, 2003; Holzer, 2009). In addition, aspects of the child support system (such as the large fractions who are in arrears on payments and therefore face very stiff penalties on legal earnings) further discourage their legal or reported work effort (Holzer et al., 2005).

Of course, some have argued that the real explanations for these shifts are more behavioral or cultural and less based on economic realities (e.g., Patterson, 2006; Mead, 2011). In our view, these explanations are not mutually exclusive; if anything, we believe that broader behavioral or cultural patterns have occurred largely in response to declines in perceived opportunities (see also W. J. Wilson, 2009). Others might object that the labor market imperatives to improve one’s educational attainment are clearly stronger now than before, and should therefore have led to improved outcomes; but these incentives alone are not enough to lead to major improvements in educational outcomes among disadvantaged youth, absent a broader set of changes to help them overcome barriers to success that develop early in life and last throughout their childhood and teen years (Duncan and Murnane, 2011).

Accordingly, we lay out a set of policy alternatives in the next section to address these issues.

The first set focuses mostly on the labor supply of disadvantaged young people, trying to encourage better educational and employment outcomes of youth through improvements in their skills and work experience, so they can more effectively respond to long-term changes on the demand side of the labor market. In this category, we also advocate for improved pecuniary incentives for youth to take low-wage jobs, and for reductions in the barriers and disincentives which tend to discourage work among ex-offenders and non-custodial parents. But, given the

major changes that have occurred in labor demand – especially during the recent downturn – a set of demand-side policies deserve consideration as well, and we explore them too.

III. Policy Proposals for Disadvantaged Youth

A. Improving the Skill and Work Incentives of Youth

There seems to be little doubt that disadvantaged and disconnected young people need higher levels of education and skills, to better meet the demand for labor in jobs that still pay well in the U.S.

We remain concerned about the decline of good-paying jobs in the U.S. economy. But, contrary to recent claims that the middle of the labor market is collapsing, we believe that the longer-term demand for labor will remain fairly substantial in the U.S. at the “middle-skill” level, which we define as the set of jobs requiring more than a high school diploma but less than a full BA (Holzer and Lerman, 2007; Holzer, 2010).¹¹ The retirements of Baby Boomers over the next few decades and the need for replacements will enhance such demand. More broadly, Holzer et al. (2011) show that the labor market has continued to produce good-paying jobs over time, but that the nature of those jobs is changing rapidly – with many fewer in manufacturing and more in a range of sectors (including construction, health care, professional or management services, and even retail trade) that require a broader skill set than before.¹²

¹¹ For instance, Autor (2010) usually defines middle-skill jobs as those whose average occupational wages as of 1980 were in the middle of the wage spectrum, many of which were good-paying production and clerical jobs for high school graduates. Though jobs in these particular categories have shrunk dramatically in number, other categories of jobs for technicians and moderately skilled employees in many sectors have grown over time in ways not well-captured by these data. While these middle-skill job categories have shrunk significantly during the Great Recession, especially in construction and manufacturing, we believe that at least a significant portion of these jobs will return when the labor market recovers.

¹² This analysis uses longitudinal micro data both on employers and workers from the Longitudinal Employer Household Dynamics (LEHD) data at the Census Bureau, which enabled the study’s authors to measure both worker

And the labor market returns to a range of certificates and associate's degrees are quite strong, especially in particular fields (Jacobson and Mokher, 2009; Carnevale et al., 2010). Though it is not always clear while labor markets remain depressed because of the recent downturn, the secular employment prospects of poor and minority youth will brighten if more of them graduate from high school and can complete at least some kind of postsecondary certification. Even for young minority men with weak academic outcomes (relative to whites and females in their own racial or ethnic group), middle-skill jobs in certain sectors or occupations - like construction, health technician work or installation/repair of mechanical systems - hold particular promise.

While a great deal has been written elsewhere on “achievement gaps” that develop early in childhood between poor youth and others and on the need for reforms in the K-8 years, we focus particularly on the years during which youth become disconnected from school and fail to connect to the labor market: the high school years and beyond. We therefore consider a set of policies designed to: 1) prevent disconnection and dropping out among at-risk youth who are still in school, and to improve their pathways to postsecondary education and work; and 2) encourage the reconnection to school and/or the labor market of those who have already dropped out.

Given these goals, what works at improving these outcomes most cost-effectively for young people? While the overall evaluation evidence on employment and training programs has been mixed at best, we also believe that programs and curricula that offer a combination of skill development and paid work experience have often shown the strongest results at improving employment outcomes for these youth (Heinrich and Holzer, 2011). If the best of these approaches could be replicated and brought to sufficient scale, in combination with other policies

and firm quality over time and how workers of different skills are matched to jobs of different quality in various years.

identified below, we think that the impacts on disadvantaged youth in America could be positive and sizable. For in-school youth, perhaps the strongest evidence on effective combinations of education and work experience for youth appears in the recent random assignment evaluation of Career Academies (Kemple, 2008). These programs often enroll a few hundred students within larger and more comprehensive high schools; students in the academies take general academic courses, but also receive occupational training specific to some specific sectors of the economy (like health care, information technology or financial services) along with work experience in the summer or during the school year.

The evaluation evidence on Career Academies shows that the subsequent earnings of at-risk young men were nearly 20 percent higher than those in the control group as many as eight years after entering the program. Indeed, impacts for at-risk young men were significantly larger than those for young women. More broadly, high-quality career and technical education (CTE) offers the promise of higher graduation rates and better labor market performance (Hoffman, 2011; Symonds et al., 2011) among youth, especially if we could build a range of “pathways” to good careers that combine strong academic preparation, applied technical instruction and work experience for all students in secondary and postsecondary schools around the country.

For these programs to achieve their goals, they must not be perceived as “tracking” low-income or minority youth away from postsecondary education. The Career Academies did not do so, as those who attended the Academies later enrolled in postsecondary education at the same rates as those in the control group. The goal is thus for high-quality CTE to expand career possibilities, not to deter young people from higher education. And Career Academies fit the model of “small

schools of choice” that have generated much improved high school graduation rates recently in New York City (Bloom et al., 2010).¹³

For youth who are out of school, the sectoral training program Year Up offers similar evidence of how skill development and paid work experience can improve youth outcomes (Roder and Elliott, 2011).¹⁴ Year Up is geared for recent high school graduates who have not yet gone on to postsecondary education and provides several months of training for work, mostly in the information technology and business management fields. It requires its enrollees to have a high school diploma or General Educational Development (GED) degree before joining the program, so those who have dropped out would have to at least clear that hurdle.

Among programs that seek to improve the attainment of high school diplomas among young dropouts, the National Guard ChalleNGe program stands out. It is a residential program based on a strict military model; in an evaluation using randomized controlled trials (or RCT) methods, about 72 percent of participants had earned high school diplomas or GEDs within three years of program entry, compared to 56 percent among controls (Millenky et al., 2011). The various programs in New York’s Office of Multiple Pathways to Graduation (OMPG) offer longer term and quite intensive remediation for youth with more serious skill deficiencies in a variety of nontraditional settings, while the Gateway to College program which is now in thirty colleges in sixteen states offers a quicker route to community college for those who have dropped out but have decent basic skills. The latter two programs remain to be evaluated but look promising to date.

¹³ See Tyler and Lofstrom (2009) for a review of efforts to reduce high school dropout rates or to recover dropouts.

¹⁴ Very strong evidence on sectoral training programs for working poor adults also appears in Maguire et al. (2010), though youth participated in these programs to some extent as well. The latter study found that earnings were about \$4000 higher for a randomly assigned participant group than for controls, up to 24 months after the training began. Estimated impacts for Year Up by Roder and Elliott in their own study based on RCT were similar in magnitude.

Out of school youth can also benefit from training and paid work experience in a residential setting. For instance, the latest evidence on the Job Corps (Schochet et al., 2008) shows some evidence of fadeout of early gains, but the program remains cost-effective for older youth (i.e., those aged 20-24).¹⁵ Among nonresidential programs, YouthBuild provides training and construction experience for youth who work at rehabilitating low-income housing projects; it has not yet generated rigorous evaluation evidence (though an RCT evaluation is under way), but it has led to substantially higher earnings for thousands of out-of-school youth nationwide, relative to young people with similar backgrounds and demographics who were not enrolled. These programs are based on the view, widely held among practitioners, that paid work motivates young people to remain in programs and also generates opportunities for “contextual learning” that are not often available in the classroom.

For those who enter postsecondary education, our primary challenge is to reduce the enormous rates of noncompletion that currently exist, especially among the disadvantaged (Haskins et al. 2009). Many initiatives have been funded by the Gates Foundation and others, such as Achieving the Dream and Breaking Through, at community colleges around the country; these initiatives fund the provision of a range of supportive services and new curricula design, as well as efforts to improve links to the workforce by making courses of study more responsive to local labor market trends. Evidence of gains from these efforts remains modest to date, though much more evaluation work remains to be done.

Still, some evidence exists that the kinds of supports provided in the Opening Doors demonstration can improve community college performance and persistence (Richburg-Hayes,

¹⁵ Unfortunately, the residential component of the program also makes it quite expensive, with annual costs approximating \$20,000 per participant.

2009); these supports include the formation of small “learning communities” among student peer groups, additional financial aid (above and beyond Pell grants) tied to academic performance (such as maintaining a minimum grade point average), and certain kinds of mandatory counseling for students with weak performance. In addition, some recent evidence suggests that remedial education at community colleges can be improved by integrating the remediation into substantive education or training classes, rather than keeping it a separate track from which so many students drop out before they even enter their primary courses of study. Specifically, the Integrating Basic Education and Skill Training (I-BEST) program in Washington state has generated some evidence of higher rates of credit attainment and course completion in a recent nonexperimental study (Jenkins et al., 2009).

Finally, we believe it is important to develop more systemic approaches for youth, rather than a series of isolated and fragmented programs, so that fewer of them fall through the cracks and more systematic and comprehensive approaches can be built. Some evidence that these approaches can raise enrollment and employment rates of disadvantaged youth can be found in an evaluation of the Youth Opportunities program, which funded 36 comprehensive youth systems in low-income neighborhoods at the end of the Clinton administration (Decision Information Resources, 2008). Among the most promising examples of a similar effort at the level of a large city is the Philadelphia Youth Network, which also brings together programs for in-school and out-of-school youth into a single system.¹⁶ Such systemic efforts, rather than just “siloed” programs, are critical if we want to achieve widespread impacts at scale for disconnected young people.

¹⁶ See Martin and Halperin (2006) for descriptions of city-wide efforts to help youth in several major cities in the U.S.

Improving Work Incentives: Expanding the Earned Income Tax Credit (EITC) for Childless Adults

For those young people whose skills will remain limited and who will therefore face only the prospects of fairly low-wage employment, it would be helpful to supplement their meager wages with tax credits – in the hope of improving their earnings and also incenting them to work more. Indeed, as long as their labor supply is elastic, higher net wages should generate higher work effort.¹⁷ The national experience with the EITC over the past few decades has demonstrated the potential of “make work pay” programs to raise employment levels while improving earnings and income among the poor (Meyer and Rosenbaum, 2001; Scholz, 2007).

The EITC provides a *refundable* tax credit for workers with low family incomes – in other words, even those with little or no federal tax liability receive a tax credit anyway. It is most generous for low-income single mothers with two or more children, providing a credit of roughly 40 percent for each dollar of earned income up to a maximum of about \$13,000.¹⁸ The credit is constant over the next \$4,000 of income, and then is gradually phased out at a rate of about 20 percent per dollar of income over \$17,000. But, while the EITC currently is very generous to custodial parents of children, who are usually single mothers, it provides only very meager benefits to childless adults and especially non-custodial parents, who are often fathers. For this group, maximum benefits are only \$475 per year.¹⁹

Accordingly, we have developed proposals to expand the EITC for childless adults (Edelman et al. 2006, 2009). Subsidy rates, at 15 or 20 percent, would be well below the roughly 40 percent

¹⁷ Evidence on the positive labor supply elasticities of the disadvantaged is summarized by Katz (1998).

¹⁸ Maximum dollar amounts of the credit were just over \$5200 for families with two children and over \$5800 for those with three or more in 2012.

¹⁹ This maximum represents a tax credit of 7.6% on earned income up to \$6250 per year.

now available to low-income parents with custody of children, but much more generous than they are today for childless adults. Special provisions would be needed to avoid large “marriage penalties” among pairs of workers who are individually eligible for the EITC but whose combined incomes would reduce or eliminate such eligibility; and efforts would need to be made for non-custodial fathers to receive payments, even if they are in arrears on their current support orders.²⁰

More broadly, efforts to “make work pay” could have substantial positive effects not only on parents but on poor children as well. The best evidence of these potential positive effects can be found in the New Hope pilot program in Milwaukee, which provided a set of wage supplements and guaranteed benefits for those who accepted low-wage jobs, as well as public service jobs for those who couldn’t find them in the private sector; the program significantly improved employment outcomes among adult participants, during the period of the program and even for a few years afterwards, while also generating improved schooling and behavior outcomes among their children (Duncan et al, 2008). Efforts to scale up this program and test for whether its positive effects can be replicated deserve support.

Improving Incentives and Reducing Barriers for Ex-Offenders and NCPs

Given the very large numbers of disconnected young (and especially African-American) men who have criminal records and/or child support orders, efforts to reduce their barriers to employment and improve their incentives to accept and remain at low-wage jobs are critical as well.

²⁰ See Edelman et al. 2009 for discussions of both sets of issues. The marriage penalty could be lessened by counting only half of the lower earner’s income when calculating total income for purposes of eligibility. For NCPs to be eligible to keep their EITC payments, they would need to be paying support on a current basis now, and for their previous child support debts (or “arrears”) to be “managed” as discussed below.

The best thing we could do in this regard is to incarcerate fewer young men to start with, especially for non-violent drug offenses. Recent efforts to incarcerate fewer young people center around various alternatives to prison, such as drug courts, “smart” probation, community corrections, and a range of efforts commonly referred to as “justice reinvestment” and “restorative justice” (Office of National Drug Control Policy, 2013). Reducing the numbers of parolees who recidivate due to technical parole violations would help as well (Western, 2008).

We should also limit the barriers to legitimate work associated with having a criminal record. Encouraging states to review their laws that limit job opportunities for felons, to make efforts to define and limit employer discrimination against felons, and to expunge records after several years in which no re-offense has been committed, are low-cost policies that might do much good to raise employment for this population. Several states, including New York, have made substantial progress on this front to date (Legal Action Center, 2009).

Programmatic efforts to raise employment among ex-offenders have a mixed record to date. Early evidence on “transitional jobs” programs from the Center for Employment Opportunity in New York was quite positive in terms of reducing recidivism, but little impact on post-program employment was observed (Redcross et al. 2009).²¹ And more recent evidence on the impacts of a range of other transitional jobs programs has been even weaker (Bloom et al., 2010). Still, efforts to provide paid work experience to those behind bars before their release, and/or to provide education and job training, might still have some payoff and need more exploration (Holzer, 2009; Mead, 2011). Efforts to manage or even forgive portions of arrears for those

²¹ For instance, arrest rates among CEO participants in the second year following program entry were about 5 percentage points lower (23 v. 28 percent) than among control group members. The fact that employment effects fade more quickly than recidivism effects suggest that the transitional jobs and other services did not transmit lasting improvements in workplace skills that were valued by the labor market but perhaps influenced personal motivation or social networks in a way that improved behavioral outcomes.

keeping up with their current payments, and to provide a range of employment services for those who need them plus EITC eligibility (Sorensen 2010), show promise as well.²²

B. But What About Labor Demand?

The above proposals focus almost exclusively on the supply side of the labor market - i.e., the youth themselves – while paying scant attention to developments on the demand side of the market. Given the severity of labor demand constraints on youth after the Great Recession, policies to generate more demand for their labor must be part of any youth policy agenda.

What kinds of demand-side policies make the most sense? We can distinguish between two categories of policy: 1) Efforts to stimulate job-creation for youth in the short term, while the effects of the Great Recession remain pronounced; and 2) those designed to improve the quantity or quality of jobs available to disadvantaged youth in the longer term.

Efforts to stimulate demand in the short-term could include various kinds of subsidized private or public employment and grants for building schools and infrastructure and preserving state/local public jobs, as well as tax credits for private-sector employers who hire more workers. Indeed, the American Jobs Act proposed by the Obama Administration in 2011 contained most of these ideas in various forms; but, given the political polarization and deadlock that have characterized the federal government in the past few years, virtually none have been implemented thus far (as of mid-2013), and it seems unlikely that they will be anytime soon.

²² The state of New York has been one of the first to provide EITC eligibility to non-custodial fathers paying child support. But takeup rates have been very low, due to the fact that those in arrears will have any such additional payments garnished. The need to combine EITC eligibility with arrears management and default orders adjustment is clearly illustrated in the New York experience.

Regarding subsidized employment, the recent success of the Emergency Contingency Fund under the Temporary Assistance for Needy Families (TANF) program, which created about 250,000 jobs in the public and private sectors for the disadvantaged within a short time frame (Lower-Basch, 2011) illustrates the potential of this approach. More generally, public service employment programs that are carefully designed and well-targeted towards those in need can not only raise employment rates in the short-term but generate valued services for communities as well (Ellwood and Welty, 2000; Johnson, 2010).

Ideal, but hardly practicable in the current fiscal and political climate, would be a large-scale initiative (building on Americorps and other efforts ranging back to the New Deal) to engage young people in transitional employment in community and national service, with particular emphasis on youth who are disconnected or at risk of becoming disconnected. Their engagement could include work on infrastructure, caregiving, conservation projects and numerous other possibilities. The work could be combined with education and training so that participants would emerge far more prepared for successful transitions to work and additional education.

The case for school and infrastructure building in particular is strong, and would contribute to a quicker recovery of employment in the construction sector along with much needed improvements in the deteriorating quality of this capital. While a large number of trained construction workers who are now unemployed would be the most obvious workers to benefit, opportunities to develop apprenticeships for disadvantaged youth would also be available. More broadly, publicly funded apprenticeships, work-study programs, and other forms of on-the-job training are good ways to combine short-term work experience with longer-term skill and credential improvements that improve earnings capacities of the disadvantaged over time.

Tax credits to private employers who create more jobs could also benefit youth to a large extent. The best design for such credits would be a temporary and generous “marginal” credit for employers whose payrolls rise by more than some base rate (Bartik, 2010). More targeted credits, for the hiring of youth or other disadvantaged groups, aim not expand overall employment but to shift it more towards these disadvantaged groups; recent evidence on the effectiveness of the Work Opportunity Tax Credit (WOTC) for several disadvantaged groups has been less promising (Hamersma, 2009).²³

And how might we encourage the private sector to improve the *quality* of jobs available to disadvantaged youth over the longer term? Historically, federal and state minimum wage statutes have been the most obvious tool for doing so. We continue to support the periodic increases in the federal statutory minimum over time, though not so much and so quickly that job creation by employers might be deterred (especially in our currently weak labor markets).²⁴

Similarly, collective bargaining has been an important tool for raising job quality over time, but it has generally been less prevalent in the service sector, where most disadvantaged youth ultimately gain employment, than in more traditional industrial sectors. Some recent successes of the Service Employees International Union (SEIU) at unionizing hotel workers and others in the low-wage sector are a hopeful sign; but private sector unionization rates more broadly continue to decline and are now very low (about 6 percent nationally). Organizing sectors that are youth-

²³ The WOTC replaced the earlier Targeted Jobs Tax Credit (TJTC), and provides tax credits for up to a year for the hiring of workers from a range of specific disadvantaged populations, such as ex-offenders and long-term welfare recipients. But takeup rates are generally low, as employers seem to either be unaware or uninterested in the credits, apparently preferring to pay more for employees whom they expect to perform well on their jobs. These credits can also simply create windfalls for employers who hire the same workers with or without the credits. Hamersma shows very modest impacts on the employment of current and former welfare recipients while the credit is in effect, which disappear once individual eligibility for the credits expire.

²⁴ For some recent evidence on the extent to which minimum wage increases might reduce employment among the young see Neumark and Wascher (2009). A more sanguine view, which argues that the evidence of falling employment in response to minimum wages increases is quite thin, appears in earlier work by Card and Krueger (1997) and in the paper in this volume by Dube.

intensive would be particularly challenging, given their very high turnover rates and lower commitments to the labor force. And the need for unionized jobs to survive in more competitive product and labor markets remains a challenge for them as well (Hirsch, 2008).²⁵

But better jobs for young people can perhaps be encouraged through efforts that engage employers and encourage them to build high-performance work systems with greater promotion possibilities for their workers. Technical assistance and tax credits might be provided to employers who do so. Some promising recent examples in which employers were encouraged to and assisted in upgrading the quality and content of their jobs, while remaining or even becoming more competitive, appear in Osterman and Shulman (2011).²⁶ These approaches certainly merit further exploration and experimentation, along with greater public support.

Youth Policy Since 2008

Our focus in this paper has been on improving education and employment outcomes among disadvantaged youth. Youth policy also includes areas like Americorps and other community service opportunities, juvenile and criminal justice, aging out of foster care, teen pregnancy, runaway and homeless youth, sexual trafficking, and more. So our subject is less than the totality of youth policy, but education and employment outcomes are significantly related to everything else.

²⁵ If anything, even modest reductions in employment that might be generated if union wage increases are not offset by productivity increases might hurt youth the most, as they are the most marginal workers in any setting.

²⁶ These include many sectoral training programs, such as those run by Local 1199c in health care and Project Quest in San Antonio, where intermediaries help employers build career ladders and pathways and to invest more in training frontline workers for better jobs on these pathways.

They story of youth policy since President Obama took office is mixed. This is in part because the new administration offered fewer proposals than expected, and in part due to the remarkable partisan hostility that manifested itself in a more pronounced way than we anticipated.

In 2008-09, we developed some policy proposals that include many of the ideas described above (Edelman et al., 2009). In the broadest sense, our hope was that there would be a new partnership for disadvantaged youth that cut across all relevant federal agencies, especially the U.S.

Department of Education and Department of Labor (DOL). Its salient characteristic, as we have argued in this paper, would bring the worlds of education and employment closer together for young people who would benefit from such a connection. The continuum would begin in high school and continue through adolescence into young adulthood and stable attachment to the labor market.

For the school- and community college-based portion of the continuum our idea was that the Department of Education would play the lead role, in part because its fiscal capacity dwarfs the resources commanded by DOL. But we saw DOL and its funds playing a role in organizing and promoting the employer side of the partnership. And we saw DOL playing the larger role in serving those young people who are both out of school and not employed, to get them back into some kind of setting with educational content as well as preparation for work. Overall, our proposals would have provided significant new resources to this issue, with an emphasis on replicating and scaling the best recent models of both programs and systems for youth, and with the full set of complementary policies described above.

The partnership and policy as we envisioned it did not develop. Bits and pieces of the needed policies happened in the Department of Education – through Race to the Top, the community

college initiative that fell short of full fruition, and very modestly, the Promise Neighborhoods program. And some also occurred at DOL, through its innovation funds and other competitive grants, though changes in youth policy more broadly have been caught up in the snail's pace of reauthorization of the Workforce Investment Act.

Finally, we note again that a range of efforts could have been undertaken to raise job creation rates in the aftermath of the Great Recession, and to target them towards disadvantaged youth. But political polarization and paralysis at the federal level (as well as the dismal fiscal situations in which states and localities have found themselves) have prevented these kinds of proposals from being implemented, thus prolonging the effects of the recession and worsening the “scarring” that is likely to occur for disadvantaged young people (and others more broadly). While the federal paralysis continues, perhaps the more pragmatic political atmospheres of some states will make them be more willing to undertake some such policies. If state fiscal environments continue to improve as the economic recovery proceeds, there is a greater likelihood that some states will make this effort. This would give us the opportunity to learn more about what works and what doesn't, so that any ultimate action by the federal government would be even better informed by recent experience.

Beyond steps that can practicably be taken at all levels of government and in the private sector, we need as a nation and in communities across the country to tackle the structural and other problems that block full inclusion in our economy and our society for far too many young people. Issues of race and poverty still matter in fundamental ways. How to make our public schools perform at a level of excellence for every child is a challenge that underlies everything we have discussed. Ending the disproportionate and destructive impact of our law enforcement system on young people of color is vital. Assuring truly equal opportunity in the labor market is

an objective still to be fulfilled. Communities across the country need to harness all of the relevant actors to create school-to-work pathways and systems that deliver as well in the inner city as they do in the wealthiest suburb.

We know more about what to do than about how we put our knowledge to work. We are losing too large a portion of each cohort of young people as they come along, especially young people of color. We have to do more.

Conclusion

Employment outcomes of less-educated young Americans have deteriorated over the past three decades, and especially during the Great Recession. Less-educated men, and black men in particular, have suffered some of the greatest losses, and many have withdrawn from the labor market in response to their deteriorating opportunities.

We propose a set of policies that would improve education and employment outcomes among these young people, by improving their skills and work incentives, and also by reducing the employment barriers and work disincentives associated with having criminal records and/or child support arrearages. In promoting these policies we carefully consider the evidence from rigorous evaluation studies, and the challenges in replicating and scaling the best efforts. We also propose policies to bolster labor market demand for these groups and also to improve the quality of jobs they face in the market.

Together these policies would begin to reverse the accumulated disadvantages that have hampered the education and employment outcomes of our young people, especially in the past five years.

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**Table 1. Employment and Education Outcomes
By Race and Gender, Among Less Educated Youth
1979, 2007, 2010**

| | 1979 | 2007 | 2010 |
|--|--------|--------|--------|
| Enrolled Full Time | | | |
| All | 25.0 % | 48.0 % | 50.5 % |
| White Male | 24.2 | 48.8 | 50.1 |
| Black Male | 30.8 | 49.9 | 49.5 |
| Hispanic Male | 21.7 | 34.9 | 40.7 |
| White Female | 24.7 | 53.3 | 55.7 |
| Black Female | 28.2 | 49.3 | 52.1 |
| Hispanic Female | 19.9 | 39.9 | 45.4 |
| Employed But Not Enrolled Full Time | | | |
| All | 47.3 % | 30.6 % | 24.0 % |
| White Male | 55.8 | 33.9 | 26.7 |
| Black Male | 38.5 | 26.1 | 18.8 |
| Hispanic Male | 54.9 | 43.7 | 32.0 |
| White Female | 45.3 | 26.8 | 22.7 |
| Black Female | 27.5 | 24.0 | 19.6 |
| Hispanic Female | 37.4 | 29.2 | 21.2 |
| Neither Employed Nor Enrolled Full Time | | | |
| All | 22.7 % | 18.9 % | 23.0 % |
| White Male | 12.1 | 13.7 | 19.3 |
| Black Male | 23.7 | 22.8 | 30.8 |
| Hispanic Male | 14.2 | 15.7 | 20.8 |
| White Female | 27.9 | 18.6 | 20.5 |
| Black Female | 42.2 | 26.5 | 27.9 |
| Hispanic Female | 39.8 | 29.7 | 32.4 |
| Employed (of Potential Youth Labor Force) | | | |
| All | 67.6 % | 61.8 % | 51.0 % |
| White Male | 82.1 | 71.2 | 58.0 |
| Black Male | 61.9 | 53.3 | 37.9 |
| Hispanic Male | 79.5 | 73.5 | 60.6 |
| White Female | 61.9 | 59.1 | 52.5 |
| Black Female | 39.4 | 47.5 | 41.2 |
| Hispanic Female | 48.5 | 49.6 | 39.6 |
| Mean Hourly Wage | | | |
| All | \$10.8 | \$10.5 | \$10.3 |
| White Male | 12.3 | 11.3 | 11.2 |
| Black Male | 10.9 | 10.3 | 10.2 |
| Hispanic Male | 11.4 | 11.7 | 10.7 |
| White Female | 9.4 | 9.5 | 9.5 |
| Black Female | 9.2 | 9.4 | 9.6 |
| Hispanic Female | 9.2 | 9.3 | 9.5 |

Notes: The sample is restricted to ages 16-24. It excludes anyone who has earned any postsecondary educational degree. It also excludes those employed in agriculture or the military and those who are self-employed. Individuals with real hourly wages below \$2 or above \$5,000 are not included.

Source: Current Population Survey, Outgoing Rotation Groups.

Table 2
Educational and Behavioral Outcomes of Youth: NLSY97

| | Males | | | Females | | |
|-------------------------|--------|--------|----------|---------|--------|----------|
| | White | Black | Hispanic | White | Black | Hispanic |
| Not Enrolled in School | | | | | | |
| High School Dropout/GED | 13.4 % | 27.6 % | 20.8 % | 12.0 % | 19.0 % | 20.6 % |
| Bachelor's Degree | 12.8 | 5.6 | 3.6 | 18.2 | 6.9 | 5.5 |
| Enrolled in School | | | | | | |
| Four-Year College | 17.2 | 9.7 | 10.1 | 19.0 | 14.4 | 13.2 |
| Unmarried, Has Children | 9.9 | 30.8 | 17.9 | 17.3 | 47.5 | 29.6 |
| Ever Incarcerated | 7.6 | 14.8 | 9.6 | 2.7 | 3.1 | 2.4 |
| High School GPA | 2.5 | 1.9 | 2.1 | 2.7 | 2.2 | 2.3 |
| ASVAB | 57.3 | 28.1 | 39.4 | 58.2 | 32.0 | 38.8 |

Notes: Samples include respondents ages 22-24 at the time of the interview. Variables are measured in Round 8 of the National Longitudinal Survey of Youth (NLSY97), from October 2004 to July 2005. Enrollment is measured in the month of November. The Armed Services Vocational Aptitude Test (ASVAB) score is measured as a percentile of the overall distribution of scores.

Figure 1: Effects of Adverse Labor Demand Shifts and Labor Supply Response among Less-Educated Young Men

