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### Review Of "Rising Wage Inequality: The 1980s Experience in Urban Labor Markets" By T. Hyclak

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Review

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## **Rising Wage Inequality: The 1980s Experience in Urban Labor Markets**

By Thomas Hyclak.

Kalamazoo, MI: W. E. Upjohn Institute, 2000. *Pp. x, 157, \$14.00 (paper).*

This analysis, which is primarily empirical, provides a useful addition to the literature on the determinants of wages and wage inequalities. It is based on a careful mining of panel data from the Area Wage Surveys of wages of 41 occupations in 20 urban areas for the period from the mid 1970s to the late 1980s. Hyclak's major conclusions are that the wage patterns in local labor markets roughly parallel those for the nation as a whole, that returns to skills are increasing, and that institutional variables have roughly equal explanatory power to supply and demand elements in the labor market for explaining changes in the wage structure.

The book is organized in a straightforward fashion. The various chapters deal with the structure of wages in local labor markets, the extent and pattern of changes in wage inequalities, the relation of the availability of benefits to change in the wage structure, the wage returns on skills, and the importance of institutional variables such as changes in union contract coverage and in the minimum wage for explaining changes in the structure of wages.

In the initial chapter, Hyclak lucidly summarizes trends in employment of four large occupational classes, in median real hourly wage rates, and in the variance in hourly wages. He also decomposes the variance of wages to show that, in contrast to differences in wages between occupational groups, differences occurring within these groups account for about 70% of the total wage variance.

Although the data sets allow analysis of nonwage benefits only between plant and office workers, they do permit attention to specific types of benefits. The author looks separately at holidays, vacation days, health and pension insurance coverage, and, finally, five additional types of insurance benefits. The pattern of change of the recipients of these various benefits is somewhat mixed, but, in general, benefit coverage shifted from plant to office workers, who also received relatively higher wages. As a result, wage inequalities were reinforced by changes in benefits. He also shows that union coverage generally had, as expected, a positive impact on the share of workers receiving nonwage benefits.

The serious econometric analysis begins with his analysis of the returns to skills at a single point in time for the late 1970s and also for the late 1980s, using various measures of skills taken from the *Dictionary of Occupational Titles*. The author shows that most skills received higher real wage returns in the latter year, holding a number of other determinants such as unemployment and union contract coverage constant. The returns for particular skills, however, have had different payoffs for men and women, an interesting result that is difficult to explain.

With this groundwork covered, the author then turns to an explanation of these trends, looking separately at changes in wages, in the variance of wages, and the wage gap between those in the 25th and 50th percentiles of the distribution. A major purpose of his analysis is to determine the relative impact of traditional market variables and of his two institutional variables, namely, the union contract coverage and the real minimum wage. And, at this point, certain difficulties arise in his analysis because almost all of his market variables specify demand-side factors, such as changing skill requirements. The only supply-sided factor is a local unemployment rate of workers in four large occupational classes.

The importance of supply-side variables is shown in other labor market studies demonstrating that, during the 1980s, employment in occupations requiring many years of education

increased more slowly than the number of workers with the requisite education. As a result, college-educated workers experienced considerable downward occupation mobility such that many took jobs previously held primarily by those with much less formal education. Such downwardly mobile college graduates generally had lower cognitive skills than those occupying occupations commensurate with their education. The increasing wages went to those in occupations requiring high cognitive skills, regardless of the training required. Those who were unemployed, therefore, did not necessarily pull down the wages of those in the same occupation who were employed and, moreover, most of the unemployed in a given occupation included many who had not yet taken the step of taking a job requiring less education than they possessed.

Hyclak's supply-side variable does not capture these various effects, particularly cognitive skills unrelated to training. Although he does find that the lagged unemployment rate in one of the four large occupational groups did have an inverse impact on wages and a positive impact on the variance in wages, the interpretation of the impact of this unemployment variable may not be as straightforward as he argues. His results also give rise to other puzzles, for instance, why an increasing skill level within an occupation should lead to a decrease, rather than an increase, in the variance of wages in that occupation.

Hyclak also shows how a rising minimum wage and coverage of the union wage contract reduce wage variance. Although the former result can be argued from theory, it is gratifying to see such a clean empirical verification. The latter result provides another demonstration of a proposition that has been generally investigated using quite different data sets. The author also argues that the major factors underlying the rising wage inequality in the 1980s was the rising unemployment and the falling ratio of the minimum to the average wage.

The major merit of this book lies in the author's disaggregative approach, his careful construction of explanatory variables (e.g., his use of real, rather than nominal, wage rates), and his exploration of a variety of nonwage benefits and the payoffs to a variety of skill measures. Although his result showing a parallelism between local and national labor markets may relieve the conscience of those focusing on the national level, such a cross-sectional approach allows exploration of a number of different causal variables than in other labor market studies.

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## **An Introduction to Classical Econometric Theory**

By Paul A. Ruud.

New York: Oxford Press, 2000. Pp. xxiv, 951. \$85.00.

*An Introduction to Classical Econometric Theory* is one of several recent entries into the PhD-level econometrics market.<sup>1</sup> Ruud has distinguished his text from these competitors in a number of ways, the most notable of which are its organizing principles of mathematical projection and latent-variable models. The former is used to develop the geometry of ordinary least squares (OLS), which is extended to generate theoretical insights into the properties of a variety of other estimators. The latter is adopted as a unifying approach to model specification, emphasizing the dependence of observables on unobservables.

A successful graduate econometrics text will be a well-written and reasonable comprehen-

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<sup>1</sup> These include Baltagi (1998), Davidson (2000), Hayashi (2000), and Mittelhammer, Judge, and Miller (2000). Greene (2000), the fourth edition of this popular text, was also published this year.