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Does Education Really Help? Skill, Work, and Inequality

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ment, screening, and promotion policies appear to be shaped by the demand for these skills. The basic picture of the low-wage labor market put forth in this study is new and mostly compelling. The original survey data, however, could have been more interesting, and the analysis of these data should have been more carefully executed.

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Does Education Really Help? Skill, Work, and Inequality. By Edward N. Wolff. New York: Oxford University Press (Century Foundation Books Series), 2006. 303, x pp. ISBN 13-978-0-19-518996-4, $45.00 (cloth); $40.50 (electronic [Kindle] edition).

Nobel Laureate Gary Becker asserted "Education helps almost everything be better" to a roomful of labor economists at the inaugural meeting for the *Journal of Human Capital* in the fall of 2006; all nodded; no one challenged either Professor Becker or the spirit of Jacob Mincer, ever present in the room. Becker's "almost everything" is intriguing because of the unnamed exceptions it implies. Becker's work states that education enhances the rewards associated with human capital, observed at the micro level (the level of the individual or small cohort). And most empirical evidence supports that argument. But the results of research at the macro or economy-wide level are more ambiguous.

Edward Wolff's credentials for answering the question posed by the title of his book, *Does Education Really Help?,* include over twenty years of research and writing on productivity growth, income and wealth distribution, and poverty. To approach the issue of education's benefits or lack thereof, he focuses on two macro observations: in spite of a rise in educational attainment and a fall in educational disparity, (a) real wages have fallen since 1973, and (b) inequality has been increasing since 1967. From these points of departure, he mounts a powerful critique of the belief that education will cure many labor-related economic ills. He concludes that increased schooling, employee training, the information technology (IT) revolution, and the "New Economy" are "a washout for most workers and (have) actually served to lower average earnings and to increase inequality" (p. 5).

To evaluate the results of education and training or imparted skills, the author focuses on a range of topics that are broadly reflected in the chapter titles: "Postwar Trends in Income, Earnings, and Schooling," "Technology and the Demand for Skills," "Wages and Skills," "Productivity and Skill Change," "The Growth of the Information Economy," "Skill Dispersion and Earnings Inequality," and "Skills and Changing Comparative Advantage." Given the emphasis on skills, how Wolff measures that variable is clearly key to the book, and the construction of a data set on skills is described in Chapter 2 and in an appendix. For each of 267 occupations, Wolff sets out the calculation of three measures of skills: Substantive Complexity (SC), Interactive Skills (IS), and Motor Skills (MS). For example, to obtain a measure of MS for an occupation, Wolff applies factor analysis to already available data on manual dexterity, motor coordination, and the ability to set up machines or the precise operation of machines. He also uses data on median years of schooling for each occupation and a weighted composite measure of SC, IS, and MS as a fourth metric.

Using the occupational skill configurations he has constructed, together with other data, Wolff examines four paradoxes or stylized facts: first, U.S. educational attainment has risen faster than skill requirements; second, real wages have fallen in spite of higher educational attainment; third, productivity changes are not correlated with changes in skills or education; and fourth, while educational opportunities have broadened, income inequality has increased. A layman's acquaintance with the historic values of the U.S. Gini coefficient since the mid-1960s prompts the question I ask my classes: "When is the revolution? How can U.S. society sit still for such a deterioration of relative economic position of the middle and lower income classes, especially in view of the concomitant falling elasticities of transition among income groups?"

From his analysis, Wolff draws six conclusions. First, "one of the great success stories of the post war era is the tremendous growth in schooling achievement by the U.S. population" (p. 227), but education is not a panacea for the ills of decreasing real wages, or inequitable income distribution; second, labor productivity growth has not resulted in rising real wages since 1973; third, "despite the pervasive evidence of a rising return to schooling, rising educational achievement has not translated into increasing average wages at the aggregate level" (p. 231); fourth, computerization may be "de-skilling" and "is a principal culprit in the rise

in earnings inequality in the last three decades" (p. 236); fifth, changes in import and export intensity are not related to increasing inequality in time-series data; and sixth, the decline in unionization has played a strong role "in explaining rising wage inequality," as has the decline in real minimum wages (p. 234).

These conclusions about the macro economy challenge the conventional wisdom that greater schooling and training lead to higher aggregate wages, that income inequality falls with wider access to schooling, and that the IT revolution will re-ignite worker pay growth. Indeed, the econometric results Wolff presents provide no evidence that the growth of skills or educational attainment has any statistically significant relation to earnings growth or that greater equality in schooling has led to a decline in income inequality. Results also indicate that computer investment is negatively related to earnings gains and positively associated with both income inequality and the dispersion of worker skills.

The author offers several policy prescriptions to address these issues: raising the real minimum wage; raising the earned income tax credit; extending the unemployment insurance period to 52 weeks; making health insurance portable; making the social security tax less regressive; making income taxes more progressive; and, most important, reforming labor laws to favor unionization.

To be fair, Mincer and his disciples never said education is a universal panacea, and perhaps Wolff has set up a "straw man" here. Also, important questions not addressed are why a pro-union policy would be more efficacious than other possible solutions, and what are the costs and benefits of the proposed solutions to the problems Wolff sets out. The book does not bring to bear any serious recent economic analyses of the costs and benefits of alternatives to formal and informal education as ways to reduce income inequality or to reverse the drop in real wages.

But Wolff is not alone in recognizing that the world is not what economists say it would be if we were all better trained and educated. To get a flavor of the wider debate on this issue, readers will need to explore the literature. I would suggest six studies: in *California's Rising Income Inequality* (1999), Deborah Reed finds that an influx of immigrant low-wage workers, and rapidly rising returns to schooling, training, and experience at upper income levels, caused inequality to spike in California, with a pronounced drop in income at the mid-to-lowest levels of the distribution; contributors to *The Economics of Rising Inequalities,* edited by Daniel Cohen et al. (2002), argue that income inequality stems from market forces and institutions acting together, and that solutions ignoring this synergy are doomed; Gorden Lafer's *The Job Training Charade* (2002) makes the case that education and training are much less important as drivers of wages than are unionization, affirmative action, minimum wages, and plant closing legislation; *Inequality in America: What Role for Human Capital Policies?,* edited by Benjamin M. Friedman (2002), reports Alan Krueger's idea of deploying vouchers as a solution to rising inequality, and James Heckman's opposing more traditional solutions, such as better or "proper" education; "Inequality and Institutions in 20th Century America," a 2007 NBER working paper by Frank Levy and Peter Temin, presents a sweeping argument that institutional changes must be made to counter the cumulative adverse effects of a shift in the nation's economic policy in the late 1970s from an emphasis on achieving stability and equity (the "Treaty of Detroit") to an emphasis on improving economic efficiency, informed by a "winner take all" ethic (the "Washington Consensus"); and "Inequality and Growth," by Erwan Quintin and Jason Saving, published in the Dallas Federal Reserve's January 2008 *Economic Letter,* reviews recent research on the connections among income distribution, growth, and institutional linkages, and concludes that a key to eliminating poverty, or inequality, may be institutional changes to reduce market imperfections.

Does Wolff convince the reader that education and training cannot redress the problems of inequity and falling real wage growth? Standing alone, his analysis and facts are persuasive but not fully convincing; but this book in concert with the other recent work cited above makes a very solid case. Does Wolff convince the reader that the best solutions to the problems he identifies are to modify and enforce existing labor laws, promote unionization, modulate the now unfettered export of jobs abroad, and make other institutional changes? Speaking for myself, no; I believe that the broader institutional changes suggested by Levy and Temin would be more likely to succeed. But Wolff's findings all have direct relevance to ongoing policy debates on educational reform in the United States.

Wolff's book is a significant accomplishment. It deals with an important topic, and shows how good data can be constructed with hard work and ingenuity. *ILR Review* readers should acquire *Does Education Really Help?* for its wealth of data and research ideas. The book has a quite usable index, a chapter-by-chapter list of symbols used in the book, and a list of about 300 references. (One weakness is the table of contents, the brevity of which belies the intricacy of the case Wolff

builds.) Overall, this is a book to buy. Given the work's complexity, the print version might be more practical than the electronic one for some readers, but those who wish to capture and manipulate the data should check to see whether they can do so using the Kindle edition.

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Differential Diagnoses: A Comparative History of Health Care Problems and Solutions in the United States and France. By Paul V. Dutton. Ithaca, N.Y.: ILR Press (an imprint of Cornell University Press), 2007. 272 pp. ISBN 978-0-8014-4512-5, $29.95 (cloth).

Why should anybody read a book that compares French and American health care? The countries are about as different as any two rich countries can be, and their health policies diverged long ago. As attendance at most international conferences shows, comparing very different health systems is an invitation to superficiality. And any competent student of comparative political science should be able to list reasons why the contrast would not work—the cases are just too different, and Dutton should compare France to Belgium, or the United States to Canada.

Dutton suggests one excellent answer: in debating health care policy, Americans, like most people, frequently cite other countries' experiences, but rarely know what they are talking about. He leads with an amusing anecdote: an American opines that France has "socialized medicine," and a horrified Frenchwoman exclaims, "Socialized medicine! That's the British!" The book certainly would straighten out that American. And if more Americans did know about other countries, they might ask themselves different questions. When some French doctors toured the United States in 1951, they were posing very good questions indeed: "How, wondered the French, could the Americans be so horrified by public health insurance but so complacent about taking money directly from insurers, a practice [the French] viewed as a slippery slope toward losing control over medical decision making?" (p. 135).

Those French doctors had a point, and what Dutton does well is show why they could see what third-party payers and managed care organizations would be doing to American medicine forty years later—and why their American hosts could not. Medical autonomy survived better in Europe than in the United States, a terrible joke on the American doctors who confused professional medical autonomy with the freedom of doctors to think of themselves as small businesses. (See also Carolyn Tuohy, *Accidental Logics*, 1999.) Anybody who still thinks that UnitedHealth or Humana promotes medical professionalism better than does a French *caisse* should read *Differential Diagnoses*. So should anyone who wants to know what else the French, or at least their questions, could teach the United States.

But there is another good reason to read this book, one that appears to emerge from Dutton's approach as well as his obvious historiographical skill. The book is not a structured comparison of the sort that political scientists tend to write, testing a hypothesis in two cases chosen for their relevance. Rather, it explores the different ways that the two countries dealt with a range of challenges, such as the role of public and private in coverage, cost containment, and international debates about the role of hospitals.

What this book might lack in political science theory it makes up in good data and a lack of preconceptions about what does and does not matter. This means that Dutton is very good at identifying important forces that are dangerously easy to write out of health politics analyses. Histories of health politics too often focus myopically on coverage, finance, and organizational structures, ignoring the intense medical and professional politics that influence any outcome. They miss the extent to which a debate about finance or legislation, for example, is shaped by inter-professional arguments or disputes about the role of hospitals, outpatient care, or doctors.

That is important. We might be interested in one slice of health policy—why the United States does not have universal coverage, say, or whether health systems are converging—but the political outcomes of interest are often shaped by the actions of people whose motivations are foreign to us and may seem inexplicable to a political scientist or political historian. Medical organizations might enter the lists for or against universal coverage or a particular reform for reasons that have little to do with the issue of interest to us. Arguably, Presidents Truman and Clinton both failed to create a system of universal coverage because their plans involved major reorganization of medical care, and made enemies of those who would not have