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Three Essays on Vulnerable Workers

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Three Essays on Vulnerable Workers

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This dissertation contains three essays on vulnerable workers—workers who have recently experienced a shock that could adversely affect their labor market prospects. Each chapter explores the mechanisms behind vulnerable workers' earnings losses and the role of public policy in mitigating these losses. I identify important factors in workers' labor market success, shedding light on the earnings determination process. With a better understanding of relevant factors, I assess whether state programs are allocating resources to the most vulnerable workers.

In the first essay, I study displaced workers—those who have lost their job as a result of a firm or plant closing. On average, displaced workers experience large, long-lasting earnings losses, but some displaced workers experience larger earnings changes after displacement than others. I use comprehensive occupational employment data to estimate the effect of the state-level occupation growth rate in the worker's predisplacement occupation on subsequent labor market outcomes. I find that adverse labor market conditions in a worker's occupation at the time of displacement have negative consequences. Displacement from a shrinking occupation is associated with decreased earnings and longer durations of joblessness. Furthermore, holding the occupation growth rate constant, there is only a small effect of the worker's industry growth rate on their labor market outcomes. These results suggest that vulnerable displaced workers' difficulties in the labor market are a function of their skills and less related to the goods and services they were previously producing. The workers at greatest risk have occupation-specific human capital that is less valuable after their job loss, leading to either longer durations of joblessness or larger earnings losses.

Displaced workers are not the only workers who experience sizable and persistent earnings losses. More recently, researchers have found a similar profile of losses among mothers after the birth of their first child. It appears job displacement is not the only major life event with labor market consequences. The second essay investigates the effect of additional benefits on mothers who have new family responsibilities in California's Paid Family Leave program.

Specifically, with my coauthors Kelly Bedard and Maya Rossin-Slater, I use 10 years of California administrative data with a regression kink design to estimate the causal impacts of benefits in the first state-level paid family leave (PFL) program for women with earnings near the maximum benefit threshold. We find no evidence that a higher weekly benefit amount increases leave duration or leads to adverse future labor market outcomes for this group. In contrast, we

document that a rise in the weekly benefit amount leads to an increased likelihood of returning to the pre-leave firm (conditional on any employment) and of making a subsequent PFL claim.

The PFL program in California falls under the larger umbrella of state Disability Insurance (DI), both of which have become important sources of social insurance, with benefit payments now exceeding those of the state's Unemployment Insurance program. However, there is considerable inequality in program take-up. While existing research shows that firm-specific factors explain a significant part of the growing earnings inequality in the United States, little is known about the role of firms in determining the use of public leave-taking benefits.

In the third essay, using administrative data from California with my coauthors Kelly Bedard, Maya Rossin-Slater, and Jenna Stearns, I find strong evidence that DI and PFL program take-up is substantially higher in firms with high earnings premiums. A one standard deviation increase in the firm premium is associated with a 57 percent higher claim rate incidence. Put differently, take-up of temporary social insurance programs is lower in lower earnings premium firms. Workers at these firms, therefore, are more vulnerable from both an earnings perspective and a benefits perspective. Our results suggest that changes in firm behavior have the potential to impact social insurance use and thus reduce an important dimension of inequality in America. Despite near-universal program eligibility for workers, non-policy-driven determinants of take-up play a major role.

Identifying Vulnerable Displaced Workers: The Role of State-Level Occupation Conditions

Displaced workers, those who lose their job as a result of a firm or plant closing, have large earnings losses on average. However, these large average losses mask substantial variation across workers. What explains this variation? Prior research shows that workers displaced when the national unemployment rate is high experience larger earnings losses than those displaced when the national unemployment rate is low. But the national unemployment rate may mask substantial differences between workers in their labor market prospects. Specifically, a worker may have more or less difficulty finding work depending on conditions in their occupation, defined as the set of activities or tasks they are paid to perform, or their industry, defined as the primary business activity of their establishment. The roles of these predisplacement employment attributes may shed light on the circumstances under which a worker's human capital may be less valuable. This distinction is also important to effectively target job search assistance to recently unemployed workers.

Attempts to perform such an analysis have been constrained by data limitations. Specifically, because occupation is a worker-level characteristic with many options, annual

occupational employment estimates to measure short-term employment fluctuations do not exist in the United States. I address this limitation by constructing a novel measure of occupation conditions that captures short-term, state-level fluctuations in occupational employment by combining existing data sets on the share of each occupation in an industry and industry growth rates.

Then, using data from the Current Population Survey Displaced Worker Supplement, I study the effects of poor state labor market conditions in a displaced worker's occupation of origin on a number of labor market outcomes. In models comparing workers displaced from different occupations in the same state and year net of occupation fixed effects, those displaced from shrinking occupations suffer significantly longer durations of joblessness and lower earnings, conditional on being reemployed. A one standard deviation decrease in the worker's occupation growth rate (which is approximately 4 percentage points) is associated with a 16.1 percent increase in the duration of joblessness and a 9.2 percent decrease in weekly earnings. Additionally, I find that state-level occupation growth impacts durations of joblessness significantly more than state-level industry growth does. The estimated effect of the industry growth rate also diminishes in all models, including the occupation growth rate. This supports the claim that employment prospects depend much more on workers' occupation (the set of activities or tasks that employees are paid to perform) than their industry (the primary business activity of their establishment).

The idea that state-level occupation conditions matter is quite intuitive, but their importance has not been measured because of data limitations. Unlike industry codes, which employers report when submitting information for unemployment insurance, regularly produced comprehensive occupational employment data are only available from the Bureau of Labor Statistics (BLS) Occupational Employment Statistics program and suffer from a significant limitation. The data used to produce occupation employment estimates for each year are collected in a three-year sampling cycle, which means independent annual occupation employment estimates are not produced. As a result, existing estimates cannot capture short-term fluctuations in occupational employment. I address this limitation by constructing an occupation growth rate measure using a shift-share method based on states' different occupation and industry compositions and national industry growth rates. This measure of the occupation growth rate takes into account the growth of all industries that employ workers in a particular occupation in the state to assess potential employment opportunities within a displaced worker's occupation.

To the best of my knowledge, this is the first study to create a measure of local conditions within an occupation and to estimate its importance for displaced workers' labor market outcomes. This new evidence that the relevant employment conditions are at the occupation level suggests a significant

role for occupation-specific human capital relative to industry-specific human capital. In contrast to workers displaced from shrinking industries, there appears to be considerably less scope for workers from shrinking occupations to find work with similar earnings.

This research builds on literature on specific human capital, which shows that displaced workers who change occupations, or skill portfolios, lose more than displaced workers who change industries (Kambourov and Manovskii 2009; Poletaev and Robinson 2008). However, the decision to change occupations or industries is endogenous, making it difficult to attach a causal interpretation to these differences. By identifying the occupation growth rate, an observable factor associated with costly switching, I demonstrate a clear relationship between decreased demand for occupational services and its labor market consequences.

In addition, because industry- and occupation-switching are outcomes of the postdisplacement job search process, the act of switching cannot be used to target reemployment assistance to displaced workers. In this way, this paper contributes to the literature on targeting workers who are likely to experience longer unemployment durations or large earnings losses, while speaking to the efficacy of certain reemployment policies in the United States. For example, this paper suggests that policies targeted at declining industries are poorly focused because displaced workers' difficulties are more related to their skills than the goods and services they were producing.

The effect of the occupation growth rate on displaced workers' labor market outcomes in this paper complements existing research on the effects of adverse labor market conditions on various groups, including displaced workers (Davis and von Wachter 2011), economists (Oyer 2006) and college graduates (Altonji, Kahn, and Speer 2016; Oreopoulos, von Wachter, and Heisz 2012). In fact, the magnitude of the main estimate in this paper (a 9.2 percent decrease in weekly earnings per standard deviation decrease in occupation growth rate) is similar to the short-run effects of graduating during a typical recession found in Oreopoulos, von Wachter, and Heisz (2012) and Altonji, Kahn, and Speer (2016). As this effect is strongest for the contemporaneous occupation growth rate and not the occupation growth rate in the prior year or two years ago, it appears that this loss can be attributed to temporary adverse labor market conditions. That said, unlike economy-wide recessions, the types of shocks examined here depend also on workers' state of residence and occupation. They are also net of controls for year of displacement, state of residence, and minor occupation group, and therefore demonstrate the impact of conditions even more localized to the worker. As workers' employment prospects are dependent on conditions at the state and occupation level, aggregate indicators like the national unemployment rate mask the heterogeneity in employment prospects within occupations, across states, and over time.

Finally, this paper contributes to a long line of literature interested in understanding displaced workers' labor market outcomes. It relates most closely to Carrington (1993), who argued that the wage losses of high-tenured displaced workers can be attributed to downturns in industry, occupation, and state labor market conditions. The major insight of Carrington's paper, echoed by Neal (1995), is that workers displaced from declining industries experienced significantly greater wage losses than workers displaced from growing industries. Based on the data available at the time, the Carrington study uses only 10 occupation categories, admitting that this grouping is coarse, while the industry employment measures are finer. As a result of these data limitations, relevant employment growth at the industry level was much better measured than relevant employment growth at the occupation level, which suggested a strong role of industry conditions and, potentially, industry-specific human capital.

With better data and a new method to identify an occupation growth rate, I find that occupation growth has a significantly larger role than industry growth in determining durations of joblessness, and has a significant relationship with earnings changes, holding constant the industry growth rate. This information is valuable for state workforce agencies, who, since the Unemployment Compensation Amendments of 1993, have been mandated to target job search assistance to workers most likely to exhaust their unemployment insurance. By and large, however, our current social insurance system is more likely to target using industry or industry conditions than occupation or occupation conditions (Dickinson, Kreutzer, and Decker 1997). In fact, not all states even collect the occupation of unemployment insurance claimants. As new technology has the potential to fundamentally affect the labor market and it appears that workers of different occupations will be affected differently (Brynjolfsson, Mitchell, and Rock 2018), this information may be increasingly useful in improving the provision of scarce resources for reemployment assistance, based on information available to the states at the time of displacement.

The Impact of Paid Family Leave Benefits: Regression Kink Evidence from California Administrative Data

(with Kelly Bedard and Maya Rossin-Slater)

A vast body of research has documented a persistent “motherhood wage penalty” that can last 10 to 20 years after childbirth. Mothers earn lower wages, work fewer hours, and are less likely to be employed than fathers or childless women and men (see, e.g., Kleven, Landais, and Søgaard [2018] and Kleven et al. [2019], among others), and these differences are particularly pronounced for highly educated women at the top of the female earnings distribution (Anderson, Binder, and Krause 2002; Bertrand, Goldin,

and Katz 2010; Chung et al. 2017; Hotchkiss, Pitts, and Walker 2017). Paid family leave (PFL)—a policy that allows working mothers to take time off work to recover from childbirth and care for their newborn (or newly adopted) children while receiving partial wage replacement—may be a tool for reducing this penalty if it facilitates career continuity and advancement for women. However, opponents of PFL caution that it could have the opposite effect: by allowing mothers to have paid time away from work, PFL may lower their future labor market attachment, while employers could face substantial costs that lead to increased discrimination against women. These discussions are especially fervent in the United States, which is the only developed country without a national paid maternity or family leave policy.

We use administrative data from California—the first state to implement a PFL program—and use a regression kink (RK) design to identify the effects of the benefit amount on leave duration, labor market outcomes, and subsequent leave-taking among high-earning mothers. Isolating the effect of the benefit amount is critical for informing debates about payment during leave. Since the vast majority of U.S. workers already have access to unpaid leave through their employers and the federal Family and Medical Leave Act, the wage replacement rate is arguably the most salient parameter under debate. A long literature on other social insurance programs finds a positive relationship between the benefit amount and program participation duration, with elasticities ranging between 0.3 and 2 in the case of UI (Card et al 2015). As such, a higher PFL benefit may increase maternity leave duration, which could in turn adversely affect women's subsequent labor market trajectories.

To identify the causal effect of benefits, we make use of a kink in the PFL benefit schedule in California: during our analysis time frame, participants get 55 percent of their prior earnings replaced, up to a maximum benefit amount. Intuitively, we compare the outcomes of mothers with pre-leave earnings just below and just above the threshold at which the maximum benefit applies. These women have similar observable characteristics but face dramatically different marginal wage replacement rates of 55 and 0 percent, respectively. The RK method identifies the causal effect of the benefit amount by testing for a change in the slope of the relationship between an outcome and preclaim earnings at the same threshold (Card et al. 2016).

While a key advantage of the RK method is that it can account for the endogeneity in the benefit amount, the primary limitation is that the RK sample is not representative of the population of leave-takers. The kink is located around the 92nd percentile of the California female earnings distribution, and women in the vicinity of the kink point are older and work in larger firms than the average female program participant. That being said, high-earning women's careers may be especially sensitive to employment interruptions (Hotchkiss, Pitts, and Walker 2017; Stearns 2016).

Additionally, RK estimates provide information about the implications of benefit changes around the maximum benefit threshold. These are highly policy relevant because all existing state PFL programs, as well as the current national PFL proposal (the Family and Medical Insurance Leave Act, or FAMILY Act), feature similar kinked benefit schedules but have different kink point locations.

Our results show that higher benefits do *not* increase maternity leave duration among women with earnings near the maximum benefit threshold. Our RK estimates allow us to rule out that a 10 percent increase in the weekly benefit amount would increase leave duration by more than 0.3 to 2.1 percent (i.e., we can reject elasticities higher than 0.03 to 0.21), depending on the specification. Our results underscore the notion that PFL provides a distinct type of social insurance and targets a unique population of parents and caregivers, making the (much larger) elasticities from the prior social insurance literature less relevant for PFL (Krueger and Meyer 2002).

We also find no evidence that PFL benefits have any adverse consequences on subsequent maternal labor market outcomes for high-earning women in our sample. A higher benefit amount does not have a significant effect on the likelihood of returning to employment following the end of the leave. However, conditional on returning to work, we find that women who receive a higher benefit during leave are more likely to return to their pre-leave employers rather than find new jobs: a 10 percent increase in the weekly benefit amount raises the likelihood of return to the pre-leave firm (conditional on any employment) by 0.3 to 4.2 percentage points (0.3 to 5 percent), depending on specification. While our data do not allow us to observe the exact mechanisms underlying this result, it is possible that higher benefits during leave improve worker morale or promote firm loyalty (even if she recognizes that her employer is not paying her benefits directly), similar in spirit to efficiency wage models (Akerlof 1984; Katz 1986; Krueger and Summers 1988; Stiglitz 1986).

Unequal Use of Social Insurance: The Role of Employers

(with Kelly Bedard, Maya Rossin-Slater, and Jenna Stearns)

The dramatic rise in U.S. inequality in recent decades has motivated a burgeoning literature on its causes and consequences along a number of dimensions, including wages, income, wealth, health, and family structure. When it comes to the growth in earnings inequality, recent research emphasizes the role of employers, finding that most of the increase is due to widening earnings dispersion between, rather than within, firms (Song et al. 2018). But less is known about the influence of employers on other aspects of inequality among Americans, or about nonwage differences between high-

paying and low-paying firms. In this paper, we aim to understand how firms contribute to inequality in the use of public short-term leave-taking social insurance programs, which allow individuals to take partially paid leave for their own medical issues or to care for new children or ill family members.

A growing body of evidence demonstrates that access to temporary social insurance has beneficial labor market and health effects on workers and their families (e.g., Rossin-Slater 2018), and can even generate positive externalities for the broader population (Stearns and White 2018). However, the availability of short-term DI and PFL is highly limited in the United States. There is no federal legislation, and only five states have implemented public programs. Most firms do not provide their own private benefits either, or if they do, they do not necessarily offer them to all of their employees (Kurani et al. 2017).

In addition to being limited, the use of short-term social insurance in the United States is highly unequal. Even in California, with almost universal eligibility of workers, DI and PFL take-up rates are still substantially different across industries, firm sizes, and earnings quartiles for both men and women (Bana, Bedard, and Rossin-Slater 2018). As most workers learn about public social insurance benefits through their employers, and polls document that lack of awareness about these programs is a major barrier to take-up (DiCamillo and Field 2015), insights into the relationship between firm characteristics and program use are critical for understanding the drivers of these disparities.

This paper uses 10 years of administrative data from California to provide the first evidence on the role of firms in explaining differences in short-term social insurance take-up. Drawing on a well-established literature that demonstrates that observably similar firms pay observably similar workers different wages (i.e., employer-specific wage premiums, or firm fixed effects) (see, e.g., Abowd, Kramarz, and Margolis 1999; Card, Heining, and Kline 2013; Card, Cardoso, and Klein 2016; Song et al. 2018), we analyze the relationship between the employer earnings premium and the share of employees within a firm who take DI or PFL in any given year. Whether firms with higher earnings premiums are more or less conducive to benefit take-up is theoretically ambiguous. Workers at higher premium firms might face a higher opportunity cost of taking leave, or be more likely to have access to private DI or PFL benefits that could crowd out the use of public programs. But employers that offer private benefits may have a particularly strong incentive to encourage public benefit take-up, as it can lower the cost to the firm. Higher earnings premium firms—which are likely to be more innovative and productive than their lower-premium counterparts (Barth et al. 2016; Faggio, Salvanes, and Van Reenen 2010; Van Reenen 1996)—may also view their wage-setting policies as complements to creating a workplace culture conducive to leave-taking.

To answer this question, we combine two data sets from the California Employment Development Department: the universe of DI and PFL claims over fiscal years 2004–2013, and quarterly earnings data for nearly all California employees from 2000 to 2014. Our empirical strategy involves two main steps. First, we estimate employer earnings premiums using the seminal Abowd, Kramarz, and Margolis (1999) methodology that includes both worker and firm fixed effects to account for nonrandom sorting of workers across firms. Second, we aggregate the data to an employer-level panel and estimate Poisson regressions of the number of social insurance claims within a firm in a given year on the firm earnings premium, controlling for firm size, industry, and year fixed effects, and the percentage of female employees in each industry year.

We find strong evidence that public temporary social insurance program take-up is higher in firms with relatively higher earnings premiums. A one standard deviation increase in the firm earnings premium is associated with a 57 percent increase in the incidence rate of claims. The effect of the firm premium is similar for claims made by men and women, and exists for both DI and PFL. We also show that the effect is largest for workers in the lower half of the employer-specific earnings distribution, suggesting that a firm's premium is particularly important in determining the nonwage benefit use of its lowest-earning employees. Although high-premium firms have higher claim rates relative to low-premium firms, they also have lower average leave durations and higher employee retention rates following periods of leave.

The results indicate that characteristics of firm culture that are reflected in the firm earnings premium may be key to increasing take-up rates of public social insurance in California. If all firms behaved as those in the top third of the firm premium distribution, a back-of-the-envelope calculation suggests that take-up rates for DI and PFL would increase by 25 and 29 percent, respectively. By contrast, prior research demonstrates that specific policy levers—such as the wage replacement rate—have limited effects on take-up (Asai 2015; Ziebarth 2013; Ziebarth and Karlsson 2010).

Our paper contributes to a growing literature on the determinants of public short-term leave take-up. We know little about non-policy-driven determinants of temporary social insurance take-up. Research on the importance of workplace culture in promoting work-family balance often relies on case studies and small samples, and cannot shed light on the characteristics of firms that support benefit take-up on a broader scale (Clark 2001; Kelly, Moen, and Tranby 2011; Moen et al. 2016). A separate literature on firm-specific premiums has quantified their importance in driving wage inequality (Card, Cardoso, and Klein 2016; Card, Heining, and Kline 2013; Song et al. 2018), but less is known about nonwage differences between high-premium and low-premium firms. This paper bridges this gap by documenting a strong and robust association between employer earnings

premiums and the use of temporary paid leave. Our findings suggest that firm-specific factors not only explain a substantial part of earnings dispersion, but also drive disparities in the use of public social insurance benefits.

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