# Addressing the Challenges of Unemployment in Low-Income Communities

By Carolina Reid

## Introduction

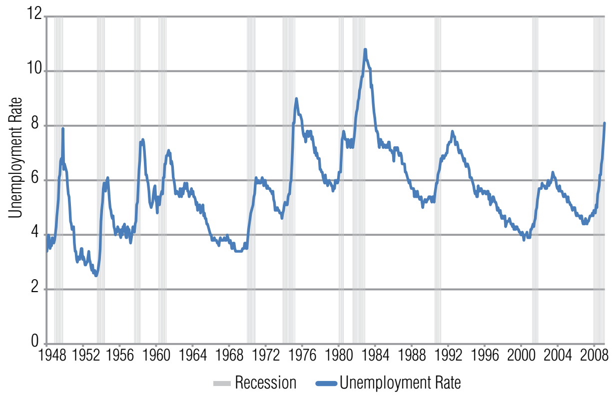
Boeing plans to lay off 10,000 workers; Yahoo announces 1,500 job cuts. Home Depot, Sprint Nextel, and Caterpillar all announce large reductions in their workforces.[1] Nothing evokes the effects of the current recession more than the daily reports of additional layoffs across a broad range of industries. Since the downturn began in December 2007, the U.S. economy has lost approximately 4.4 million jobs, pushing the unemployment rate up to 8.1 percent in February, the highest in a quarter century (see Figure 1.1). More than 12.4 million people are currently looking for work. Not captured in these statistics are people who are underemployed—forced to work part-time or in a job for which they are overqualified—or those who have dropped out of the labor market entirely, so the toll of the recession is likely to be much higher than the 8.1 percent figure suggests. And most economists predict that this rate will continue to increase in the near future, though much hinges on federal efforts to stimulate economic recovery.

Within the Federal Reserve's 12th District, the impacts of the downturn in the housing market and economy have been especially severe, and the unemployment rate has grown faster and more sharply than for the United States as a whole. Several states have been particularly hard hit: the unemployment rates in California, Nevada and Oregon all topped 10 percent in February (see Figure 1.2). In fact, all of the states in the 12th District except Alaska have seen considerable drops in their nonfarm payroll employment, with jobs in the construction, manufacturing, tourism, and professional business sectors showing the greatest declines (see Figure 1.3). Yet unemployment rates vary significantly across the district, with some communities harder hit than others. As Figure 1.4 shows, the highest rates of unemployment are clustered in California's Central Valley and Inland Empire, as well as in Oregon's and Alaska's rural areas.

Yet, even this dismal macro-economic picture likely understates the impact that the rising unemployment rate is having on low- and moderate-income families and communities. Certainly there is evidence that the depth and duration of this recession is having broad repercussions for a large number of people, but even so, when unemployment rises, lower-skilled workers and those who earn less are particularly hard hit. Figure 1.5 shows the unemployment rate among different socioeconomic and demographic groups. For workers without a high school degree, the unemployment rate now stands at 12.6 percent; for African Americans, the rate is 13.4 percent.

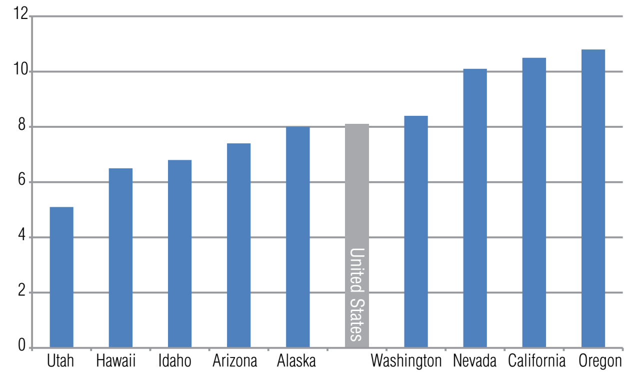
The consequences of unemployment for low-income communities may also be higher; lower-income households experience greater income losses (as a percentage of income) during recessions, and it takes them longer than higher-income households to get back on their feet.[2] Unemployment can have particularly devastating effects on single-parent households, as well as on households that have come to depend on two full incomes to make ends meet. And consider this: for years, we've been driving home the fact that more than one in five households in the US are "asset poor," meaning that they have insufficient savings to subsist at the federal poverty level for three months in

Figure 1.1
**U.S. Unemployment Rate**




*Source: Bureau of Labor Statistics*

Figure 1.2
**Unemployment Rates in the 12th District February 2009**




*Source: Bureau of Labor Statistics, Seasonally adjusted*

the absence of income. Today, the average unemployment spell lasts five months, meaning that many families will be unable to meet even their basic needs if they lose their job.[3]

Clearly, generating job growth and providing a stronger safety net for unemployed households are top priorities for the federal government, and these goals are embedded in the American Recovery and Reinvestment Act signed into law by President Obama in February of 2009. The Act expands unemployment benefits and other social welfare provisions and increases domestic spending in education, health care, and infrastructure. While analysts disagree about the likely impact of the stimulus package, the Congressional Budget Office estimates that the Act could increase employment by 0.8 million to 2.3 million by the end of 2009 and by 1.2 million to 3.6 million by the end of 2010.[4] The U.S. Department of Treasury and the Federal Reserve System have also been taking unprecedented actions to stabilize the nation's financial system and unfreeze the credit markets, both seen as important preconditions for long-term economic recovery.

But the current crisis also puts into stark relief the need to invest more broadly in workforce development in low- and moderate-income communities, and to help lower-skilled workers access stable and living wage jobs.[5] In low-income communities, the problems of unemployment are much more longstanding, and are not limited to recessionary times. In the recently released report, *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities across the U.S.,* unemployment rates in all of the 16 high-poverty case study communities far exceeded the unemployment rates in their surrounding regions and for the nation as a whole. In West Fresno, California, for example, the unemployment rate in 2000 was a staggering 22.7 percent, at a time when the national unemployment rate hovered closer to 4 percent.

In low-income communities, then, it will take more than a stimulus package to better link working age adults with stable and well-paying jobs. Harry Holzer, an economist who has long studied workforce issues, points out that one of the great ironies of domestic policy has been that federal investments in workforce training have dramatically declined over the past few decades, despite the fact that today's labor market places an ever-higher premium on skills and training.[6] Indeed, federal investments in comprehensive employment and training policies peaked in 1979: today, the United States spends only 0.1 percent of its annual GDP on workforce training, far lower than almost any other industrialized nation.[7]

And while it may be hard to justify more government spending at a time when the budget deficit is projected to top a trillion dollars, Holzer also argues that the lack of investment in workforce development entails direct costs to the economy, including lost productivity and direct federal expenditures for Medicaid and other means-tested programs, as well as indirect costs resulting from unemployment and its relationship to crime, incarceration, and family breakup.[8] In Washington State, which has implemented a rigorous system for evaluating the costs and benefits of its workforce development programs, researchers found that the return on investment averaged between $4 and $127 per dollar spent; for participants in the primary workforce program (WIA), lifetime returns on investment were measured at about $7-8 for every $1 in public funds invested in 2006.[9] These benefits accrued in the form of increased lifetime earnings, increased taxes paid, and significant decreases in public assistance outlays (specifically, welfare payments, food stamps, and medical benefits).

All of this suggests that investments in workforce development—particularly among lower-skilled adults—are likely to have significant payoffs down the road.

## Labor Market Issues Facing Low-Income Communities

Getting to the root causes of the labor market issues facing low-income communities is far from easy, however, and even the best intentioned policies have faced difficulties in tackling the complicated and interwoven barriers that keep lower-skilled adults from accessing living wage jobs.

In the 1990s, federal policy towards lower-skilled, unemployed adults was focused primarily on reforming the welfare system, and ending a perceived cycle of "welfare dependency" in poor communities. The passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996 signaled a major shift in welfare policy, shifting from a system that guaranteed cash assistance to one that emphasized "work first." The new Temporary Aid to Needy Families (TANF) program put time limits on welfare benefit receipts and required recipients to work or participate in work activities in order to receive cash assistance. Importantly, TANF was also supplemented by policies to "incentivize" work and help make work pay. The expansion of the Earned Income Tax Credit (EITC) and Medicaid, and the introduction of the State Children's Health Insurance (SCHIP) program, all greatly increased the relative returns to work over welfare for poor women with children. As a result of these policy changes—initiated during a period of relatively low unemployment—the welfare rolls dropped dramatically, and many have since heralded welfare reform as a success.

Yet the success of helping lower-skilled workers achieve financial self-sufficiency has been much more limited. In a review of studies of those who left welfare, Gregory Acs and Pamela Loprest found that among those leaving welfare, average earnings remained well below the poverty line, and fewer than half had jobs that provided health insurance coverage.[10] Indeed, most of the research confirms that many former TANF recipients have become the working poor, many of them without medical benefits and/or sick and family leave. Katherine Newman, a sociologist at Princeton University, sees this as a fundamental failure of our federal policies toward the unemployed. "[W]e seem to feel that as long as we've taken people off public assistance, our job is done," she has written. "But it isn't done—it isn't good enough in a country as wealthy as this to replace welfare-dependent poverty with working poverty."[11]

Tackling working poverty is likely to be much harder, however. Even before the current recession hit, the difficulties facing low-skilled workers in obtaining a living wage have grown, as changes in the US economy have increasingly placed more value on those with higher

Figure 1.5
**Unemployment Rates**
**February 2009**

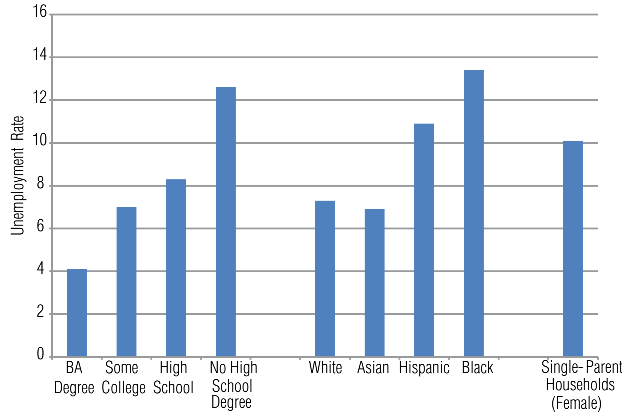
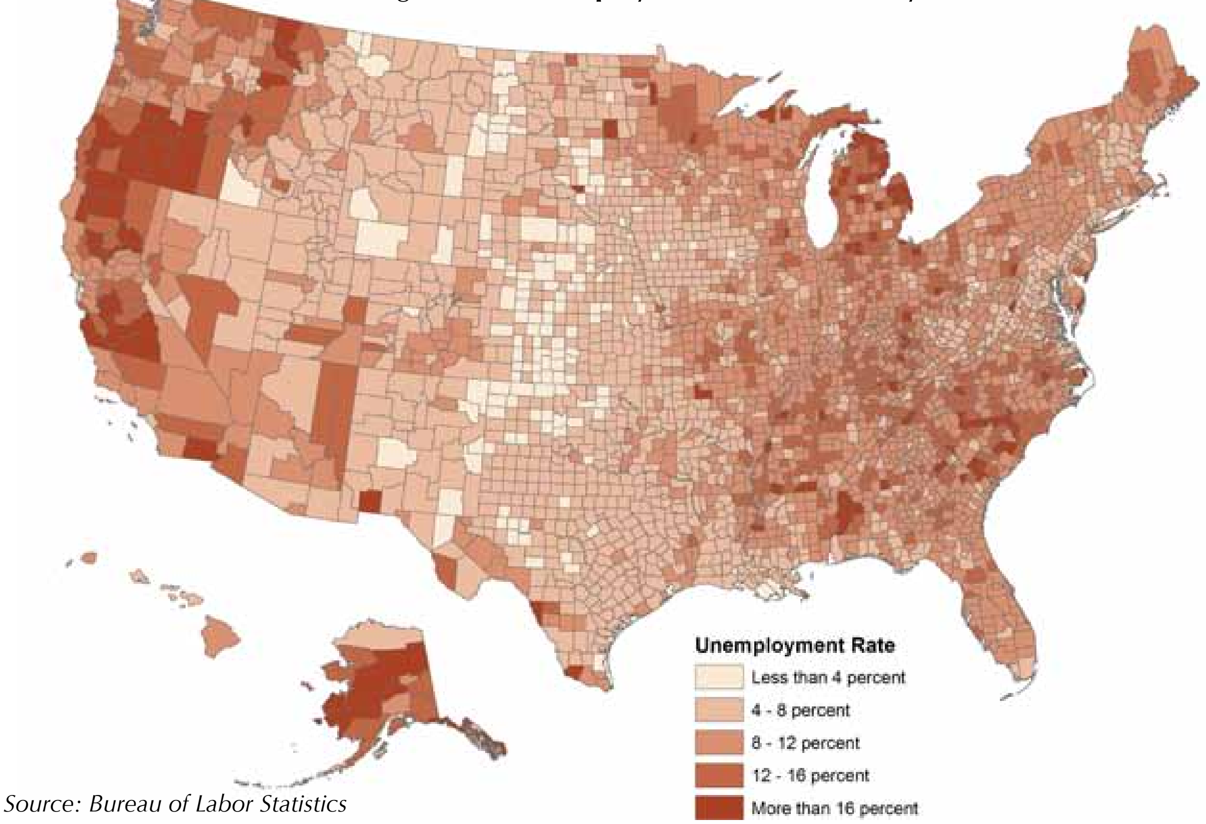



Figure 1.3 **12 month change in employment, February 2009**

| | Total | Natural Resources & Mining | Construction | Manufacturing | Professional & Business Services | Leisure & Hospitality |
|---|---|---|---|---|---|---|
| **Alaska** | 0.9 | 6.8 | -0.6 | 0 | -0.4 | -1.6 |
| **Arizona** | -6.7 | -4.7 | -26.8 | -6.4 | -10.9 | -6.1 |
| **California** | -4 | 0.4 | -18.5 | -6.2 | -4.5 | -2.8 |
| **Hawaii** | -3.1 | -9.9 | NA | -4.6 | -2.5 | -6 |
| **Idaho** | -4.5 | -15.9 | -14 | -8.8 | -8.9 | -5.8 |
| **Nevada** | -5.2 | 1.6 | -17.9 | -7.3 | -6.9 | -6.2 |
| **Oregon** | -4.7 | -8 | -17.3 | -12.4 | -6.6 | -3.6 |
| **Utah** | -2.1 | 16.2 | -16.2 | -7.5 | -1.5 | -3.6 |
| **Washington** | -2.8 | -10.4 | -10.6 | -6.2 | -5.5 | -0.4 |

*Source: Bureau of Labor Statistics*

Figure 1.4 **Unemployment Rates, February 2009**




*Source: Bureau of Labor Statistics*

education. Earnings for workers without a high school diploma fell throughout much of the 1980s and 1990s, widening the gap between wages paid at the low versus high end of the spectrum. In 2003, nearly 25 percent of all low-skilled workers earned less than $7.73 an hour; at this wage, a family of four would still be living below the official U.S. poverty line, despite full-time, year-round work (defined as 2,000 or more hours a year).[12]

Second, low-skilled workers often face other significant barriers to obtaining and retaining a job. Many lack "soft" job skills, which include problem-solving and communication skills, professionalism and work ethic, and interpersonal and teamwork skills. Others often have limited English proficiency and/or are the primary caregivers for their children, siblings, or parents, or have health problems to contend with. Still others struggle with substance abuse, are victims of domestic violence, or face discrimination in the hiring process because of a prison record. All of these factors can influence someone's ability to find and keep a job, and make it especially difficult to move up in the labor market.

While limited education and work experience—coupled with other personal barriers to work—are likely to be the biggest drivers of unemployment in low-income communities, other researchers have pointed to structural changes in the geographic location of jobs as yet another factor that can keep lower-skilled workers from accessing employment. Known as the "spatial mismatch" hypothesis, this theory argues that residential segregation combined with the suburbanization of jobs has prevented inner-city workers from accessing jobs and opportunities in other parts of the region.[13] Public transit systems, in particular, often don't support 'reverse commutes' to these jobs, making it difficult for those without cars to get to work. Other research suggests that social distance—limited social networks and knowledge about those jobs—is more important than actual physical proximity. For many, access to jobs is not just about overcoming physical barriers and matching personal skills to employer needs, but requires strengthening the social institutions that manage connections between employers and jobseekers. Seminal work by Mark Granovetter found that "weak ties"—e.g., casual acquaintances—are more important in job searchers than "strong ties"—close friends and family.[14] In low-income communities, these "weak ties" are often missing or more narrowly constructed than in higher income communities, limiting access to employment.

## Linking Workers to Living Wage Jobs

So how can we best tackle these challenges? Increasingly, researchers and policy-makers are recognizing the need for a multi-pronged strategy that can both train lower-skilled workers and connect them to employment opportunities. Efforts that have focused on merely one or the other have been less successful. For example, efforts to relocate public housing residents to higher-income neighborhoods—through Section 8 vouchers or demonstration projects like Moving to Opportunity—have had rather disappointing outcomes on the employment of these adults. Researchers suspect that this is due to the fact that while the move may have brought them physically closer to places of employment, it did not address skill gaps or the need for workforce intermediaries and social networks in the job search process.[15]

In contrast, programs that combine training, job search and placement assistance, and financial and social service supports have shown impressive results. For example, training programs that involve private-sector employers and that prepare workers for specific jobs in those sectors improve both employment outcomes and earnings, particularly for low-income and at-risk individuals. Working with employers ensures that skills gains are directly applicable to available jobs, and provides a better "match" between employers/jobs and job seekers than might otherwise be obtained through basic education.[16] Combining job training with other financial supports and services—such as access to child care or health services, for example—has also been proven effective for low-income populations. And the evidence suggests that more intensive case management—as opposed to only providing limited employment services and/or relying on case workers with very large caseloads—is important in achieving long-term results, including opportunities for career advancement and wage progression.

Providing financial incentives that improve the returns to work can also improve employment outcomes for low-income workers. In many cases, going to work and "earning more" can actually have a negative impact on a household's overall income: as wages go up, social benefits such as housing and childcare subsidies go down. At the poverty line, these benefits are a critical part of a household's balance sheet. The EITC addresses this gap at the federal level by increasing the financial returns to work for lower-earning workers, but many states and municipalities have also developed financial incentives to encourage and sustain employment. When financial incentives are combined with other employment services, the effects on employment outcomes can be significant. Jobs-Plus, a demonstration project in six cities, implemented a unique strategy that provided employment and training services, financial incentives, and community support networks to residents of public housing developments. The research found positive impacts on earnings across racial/ethnic subgroups, despite the fact that many residents had significant barriers to work.[17]

Because such a wide range of interventions are needed, the most promising models of workforce development today involve partnerships among industry and employer groups, community colleges, state and local agencies (including workforce boards), community groups, and intermediary organizations, such as community development corporations (CDCs). (See the articles "Back to School and Back to Work" and "Back to Our Roots" for further discussion on workforce development partnerships with community colleges and CDCs.) These partnerships are also critical to breaking down traditional workforce silos. The Annie E. Casey Foundation's Job Initiative, an eight-year effort in Denver, Milwaukee, New Orleans, Philadelphia, St. Louis and Seattle to improve the way urban labor market systems work for low-income, low-skilled workers, concluded that an effective workforce development policy requires systems change. Too often, policies at the federal level conflict with state level policies and local goals, and the lack of communication across sectors (public and private) can thwart economic and workforce development goals. Applying the lessons learned from previous workforce development efforts, such as the need for building a more integrated workforce development system, will better support low-wage workers over the long-term. (For more on lessons learned, see the article "Lessons for a New Context.") In addition, improved workforce development systems must also address the ever-changing dynamics of the labor force, which include demographic shifts such as waves of retiring Baby Boomers and the rapid growth of immigrant labor. (For more on the impact of unemployment on immigrant communities, see "Workforce Development Needs for Immigrant Job-seekers.")

## Conclusion

While workforce development has traditionally existed outside of the nuts and bolts of neighborhood revitalization and community development efforts, tackling unemployment is a critical component of addressing chronic poverty in our nation's communities. Doing so will require a coordinated effort by all levels of government, and a greater commitment to investment in workforce training systems. While job placement and the restoration of family income are immediate goals in this period of high unemployment, the community development field should identify ways that it can support workforce development efforts that lead to sustained wage progression and economic self sufficiency. CI

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