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Reviving the Labor Market with Middle-Skill Jobs

by Harry J. Holzer

The importance of worker education and skills to labor market success in the U.S. has never been clearer than it is now. The current economic downturn has hit all groups quite hard, but especially those with the least education and fewest skills. And as the labor market slowly begins to recover this year, we will be reminded of a basic fact of economic life: Workers increasingly need meaningful postsecondary education or training to find jobs that pay enough to sustain a middle-class lifestyle.

To its credit, the Obama administration recognizes how essential education and skills are in expanding labor market success, and has created some important initiatives to improve outcomes for all groups — especially the disadvantaged, who suffer the most from “achievement gaps” that open early in life. The administration’s Race to the Top fund creates strong incentives and financial support for school reforms in the K-12 system. Its American Graduation Initiative will provide grants for innovation in community colleges

designed to improve both attendance and graduation rates. And the government has hiked Pell Grants by a considerable amount, as part of recently enacted reforms in the funding of federal student loan programs.

But are these initiatives enough, or should we be casting a wider net when dealing with various kinds of skill gaps and their role in labor markets? We need to consider the many levels at which shortfalls in education and skills plague American workers, and then determine the appropriate range of remedies for these problems.

Specifically, we need to prepare American youth and adults not only for jobs requiring four years of college and graduate study, but also for those we call “middle-skill” jobs — jobs that require something beyond a high school diploma but less than a bachelor’s degree. These jobs frequently pay well and are in high demand in the U.S. labor market, but too few workers now have the skills to fill them. A range of policy interventions to

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improve the skill levels and workforce-relevant credentials among Americans can raise the numbers of good jobs they can fill, and provide a gateway to the middle class that is now often closed for so many.

The Scale of Our Challenge

About a quarter of all American youth still drop out of high school each year.¹ The research shows that some do so because of poor basic skills, but others are driven by boredom and the lack of any observed relevance of their high school coursework to their future earnings prospects.² Of course, by dropping out, they create a self-fulfilling prophecy in which their earnings prospects are certain to be poor throughout their lives. Many will withdraw from the labor market altogether — especially under the current circumstances of a severe downturn and likely slow recovery. For some groups of dropouts (like young African-Americans), the odds of becoming incarcerated and parenting outside of marriage will be enormous, generating huge costs to themselves and to the rest of society.

Another quarter of American youth fail to attain any postsecondary education beyond high school graduation.³ They leave school without occupational skills or work experience that the labor market rewards, and with no plans for enhancing those skills. Both their employment rates and earnings levels after leaving school will be limited for many years, as they move from one unrewarding job to the next.

Among those who attend college — whether two- or four-year — dropout rates are also very high. Fewer than 60 percent of students in four-year colleges graduate within six years.⁴ For those who attend community

college, the odds of emerging with any type of credential after six years are even lower, below 50 percent.⁵ This is particularly true for minority and disadvantaged students, both youth and adults. Indeed, it is likely that a large majority of newly funded Pell Grant recipients will attend college, get stuck in remedial classes and drop out before obtaining any meaningful credential.

Even among those who finish, the labor market value of the certificates and associates degrees they acquire vary enormously, with too many students obtaining credentials that the market does not particularly value or reward.⁶ Our community and four-year colleges often lack any direct ties to our workforce development systems, and do not provide students with available information on career progressions or labor market opportunities. And many colleges do not face incentives or financial support for expanding capacity in areas of strong market demand, especially in the technical areas where instructors and equipment are relatively more costly to obtain.

Building Up the Middle-Skill Market

Our labor market generates strong rewards on average for those with college and, especially, graduate degrees, particularly in the “STEM” fields (science, technology, engineering and math). Improving student attainments in these areas is important for maintaining a competitive economy. But it is also striking that, over time, there remains strong demand in the U.S. for many middle-skill jobs.

Contrary to the popular view that we are developing a “dumbbell” labor market or an “hourglass” economy — with a shrinking middle and an expanding top and bottom — [my work with Robert Lerman](#) points to

continuing strong demand and good pay in a wide range of jobs and sectors at the middle of the labor market. Indeed, a wide range of evidence shows that employers often have difficulty filling these middle-skill jobs, even when wages are rising and the job market is not very tight.

What kinds of jobs are these, and where are they located? In health and elder care, there will continue to be strong demand for nurses (including licensed practical nurses and certified nursing assistants) and many other kinds of technicians and aides. In construction (which will recover, albeit slowly, from the bursting of the housing bubble), there are frequent shortages in the skilled crafts. In manufacturing — despite a long-term decline in employment — demand remains quite strong for skilled workers, like machinists and even for welders.

A wide variety of economic sectors generate demands for technicians in equipment installation, maintenance and repair. A shift to a “greener” economy will generate many such jobs, as will increased federal spending on the repair and modernization of infrastructure. And in several diverse parts of the service sector, there is a strong need for well-trained personnel: police and firefighters, legal aid and protective service employees, and even cooks and chefs in restaurants.

Many of these jobs pay well enough to help support a middle-class lifestyle, and would be within reach of many of our high school graduates and dropouts who currently flounder in the job market and in life. It’s a tragic irony that over two million Americans are incarcerated on any given day — and several times that number are permanently scarred by criminal records — because many never saw pathways to good-paying jobs,

while employers frequently can’t find enough trained welders, electricians and plumbers when they need them.

Of course, strong basic skills are required in all of these areas. No one would argue against the need to close the “achievement gaps” in youth literacy and numeracy skills — or that young people should be better prepared to handle college-level work.

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Still, the many levels at which educational outcomes are weak, along with the lack of occupational training and relevant workplace experience for so many who will likely not attend or complete college, suggests the need for a broader approach — one that prepares young people for labor market opportunities, wherever they appear.

A Range of Fixes

Both federal and state governments need to implement a range of policies that will reduce high school dropout rates and encourage young people and adults to develop the skills needed to obtain a postsecondary credential and succeed in the workforce. Different policies are appropriate for different groups; there is no magic bullet, and one size does not fit all.

Research is now generating a body of statistical evidence on “what works” in



provision of paid work experience to low-income young people is often critical for maintaining their interest and participation because they so value the upfront rewards of compensation. And systemic approaches that combine a range of services with educational and employment opportunities for young people, such as those in the Youth Opportunities program for poor neighborhoods implemented at the end of the Clinton administration, have generated successful outcomes.⁷

enhancing educational and employment outcomes for different populations.

First, it is clear that high-quality career and technical education in secondary and postsecondary schools can generate strong payoffs for at-risk youth. The [Career Academies](#), which operate at 1,500 high schools nationwide, provide students with occupational training and work experience in a particular economic sector, even while they take academic courses and curricula. Evidence suggests that the Academies strongly reduce dropout rates among at-risk youth and improve their earnings for many years afterwards without discouraging students from obtaining postsecondary education. Other models, like [Tech Prep](#) and other apprenticeship programs, provide strong payoffs by moving young people directly from high school into community or technical colleges and offering them relevant work experience.

For youth who have already dropped out of school, the successful models are less clear. Intensive remediation efforts in a variety of settings — including the military model of the National Guard Challenge program — show some promise. But we also know that the

Second, workforce training for disadvantaged adults with some decent basic skills can be very successful if it generates a postsecondary credential and targets a strong sector of the economy that provides good-paying jobs. Indeed, *sectoral* training, in which workers are connected to employers and obtain work experience while they receive training, has shown some very strong results. *Career pathway* models, which combine classroom curricula and work experience leading to occupational certifications at a variety of levels, are also very promising.

Often, an active “intermediary” is needed to assist trainees with making connections to the labor market and obtaining the necessary support services (like child care and transportation) along the way. State-level training grants and technical assistance to employers in these sectors can often encourage them to train more of their incumbent workers and generate pathways into better-paying work within existing firms. Indeed, states like Pennsylvania, which have actively targeted key economic sectors and integrated their workforce and economic strategies, will likely reap major rewards as their labor markets recover in the next few years.

Third, we are learning what generates greater success in improving the odds of certificate or degree completion for disadvantaged students in community colleges. Performance-based financial aid (above and beyond the Pell Grant), which might include stipends, mandatory support services and small “learning communities” of students, all seem to help.

High-quality career and technical education in secondary and postsecondary schools can generate strong payoffs for at-risk youth

Further, programs that integrate remedial education and occupational training seem to generate higher success rates for disadvantaged students. One such approach, the well-known I-BEST program in the state of Washington, integrates basic adult education with occupational training (from two teachers) in each class; statistical evidence so far indicates that it has a potentially strong impact on educational outcomes. New curricular developments, like modular classes and “stackable credentials,” might help as well.

Fourth, under the very best circumstances, millions of low-income youth and adults will still end up in the many low-paying jobs that our economy now creates. We need stronger pay incentives to make sure these workers remain attached to the labor market under these circumstances. The Earned Income Tax Credit played a huge role in encouraging low-income single mothers to take jobs under welfare reform, and would likely have similar success in rewarding disadvantaged childless

adults and non-custodial fathers when they work. And subsidized work for ex-offenders in the form of “transitional jobs” reduces their recidivism and raises work effort, at least in the short term.

Conclusion

What all of this suggests is that a broader set of educational and employment supports must be provided to encourage further success at all these levels. Reforms in the K-12 system remain critical and greater funding for Pell Grants will help.

But these should not be done in isolation from efforts to expand high-quality career and technical education, and better integrate education, workforce and economic development systems. Enhanced financial support for both youth and adults in a wide range of postsecondary education institutions, including community and technical colleges and apprenticeship programs, must be linked to a broader range of labor market information and services for them, while the systems themselves must be made more responsive to labor market realities. And expanding both educational opportunities and work supports for at-risk or disconnected youth and adults — including those still in high school as well as those who have dropped out of school and the labor market — are critical as well.

Any public resources expended in such efforts should be based on evidence of best practices and tied to further rigorous evaluation. In the current fiscal situation, such resources are scarce. But the social and economic costs of not making the needed investments in the skills of our youth and adults are enormous, while the payoffs to successful efforts in these realms can be quite impressive.

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1 James Heckman and Paul LaFontaine, "The American High School Graduation Rate: Trends and Levels." IZA Discussion Paper No. 3216, December 2007.

2 Robert Lerman, "Career-Focused Education and Training for Youth," in H. Holzer and D. Nightingale eds. *Reshaping the American Workforce in a Changing Economy*. Washington, D.C.: Urban Institute Press, 2007.

3 See Heckman and LaFontaine, *op cit*.

4 Frederick M. Hess, et. al., "Diplomas and Dropouts: Which Colleges Actually Graduate Their Students (and Which Don't)," American Enterprise Institute, June 2009; available at <http://www.aei.org/paper/100019>.

5 Thomas Bailey, et al., "Is Student Success Labeled Institutional Failure? Student Goals and Graduation Rates in the Accountability Debate at Community Colleges," Community College Research Center, Teachers College, Columbia University, 2006. Of those students entering in any year, 36 percent earn degrees and certificates while another 13 percent have transferred elsewhere but not yet earned a degree.

6 Louis Jacobson and Christine Mokher, "Pathways to Boosting the Earnings of Low-Income Workers by Increasing their Educational Attainment," The Hudson Institute and CNA, January 2009.

7 See "Youth Opportunity Grant Initiative: Executive Summary," Decision Information Resources, March 2008. Report submitted to Employment and Training Administration, U.S. Department of Labor, Washington, D.C. The evaluation evidence showed increases in secondary school enrollments and in labor force participation rates for youth in the high-poverty neighborhoods receiving these grants.

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