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Volume 58 | Number 3 Article 1

4-1-2005

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Abstract
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Keywords
Orley Ashenfelter

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ESSAYS IN HONOR OF ORLEY ASHENFELTER

INTRODUCTION

DAVID CARD and HENRY S. FARBER*

Orley Ashenfelter is one of the leading figures in modern labor economics. Over the past four decades his work has had enormous influence on the choice of topics in the field and the research methods that labor economists use. On the occasion of Orley's 60th birthday, his colleagues and former students held a conference in Princeton, New Jersey, to celebrate his achievements. The resulting collection of papers is published here.

Like many others in the "first generation" of modern labor economists, Orley's early work focused on the quantitative analysis of trade unions. His seminal papers on strike activity (Ashenfelter and Johnson 1969) and trade union growth (Ashenfelter and Pencavel 1969) attracted immediate attention for their forceful use of neoclassical reasoning and econometrics to analyze traditional industrial relations topics. Orley's classic paper on racial discrimination and unionism (Ashenfelter 1972) combined a broad range of evidence to establish that trade unions contributed to a rise in the relative wages of African-American men. Nearly two decades later, Orley returned to another long-standing problem in the study of unions, arguing that the efficiency or inefficiency of union bargaining arrangements should be evaluated empirically rather than *a priori* (Brown and Ashenfelter 1986). His interest in labor disputes led to the development of a powerful framework for modeling arbitrator behavior (Ashenfelter and Bloom 1984) and examining the determinants of disputes (Ashenfelter, Currie, Farber, and Speigel 1992).

In the 1970s labor supply emerged as a central issue in the field. Orley's important paper on family labor supply (Ashenfelter and Heckman 1974) showed how neoclassical theory could be extended to model family decision-making, and derived the testable implications of what we now call the "unitary model." In a controversial series of papers (including Ashenfelter 1978a Ashenfelter and Ham 1979; and the Frisch-prize-winning article Ashenfelter 1980) Orley developed a theoretical and econometric framework for distinguishing between "voluntary" and "involuntary" unemployment. Borrowing directly from Adam Smith, Orley developed an elegant model of anticipated unemployment in a compensating differentials framework (Abowd and Ashenfelter 1981). Orley also turned his attention to the income maintenance experiments, and showed how to use the full potential of the experimental design to distinguish between the behavioral and non-behavioral responses to means-tested programs (Ashenfelter 1983).

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Industrial and Labor Relations Review, Vol. 58, No. 3 (April 2005). © by Cornell University.
0019-7939/00/5803 $01.00

In 1972 Orley spent a year at the Office of Evaluation at the U.S. Department of Labor and became interested in the problem of measuring the effectiveness of subsidized training programs. His celebrated 1978 paper (Ashenfelter 1978b) brought the program evaluation problem to the attention of the profession and introduced the "difference-in-differences" method that is now widely used in all areas of empirical microeconomics. In later work (Ashenfelter and Card 1985) Orley laid out the inherent difficulties in choosing between alternative econometric estimators.

In the 1990s education returned as a dominant topic in labor economics. Orley's path-breaking papers on twins (Ashenfelter and Krueger 1994; Ashenfelter and Rouse 1998) emphasized the value of specially collected data that could address the problem of measurement error and overturned the previous consensus that there were very small returns to differences in education between identical twins.

While Orley's research papers have had a powerful influence on the field, he has had as much or even more influence as a teacher, advisor, and mentor. Perhaps his greatest legacy is the "credibility revolution" that sprang directly from his work on training programs. The landmark papers by Orley's students Robert LaLonde (1986) and Joshua Angrist (1990) challenged the profession to focus on identification strategies that were as close as possible to the ideal of a randomized experiment, leading to "natural" experiments and other rigorous research designs that are now the main elements of the labor economist's toolkit. The best empirical labor economics research today owes a continuing debt to Orley's insistence on credible and transparent methods.

Each of the papers included in this Festschrift has at least one author who was a student of Orley's, and the breadth of the papers highlights the range of Orley's work. In ordering the papers in the Festschrift, we have tried to be consistent with the chronology of Orley's work and interests. However, because of the eclectic nature of Orley's interests and the even broader range of his students, the reader will note substantial inconsistencies with this organizational principle.

Given Orley's early interest in labor unions, the Festschrift starts with "Nonunion Wage Rates and the Threat of Unionization," by Henry Farber. This paper uses a model, presented in early work by Ashenfelter, Johnson, and Pencavel (1972), of wage determination by nonunion employers in the presence of a threat of union organization. Farber measures variation in the threat of union organization in several ways, including (1) variation in the predicted probability of union membership, (2) the introduction of right-to-work laws in two states in the last quarter of the twentieth century, and (3) deregulation of key industries in the late 1970s and early 1980s. He finds little evidence that variation in the predicted probability of union membership is correlated with non-union wages or the union wage gap. He does find stronger evidence for a threat effect on non-union wages and the union wage gap in response to the introduction of right-to-work laws in one of the two states and in the experience of deregulated industries where regulation was a central factor in union strength.

The second paper is "Employment Determination in Enterprises under Communism and in Transition: Evidence from Central Europe," by Swati Basu, Saul Estrin, and Jan Svejnar. Using firm-level longitudinal data, this paper compares the employment experiences of four Central European economies in the transition from centrally planned to market economies. The authors find little evidence of the labor hoarding commonly assumed to exist under communism, and they find a rapid adjustment of the labor market to become responsive to price signals. Czech and Slovak firms were generally insulated from market forces prior to the transition, but they rapidly moved to a wage-sensitive labor demand function. Hungarian and Polish firms started the transition "further ahead" and continued their movement toward full market operation.

The next paper, which relates generally to wage determination, is "Do Wages Rise

with Job Seniority? A Reassessment," by Joseph Altonji and Nicolas Williams. This paper does an extremely careful job of reconciling varied earlier estimates of the rate at which wages grow with job tenure. Altonji and Williams present a very clear conceptual framework for understanding the various approaches to estimating the return to tenure as well as a new set of estimates. They conclude that typical OLS estimates of the return to tenure are substantially upward biased. The best estimate of Altonji and Williams is that the return to ten years of tenure is in the range from 0.09 to about 0.15, well below OLS estimates.

Related both to Orley's seminal work on evaluating training programs and to his work on education is "The Impact of Community College Retraining on Older Displaced Workers: Should We Teach Old Dogs New Tricks?" by Louis Jacobson, Robert LaLonde, and Daniel Sullivan. The authors use administrative data from the Washington State unemployment insurance system linked to community college records to identify post-displacement community college attendance among displaced workers and to follow their earnings histories over time. While they do find a 7–10% return, the shorter time horizons of older displaced workers make it unclear whether such education is a good private or social investment for these workers.

David Card and Alan Krueger, in "Would the Elimination of Affirmative Action Affect Highly Qualified Minority Applicants? Evidence from California and Texas," study whether the elimination of affirmative action in these states in the late 1990s affected application rates of highly qualified minority high school students to selective state universities. Card and Krueger use data on the schools to which minority students ask that their SAT scores be sent as a proxy for application behavior and use data on both SAT scores and high school grades to identify highly qualified applicants. Despite the fact that minority acceptance rates fell dramatically at the universities studied, the clear result is that application rates among highly qualified minorities to these schools did not fall.

Another paper related to education is "The Impact of School Resources on Student Performance: A Study of Private Schools in the United Kingdom," by Kathryn Graddy and Margaret Stevens. The earlier literature on the effect of pupil-teacher ratios on student performance in state schools in the United Kingdom has found very little relationship, perhaps due to relatively little variation in pupil-teacher ratios in the state schools. In contrast, Graddy and Stevens use data on pupil-teacher ratios in private ("independent") schools, where there is more variation in measured inputs, and student performance on examinations. They find a statistically significant negative relationship between pupil-teacher ratios and student performance in these schools.

The next paper is a careful program evaluation of the sort pioneered by Orley and his students. In "Did Expanding Medicaid Affect Welfare Participation?" John Ham and Lara Shore-Sheppard examine the effect on labor supply and welfare participation of the expansion in the late 1980s of Medicaid eligibility for children in households above the usual AFDC income limits. The fact that the expansion in eligibility came at a time when the AFDC income limits did not change allows the identification of the effect of Medicaid eligibility on labor supply independent of participation in AFDC. Earlier work on the effect of the Medicaid expansions concluded that there were important positive effects on labor supply and negative effects on participation in AFDC. Ham and Shore-Shepard identify particular problems with this earlier work and conclude that, in fact, there is no evidence of an effect of the Medicaid expansions on either labor supply or AFDC participation.

Finally, there are two papers on hospital labor markets. In "Cut to the Bone? Hospital Takeovers and Nurse Employment Contracts," Janet Currie, Mehdi Farsi, and W. Bentley MacLeod examine how the labor market outcomes for nurses in California hospitals were affected by takeovers. Whereas standard models of increased employer market power imply that wages

are likely to fall, Currie, Farsi, and MacLeod use a contracting framework to demonstrate that, if effort elicitation is a factor in hospital decision-making, increased employer labor market power could have little effect on wages but substantially increase worker effort. These predictions are supported by a careful examination of the data on hospital takeovers in California in the 1990s.

Marianne Bertrand, Kevin Hallock, and Richard Arnould present an analysis of how the penetration of HMOs into the health care market affected the management compensation structure in not-for-profit hospitals. In "Does Managed Care Change the Management of Nonprofit Hospitals? Evidence from the Executive Labor Market," these authors find that the compensation of top executives in not-for-profit hospitals becomes more closely related to the usual profit measures when HMOs enter the market.

Taken together, these papers illustrate the range of Orley's interests and continuing influence in labor economics and beyond. We dedicate this collection to him with great affection and appreciation.

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