

15.677J/11.427J, Urban Labor Markets and Employment Policy  
Prof. Paul Osterman  
**Class 3: The Demand for Labor**

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Think about your paper that's due and send email to prof. Examples in the past:

- Job training programs in nursing homes to upgrade skills for CNA's in Massachusetts (field based surveys)
- Impact of tax incentives for job creating investments: critical analysis about the literature.

Note either field based or analysis, but should include critical thought and analysis. No book reports.

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1. What determines earnings?

Big question and covers about half of the literature in labor economics. Our perspective is what determines trends in equality? Is it the role of skills (and impact of technology), role of attitudes, or role of politics/power?

One's understanding, i.e., the weight that one gives to each of those prospective roles, will determine which policy programs are needed to address problems in labor market such as inequalities. Are the appropriate programs then skill training, or attitude training (soft skills), or raising minimum wage and legislation supporting collective bargaining (unions)? Or is it a mix of the above? If so, what mix?

2. A review of the basic facts shows:

- a. 1973-78 reflecting a big increase in supply of college workers but a decline in college premium (increase wage paid to college workers vs. high school workers) but the trend subsequent is steady increase.
- b. Increasing inequality through the 1980s particularly (looking at 90:10 ratio where top 10% earn in the high \$100,000's).
- c. Inequality stays steady in late 1990s as economic restructuring affects college workers and they suffer declining income.
- d. Black-white wage gap declined over several decades into the early 1990s but is now holding steady. Note that gap is smaller for women than for men (women work more related to low income jobs which show less differentiation).
- e. Male-female gap improves into 1990s then holds steady.

3. Some of the causes might be:

- a. Real minimum wage declined significantly over 30 years due to Congressional/Presidential inaction.
- b. Computer revolution as workers using computers doubled since 1984; complementary correlation of education and salary.
- c. IT industry as percentage of GDP rises and percent of workers who use computers rises. BUT note that IT increase has been steady since 1948 but inequality increase has been much more severe in recent periods.

- d. Note that even in low wage jobs there is a relative high level of skill required in dealing with customers.

So central question is: what determines wages, and then what can policy do?

A.

1. What is underlying argument in "Changes in Earning Inequality?"

Johnson says technology makes both skilled and unskilled workers more productive, skilled workers get much more productive and it increases more so the demand for skilled workers. Inequality is a function of skill which means wages determined by supply and demand in the market.

Technology change is of two types:

*Intensive* technological change: skilled workers get better at tasks; upskilling

*Extensive* technological change: unskilled workers get replaced by technology.

Johnson notes paradox skills theory of wage determination: in early 1980s there was a boom in college educated workers (increased supply) but noted that there was a steady increase in college premium too. Must be a demand shift increase too (caused by technology).

2. What are Johnson's analysis of other views?

He analyzes the trade story as an alternative explanation: losing unskilled workers due to imports and unemployed workers drag wages down in other sectors. BUT job losses due to imports are not that large and need to be discounted by the job increases due to exports.

However, does Johnson deal with the threat effect of outsourcing on workers which causes wage concessions? Prima facie evidence of impact of globalization on low wage decline is plausible though numbers aren't that big but real effect is hard to measure.

Note that Johnson does not consider institutional factors (decline in union density from 35% to 10%, minimum wage decline).

3. What then would be the policy implications of Johnson's argument?

For Johnson, problem is the supply side, individual's don't have the right skills so job training programs are called for. Relates to human capital theory where skills determine earnings. [note that Cappelli argument is consistent with Johnson's].

A strongly opposing point of view is by Braverman and other sociologists looking at work. Technology is deskilling the work force by substituting higher skill workers with lower skill workers. Technology is not used in neutral sense but is controlled and introduced selectively which hurts workers. There is a politics of technology at work.

B.

1. What is the central argument in "The Skills Myth?"

Howell (anti-Johnson argument) says increasing inequality in early 1980s is not technology or skill or supply-side induced, but rather employer choices to lower labor costs even given the increased productivity of workers. Employers are choosing the low road to production (low wages, offshoring, Wal Mart-like) as opposed to high road (in house production, high wages, quality, Costco-like).

2. How did the low road occur?

- a. Collapse in bargaining power of unions; 1980s saw heavy concessionary bargaining.
- b. Trade in manufacturing goods did have an impact. Characterized by global assembly line; supply chain management; production technology---contributed to decline in employee power.
- c. Technology diminished employee power. Fear of being replaced by technology. Threat effect of technology. Example: Ford plants in US and Mexico with same production model and comparable productivity levels but wages and education levels are very different. Job training programs won't increase wage disparities.
- d. Immigration flows lowered bargaining power.

But not all of this argument works. India and China supply chains as drivers as low wages doesn't hold: that was not phenomenon of the early 1980s. Nor largely was immigration. BUT there was a restructuring as manufacturers moved from high labor costs northeast to cheaper cost in southeast.

3. What then would be the policy implications?

Job training programs would not address the inequalities. Need for increased minimum wage, strengthen collective bargaining protections and host of other institutional factors.

C.

1. What is the central argument in "Skills Gap and Attitudes?"

Cappelli believes that issue is employee character, their personality, respect for authority. Part of this story refers to stereotype of African American young males that can't relate to their boss or to customers while stereotype of immigrants who are hard working. Issue then is pro-social behavior which stems in part from commitment to the firm. Studies have shown that Japanese workers commitment to the firm increases productivity. So if the problem is loyalty, is it the employee's fault or the employer's?

But there is a horizon's problem. How long are American workers at a particular firm? Controlling for length of time and other Human Resource particularities, Americans are no less committed than Japanese. See Commitment and Community by Lincoln and Kalleberg.

Many believe that social networks are more instrumental for finding jobs than attitudes and behaviors. That may be true but it is attitudes which may affect one's performance at the job.

2. Are attitudes teachable and can that teaching be part of a job training program?

William Julius Wilson believes that the underclass have not seen models of behavior which allows job skill development.

A counter argument to the job training approach is that when the economy is booming (late 1990s) it absorbs low skill workers whether or not they have skill training.

D.

1. In Levy and Murnane, what were the employers Honda and Northwestern Mutual Life looking for in an employee?
  - a. Honda was offering possibly the best blue collar jobs in America. They needed to higher high school level skills but were recruiting college graduates to make sure that they got the skill level they needed. Enormous emphasis on attitudes---teamwork, helping others, respecting work. Pro-social behavior was emphasized.
  - b. At Northwestern, technology changed their business model with respect to customer service. Technology allowed customer service to integrate many functions. Instead of one rep specializing in one line of problems, customer reps were expected to be experts on many lines. Computer access to all problems was the technological change but the human resource change was need to hire college level workers instead of high school level who were squeezed out.

E.

1. In "Role of Employer," what is the employer's role in workers escape low earning traps?

Holzer e al use firm level data to track low wage earners and to correlate how workers can improve their earnings through mobility (switching employers) and matching their skills with "good" employers rather than "bad" employers. So the characteristics of the firm, not just the attitudes of the employee, can make a big difference in wage inequalities. It makes a difference who you work for. The policy implication is that job training programs need to understand how to match workers with the good jobs and good employers.