COMMENT BY STEVEN J. DAVIS

U.S. employment rates drifted down from 2000 to 2007, fell precipitously in the wake of the financial crisis and recession of 2008-09, and show little or no recovery as of October 2012. These developments fully erased the large employment rate gains achieved in the 1980s and 1990s. They constitute a very serious setback in U.S. economic performance – with long-term negative repercussions for human capital, real wages, living standards and tax revenues net of government transfers.

Robert Moffitt focuses on employment rate changes from 1999 to 2007 and 1989 to 1999. The selection of time periods reflects a desire to examine developments between business cycle peaks so as to highlight longer-term forces. Table 1 shows widespread employment rate declines across age-education groups from 1999 to 2007 for men, with steeper declines for the younger and less educated. The only exception to the downward drift among men is the essentially flat employment rates for the college educated 25 and older. Women 16-24 and 25-39 also show notable employment rate declines from 1999 to 2007, especially among the less educated. In contrast, women 55-64 experienced sizable employment rate gains across education groups. On the whole, men experienced larger employment rate declines than women from 1999 to 2007, but the decline relative to pre-1999 trends is greater for women.

After documenting these facts, the paper turns to simple empirical models that relate employment rate changes to real weekly earnings, nonlabor income, marital status and family structure. This part of the paper produces few robust conclusions about the proximate determinants of employment rate changes. As it turns out, the chief empirical results are highly sensitive to the wage measure and, for women, to basic aspects of the regression specification.

The specification sensitivity for women comes through clearly in a comparison of Tables 6 and 9. Imposing the same regression specification on all women, the fitted...
empirical model accounts for none of the overall 1999-2007 drop in female employment rates (Table 6). In this respect, the basic regression model performs poorly for women. Letting the regression coefficients vary by marital status and, for unmarried women, by the presence of children yields a very different picture. Predicted changes implied by the flexible specification account well for the actual 1989-99 and 1999-2007 employment rate changes for married women and for unmarried women without children (Table 9).

The performance of the flexible specification for unmarried women with children is harder to assess. Moffitt writes that the flexible model “does a poor job of explaining the small decline in employment for unmarried women with children, however, predicting instead an increase of some magnitude." But it's unclear whether the differences between "Actual" and "Predicted" changes for this group are statistically significant. Both quantities in these comparisons are subject to sampling variability. The samples for unmarried women with children are smaller than for the other groups in Table 9. The table reports a large standard error on the estimated wage elasticity for this group, and footnote 17 suggests that the reported standard errors are too small in any event. In sum, the flexible specification appears to perform well in accounting for changes in women’s employment rates from 1989 to 1999 and 1999 to 2007 – with the possible exception of unmarried women, for whom the evidence is not very informative.

These results hold when using the wage measure featured in the main text. A key challenge in constructing the wage measure is how to handle nonworking persons, for whom there is no contemporaneous wage observation. Ignoring this issue leads to potentially biased wage measures – and biased estimates of employment responses – because changes over time in observed wages may not accurately reflect changes over time in market opportunities for nonworking persons or all persons. To address this issue, the main text uses the predicted wage for employed persons from a wage equation that incorporates a selection correction for employment status. The selection correction is identified by excluding nonlabor income and two children variables from the wage equation, while including these variables in the employment probability equation. Both equations contain other controls.

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*A Personal communication with Robert Moffitt.*
The paper says little about why these selection-corrected wage measures could be expected to adequately adjust for changes over time in the market wage opportunities of nonworking persons. For unmarried men, it seems unlikely that the children variables provide much leverage for estimating the selection correction. For women, it is useful to recall that the underlying wage measure is average weekly earnings during the calendar year. So the wage measure is affected by the number of hours worked per week. The presence of children, especially young children, is likely to have a strong effect on desired work hours and work intensity for many women and, therefore, on their set of (relevant) market wage opportunities. Thus I do not a good case for the exclusion of the children variables from the wage equation for women. In future work that uses selection-corrected wage measures to explain employment changes over time, I hope to see a vigorous defense of the exclusion restrictions and a fuller case in favor of the resulting selection-corrected wage measures.

The paper also considers an approach that imputes wages to nonworkers based on the wages of persons with 1-19 weeks of work during the year. Appendix Table A.3 reports selected results for this alternative wage measure. For both men and women, it yields estimated wage elasticities that are an order of magnitude larger than the ones reported in the main text (Tables 5 and 9). That is, the most important response coefficient in the model is extremely sensitive to the construction of the wage measure. It is unclear what to make of this sensitivity.

There is another head-scratching aspect of Table A.3. Recall the generally downward movement in men’s wages from 1999 to 2007 for the wage measure featured in the main text (Table 4.A). This pattern coupled with the large wage elasticity reported in the second row of Table A.3 leads me to expect a strong negative predicted employment rate change for men from 1999 to 2007. Instead, the second row of Table A.3 reports a positive predicted change over this period. It is puzzling that the alternative wage measure yields a much larger estimated wage elasticity in the employment rate regression and generates a much smaller predicted employment rate change. More work is needed to understand what lies behind this result, even at a mechanical level.

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B See the appendix for a full explanation of how wages are measured under this approach.
Section V of the paper considers several additional factors that are potentially important for understanding longer-term employment rate changes. I share Moffitt’s view that the Supplemental Nutritional Assistance Program, Disability Insurance Program and rising rates of incarceration and imprisonment have had potentially important effects on the employment rates for some demographic groups, and that their roles warrant further study. More generally, I think there is a strong need for additional research to improve our understanding of the reasons for the worrisome declines in U.S. employment rates during the 21st century.