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Moving Up or Moving On: Who Advances in the Low-Wage Labor Market?

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benefit public employee pensions (Gary Anderson and Keith Brainard). With defined contribution plans not only placing more risk on workers but also giving them more responsibility for decision-making, financial education is playing an increasingly important role in assuring that the pension system meets its objectives. Pension accounting rules are probably the area least well understood by most economists who study pensions, so the chapter on accounting provides a valuable service by explaining the rules and their importance in affecting the investment decisions of pension plan sponsors. The chapter on defined benefit public employee pensions presents a picture in sharp contrast with conditions in the private sector, because the dramatic decline in private sector defined benefit plan coverage has not occurred in the public sector. The reasons for that difference are not fully explored.

The international chapters discuss pension developments in Canada (Silvana Pozzebon), Japan (Masaharu Usuki), and Sweden (Annika Sundén). Of these three retirement income systems, Canada's is closest to that of the United States. Canada is experiencing a decline in defined benefit plans and a move toward defined contribution plans, though at a much slower rate than the United States. Japan has a system of voluntary carve-outs, whereby employers may voluntarily withdraw their workers from part of social security if the employers provide a defined benefit plan that meets a minimum standard of generosity. This system has encountered some of the problems that critics have claimed would result from President George W. Bush's proposal for voluntary carve-out individual accounts as part of U.S. Social Security reform. In the past few years, there has been a rapid decline in the number of workers participating in the Japanese carve-out system. Sweden, by contrast, has mandatory individual accounts with a contribution rate of 2.5% of pay that are an add-on to a generous base social security system that is financed by a contribution rate of 16% of pay. The designers of the Swedish system tried to learn from the experiences of the mandatory individual account systems in Latin America, particularly regarding ways to minimize the system's administrative costs. The experiences of all three countries may provide valuable lessons for U.S. policymakers as they consider various reform options for both Social Security and private pensions.

The Organization for Economic Cooperation and Development (OECD), whose membership includes the United States and other high-income countries, favors workers postponing retirement as the main way for societies to deal with population aging and longer life expectancy. That policy raises questions as to the ability of people in different occupations to work at older ages, the changing nature of the physical and psychological demands of work, the effects of work on health, the demand for older workers, and the effect of older workers' continued work on the demand for younger workers. Those issues, which are not covered by *Reinventing the Retirement Paradigm,* are sufficiently complex to warrant a book of their own.

The book's editors and many of the chapter authors are leading scholars or practitioners in the pension field. Across a broad range of topics, the book contributes to the advance of our understanding of pension and retirement issues. It is well worth reading for both the novice and the seasoned specialist.

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Moving Up or Moving On: Who Advances in the Low-Wage Labor Market? By Fredrik Andersson, Harry J. Holzer, and Julia I. Lane. New York: Russell Sage Foundation, 2005. 192 pp. ISBN 0-87154-057-6, $29.95 (cloth).

Although it joins an already vast literature on how to improve the labor market success of the American poor, *Moving Up or Moving On* is unusual in using rich data on workers and their employers to suggest that the labor market success of a poor individual is heavily influenced by his or her employer. Research frequently considers how the labor market success of the poor is influenced by their human capital characteristics, such as education level and training program participation. Whether because of data limitations or lack of interest, however, this research rarely considers more than a few employer characteristics, such as firm size and industry. Because of the unusual data used by Andersson, Holzer, and Lane (hereafter AHL), they can consider how the labor market advancement of a poor individual depends on many more employer characteristics, such as whether the employer pays a wage premium or has previously helped the poor advance.

The authors use the Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) database, which is comprised of unemployment insurance wage records from various states, linked to Census data. The book includes LEHD data on five states: California, Florida, Illinois, Maryland, and North Carolina. The records for these states span nine years (1993–2001), allowing analysis of fairly long-term effects.

The LEHD data include information on quarterly earnings of 96% of private non-farm employees, for a yearly total, in the five states studied, of 37 million workers and 1.8 million employers (Table 2.3). By linking to Census data, the LEHD also includes information on the age, gender, race, and ethnicity of 96% of these individuals. Some limitations of the LEHD data are that we only know workers' quarterly earnings, not work hours, and for most workers we do not know education or family characteristics.

AHL's analysis focuses on what happens over time to "prime-age" workers with consistent labor force attachment who initially have low earnings. In this study, prime-age workers are defined as those who were aged 25–54 in 1993; workers with consistent labor force attachment are those who had at least one quarter of earnings greater than $2,000 in each year from 1993 through 2001; and initially low-earnings workers are those whose annual earnings, in 1998 dollars, were less than $12,000 in each year from 1993 through 1995. These restrictions reduce the sample for most of the analyses from 37 million to 1.4 million individuals (p. 153). AHL examine whether these individuals significantly increased their earnings during three-year periods subsequent to 1993–95, particularly the years 1999–2001. As one would expect, they find that earnings increased more for younger white males than for other demographic groups.

The innovative part of the analysis is the demonstration that labor market success for initial low earners was linked to characteristics of individuals' subsequent employers. Consistent with previous studies, these researchers find that labor market success was more frequent for those who were hired in construction and manufacturing, as well as for those hired by larger firms. But AHL turn up other correlates of success, as well:

- moving on to an employer different from the primary 1993–95 employer, particularly if the individual moved to a new employer but then stayed to accumulate job tenure;
- working during 1999–2001 for an employer that had low average employee turnover;
- working for a temporary employment agency during 1996–98, and then moving to another employer during 1999–2001; and
- working for an employer that, over the years 1993–98, paid a high "fixed (over time) earnings premium," as indicated by an estimate that controls for fixed (over time) personal effects of individual workers and each worker's labor market experience.

Another noteworthy finding is that hiring of low-earnings workers was concentrated in relatively few firms. For example, 1,000 employers in these five states did one-quarter of all hires of these initially low-earnings workers.

In addition, workers' success after being hired was concentrated in relatively few employers. AHL define a worker as "fully escaping" low-earnings status if the worker's earnings exceeded $15,000 during each year of a three-year period. Such escapes occurred disproportionately at a few companies. For example, of the 6,000 health service employers in Maryland, fewer than 2,000 hired an initially low-earnings worker, and just 20 of these employers accounted for one-quarter of all low-earnings workers hired by that industry who "fully escaped" low-earnings status (p. 113).

The authors predicate several policy recommendations on their empirical findings. Two of the options they suggest are expanding the use of labor market intermediaries, including temporary agencies, to place low-earnings workers in better jobs, and providing subsidies for customized training in order to encourage more employers to provide advancement opportunities for low-earnings workers.

The three authors should be commended for boldly stretching a rich database to its limits to address policy issues. Also praiseworthy is their frank admission of our uncertainty about how employers might influence their employees' labor market success. Recognizing that an employer's personnel practices are not perfectly predictable based on the employer's size and industry, they develop a methodology that allows for "unobserved" employer-specific factors to influence the labor market success of initially low-earnings workers. Such an analysis could only be done using data over time for most employees of many employers, which would seem to require the LEHD data for the United States.

However, I think the authors could have done more to identify limitations of the study arising from the way they capture these "employer effects." (The only such treatments I find are two brief discussions on pages 144 and 152.) Because so many of the analyses consider how outcomes are correlated with employer "fixed effects" on workers' earnings, the book would have been stronger with an additional appendix detailing how these earnings effects are estimated, and discussing how these estimation procedures constrain the bounds within which the effects can be interpreted.

Part of the issue is that the estimation of employer effects and person effects on earnings is only identified by the persons who switch employer. With only a few years of data for each person, there is substantial measurement error in estimating person fixed effects. In addition, the specification used to estimate person and employer fixed effects on earnings levels does not allow for person and employer effects on earnings growth, which are plausible. As a result, what is estimated to be an employer fixed effect on earnings levels may in part reflect the kinds of workers the employer hires. For example, an employer may tend to hire workers whose true person fixed effects on earnings levels are higher than these workers' measured person fixed effects, or workers whose earnings growth trends are greater than the average person's growth rate trend.

The policy discussion also could have more fully explored some of the limitations of what can be inferred from these estimates. Even if the estimates do reflect causal effects of employer characteristics, the average effects of employer characteristics on workers' success under current labor market policy need not reflect the marginal effects under policies that change how workers are placed in jobs. For example, in research completed after this book was written, David Autor and Susan Houseman found that welfare clients, if they are essentially randomly assigned to welfare-to-work agencies that tend to place more welfare clients in temporary jobs, have lower earnings later on ("Do Temporary Help Jobs Improve Labor Market Outcomes for Low-Skilled Workers?" Working Paper 11743, National Bureau of Economic Research, November 2005). Autor and Houseman's results may not contradict the results reported in AHL's book. Low-earnings workers who are currently placed in temporary jobs may on average experience a long-run benefit, but the marginal additional individuals placed in temporary jobs by policy variations may not.

However, these are modest caveats regarding a unique book that should spark needed future research. Andersson, Holzer, and Lane persuasively argue that employers matter in the success of low-earnings workers. As the book points out, this finding should lead to more research to figure out the specific mechanisms that explain why and how employers matter. And it should lead to exploring a wide variety of policies to see if we can alter the distribution of opportunities offered by employers to low-earnings workers. Some of these policies might fail, but continued efforts to work with employers are likely to be fruitful for both research and policy regarding low-earnings workers.

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The Mismanagement of Talent: Employability and Jobs in the Knowledge Economy. By Phillip Brown and Anthony Hesketh. New York: Oxford University Press, 2004. x, 278 pp. ISBN 0-19-92-6953-X, $39.95 (paper); 978-0-19-92-6954-9, $124.50 (cloth).

A 1997 landmark study by McKinsey & Company exposed the "war for talent" as a strategic business challenge and key driver of company performance. Although the McKinsey consultants were certainly not the first to note the shift toward a knowledge-based economy (KBE)—Peter Drucker predicted the rise of the knowledge worker over a half-century ago—their report has perhaps done most to promulgate the "war for talent" perspective and the view that companies that are victorious on this battlefield will be those that realize competitive advantage in the KBE.

In *The Mismanagement of Talent,* Brown and Hesketh argue that rooted within the dominant discourse of the "war for talent" are several core assumptions that have shaped our perspective on employability in the KBE. The most central of these is that there is a limited pool of talent capable of rising to senior managerial positions, which creates fierce competition to recruit the best and brightest. The perception of talent as a limited commodity is seen as driving organizations to diversify their talent pools and adopt more rigorous recruitment and selection tools in an effort to get the right people, with the right knowledge, into the right jobs. That perception also shapes public policy, as governments focus on expanding access to higher education and dismantling barriers to talent