COMMENTS ON THE PAPERS BY JOESCH, MACDONALD AND MCMAHON
AND WANG

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ABSTRACT

This paper summarizes the comments the author made as a discussant at the Economics Resources and Non-Household Work Session.

INTRODUCTION

The three papers presented in this session make significant contributions to the analysis of labor supply and public policy. These are important areas since redistribution policies have been estimated to reduce labor supply by approximately four to six percent (Haveman 1988). Further developing measures and techniques to analyze the effect of programs--and the measuring of the effects of new programs--has a large practical value in assessing the costs and benefits of redistribution programs, enacted or proposed.

COMMENTS ON JOESCH'S PAPER

Joesch's paper focuses on the institutional details of a particular program. Often the complexities of most programs are ignored and reduced forms are estimated without regard to the actual parameters of policy programs. Joesch compares the results of this approach with an approach which incorporates all the complexities of a particular AFDC program in Colorado. In doing this the statistical model she uses must deal with the non-linearities and indeed non-convexities of the budget constraint the program creates. Going through this complicated procedure provides more realism and is definitely a worthwhile exercise but Joesch should provide some way of examining the relative fits of the simplified model and the maximum likelihood estimation. Discovering either that this procedure provides more efficient or indeed qualitatively different results, or that it does not would be an important finding for researchers who desire to evaluate similar programs.

However, some caution should be used in interpreting the reported price of child care elasticities. Welfare programs have a two stage effect on labor supply. First, they affect participation rates. Second, given a woman is participating, they affect the extent of that participation (i.e. hours worked). Since Joesch's sample includes only workers she is only estimating the second effect. (Note this point is distinct from the possibility of selection bias, a problem that Joesch points out herself.) Therefore, if one is interested in the total effect of the program on labor supply, Joesch's estimates understate the effect of the program.

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COMMENTS ON MACDDONALD'S AND MCMAHON'S PAPER

MacDonald and McMahon offer some of the first evidence of the labor supply effects of enforced child support, a program that is gaining wide acceptance.

They find that, unlike previous studies of men's labor supply, there is no income effect from non-labor income. This is not surprising, however. Recently divorced men have suffered a large decrease in assets. Their wealth being diminished, it is not surprising that the anti-work influence of non-labor income would be lessened, even to the point of having no effect.

One way to improve the estimates of the income effect of the size of the child care award would be to control for the length of time it must be paid. For example, a $3000/yr award that goes to a 16 year old amounts to only $6000 in total nominal payments. A similar award granted to a 10 year old adds up to $24,000. These two $3000 awards should have different sized income effects.

MacDonald and McMahon are concerned about sample selection bias resulting from (a) the fact that men are not randomly selected for enforced withholding, and (b) there is not a 100% response rate in the PS survey. They therefore estimate two "lambdas," or mills ratios, to correct for this problem but find them to be highly collinear. They use this fact to only include one lambda in the final analysis.

It is not surprising that two potentially related forms of selection biases that are controlled for with mills ratios constructed from probits that use the exact same set of explanatory variables are highly correlated. Furthermore, I believe it is wrong to leave out a "correction" for a form of bias you believe to exist. Therefore I think it would be more proper to treat the two forms of unobserved heterogeneity as being bivariately distributed and estimate one bivariate mills ratio, or lambda, to be used in the estimation.

However, I am not sure this is necessary for two reasons. First, like the authors suggest themselves, the survey non-response problem can be solved by generating weights. This would be much easier than estimating a bivariate mills ratio. Second, and more fundamentally, I am not sure they need to worry about the first form of selection bias. If one is concerned about the effects of the program, and if under the operation of the program judges are going to assign enforced withholding to only a subset of the population, then one should only be concerned with the effects of the program on that sub-population.

In other words, by correcting for assignment selection, the authors are trying to generate estimates of the effect of the program on a randomly selected NC. If the program were to be universally applied this would be appropriate. If NC's are not going to be randomly selected to have enforced withholding, then it is not necessary.

COMMENTS ON WANG'S PAPER

Wang's paper attempts to generalize Heckman's method for estimating a person's reservation wage by allowing the observed hours to differ from the desired hours. Her findings are consistent with past work but since her method is more general they are arguably more accurate.

In order to obtain estimates of the parameters in the reservation wage equation Wang's method necessitates leaving out one explanatory variable from the hours equation that is included in the wage equation. She assumes that the unemployment rate is unobserved and thus can identify all the parameters in the wage equation.

Her paper would be much strengthened, however, if she could make a convincing argument as to why this variable is excluded from the hours equation. Since the identification of the wage equation parameters rest completely on this exclusion, the exclusion of the unemployment rate should be well justified. Alternatively, Wang could try excluding other explanatory variables to see how robust her results are to alternative specifications of the hours equation.

CONCLUSION

This was an excellent session. The papers were on important topics and very thought-provoking. I look forward to reading any revised versions.

REFERENCES

Haveman, Robert (1988). Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty. Simon and Schuster