Low-wage labor markets

Designing Inclusion: Tools to Raise Low-End Pay and Employment in Private Enterprise. By Edmund S. Phelps, ed. Cambridge, MA, Cambridge University Press, 2004, 165 pp., $55/hardback.

Low-Wage America: How Employers Are Reshaping Opportunity in the Workplace. By Eileen Applebaum, Annette Bernhardt, and Richard Murnane, eds. New York, Russell Sage Foundation, 2003, 535 pp., $45/cloth.

Both of these books are collections of studies, the first with 4 papers by a total of 9 authors, the second with 12 papers by a total of 38 authors. To enumerate them and summarize their work would take up more space than this review is allotted. The themes and approaches of the two, however, are quite different, and would tend to appeal to different types of labor economists. The Phelps volume exemplifies the micro-theoretic approach, of which he has been a pioneer, while the Applebaum, Bernhardt, and Murnane volume combines qualitative case studies with relatively straightforward quantitative tests of some basic relationship.

The focus of both books is on the increased labor market disadvantages faced by less-educated workers in general (high school or less), and on those confined to lower-paying industries in particular. Neither book unveils anything particularly startling, but it would be useful to have these sets of studies in one's professional library if one is concerned about labor market functioning and possible policy interventions. Both books benefit from excellent editor introductions, which provide overviews of the contributions.

In his introduction, Phelps makes the important point that "… a deficiency of inclusion—too few employed in society's central economic institution, the market economy, or too few of the employed able to support themselves by working, even full time—has social effects beyond income inequality, wage inequality and inequality in general." That means that inclusion cannot be improved via transfer payments to nonworkers, but that "worthwhile inclusion requires jobs offering real engagement in firms."

After this ringing evocation of the personal and social benefits of private-sector jobs, it is somewhat disconcerting to find the models developed in the four papers focus on variants of tax-financed employment and wage subsidies. That is, in order to get more people into better private-sector jobs, taxes still need to be levied—not to transfer money to nonworkers, but to induce low-wage workers to improve their skills and firms to hire them. So there is a role for the public sector after all—that is, providing the tools mentioned in the volume's subtitle.

The Applebaum, Bernhardt, and Murnane model also has a subtitle that does not completely disclose the book's approach and findings. Employers are indeed "reshaping opportunity in the workplace," but some are reshaping to reduce opportunity while others are expanding it. The former group is reacting to intensified competition, globalization, and deregulation by paring down its compensation packages, outsourcing many functions, and reducing investment in its workforce. The members of the latter group are responding to the same winds of economic change by adopting new technologies more quickly; reducing turnover and increasing productivity by redefining jobs and increasing training; and taking advantage of contributions from governmental and nongovernmental intermediaries. Some of the firms offering better wages and working conditions for high-school-educated workers are those to whom work has been outsourced—for example, temporary help firms or food manufacturers whose products, such as salads, are substituted for items traditionally prepared in hotel or restaurant kitchens.

Through their case studies, authors Applebaum, Bernhardt, and Murnane are able to provide rich descriptions of how much depends on managers' knowledge of options for coping with change. It is possible for lower-wage and productivity firms to coexist with higher-wage and productivity firms within the same industry, in part by occupying different niches. In general, firms located in urban areas with more educational and other resources are more able, as well as more likely, to adapt in a positive way than those in areas where intermediaries and opportunities for dialogue are sparse. Regional technology and training consortia centered around community colleges, as in the North Carolina hosiery industry, can overcome some of the information and incentive barriers to investing in both new technologies and up-skilled workers.

A decade and a half ago, Gary Burtless edited and contributed to a similar collection of studies—in the 1990 Brookings Institution book, *A Future of Lousy Jobs?* Based on the studies in that book, he concluded his overview chapter by writing that for less skilled men, "The problem they face is not an overabundance of bad jobs…but a surplus of unskilled workers… both efficiency and equity will be served by improving the skills of workers now lodged at the bottom."

Both books under review similarly target, I think correctly, the need for workers at the lower end of the skill distribution to obtain more human capital to obtain access to higher-wage jobs. Beyond this, both also emphasize the social impacts on workers, their families and their communities, and the need for interventions to counteract forces outside the control of individuals and their immediate employers. That these books still need to be written is testimony not to ignorance of what to do, but to the fact that private and public policymakers need to accord these issues much greater priority.

—Stephen E. Baldwin
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