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Who's Not Working and Why? Employment, Cognitive Skills, Wages, and the Changing U.S. Labor Market

by Frederic L. PRYOR and David L. SCHAFFER, Cambridge, UK: Cambridge University Press, 1999, 300 p., ISBN 0 521 65152 2 (hardback).

The premise of this excellent book is that things in the American labour market in the late 1990s were not what they seemed. The authors explore four major questions to which they apply creative and exhaustive analysis. First, how is it possible to reconcile the complaints of many corporate executives that there is a shortage of highly skilled workers, with the evidence that there is an excess supply of highly educated people? Second, what is the explanation for the seeming paradox that relative wages are rising for high-skill jobs, at the same time as the number of highly educated workers has grown faster than the number of high-skill jobs? Third, what is the explanation for the decline in relative wages for persons in low-skill jobs, in spite of the faster growth of low wage jobs than of low-skilled workers? Finally, why are male employment rates falling or, put another way, why is male joblessness increasing?

Pryor and Schaffer make a fundamental distinction between formal education and the measurement of functional literacy, a proxy for cognitive skills, which is used to get at the "soft skills" that employers appear to be demanding. Functional literacy is "the ability to use reading, writing and arithmetic skills in real-life situations." The data source is the National Adult Literacy Survey (NALS) 1992, administered by the Educational Testing Service to a cross-section of the American adult population which, "unlike some other surveys, includes high-school dropouts" (p. 21). The authors examine the question of whether employers can in fact differentiate among job candidates on the basis of cognitive skills or whether this is a cover for discrimination in the workforce.

The second major tool of analysis is the authors' division of the workforce

into four occupational tiers using data from the Current Population Survey on 500, 3-digit occupations that can be tracked for education, employment and wages data from 1970 to 1996. The tiers are based on the "educational intensity", that is the average years of formal schooling completed by prime-working-age persons in that occupation in a given year. How do the authors resolve the issues that have been raised?

The key to understanding employer complaints that skilled workers are not available lies in the distinction between education levels and cognitive skills. While the supply of highly educated workers has outrun the increase in the demand for workers with high levels of education, the growth in the number of persons with high levels of cognitive skills has lagged behind the increase in demand. The result justifies employer complaints that there are not enough sufficiently trained people, and explains why wages for the highly skilled are rising.

When the workforce is divided into four occupational tiers, the number of low-skill jobs in the United States is shown, contrary to expectations, to have increased faster than the number of low-skill workers. But then, what is the explanation for the declining relative wages of low-skill workers? The answer is bumping. The authors find that the total supply of workers for low-skill jobs actually increased faster than the demand, because more highly educated workers who did not have the cognitive skill levels to qualify for the higher skill jobs, were forced to compete for lower skilled jobs. A part of the increased supply to lower skilled jobs came from the increase in women in the labour force. The result was an excess supply of workers in total for lower skill jobs, despite the slow growth in the number of low-skill workers.

The rising prime-age male joblessness (which includes both the unemployed and those out of the labour force) is also related to these supply-demand patterns, and the distinction between levels of education and possession of cognitive skills. On the basis of detailed exploration of available measures, the authors reject what they term five popular explanations for the increased male joblessness: technological change, structural change, imports from low wage countries, immigration, and spatial mismatch. The key factor in the declining male jobless rate is the displacement of men by women, which occurred in the U.S. primarily between 1971 and 1987. "We identify a market mechanism in which women with a high-school diploma or more, who previously chose to remain out of the labor force [...] have displaced men with similar or slightly lower levels of education, but who are at the low end of the productivity distribution within their education group. [...] The cascade effect continued until the least educated men and women [...] were bumped into unemployment, or out of the labor force" (p. 100).

What are the policy implications from the analysis? I had expected that a major recommendation would deal with increasing the cognitive skills in the workforce. This is briefly mentioned, but the focus is on other policies that might reduce male joblessness and wage inequality. For low-wage workers and the jobless, the authors conclude that supply-side policies, such as training or cutting disincentives to work, will only lead to displacement. A better approach for low-wage workers, they suggest, is to emphasize job creation through wage subsidies, and enhancing job finding, and macro policies to increase the

number of medium and higher wage jobs for the educated with less cognitive skills. But Pryor and Schaffer are somewhat pessimistic. In spite of greater job creation than in almost any industrialized country in the world there has been rising jobless rates among less-educated males in the U.S. On the other hand, their analysis provides a basis for further exploration.

There is much, much more to be gleaned from this detailed, thorough, and well-argued examination of changes in the American labour market. For example, they consider whether or not the work ethic is declining: they conclude that it is not. Another important issue is the real meaning of employers' stated hiring criteria. Their regression results show that establishments placing the greatest weight on work attitudes are more likely to have a lower percentage of minorities. Whether or not this is the result of racial prejudice requires objective assessment of work objectives. The authors note that this is a crucial issue for public policy and for future research.

This book would be a valuable supplementary text for labour economics courses in the United States. For labour market researchers in other countries, the book is a challenge to see whether the same phenomena are occurring. This is especially the case for Canada where the Federal government's Expert Panel on Skills has just concluded that cognitive skills need to be given increasing emphasis in workforce preparation. Pryor and Schaffer are to be congratulated for the bold and wide-ranging analysis they have undertaken.

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