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Ronald G. Ehrenberg  
*Cornell University, rge2@cornell.edu*

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# Black Youth Nonemployment: Duration and Job Search: Comment

## **Abstract**

[Excerpt] Holzer's paper has a number of attributes that I find very appealing. It focuses on an important topic and uses two different data bases to test the robustness of its findings. It uses alternative specifications of the variable of interest (reservation wages), examines the sensitivity of the results to alternative sets of control variables, uses a variety of statistical methods to confront a number of statistical issues, and honestly reports cases in which any of the above leads to differences in results. Finally, the paper does not claim more than the evidence warrants—a feature not present in enough academic research papers. My comments below should be taken with this overall evaluation in mind. I first raise some methodological issues and then turn to future research questions posed by the paper.

## **Keywords**

youth employment, African-American, race, unemployment, labor market

## **Disciplines**

African American Studies | Labor Economics | Labor Relations | Race and Ethnicity

## **Comments**

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## Comment      Ronald G. Ehrenberg

Holzer's paper has a number of attributes that I find very appealing. It focuses on an important topic and uses two different data bases to test the robustness of its findings. It uses alternative specifications of the variable of interest (reservation wages), examines the sensitivity of the results to alternative sets of control variables, uses a variety of statistical methods to confront a number of statistical issues, and honestly reports cases in which any of the above leads to differences in results. Finally, the paper does not claim more than the evidence warrants—a feature not present in enough academic research papers. My comments below should be taken with this overall evaluation in mind. I first raise some methodological issues and then turn to future research questions posed by the paper.

Ronald G. Ehrenberg is professor of economics at Cornell University and research associate at the National Bureau of Economic Research.

## Methodological Issues

Holzer estimates a three-equation recursive model in which a vector of exogenous variables ( $X_t$ ) influences an individual's reservation wage at the survey date ( $W_t$ ); these exogenous variables and the reservation wage influence the subsequent received wage; and the exogenous variables, the reservation wage, and measures of search intensity influence the duration of a completed spell of nonemployment, dated from the time the survey was conducted. Several methodological issues are raised by his analyses.

First, we are presented with a parsimonious specification of the exogenous variables (the  $X$ s). Missing from the list is any mention of unemployment insurance eligibility and receipt, reasons for nonemployment, whether the youths lived with their families, and variables that might influence subjective discount rates (which might vary systematically by race). These omitted variables may well bias the results.

Second, Holzer analyzes duration of "nonemployment"; there is no discussion of whether "out of the labor force status" and "unemployment status" can be meaningfully lumped into one state. Although there is disagreement in the literature on this point (compare Clark and Summers [1982] to Flinn and Heckman [1982]), Holzer's reported mean nonemployment spell durations of 317 (406) days for whites (blacks) in table 1.8 causes me to wonder about the intensity of job search that is being demonstrated by some of the youths in the sample and to question the relevance of the job-search framework.

Holzer also uses as a dependent variable the spells *from* the survey date, including the reservation wage *as of that date*. The latter is not allowed to vary with the duration of the nonemployment spell *up to* the survey date. But from the general theory of job search and the empirical work of Kiefer and Neumann (1979), among others, we know that reservation wages should be expected to vary with unemployment duration. If reservation wages *are* associated with the duration of spells up to the survey date (both because of the revision of expectations downward and the failure of the unemployed to be aware of general wage increases) and if the duration of spells prior to the survey date is correlated with race, Holzer's results will be altered accordingly.

In fact, Holzer notes in table 1.8 that spell durations prior to the survey date were some 35 percent longer for black youths than they were for white youths. One might also expect longer durations of nonemployment prior to the survey date to thwart job searchers' efforts, negatively influencing their subsequent wages and prolonging subsequent nonemployment spells. Thus, the durations of previous spells should probably enter all three equations. If this factor is omitted, the

error terms are likely to be correlated across equations, and an estimation method that takes account of this fact should have been used.

Fourth, in theory the same vector of variables  $X$  should appear in all three equations in Holzer's system, otherwise it is impossible to identify the independent effect of reservation wages on the other outcomes. Holzer solves the problem by some artificial restrictions that lead to additional omitted-variables problems. If the marginal effects of these excluded variables on duration and subsequent wages differ between whites and blacks, as does their correlation with reservation wages, this might explain why the apparent effects of reservation wages differ between whites and blacks.

Finally, Holzer's data permit him to distinguish between the nonemployed who sought employment in the past month and those who intended to seek work sometime in the next year. Since the former group is more likely to contain "active" job searchers, some reanalysis of their behavior alone is probably in order. Similarly, all of Holzer's analyses pool together youths of different ages. The NLS sample covers 14- to 21-year-olds; the NBER, 16- to 24-year-olds. Since we know unemployment experience changes dramatically as youths age, separate estimations for different age groups are also in order.

#### Future Research Questions

The first research question posed by Holzer's study is why black youths are more willing than white youths to accept low-wage, temporary jobs. In answering this question one should distinguish between the behavior of those searching for temporary or part-time jobs and those searching for full-time career jobs. Again, the behavior of different age groups would be relevant here.

Second, Holzer presents data on reservation wages for specified hypothetical travel times to work. Future research could examine whether the compensating wage differential that black youths require for travel time to work differs from that of white youths. If it does, why should this be so, and do Holzer's results suggest such a difference will affect nonemployment durations? Also, if data are available in Holzer's samples on average travel times to work for employed black and white youths, one might compute how such differentials affect nonemployment durations. For instance, Ellwood's findings (in this volume) that young blacks in Chicago spent more than two times as much time traveling to work as young whites in 1975 might be usefully applied here.

Finally, future research should explicitly consider the role of social insurance programs. I have already mentioned unemployment insurance, but more important may be transfer payments such as Aid to Families with Dependent Children, according to which a family's grant

depends on reported total family income. Do such programs discourage work effort and prolong spells of nonemployment among youths from low-income families? Are there racial differences in the effects on teenage nonemployment because the probability a teenager will be in a family eligible for AFDC may vary by race? Analyses along these lines could exploit the fact that AFDC program regulations vary across states and therefore provide a form of natural experiment.

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