

## Screening for work ethic

One challenge faced by employers is how to elicit effort from their workers. One way to do this is to monitor workers closely in order to prevent shirking. However, another possibility is to screen job applicants to find those with a stronger work ethic—such employees would require less monitoring.

In “Employee Screening: Theory and Evidence,” (NBER Working Paper 12071), Fali Huang of Singapore Management University and Peter Capelli of The Wharton School at the University of Pennsylvania examine the relationship between screening and monitoring. The framework for their study is a principal-agent model, and their data source is the 1997 National Employer Survey (NES97), which was conducted by the U.S. Census Bureau. The survey included questions about how employers make hiring decisions.

As Huang and Capelli state, work ethic can be thought of as “the ability to work hard independent of monitoring by employers or of reward.” They cite four items in the NES that employers can screen for that may be thought of as related to work ethic: attitude of the applicant, quality of performance at prior jobs, communication skills, and participation in extra-curricular or community activities.

The researchers find that employers screen with more intensity for work ethic when they make more use at their workplace of systems such as teamwork, which make monitoring more difficult. Screening for work ethic does seem to be related to less monitoring, but screening for other characteristics (such as cognitive ability) does not seem to reduce monitoring.

In addition, Huang and Capelli report that screening in order to hire individuals with a stronger work ethic results in higher productivity and greater wages

and benefits. As they put it, “The synergies between reduced monitoring costs and high performance work systems enable the firm to pay higher wages to attract and retain such workers.”

## Teen’s labor force participation

The labor force participation rate for teens—the proportion of 16- to 19-year-olds either working or actively seeking work—has been declining since the late 1970s; since 2000, the decline has been accelerating. In 1948, 53 percent of teenagers participated in the labor force. As school enrollment increased in the early postwar period, the proportion of teens participating in the labor force declined, dropping to as low as 45 percent in 1964. The teen participation rate increased from 1965 to 1979, when it reached 58 percent. By 2000, it had fallen to 52 percent, and by 2005, to 44 percent. What are the factors causing the recent declines in teenage labor force participation? Federal Reserve Bank of Chicago economist Daniel Aaronson and his colleagues attempt to answer this question in a recent study published in the bank’s journal, *Economic Perspectives*.

The study takes a careful look at the facts about teen labor force participation and arrives at some interesting conclusions. In general, it finds that the declines have been widespread, with nearly all groups of teens having experienced at least some dropoff in their participation rates. The authors divide the possible explanations for the declines into two broad categories: demand and supply. Factors tending to lower teen wages, for example, fall into the demand category. Those which tend to increase the value of human capital (education) investments or lead teens to choose more leisure time over work are grouped into the supply category.

Several factors from each category are examined in detail.

Aaronson and his coauthors argue that the most important factors seem to be on the supply side. The substantial increases in the rewards for higher levels of education, for example, began to take effect shortly before teenage participation rates peaked in the late 1970s. In particular, the gap between hourly wage rates for college graduates and those of high school graduates widened considerably in the 1980s. At the same time, school enrollment rates—especially for 18- and 19-year-olds—rose substantially. Thus, it appears that part of the reason for declining labor force participation among teens is that they are investing more in human capital with the reasonable expectation of realizing the returns on their investment in the form of increased productivity and higher wages in the future.

On the demand side, the authors find that teen wages relative to adult wages have changed little in recent years. The fact that teen wages have remained fairly steady while the teen labor supply has shifted inward suggests that either the demand for teen labor is relatively elastic or else it, too, has been shifting inward. Although there is evidence for both conclusions, the latter is consistent with what the authors call “skill-biased technical change,” or the tendency for innovations in technology to increase productivity for high-skilled workers relative to less-skilled workers. □

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