Do Wages Compensate for Risk of Unemployment? Parametric and Semiparametric Evidence from Seasonal Jobs

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Abstract

Due to unique institutional and technological factors, seasonal agricultural jobs are characterized by much higher risk of unemployment than similar permanent jobs. I estimate compensating differentials for risk of unemployment and compare those with unemployment insurance benefits provided by the government. I use two sets of estimators. First, I calculate parametric estimates with Heckman correction. Second, I compute three versions of a distribution-free semiparametric estimator which is robust to misspecification of the residual distribution. The main finding of the paper is that there exists a positive compensating differential of 15.5% of the average wage. This corresponds to an implicit replacement rate significantly larger than the typical unemployment benefit.

Key words: semiparametric estimation, compensating differentials

JEL Classification: C14, C34, J43

Between 1988 and 1994 the number of temporary jobs in the U.S. grew at a rate ten times faster than the number of permanent jobs. In 1995, between 2.7 and 6.0 million workers—a range of 2.2 to 4.9% of total employment—were in contingent jobs, that is, jobs which are structured to last only a limited period of time (Bureau of Labor Statistics, 1995). Although firms increasingly rely on temporary workers to cut fixed costs and increase flexibility, few studies have been devoted to evaluating the effects on labor market and wage distribution. The main purpose of this paper is to investigate the effect of temporary labor contracts on wages. In particular I test the hypothesis that differences in non-pecuniary job characteristics, namely the risk of unemployment, are compensated by differences in wages. Employers and workers are assumed to exchange wage-job characteristics bundles in an implicit

* Paper presented at the Congress on Application of Semiparametric Methods for Micro-Data, Tilburg University, October 1997. I am grateful to Ken Chay, Nada Eissa, Jeff Perloff, James Powell and Paul Ruud and the participants in the Labor Seminar at Berkeley for helpful comments. I thank Richard Mines of the Office of the Assistant Secretary for Policy, U.S. Department of Labor, and Aguiere International for permission to use data from the National Agricultural Workers Survey. The views expressed here are mine and do not necessarily reflect the views or policies of the Department of Labor. I thank Mark Wolfson for correcting my English.