

Handouts/Overheads for:

Good Jobs, Bad Jobs:
The Long-Run Implications of
Employment at Different Wage Rates
for the Disadvantaged

Timothy J. Bartik
Senior Economist
W.E. Upjohn Institute for Employment Research

November 11, 1995
Presentation at Regional Science Association

The Issue:

Does employment at any wage for the poor "pay off" in the long-run?

"In contrast to the failed training programs of the past, a job, most any job, has shown itself capable of generating the earnings growth which will make welfare reform a reality." Carlos Bonilla, Chief Economist, Employment Policies Institute, testimony before the U.S. House Committee on Economic and Educational Opportunities, January 18, 1995.

"The vast majority of [welfare mothers we interviewed] who had worked at low wage jobs found that hard work at bad wages did not allow them to get ahead." Kathryn Edin, Rutgers University, "The Myths of Dependence and Self-Sufficiency", working paper, 1994.

Theory:

Why might work hours in the short-run matter in the long-run?

- Effect on general job skills implies long-run effect on wages.
- Effect on specific job skills implies long-run effect on wages and work hours.
- Personal changes.

Why might wage-rate paid in short-run matter in the long-run?

- Effect on job retention.
- Wage rate may be correlated with training opportunities.
- Personal change.

Model:

Two equation system using pooled time-series cross-section data on "disadvantaged" individuals from the PSID, with 275 individuals, and data from 1976 to 1987. "Disadvantaged" = income/needs ratio less than 1.5 average from 1973-75; education less than 16 yrs.

$$Y_{imt} = B_0 + B(L)Y_{imt} + B_t + B_m + B_2 * X_{imt} + B_3 * E_{imt} + B_4 * D_{mt} + B_5 * (D_{mt})(E_{imt}) + u_{imt}.$$

Y_{imt} = real earnings or work hours of individual i in MSA m in year t .

$B(L)Y_{imt}$ = five lags in real earnings and hours.

B_t and B_m = year dummies and MSA dummies.

X_{imt} = demographic control variables.

E_{imt} = controls for individual's economic status, 1973-75.

D_{mt} = local demand indicators, including the log of MSA employment, and the average "wage premium" implied by the MSA's industry mix.

$(D_{mt})(E_{imt})$ = five interaction terms between local demand and the 1973-75 economic status variables.

u_{imt} = the disturbance term.

Table 1

Descriptive Statistics for Selected Variables

<u>Variable</u>	<u>Mean (Standard Deviation)</u>	
Annual real earnings, 1973-75 average	\$6,277	(7,427)
Annual real earnings, 1987	\$8,204	(9,367)
Annual work hours, 1973-75 average	900	(880)
Annual work hours, 1987	1,124	(986)
Family income/needs ratio, 1973-75 average	0.98	(0.32)
Family welfare receipt, any year from 1973 to 1975	41%	
Education (in years)	10.4	(2.5)
Age	42.0	(6.4)
Black	75%	
Hispanic	4%	
Female	78%	
Married, 1987	45%	

Table 2

Estimated Effects of Three Different Shocks to Earnings and Work Hours

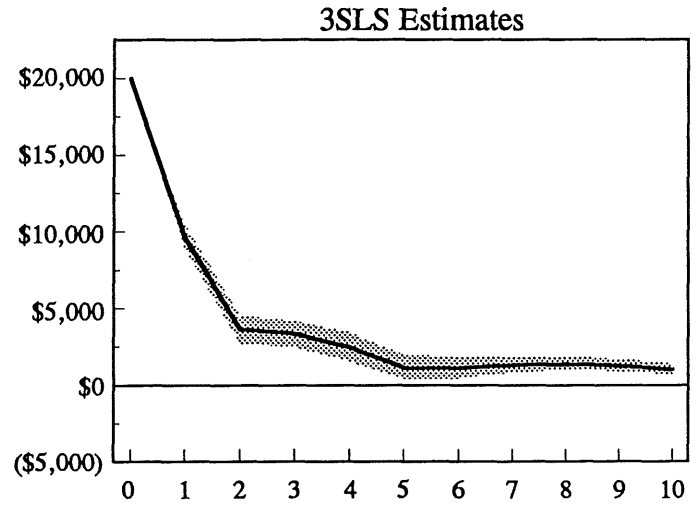
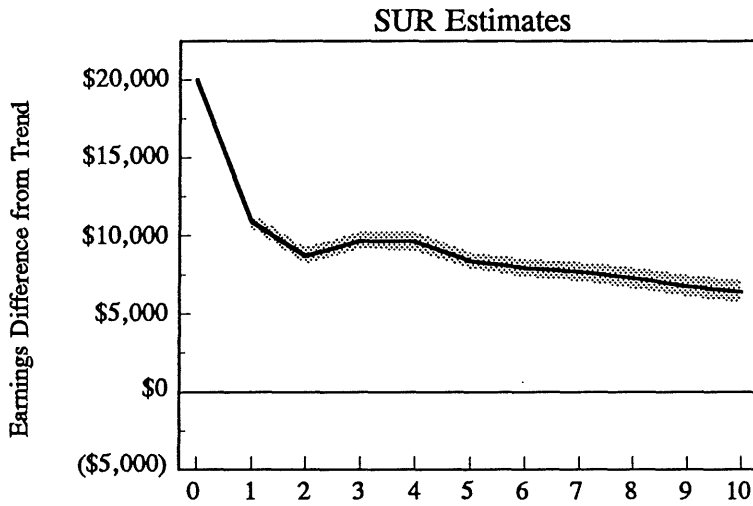
Case 1: Increase of 2,000 work hours, at \$5 per hour (\$10,000)					
	<u>Effect on Annual Earnings</u>		<u>Effect on Annual Work Hours</u>		
	<u>SUR Estimates</u>	<u>3SLS Estimates</u>	<u>SUR Estimates</u>	<u>3SLS Estimates</u>	
1 year later	\$6,455 (20.20)	\$6,068 (10.22)	1,041 (21.73)	727 (8.19)	
10 years later	\$3,697 (7.02)	\$95 (0.65)	468 (7.76)	1 (0.09)	
Case 2: Increase of 2,000 work hours, at \$10 per hour (\$20,000)					
	<u>Effect on Annual Earnings</u>		<u>Effect on Annual Work Hours</u>		
	<u>SUR Estimates</u>	<u>3SLS Estimates</u>	<u>SUR Estimates</u>	<u>3SLS Estimates</u>	
1 year later	\$10,934 (26.38)	\$9,698 (12.20)	1,150 (18.08)	829 (6.93)	
10 years later	\$6,395 (9.08)	\$1,026 (3.06)	536 (6.90)	-41 (-1.12)	
Case 3: Increase in wages of \$5 per hour, for full-time worker (\$10,000)					
	<u>Effect on Annual Earnings</u>		<u>Effect on Annual Work Hours</u>		
	<u>SUR Estimates</u>	<u>3SLS Estimates</u>	<u>SUR Estimates</u>	<u>3SLS Estimates</u>	
1 year later	\$4,478 (19.93)	\$3,630 (8.89)	108 (3.18)	102 (1.59)	
10 years later	\$2,698 (6.84)	\$931 (3.38)	68 (1.33)	-42 (-1.40)	

Notes: Ratio of estimates to simulated standard errors are in parentheses. Simulated standard errors derived from 100 Monte Carlo draws of coefficient estimates from estimated joint distribution.

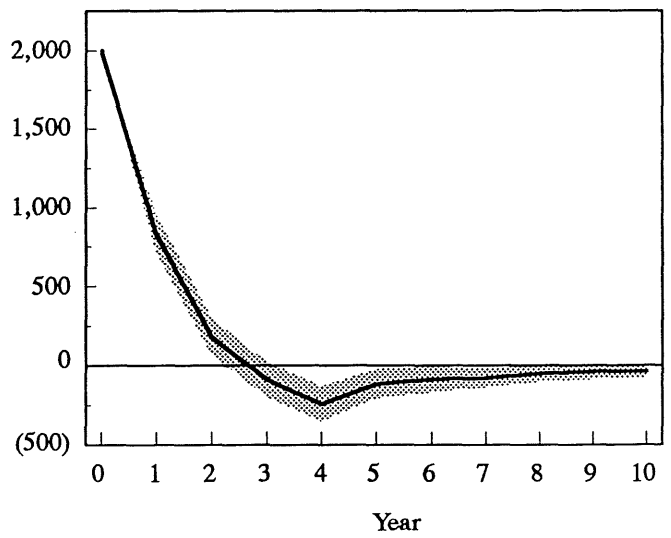
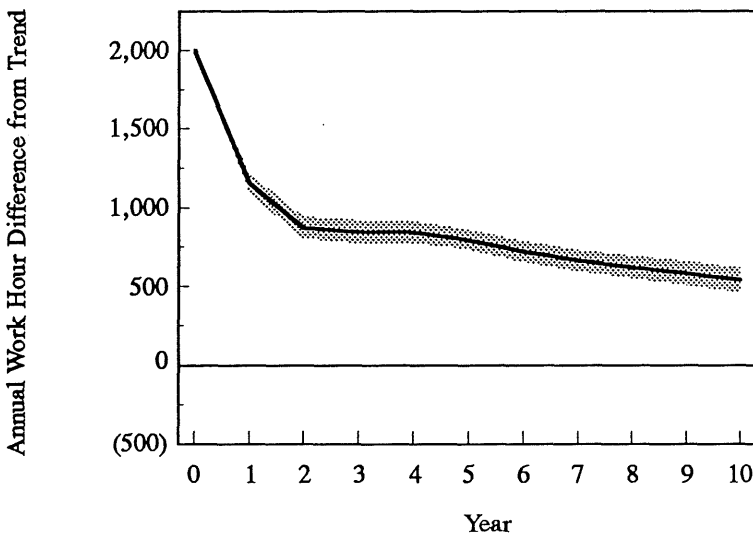
Estimated Effects of Three Different Shocks to Earnings and Work Hours

Case 2: Increase of 2,000 work hours, at \$10 per hour (\$20,000)

Effect on Annual Earnings



Effect on Annual Work Hours



Note: Area shaded one standard error to either side of estimated effect

Conclusion:

- Policies should stress placement in good jobs.
- Job retention is key problem, but is not solved simply by high wages.
- Future research: what else about jobs matters to long-run success?