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Workers and Their Wages: Changing Patterns in the United States

Edited by Marvin H. Kosters

This volume of essays analyzes relationships between schooling levels, achievement trends, and workers' wages in the 1980s. The editor is resident scholar and director of Economic Policy Studies at AEI. The following summary is taken from the book's foreword.

Trends in real wages for different groups of workers were very uneven during the 1980s. This uneven performance contrasted with that of the 1950s and 1960s, when the trend of average wages was a fairly reliable indicator of how well most workers were faring. The strong increases in real wages that most workers experienced then may have muted concerns about the poorer relative performance of some groups of workers. Differences among groups remained small when real wages stagnated in the 1970s. The large increase in earnings of high-wage workers in the 1980s dramatically shifted relative wages—a change that was striking in both its size and its direction compared with the gradual earlier changes.

The remarkable changes in wage patterns that emerged in the 1980s gave rise to considerable public discussion about their causes and consequences and about policies to offset them. Among the proximate causes suggested were employer offers of mainly low-wage jobs, declining union bargaining power, and federal government policies that were too market-oriented to protect workers' wages or to prop them up. Suggested consequences included a shrinking middle

class and persistent poverty because too many jobs paid wages too low to support middle-class living standards. Policies that were proposed for consideration generally emphasized programs that could provide more high-wage employment opportunities for less-skilled workers or more direct approaches to raising their wages and incomes.

The essays in this book describe and analyze the major, broad changes in wage relationships during the 1980s. The analyses examine the influence of changes in the supply and demand for workers' skills, as measured primarily by years of schooling and work experience. A major goal of the research was to identify and to explain the underlying causes of these changing relative wage patterns. The studies attempted to develop explanations that are more unified and comprehensive than those that emphasize many separate, particular circumstances influencing the changes.

The focus on the role of education provides a useful framework for structuring the analyses. The most pervasive change in wage relationships that is apparent in all the studies is the increase in wage differentials for workers with different levels of schooling. During the 1980s the wage premiums for additional schooling increased across the entire schooling spectrum to levels much larger than experienced earlier.

Schooling levels for the work force as a whole were upgraded less rapidly during the

1980s than in the 1970s, and this slowdown in the growth of the supply of workers with more schooling was one factor influencing schooling wage premiums. The big increase in schooling wage premiums in the 1980s emerged, however, when significant upgrading occurred. One of the most significant general conclusions in these studies, documented in detail by Kevin Murphy and Finis Welch, is that changes in the relative supply of skilled workers—resulting from changes in the schooling of the work force—cannot be the only factor that influenced relative wage patterns in the 1980s. Evidently demand changes were also at work.

The influence of changes in demand on relative wage patterns in the 1980s was closely linked to changing international trade patterns. The influence of trade on wage trends was reflected by measures of the size and composition of changes in the trade balance, as shown by Murphy and Welch, and by indirect evidence on shifts of production operations abroad, as shown by John Bound and George Johnson. The influence of the pronounced change in trade patterns that emerged in the 1980s, however, is difficult to distinguish from competing explanations, such as a surge in skill demands induced by more rapid technological change. A more definitive judgment about the characteristics of demand changes primarily responsible for the changes in wage patterns experienced in the 1980s, and about the extent to which their effects might be temporary, would probably require more direct measures than were available for these studies.

Workers with more schooling earn higher wages on average than those with less schooling, and widening wage differentials between schooling levels consequently produce increased wage dispersion. The underlying skills valued by employers are closely associated with years of school completed, but workers with comparable years of schooling and work experience do not necessarily have the same marketable skills. If demand for these underlying skills increases, dispersion in wages within schooling and

work experience categories can also be expected to increase. Chinhui Juhn, Kevin Murphy, and Brooks Pierce examine the slowdown in convergence of wages of black male workers toward those of white males by taking increased wage dispersion into account in establishing appropriate benchmarks for comparisons. Their analysis indicates that wage differences associated with differences in years of schooling account for about half the slowdown in black-white wage convergence in the 1980s. Differences in schooling quality apparently account for a substantial portion—possibly all—of the remaining slowdown in black progress.

Evidence on deficiencies in schooling quality, especially at the elementary and secondary level, received a great deal of public attention in the 1980s. John Bishop's review of evidence from test scores shows a decline in achievement levels during the late 1960s and 1970s, followed by a recovery to earlier levels during the 1980s. The influence on relative wages of differences in years of school completed was much more important than differences in achievement levels that prevailed when workers obtained their schooling. Changes over time in schooling quality seem to have contributed to changes in schooling wage premiums, but schooling quality, as measured by high school achievement tests, is apparently also influenced by changes in the college wage premium. Both achievement levels and years of schooling are endogenous, and they can be expected to adjust in response to changes in wage differentials generated in the labor market.

The pronounced rise in schooling wage premiums in the 1980s, concurrent with a substantial upgrading of schooling levels, is evidence of a strong growth in demand for skilled workers. The high wage premiums for schooling that emerged can be expected to lead to increased investment in schooling and skills. Further upgrading of the schooling and skills of the work force would help to raise average wages and living standards for the work force as a whole, to stabilize or perhaps even to reduce the size of wage dif-

ferentials between workers with different average schooling and wage levels, and to bring about a resumption of convergence toward average wages for workers in groups with below-average schooling and skills. Improving education and skills would contribute to a more productive work force with smaller disparities in wages and living standards.

The analyses and commentaries in this

book were presented at a conference held at the American Enterprise Institute, Washington, D.C., on November 3, 1989. The conference was organized to promote discussion and better understanding of the pronounced changes in relative wage relationships during the 1980s. The essays were prepared for publication to make them available to a broader audience.

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