Employers in the Low-Wage/Low-Skill Labor Market

Paul Osterman

The dynamics of the low-wage labor market have emerged as a central policy issue. This is driven in part by the surge of inequality, which is a stain on the booming labor market. In addition, welfare reform, by pushing large numbers of people into work, has transformed antipoverty policy from a transfer issue to a jobs issue. The "working poor" are now a larger group than before, and it becomes all the more urgent to understand their circumstances.

Along some dimensions, there appears to be less to worry than would have been the case a few years ago. The long expansion has driven down unemployment rates for all groups, including those who traditionally work in bad jobs. Extensive anecdotal evidence suggests that employers are eagerly recruiting in this sector. Substantial numbers of former welfare recipients appear to have successfully found work.

In short, the low-wage labor market has expanded in tandem with the rest of the job market. But it is far from clear how extensively the quality of these jobs has improved, or whether the mobility prospects of people in them have been enhanced. Wage gains have been modest, particularly when viewed from the perspective of the entire business cycle, and the rate of increase in 1999 actually fell compared with 1998. As a result, much of the growth in family incomes was due to longer hours of work. While evidence on career mobility is sparse, what there is does not suggest that jobs at the bottom are a very powerful springboard into the higher reaches of the labor market.

This chapter begins with a discussion of the boundaries of the low-wage/low-skill labor market. The distinctives of this segment of the labor market are laid out and an estimate of its size is also provided. The characteristics of the labor market from the perspective of employers are then described. This discussion takes up skill requirements, recruiting patterns, differences in treatment of employees based on race, and mobility (or lack thereof) of careers over time. The second part examines policy, again from the employer or demand side. Four broad strategies are identified and discussed: standard setting, union organization, creating labor market intermediaries, and incentives for employers to provide better opportunities for employees.
THE BOUNDARIES OF THE LABOR MARKET

What do we mean when we speak of the low-wage/low-skill labor market? Where is the line drawn? Most researchers follow one of two alternatives. Some focus on skill and define the labor market as those jobs for which only a high school diploma is required and/or which entail very little training. Others emphasize wages, and set the boundary at those jobs which pay below a given standard. Each perspective captures an essential aspect of this labor market, but each also is incomplete.

Focusing on the educational and training requirements of jobs is attractive on its face because it emphasizes the intrinsic characteristic of the work. For example, Lerman, Loprest, and Ratcliffe (1999) define the low-skill labor market by identifying occupations that require less than 12 months of training and then, for each, determining the fraction of employees with a high school diploma or less. These two criteria together are used to define a low-skill job, and the authors find that in 20 metropolitan areas in 1997, low-skill jobs made up between 21 percent and 37 percent of employment.

Although appealing, the difficulty of the education and training approach is that the demarcation of jobs may be sensitive to changes in labor supply. A surge in the availability of college-educated workers, for instance, could lead them to take jobs previously held by high school graduates. In this case, the classification of the job would shift without altering its content. The question is whether it is possible, using only skill-based criteria, to identify low-skill jobs independently of the characteristics of the employee.

Pryor and Schaffer (1999) attempt to accomplish this by classifying jobs by the average education of their incumbents in 1971, and then asking about the size distribution of these jobs in 1996. On the assumption that the job titles mean the same thing in the two years (an assumption that seems doubtful given the pace of technical change and organizational innovations in firms), they compare the growth rate of low-skill jobs with changes in the supply of educated labor. They find that over this period, jobs “requiring” a high school degree or less grew at an annual rate of 1.9 percent while the supply of high-school-or-less labor increased at only 0.2 percent a year. By contrast, jobs “requiring” more than a high school diploma grew at an annual rate of 3.8 percent, while the qualified labor supply increased at a rate of 5.3 percent. These figures imply that over this time college labor was increasingly taking “high school jobs.”

The weakness of the education and training approach is that it tends to ignore outcomes. Consider, for example, hotel cleaning staff. In many cities, this is a job that should be considered in a study like this. The job itself can, and frequently is, done by someone with a high school education or less, and while there are skills involved, they can be learned reasonably quickly. In addition, the job often pays poorly. For example, in New Orleans, room cleaners earn near the minimum wage. However, there are exceptions. In Las Vegas, where most of the large strip hotels are unionized, room cleaners earn roughly double the minimum wage and also have access to training for other, more lucrative, employment in the hotels. This suggests that it may make more sense to ask about outcomes rather than skill requirements.

Using 1997 data, Gregory Acs (1999) mapped the low-wage labor market. He defined a low-wage job as one which, in 1997, paid less than $7.50 an hour, a rate 45 per-
cent above the then-minimum wage and 30 percent below the median wage for all workers. He found that 27.9 percent of all workers were low-wage according to this definition (a figure quite close to the Lerman et al. figure cited above). However, many of these were probably teenagers or other secondary workers whose family circumstances were comfortable. To deal with this, he defined a low-income family as one whose total income was $24,000 or less—that is, 150 percent or less than the poverty level for a family of four. Combining the two criteria, he found that 9.6 percent of all workers were low-wage employees who lived in low-income families. Adding children to the mix, he reported that 5 percent of employees were low-wage/low-income with children.

Acs' data also demonstrate the difficulties in using a purely educational criteria for defining the low-wage/low-skill labor market. Among the low-wage/low-income individuals with children, 22 percent had more than a high school diploma.

Another approach is to look at the earnings of full-time employees. In 1998, among people between age 25 and 64 who worked full-time and full-year, a total of 9,772,000 persons, or 11.3 percent of the total, earned less than $8.50 an hour. This, of course, is an underestimate of the size of the low-wage/low-skill labor market because it excludes part-time workers; however, it does have the virtue of controlling for age (eliminating young workers) and labor supply (i.e., people's decisions about how many hours to work).

The wage-based approach, however, suffers from its own set of conceptual difficulties. One issue is the relatively straightforward one of where to draw the line. Acs arbitrarily uses $7.50 an hour (in 1997). However, that is essentially equivalent to the poverty level for a family of four, and many people would argue that any reasonable standard should be higher. A related issue concerns benefits. A $7.50-an-hour job with health insurance is very different than one without it, yet the standard discussions typically omit this consideration. Finally, there is an even more difficult question about whether the job comes with training or is attached to a job ladder that promises a better future. In principle, any determination about whether a job is "good" or "bad" should take into account the long-term prospects the position offers.

The bottom line is that we will have to be flexible and somewhat imprecise about drawing boundaries around the low-wage/low-skill labor market. While perhaps unfortunate, this ambiguity accurately reflects the multidimensional nature of jobs, substantive debates about alternative definitions of adequacy, and the incomplete character of available data.

**EMPLOYERS IN THE LOW-SKILL/LOW-WAGE LABOR MARKET**

It is convenient, but misleading, to speak of the low-skill labor market as if it were all of one piece. Consider, for example, the differences between a suburban movie theater with ticket-taker jobs, a garment industry sweatshop, a hospital staffing its orderly positions, a downtown department store, and a factory hiring unskilled laborers. Each of these employers may well pay in the $8-an-hour range, yet the working conditions, mobility prospects, skill requirements, and characteristics of the employees differ substantially.

At one end of the low-wage labor market are jobs that operate below the level of prevailing labor standards. These are often held by the estimated 6 million undocumented
migrants living in America (Uchitelle 2000). The New York Times recently reported, "The Labor Department estimates that in the San Francisco area more than half the 2,000 garment shops violate wage laws. And New York City has more than 3,000 apparel sweatshops with more than 50,000 workers, according to a General Accounting Office study. In El Paso, Los Angeles, and Seattle, sweatshops are often common" (Echaveste and Nussbaum 1994). Building-cleaning contractors follow a similar pattern. According to Howard Wial (1999), 4.3 percent of all wage and salary workers earned less than the minimum wage in 1997 (although Wial also reports that the majority of these cases involve inadvertent and relatively minor violations).

Other employers in the low-wage/low-skill labor market, such as fast-food restaurants or movie theaters, operate well within the law and frequently hire young workers for part-time jobs after school or full-time jobs in the summer. The mobility prospects of these jobs may be limited, but most of the employees are only passing through, and it is not clear that there are substantial public policy concerns.

Intermediate between these extremes are the large number of low-wage employers, ranging from manufacturing to retail to services such as health care aides, who hire adults, pay at or just above the minimum wage, and offer work for their employees that may well be viewed as a long-term trap.

This variation within the low-wage/low-skill labor market is important, but unfortunately is not well captured in national data sets or surveys. We will return to the more-textured view when we take up policy, but for now we will rely on the cruder survey data.

The most straightforward way to describe the low-wage/low-skill labor market is by comparing the occupational and industrial distribution of low-wage workers with the labor market as a whole. Tables 4.1 and 4.2 reproduce the analysis generated by Acs. These data demonstrate that low-wage workers are represented in all occupations and in all industries. There is no sector of the economy, at least at this broad level of aggregation,

**TABLE 4.1 Occupational Distribution of Low-Wage Workers and Entire Labor Force, 1997**

<table>
<thead>
<tr>
<th>Low-Wage/Low-Income with Children (%)</th>
<th>All Employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive and professional</td>
<td>6.8</td>
</tr>
<tr>
<td>Technicians and related support</td>
<td>1.1</td>
</tr>
<tr>
<td>Sales</td>
<td>14.7</td>
</tr>
<tr>
<td>Administrative support, including clerical</td>
<td>10.7</td>
</tr>
<tr>
<td>Private household and protective service</td>
<td>3.1</td>
</tr>
<tr>
<td>Service, except private household</td>
<td>29.6</td>
</tr>
<tr>
<td>Farming, forestry, and fishing</td>
<td>6.0</td>
</tr>
<tr>
<td>Precision production, craft and repair</td>
<td>8.7</td>
</tr>
<tr>
<td>Machine operators, assemblers, inspectors</td>
<td>8.7</td>
</tr>
<tr>
<td>Transportation and material moving</td>
<td>2.9</td>
</tr>
<tr>
<td>Handlers, equipment cleaners, helpers, laborers</td>
<td>7.6</td>
</tr>
</tbody>
</table>

*Source: Acs (1999).*
TABLE 4.2 Industrial Distribution of Low-Wage Employees and Entire Labor Force, 1977

<table>
<thead>
<tr>
<th>Industry</th>
<th>Low-Wage/Low-Income with Children (%)</th>
<th>All Employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and fisheries</td>
<td>3.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Mining and construction</td>
<td>5.2</td>
<td>7.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.0</td>
<td>15.6</td>
</tr>
<tr>
<td>Transportation, communications, and utilities</td>
<td>3.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>2.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Retail trade</td>
<td>32.6</td>
<td>17.9</td>
</tr>
<tr>
<td>Finance, insurance, and real estate</td>
<td>3.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Service</td>
<td>37.1</td>
<td>35.8</td>
</tr>
<tr>
<td>Public administration</td>
<td>1.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: AcS (1999).

that provides an absolute shield against poor earnings. At the same time, there are also clear patterns in the data. Low-wage workers are disproportionately found in service occupations and the retail industry. They are also, although less dramatically, employed in the lower end of blue collar work and in the agricultural (and presumably rural) arena.

GROWTH PROJECTIONS

An important question is the future growth of low-skill jobs. In the labor market as a whole, the skill requirements of jobs are increasing. Indeed, Bureau of Labor Statistics (BLS) projections indicate that while jobs that require an associate's degree or more accounted for 25 percent of all jobs in 1998, they will account for 40 percent of job growth between 1998 and 2008 (Braddock 1999). However, it is important to note that this also implies that a very substantial fraction of job growth, indeed the majority, will be in occupations that require only a high school diploma or less.

Another way of seeing this is to classify jobs by the amount of training they require. The BLS has done this, and its lowest category is “short-term training,” which refers to jobs that can be learned after a short demonstration or a month or less of training. These jobs are overwhelmingly in the low-wage labor market: More than 90 percent earn less than the median pay, and more than 55 percent have earnings in the lowest quartile. In 1998, these jobs accounted for 39 percent of employment, and this is not projected to change by 2008. Of the job openings generated during this period, due both to job growth and replacement, these low-training jobs are expected to count for 23 million or 43 percent of the total (Braddock 1999). Among the 30 occupations with the largest projected job growth, the low-training occupations accounted for 16 of the job titles. The occupations on this list are retail sales, cashiers, truck drivers, office clerks, personal care and home health aides, teacher assistants, janitors, nursing aides, receptionists, waiters and waitresses, guards, food counter workers, child care workers, laborers, hand packers, and adjustment clerks.
SKILLS

A central issue for assessing the prospects of workers in the low-wage labor market is the skill requirements of employers. First, what are the requirements of low-wage/low-skill jobs? Second, on the assumption that we are ultimately interested in promoting mobility out of this sector, what is the nature of the skill trajectory in the labor market in general?

Even what appears to be the lowest of the noncollege jobs requires some skill. Katherine Newman (1999), for example, vividly describes work in a fast-food restaurant, with skills including understanding how to operate the food machinery, inventory management, remembering the sequence of orders, making change, working effectively with a team of fellow employees, and dealing with abrasive customers. The picture she paints is convincing, but it is also important to remember that fast-food establishments seem to do quite well by hiring 16-year-old high school students, and hence, in the end, the skills cannot be very daunting. What can we say about skill requirements in the noncollege market as a whole?

A good source of data on the skill requirements of jobs that do not require a college degree is the employer survey conducted by the Multi-City Study of Urban Inequality (Holzer 1996). The survey interviewed 800 employers in Atlanta, Boston, Detroit, and Los Angeles between 1992 and 1994. Data were collected on the most recently filled job in each firm. For the noncollege jobs, average hourly wages ranged from $7.94 to $9.53.

Table 4.3 shows the frequency with which employees in these noncollege jobs were required to perform different tasks. For example, 54.9 percent of the jobs required the daily reading of at least a paragraph. These data show a fairly sharp bifurcation in the noncollege jobs. Somewhat over half require frequent use of computers and arithmetic and nearly half require frequent writing. On the other hand, the remainder, which is also close to half, seem very unskilled. This is further evidence of the diversity in this segment of the labor market.

The survey also explored the screening or hiring requirements for noncollege jobs. A characteristic is counted in table 4.4 only if the employer said that it was "absolutely necessary" or "strongly preferred."

<table>
<thead>
<tr>
<th>TABLE 4.3 Frequency of Task Performance on Noncollege Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deal with Customers</strong></td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>In person</td>
</tr>
<tr>
<td>On the telephone</td>
</tr>
<tr>
<td>Read paragraphs</td>
</tr>
<tr>
<td>Write paragraphs</td>
</tr>
<tr>
<td>Do arithmetic</td>
</tr>
<tr>
<td>Use computers</td>
</tr>
</tbody>
</table>

TABLE 4.4 Hiring Requirements for Noncollege Central City Jobs

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school diploma</td>
<td>76.1%</td>
</tr>
<tr>
<td>General experience</td>
<td>72.2%</td>
</tr>
<tr>
<td>Specific experience</td>
<td>66.7%</td>
</tr>
<tr>
<td>References</td>
<td>73.5%</td>
</tr>
<tr>
<td>Vocational or other training</td>
<td>41.7%</td>
</tr>
</tbody>
</table>


There may be some exaggeration in these requirements, particularly given that hiring criteria are likely to be adjusted over the business cycle. To check, Tilly and Moss (2000) report the results of a study in which they linked a subset of the employer interviews, on which table 4.4 is based, with interviews with the actual workers in those jobs. They found that 4.9 percent of the workers lacked the educational credentials that the employer had said it required, 27.6 percent lacked the training background, 4.6 percent lacked the general experience, and 28.8 percent lacked the specific experience. The employer statements are clearly more right than wrong, and very much on target with respect to education, but there is also considerable flexibility in some areas.

Are skill requirements rising in the low-wage labor market? Tilly and Moss report that just under 40 percent of the noncollege employers in the multicity survey say skill requirements have risen. Thus, in this low-end segment of the labor market, growing skills, while not the rule, are far from unusual. The employers who do report an increase split evenly between those pointing to higher requirements for basic reading, writing, and numeracy and those who point to social and verbal skills. Computers are widely cited as a source of change, but organizational innovations are cited with equal frequency.

SOFT SKILLS IN THE NONCOLLEGE LABOR MARKET

The literature concerning skills makes a loose, but important, distinction between hard and soft skills. Hard skills refer to abilities such as operating a machine or a computer, knowledge of a specific organizational process, or the capacity to analyze a problem. Soft skills refer to the motivation and personality of the employee and include the ability to work effectively with coworkers, to respond to the boss, and to relate to customers. Tilly and Moss (2000) in their interviews with employers found that many firms, particularly in retail, place a very high value on these soft skills. In the multicity telephone interviews, employers were asked about the qualities they looked for in an entry-level (noncollege) employee. Hard skills were cited by 24.8 percent, while interaction skills were cited by 39.2 percent and motivation by 36.0 percent. Clearly soft skills are important in this market.
Further information along these lines is provided by Holzer (1996). Table 4.5 provides a breakdown of the importance of soft skills.

It seems clear from the foregoing, as well as from the comments employers frequently make regarding motivation and behavior, that soft skills are important. Nonetheless, they should be viewed with some skepticism because there is some reason for worrying that an overemphasis on soft skills can be a signal the job is not very good. One example is a recent survey of 500 establishments that hire entry-level (noncollege) workers (Regenstein, Meyer, and Hicks 1999). The survey was aimed at understanding the job prospects of former welfare recipients. From a list of 12 characteristics, the employers were asked to identify the three most important. The dominant responses (cited by more than 65 percent of firms) were a positive attitude and reliability. The next three were work ethic, punctuality, and friendliness. Having the necessary training was last. The authors draw optimistic conclusions about the job prospects of unskilled workers, but consider the wages: The median pay was $5.50 an hour, 46 percent of the jobs were part-time, and 26 percent provided no benefits, while those that did typically had long waits for eligibility. These patterns suggest that jobs requiring only positive personal characteristics may be a mixed blessing.

Another qualification regarding skill requirements is that they can shift over the business cycle. Firms have a variety of adjustment mechanisms, and there is evidence that when the job market tightens, employers often reduce their hiring standards and compensate by increasing the amount of training they provide (Osterman 1983). As a result, job requirements are not as rigid as they might seem, and the additional implication is that if companies can make this adjustment when times are good, they may also be able to make it throughout the cycle, particularly if they are provided with the appropriate incentives.

**SKILLS IN THE BROADER LABOR MARKET**

It is clear from the foregoing that many employers in the noncollege labor market require a nontrivial level of skills, both hard and soft. This general pattern is broadly consistent with tendencies throughout the labor market. Whereas an earlier generation
of scholars was concerned that the labor market was moving in the direction of "de-
skilling," most researchers today would accept the view that firms are increasingly
demanding a higher level of skill from their employees. (There is debate about whether
increasing skill demands can explain the growth of wage inequality. That is, however,
a different question.)

Increased skill demands come from a variety of sources, but the two most notable
are the spread of computers and the increased use of new systems of work organiza-
tion, frequently termed "high performance work systems." High performance work
systems involve work teams, as well as quality programs, and their successful imple-
mentation involves interpersonal skills ("soft" skills), as well as the ability to engage in
the kind of statistical charting techniques employed by quality systems. Surveys of
employers are consistent in finding that skill requirements are rising (Osterman 1995;
Frazis et al. 1998).

Even so, it is important not to exaggerate skill requirements. To put matters into
perspective, consider one of the hiring vignettes provided by Murnane and Levy (1996).
They described the hiring process at Honda Motors for blue-collar work. By any mea-
sure, these are good jobs for noncollege workers, and Honda is clearly among the most
technologically sophisticated employers in which noncollege workers could hope to
land. Honda put substantial effort into testing prospective employees for interpersonal
or soft skills, and it also administered math and reading tests. However, the academic
skills tests aimed to learn if the applicants could perform at the 10th-grade level. If they
could, then they were acceptable. The lesson is that while the noncollege labor market
requires skills, these skills should be within the grasp of a very wide range of people. If
they have not learned them in school, then it is not hard to imagine that well-designed
training programs can provide them.

**RACIAL ISSUES**

What roles do race and ethnicity play for employers in the low-skill labor market? This
is an important question, but difficult to answer with certainty. A good start is to look
at labor market outcomes by race. Table 4.6 provides earnings data. The table con-
trols for education level, and for one of the groups of most concern—high school
graduates with no further education—one column also controls for hours of work,
looking at those employed full-time, year-round.

It is apparent that there are considerable racial differences in outcomes, even after
controlling for education and labor supply. However, these differences are most pro-
nounced for men. In general, black and Hispanic women do much better relative to
white women than do minority men relative to white men. It is also clear that men in
general earn more than women.

Holzer, in his analysis of the multicity survey, provides a variety of useful infor-
mation on how outcomes differ by race, ethnicity, and gender. Table 4.7 shows how
hiring patterns vary by skills. These data show that outcomes vary across different
groups. However, there is one constant: Black and Hispanic men are consistently less
likely than white men to hold skilled jobs. White females are consistently more likely
TABLE 4.6 1999 Median Earnings, People 25 Years and Over

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>9th–12th Grade Nongraduates</th>
<th>High School Graduates, Including GEDs</th>
<th>Full-Time and Full-Year High School Graduates, Including GEDs</th>
<th>College Graduates, No Advanced Degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>$37,298</td>
<td>$22,939</td>
<td>$31,352</td>
<td>$34,839</td>
<td>$51,884</td>
</tr>
<tr>
<td>Non-Hispanic white</td>
<td>27,253 (.73)</td>
<td>17,901 (.78)</td>
<td>24,710 (.78)</td>
<td>27,404 (.78)</td>
<td>37,572 (.72)</td>
</tr>
<tr>
<td>Black</td>
<td>21,899 (.58)</td>
<td>17,979 (.78)</td>
<td>22,530 (.71)</td>
<td>25,291 (.72)</td>
<td>37,886 (.73)</td>
</tr>
<tr>
<td>Hispanic Women</td>
<td>22,170</td>
<td>11,725</td>
<td>17,441</td>
<td>22,468</td>
<td>30,710</td>
</tr>
<tr>
<td>Non-Hispanic white</td>
<td>20,742 (.93)</td>
<td>10,829 (.92)</td>
<td>16,571 (.95)</td>
<td>20,609 (.91)</td>
<td>31,461 (1.02)</td>
</tr>
<tr>
<td>Black</td>
<td>15,544 (.70)</td>
<td>11,092 (.94)</td>
<td>15,856 (.90)</td>
<td>19,923 (.88)</td>
<td>27,490 (.89)</td>
</tr>
<tr>
<td>Hispanic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are the ratio to the appropriate non-Hispanic white group.

than not to be in skilled positions. The patterns are mixed for white men and for black and Hispanic women, but black women do appear more likely than black men to be in skilled positions.

Greater insight into these patterns can be gained from more-nuanced field work. One source is the Urban Poverty and Family Life study that was conducted in Chicago in 1987 and 1988 (Wilson 1996). The project interviewed nearly 2,500 persons in poor neighborhoods and 179 employers in the city. Wilson reports that “many [employers] consider inner city workers—especially young black males—to be uneducated, unstable, uncooperative, and dishonest” (Wilson 1996, 111). Indeed, 74 percent of the employers held negative views regarding inner-city black workers. Among the employ-

TABLE 4.7 Race and Gender of New Hires by Skills, Noncollege Jobs

<table>
<thead>
<tr>
<th></th>
<th>White Men</th>
<th>Black Men</th>
<th>Hispanic Men</th>
<th>White Women</th>
<th>Black Women</th>
<th>Hispanic Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>All jobs</td>
<td>.260</td>
<td>.096</td>
<td>.089</td>
<td>.341</td>
<td>.102</td>
<td>.067</td>
</tr>
<tr>
<td>Talking to customers</td>
<td>.232</td>
<td>.081</td>
<td>.057</td>
<td>.412</td>
<td>.114</td>
<td>.066</td>
</tr>
<tr>
<td>Reading/ Writing</td>
<td>.260</td>
<td>.086</td>
<td>.073</td>
<td>.363</td>
<td>.098</td>
<td>.068</td>
</tr>
<tr>
<td>Arithmetic</td>
<td>.283</td>
<td>.079</td>
<td>.072</td>
<td>.374</td>
<td>.090</td>
<td>.057</td>
</tr>
<tr>
<td>Computers</td>
<td>.193</td>
<td>.064</td>
<td>.059</td>
<td>.465</td>
<td>.117</td>
<td>.071</td>
</tr>
</tbody>
</table>

Note: The fractions sum to approximately 1 across the rows. To compare skills, note that black men, for example, hold 9.6 percent of all jobs but 8.1 percent of jobs that require talking to customers.
ers who expressed negative views, the opinions were evenly split between those who pointed to skill deficiencies and those who emphasized attitudinal issues, such as work ethic, dependability, attitude, and interpersonal skills (Wilson 1996, 118).

The weight of employer antipathy appears directed toward inner-city black males. As Wilson notes, "In an overwhelming majority of cases in which black males and females are compared, the employers prefer black women" (Wilson 1996, 122). The interviews also seem to suggest that employers prefer Hispanic immigrants to black males. The consequence of these patterns, according to Wilson, is that, even within the low-skill sector, black men are excluded from the "better" jobs, frequently the manufacturing jobs, and find themselves in low-skill service jobs, which paid in the $5.00–$6.00 range and had turnover rates between 50 and 100 percent a year (Wilson 1996, 142).

Racial distinctions appear to be maintained by the recruiting practices of employers. Wilson reports that 40 percent of the employers did not advertise entry-level jobs in metropolitan newspapers, and that two-thirds of the employers who did use newspapers used neighborhood or ethnic papers in order to shape their labor supply. Employers also tended to avoid hiring from city public schools, preferring to focus on private and Catholic institutions.

Tilly and Moss (2000) also report a variety of employer comments from interviews, some of which point to various forms of discrimination. However, the story that emerges from the multiemployer telephone survey is more mixed. Generalizations about groups seem to be moderate: 18.1 percent of employers were willing to state that one gender was better than another at some set of jobs, while 4.3 percent were willing to make a similar statement with regard to race or ethnicity. Tilly and Moss argue that "political correctness" plays an important role in these responses, and, in fact, more narrow questions elicit a wider scope for racial/ethnic attitudes. Between 19 and 23 percent of employers report that other employees and customers prefer dealing with members of their own racial or ethnic group. With respect to assessment of skills, table 4.8 below shows fairly widespread race and ethnic labeling.

In general, it is very hard using the kind of data described above to disentangle the effects of discrimination from genuine skill differences across races or ethnic groups. There is, however, some evidence that discrimination plays at least some role. Audit studies, in which seemingly identical black and white "applicants" seek work, find that blacks—particularly in retail jobs—are hired at a lower rate than whites (Darity and Mason 1998). In addition, Holzer and Ihlanfeldt (1998) find that the racial composition

| TABLE 4.8 Percentage of Employers for Noncollege Jobs Reporting Attitudes about Particular Groups |
|---------------------------------|--------|-------|------|
| Have lagging hard skills        | 20.3   | 5.4   | 1.7  |
| Have lagging interaction skills | 14.6   | 1.1   | 0.6  |
| Have lagging motivation skills  | 33.4   | 5.4   | 0.3  |

of customers affects who gets hired, and that this effect is particularly troublesome for the hiring prospects of blacks.

RECRUITMENT AND HIRING

The standard story about recruitment and hiring is the trade-off between personal networks and more formal recruitment mechanisms. It is widely thought that informal personal contacts, particularly so-called “weak ties,” lead to the best jobs (Granovetter 1973). Another element of the standard view, particularly with regard to the low end of the labor market, is that groups that have difficulty because, for example, they face discrimination or live some distance from jobs, are forced to rely on less-effective formal mechanisms such as schools, the employment service, and job training programs.

Consistent with the view that the worst jobs are found through formal means, the multicity survey shows that firms in the low-wage labor market rely upon a variety of recruiting mechanisms. Referrals from current employees account for only about one-quarter of referrals, with advertising (newspapers and “help wanted” signs) another quarter, and various institutions (the employment service, agencies, schools, and unions) accounting for about 20 percent (Holzer 1996).

A relatively new development in the low-wage labor market is the emergence of temporary-help firms. The explosive growth of these institutions is by now well known and widely commented upon. One striking characteristic is that they span the labor market, from the highest reaches (e.g., firms that provide highly skilled electronic engineers to Silicon Valley) to the low-wage sector. In the low-wage labor market, anecdotal evidence suggests that in some respects these firms are replacing the street corner and are shaping up as the preferred hiring mechanism. Temporary-help firms are used to provide casual labor in a range of low-wage industries. In this sense, they help organize and provide structure to the labor market.

CAREER MOBILITY

There are two alternate images one might have of low-wage jobs. In one case, these jobs, while perhaps not desirable on their own terms, are the first step on a ladder leading to better things. Low-wage employment might provide valuable training, or perhaps the experience of working will pay off over time. In the second image, these jobs are dead ends, and adults who find themselves in them are trapped. This debate is about mobility over the course of the careers of people who begin as adults in the low-wage/low-skill labor market.

Unfortunately, there is little research on this topic. In the youth labor market, several studies have used the National Longitudinal Surveys to ask if there are negative consequences for young people who begin their careers milling around in low-wage/low-skill jobs (Osterman 1994; Klerman and Karoly 1994; Gardecki and Neumark 1998). The broad conclusion is that while there are some young people who fail to settle down successfully, early unstable labor market experience per se is not at fault.
The problem with studying youth to learn about the consequence of holding bad jobs is that the natural trajectory of youth employment is to begin in the low-wage/low-skill labor market and then move on (Osterman 1982). The real question is what happens to adults who work in this sector. The most useful sources of data are various studies using the Panel Survey on Income Dynamics. These enable researchers to compute mobility rates over reasonably long stretches (unlike the Current Population Survey rotation groups, which limit studies to one-year intervals), and are representative of the entire population. Researchers working with these data come to generally similar conclusions. For example, Osterman (1999) found that 49.2 percent of men who were in the bottom earnings quintile in 1979 remained in that quintile in 1995. Although there is clearly mobility, this is a long period for nearly half the group to remain at the bottom. McMurrer, Condon, and Sawhill (1997) report five-year mobility rates out of the bottom quintile of 47 percent for the period 1979–86. Gottschalk (1996) reports that, between 1968 and 1991, 53.3 percent of those in the bottom quintile moved up (and hence 46.7 percent did not). Of those who did, nearly half moved only to the second quintile.

SUMMARY

The foregoing material paints a complicated picture of the low-wage/low-skill labor market. It is clear that, while ill defined, the scope of the market is quite substantial and shows no sign of contracting. Some jobs in the market require real skills, which may be out of reach for some people, while other jobs are much simpler and, at most, require interpersonal soft skills. Race clearly plays a continuing role in this labor market, although it is difficult to pin down the relative contributions of skill and attitudinal deficits, stereotypes, and discrimination. For a great many people, the low-wage/low-skill labor market is not simply a staging area for career mobility but, rather, appears to be a trap from which escape is difficult.

At the same time, there is an incomplete quality to our knowledge and understanding. We lack a coherent theory of the structure and dynamics of this labor market. Some 30 years ago, dual labor market theory (Doeringer and Piore 1972) was widely popular as a way to understand bad jobs. In this view, the secondary labor market was characterized by the absence of well-defined internal job ladders, and it existed either because the jobs required little in the way of human capital, and hence there was no need for long-term attachment, or because the firms in the secondary labor market provided buffer output, expanding and contracting with the ebb and flow of the core labor market. Employees in the secondary labor market moved from job to job with very little payoff to long-term attachment in any one location.

In many respects, this conceptualization remains useful. However, ultimately it does seem defeated by the diversity in the labor market as a whole and in the low-wage/low-skill labor market in particular. The emergence of high-end, contingent jobs shows that buffer or flexible employment need not imply bad jobs. The fact that hotel workers in Las Vegas have good jobs while those in New Orleans have bad ones demonstrates that factors beyond the job per se are important. Nor is it clear what sweatshops have in common with hotel employment or fast-food jobs. In addition, the numerous low-wage
jobs in very large hospitals undermine the standard image of the low-wage/low-skill employer.

These complexities suggest that dual labor market theory needs to be reconsidered and updated. As things stand now, there is something unsatisfactory about the ad hoc quality of our understanding of the low-wage labor market. Academic researchers have some way to go in providing a more complete account of this labor market. But until they do, we will have to remain satisfied with the facts summarized above.

**POLICY OPTIONS: CHANGING EMPLOYER BEHAVIOR**

A fundamental characteristic of the low-skill labor market is that it is shaped by public policy. Minimum wage laws and other labor standards establish the bottom and exercise a substantial impact on the wage structure even above the bottom. Immigration policy influences labor supply, as do the actions of the public schools (given the substantial number of young people who work in low-skilled jobs). Welfare reform has also had a major impact upon the supply of labor. And, of course, a great deal of federal and local job training policy has aimed at this labor market.

A broad range of policies is intended to deal with the low-wage/low-skill labor market. A partial list would include: (a) improving the human capital of people who find themselves trapped at the bottom; (b) creating public jobs to provide employment to people unable to find work; (c) attacking spatial mismatch either by encouraging job creation where poor people live or improving the access of poor people to where jobs are; (d) altering the supply of labor to the low-wage labor market via immigration or school policy; (e) subsidizing work via the earned income tax credit; and (f) influencing the behavior of employers in the low-skill labor market along a range of dimensions (e.g., hiring practices, wages, working conditions, career ladders, and training).

Outside of transfer payments, the bulk of public policy has historically been directed toward improving the human capital of low-wage workers. There is no question that this is important. First, there is a clear relationship between formal education attainment and labor market outcomes. Second, more direct measures also suggest that skills are an issue. For example, the National Adult Literacy Survey found that 60 percent of low-wage men and 45 percent of low-wage women scored in the bottom two (out of five) levels (Lerman 1999). A focus on skills and training is also comfortable in that it does not force policymakers to enter the relatively unfamiliar terrain of how to work with firms to alter their practices.

While improving the skills of low-wage workers is clearly important, it is also insufficient. First, as the Literacy Survey results suggest, a substantial number of low-wage workers score above the bottom two levels, yet remain poor. Second, it is important to pay attention to the demand side as well as the supply side of the market. For these reasons, and because other chapters take up the skills and personal characteristics of low-wage workers, the remainder of this chapter focuses on the possibilities for influencing employers in the low-skill labor market.

There are four broad possible ways to influence employers in the low-wage labor market: standard setting; union organization; building new labor market inter-
mediaries; and providing incentives for firms to improve opportunities for their employees.

**Standard Setting**

The low-wage/low-skill labor market is heavily impacted by government standards, notably minimum wage legislation, hours laws, and health and safety legislation. If deemed desirable, the government could raise the standards and enforce them in a manner that would improve conditions.

There is considerable controversy about the desirability of pushing up standards via legislation. The classic debate revolves around the minimum wage. The debate has become more heated in recent years, with new evidence emerging that employment losses are not very significant. (See Houseman 1998 for a review of the literature.) Although no clear consensus has emerged among economists as to the employment consequences of the minimum wage, it would be fair to say that at current levels these consequences seem minimal. At the same time, the declining value of the minimum wage has been an important culprit in the worsening of wage levels at the bottom of the labor market; hence its restoration would shore up conditions of the working poor (DiNardo and Lemieux 1997). It is true that the minimum wage is a somewhat blunt tool with respect to poverty (in recent years, most adults in poverty do not work, although welfare reform may be changing this), and there is some leakage (many minimum wage workers are in families above the poverty level). Nonetheless, the minimum wage hits its target more than not and is an essential tool for pushing up standards.

A broader way to think about the minimum wage is to conceive of an integrated regulatory strategy that would include not only the minimum wage but also other labor market standards (Piore 1999; Wial 1999). The argument here is that federal regulatory policy in the low-wage labor market has been too much driven by complaints and too little driven by a strategic vision of how to coordinate the range of regulations (e.g., minimum wages, hours, health and safety). This is a policy approach aimed at firms that are out of compliance, and they represent only a minority of low-wage employers. Nonetheless, it is an argument worth considering.

A different regulatory strategy that is gaining increased popularity is the living wage campaign. Living wage ordinances, which have been enacted in over 40 cities, take a variety of forms. Some are directed at contractors that do business with the city; others aim at city employees; and yet others (none of which have been passed) establish a city-specific minimum wage. Living wage campaigns have two logics, one economic and one political. The economic logic is that the campaigns seek to establish a new baseline, “going” wage for adults in the community that is above the federal or state minimum wage. It may be acknowledged that the minimum wage may be acceptable for youth and other people with casual labor market attachment, but it is held unacceptable for adults whose earnings are important for family support. The possibility of establishing the new living wage as the going wage lies partly in legislation—for example, requirements that city contractors pay the living wage—and partly in shifts of expectations. A long line of research on wage settings shows that such expectations can play an important role in local labor markets.
The direct impact of living wage ordinances is limited, usually affecting no more than a few thousand employees in any given city. However, in principle their impact is broader, both because of the expectations effect and because they are a strategy for encouraging public debate about wage levels. For community groups, living wages are also an important organizing tool. First, the beginning of a campaign provides a venue for people to research their local economy and learn about its wage structure. Second, establishing the initial ordinance provides a goal around which considerable energy can be mobilized. Third, once living wages have gained a foothold—for example, via the ordinance—then it is possible to approach a new group of workers and ask them whether they realize they are not being paid the living wage. This provides an ongoing basis for organization.

A final regulatory strategy is vigorous enforcement of equal employment opportunity laws. The material presented earlier suggests that discrimination persists in the labor market, particularly against less well educated black males. Other reviews of the evidence reach similar conclusions (Holzer 1998). The pattern of the results implies that medium to small establishments and suburban establishments with a largely white clientele are particularly a problem. The politics of this issue are obviously difficult, but as a pure policy proposition, new enforcement strategies should be considered.

**Union Organization**

The most direct way to improve jobs in the low-wage/low-skill labor market is union organization. The earlier comparison of the economic well-being of hotel workers in Las Vegas and New Orleans illustrates this point. Recent union organizing drives have been successful for some classically low-wage occupations, such as home health care workers in Los Angeles and janitors in a number of cities.

Broadly speaking, whether or not a firm is unionized is a decision best made among the private parties. However, several public policy issues are potentially quite important. First, should public authorities wish to encourage organization in the low-wage sector, they can be helpful in a variety of ways. The case of the home health care workers in Los Angeles illustrates this: To succeed, the union needed to establish an employer of record for what was previously a widely dispersed group of seemingly self-employed individuals. Legislation was required to establish a public home health care agency that could serve as a central bargaining agent.

Political leaders, through their rhetoric, could bolster sentiment for organizing low-wage employees. Beyond this, it is widely acknowledged that labor law is not functioning effectively to establish a so-called “level playing field” with respect to union organization and elections. This is a topic that has been widely discussed both in general (Kochan 1998) and with respect to low-wage employers (Wial 1999). It is clearly important if the goal is to enhance the chances of organization in the low-wage sector.

**Intermediaries**

A third approach is to attempt to transform the nature of career paths in the low-wage/low-skill labor market. The objective is to create pathways that move employees into firms providing higher-quality jobs.
There are a variety of promising programs throughout the country to create new pathways. What is distinctive about them is that they link job training—a long-standing component of antipoverty programs—with a sophisticated understanding of how to work with employers, and provide a range of intermediary services that ease mobility. A good example is Project QUEST, in San Antonio, Texas, which was created by two community organizations affiliated with the Industrial Area Foundation (IAF), a national network of community-based organizations.

At the core of the QUEST model are several distinctive features. The program began with a commitment from firms of jobs for the graduates (and the IAF’s power in San Antonio was obviously central to obtaining this). The program worked closely with employers to identify promising job openings and to design training curricula. The training was long-term (lasting about one-and-a-half years), and while full stipends were not provided, various forms of financial support were available, as was intensive counseling and support of various kinds. The support and counseling were essential elements for keeping people in the program and, along with the length of the program, distinguishing it from the typical Job Training Partnership Act (JTPA) effort. The training itself took place in community colleges, and QUEST worked with the community colleges (again drawing upon the power of the IAF organizations) to redesign their curricula and remediation efforts in various ways.

A 1996 evaluation demonstrated that QUEST led to substantial gains for its participants (Osterman and Lautsch 1996). The estimated annual earnings gain was between $4,900 and $7,500, with the expected payoff of costs being a very short three years.²

It is very important to note that although the gains for individual clients are clearly important, Project QUEST thinks of itself in more ambitious terms than a traditional employment and training program. In a traditional program, the nature of the external environment—the behavior of firms, the surrounding educational institutions, and the community itself—are taken as given, and the program simply seeks to place clients successfully in that environment. Project QUEST became an active actor in the San Antonio labor market and education system, and obtained institutional change. One example is that it bargained with employers to raise the wages of entry-level workers and to create job ladders attached to some entry-level jobs.³ Its ability to do so was a reflection of its power in the market. Second, it pushed hard on the community colleges and led them to adopt innovative programmatic, curricular, and scheduling changes, all of which have subsequently been made available to all students, not just those from QUEST.⁴

The program design described above, while in some respects distinctive to Project QUEST, includes the key elements of what has come to be seen as best practice in this area. Effective programs work closely with employers in identifying openings and in designing training. They provide support to trainees and relieve firms of many of the burdens of dealing with the complicated personal circumstances of low-wage workers. They frequently (but not always) work with community colleges. And they pay careful attention to the quality of the jobs and the firms in which they place people.

There are a number of other well-known and effective programs for connecting low-wage employees to better firms. The Regional Training Partnership in Wisconsin
has built a network of firms, one component of which is to create a mobility channel for low-wage workers in Milwaukee. The Center for Employment and Training in San Jose runs customized training for high-tech firms in the area. Focus Hope in Detroit has had success in placing low-wage, inner-city workers into the region’s automobile industry.

**Incentives to Improve Employee Opportunities**

The fourth strategy is to improve the nature of the jobs provided by low-wage employers. Obviously, this is also the objective of standard setting and unionization, but here incentives are examined. At the core of this strategy is the view that firms have choices in how they organize work, and that it is possible to influence these choices. This perspective finds justification in the business school human resources literature, which points to firms in the same industry, say Southwest Airlines and American Airlines, that have quite different philosophies about employment practices. There is also a strand of economic theory that argues that employers can choose a high-wage/low-turnover option or a low-wage/high-turnover approach, each of which can be profitable.

One strategy is to reorganize work in ways that lead to better outcomes. This approach is currently characterized in the field as “sectoral” programs. A widely cited example is Cooperative Home Care Associates (CHCA) in New York City, a worker-owned organization that has upgraded what has been traditionally very poorly paid jobs. By providing greater-than-average training of and investment in home care workers, CHCA is able to convince payers to improve pay and working conditions. According to Elliot and King (1999), similar strategies are being followed by programs working with day laborers in Tucson and paraprofessional health care workers in New Hampshire. A less ambitious but related effort is the attempt to encourage firms to upgrade jobs and provide internal ladders. This has had some success in hospitals under collective bargaining (frequently cited cases are the Cape Cod Hospitals as well as agreements in New York and Philadelphia). Pindus et al. (1999) cite other nonunion examples in the health and hospitality industry. Another example is the Garment Industry Development Corporation, which provides technical and marketing assistance in a traditionally low-wage industry and also a range of training opportunities for employees.

Another approach is to provide incentives to employers to provide more training to their low-wage workers. There is evidence, at least with respect to hiring, that well-designed financial incentives can influence the hiring practices of firms (Katz 1998), and it is reasonable to believe that the same is true of training. An example is an incumbent-worker training program in Michigan in which the state influenced companies to expand their training (Holzer et al. 1993). In terms of low-wage/low-skill workers, it is widely recognized that firms offer very little in the way of basic education training even though the needs appear to be substantial. Lerman (1999) cites a survey that found that less than 5 percent of medium-sized firms offered basic-skills training, although about 37 percent of their workforce needed it. The challenge is to design incentives to overcome this gap. One approach is to build financial incentives for individual firms, either though the tax system or direct grants. The alternative is to provide incentives for consortia of firms to develop common solutions, perhaps with a local community college as a hub.
CONCLUSION

The low-wage/low-skill labor market is large and diverse. Both characteristics offer an analytical and policy challenge. The analytical challenge is that no single perspective captures the essential characteristics of the market. In this chapter, the role of skills (hard and soft), work organization, recruiting patterns, and race in the low-wage/low-skill labor market have been examined. Each is important in understanding how the market operates. The problem, of course, is that each also implies a different approach to policy. As a result, a range of policies, including standard setting, union organization, intermediaries, and incentives for firms to transform their employment practices have also been reviewed. Each has a role to play.

The size of the low-wage/low-skill labor market poses a challenge of a different kind. Everyone who works in employment and training knows of well-performing programs. But the hard fact is that when added up, none of them, not even all taken together, achieves the scale necessary to impact the labor market as a whole. This suggests that policies need to be assessed not simply in terms of their impact on their clients or target group, but also with respect to their potential for broader impact. From this perspective, the standard setting and union organization approaches seem more promising than traditional job training efforts. However, if job training or sectoral initiatives are conceived as part of a broader organizing strategy that seeks to improve the functioning of other labor market institutions, such as community colleges, then they, too, may achieve scale.

The final lesson is that while our understanding is incomplete, it is nonetheless substantial, both with respect to the nature of the problem and in terms of imaginative and potentially successful policy interventions. This suggests is that if resources were forthcoming, a great deal could be accomplished.

NOTES

1. This is calculated from the March 1999 Current Population Survey. The figures are arrived at by summing the number of people age 25–64 who worked full-time and full-year and who earned less than $17,499 a year. The $8.50 figure is based on the assumption that a full-time/full-year worker works for 2,080 hours a year. For the data, see http://ferret.bls.census.gov/macro/031999/permit/new06_000.htm.
2. The evaluation we conducted showed that Project QUEST participants earned more than $7,000 a year more after participation than before. This estimate is based upon a pre/post-design; there was no control group available. Hence, there is a possibility of selection bias. However, we carefully studied the intake procedures, read folders of a randomly selected sample of participants, and concluded that people who had enrolled did not automatically recover from serious barriers to employment that would have been difficult to overcome in the absence of the program. The pre/post-design is also vulnerable to what is termed the "Ashenfelter dip," i.e., the tendency of participants to experience a temporary decline in earnings just prior to enrolling in a program. There was evidence of such a dip in the data, but it was not nearly large enough to explain away gains of the magnitude we found.
3. QUEST insisted that jobs pay at least $7.50 an hour. In several cases, it succeeded in raising wages. In other cases, it convinced employers to transform low-paying jobs into entry steps on a job ladder.
4. For example, it convinced the community colleges to establish a Remediation Academy for entering students to prepare them for Texas admissions tests. In other cases it modified curricula to allow for open-entry/open-exit designs.
REFERENCES


