ing these issues to the data. Unfortunately, little if any of the empirical work in Acquiring Skills follows this program, because the theoretical papers in the volume do not place much emphasis on deriving testable implications that distinguish their models from the standard human capital models. (A notable exception is Daron Acemoglu’s excellent paper on credit constraints and investment externalities, in which he tries to reconcile the existing empirical evidence with the three types of models he presents.) If market imperfections result in too little training, it is vitally important to take care in crafting any policy responses to this distortion. In developed economies, the governments already have provided massive subsidies to education. Any attempt to correct these imperfections must also confront the distortions that these subsidies already create. Indeed, it is not absurd to imagine that existing subsidies swamp any lack of training that market imperfections might generate.

For instance, consider an 18-year-old high school graduate who is today entering the U.S. labor market for her first permanent position. She has received, at the taxpayers’ expense, 12 years of public schooling. At a 3 percent real discount rate and annual cost of $5,000, she has received a subsidy worth about $71,000. That money, regardless of how efficiently or inefficiently it was spent by the school system, represents a sizable subsidy in the accumulation of her human capital. Without the subsidy, she and her family may well have picked a lower level of education: she may be over-skilled. Policies to encourage her to obtain even more skills may move us further from the efficient provision of human capital.

That she may be over-skilled does not imply that this high school graduate will have high earnings; it is quite unlikely that she will earn as much as a college graduate. Clearly, providing her with more skills would narrow the gap between her expected earnings and the expected earnings of a college graduate. One suspects that an implicit agenda for those who believe in the “New Consensus” is to narrow that gap. It is far from obvious, however, that training policy is an efficient or effective means of income redistribution.

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Labor Shortages as America Approaches the Twenty-First Century. By Malcolm S. Cohen. Ann Arbor: University of Michigan Press, 1995. 183 pp. ISBN 0-472-1-0353-9, $37.50 (cloth).

The focus of this book is the formation of a regression model used to identify occupations in which labor shortages will occur during the next decade. This model is based on well-known research findings showing that it is better to estimate labor supply and demand with indicators, such as the unemployment rate, than to measure supply and demand directly.

The author reviews basic economic theory, discusses relevant advanced theories, and gives a detailed explanation of sources of data, and presents detailed results of the estimation model. Overall, the book presents a well-balanced look at the pros and cons of different theories and data sources.

The book is useful for practitioners who design programs that affect labor supply and demand, such as immigration officials, counselors, trainers, and employers. Cohen successfully addresses his target audience by giving a basic review of economic theories before going into detailed discussions of how estimates were computed. For example, Chapter 2 provides a general review of supply and demand theory and why labor markets can contain shortages or surpluses over the long run (the theory of sticky wages) before discussing advanced-level theory.

The early chapters cover theoretical and practical reasons why certain variables were included in the study. These early chapters give a good explanation of available labor force data and a good review of the pros and cons of using different variables. For example, the author discusses in detail the validity and reliability of the use of help wanted advertisements to determine labor demand. Other variables discussed are hire rates, job openings, unemployment, employment, wages, employment growth projections, and labor certifications for immigrants. Unfortunately, these early chapters have no references to research, and readers must search Chapter 5 to find the footnotes and learn the technical pros and cons of using the different variables.

Chapter 5 is a well-presented discussion of the literature, and it concludes Chapter 3’s examination of the strengths and weaknesses of different measures. It also contains references to literature on which Chapter 3 is based. Cohen presents convincing reasons for expecting short-
ages in the next decade. He draws together diverse streams of research on recessions, the cobweb theory of demand, surveys, occupational forecasts, demographic trends, educational trends, immigration trends, and job skill level changes. Top practitioners and researchers are cited as references.

Chapter 4 discusses and presents the actual data, and is one of the strongest chapters of the book. The data, covering 193 occupations over four time periods, include information on seven variables: unemployment rate, employment changes, wage changes, Bureau of Labor Statistics predicted employment growth, replacement demand, labor certifications, and estimates of annual flows of supply and demand. The presentation of the data and the shortage estimates are extremely useful features for practitioners and researchers alike. We can all be grateful to the author for publishing the actual data rather than just the methodology used to create the data. The data are especially useful because the model cannot be reproduced based on the content of the book alone.

In Chapter 6 Cohen presents a thorough list of advantages and disadvantages of using certain data when estimating shortages. For example, ignoring information on job skill requirements can cause estimation of a shortage in an occupation although there is a surplus of workers in other occupations that use the same skills (for example, biological researchers and professors). The book could have been improved by joining this section to Chapter 3 also.

Chapter 6 also presents state-level data that may be of more use to practitioners than are the national-level data presented in earlier chapters. Previous chapters showed that most shortages will occur in managerial, professional, and technical occupations, and this chapter presents data on shortages, employment, unemployment, and labor certifications of immigrants in these occupations by state. Other chapters presented the data in tables, but this chapter also presents maps of the United States, with high and low employment areas indicated. These maps are extremely useful for spotting regional trends in the data that are not visible when the data are presented in tables.

Unfortunately, the scope of the data at the state level is narrow: detailed data are presented for only a few states and a few variables. This is to be expected when extrapolating from national data bases, however, because the national sample sizes are too small to produce accurate state-level estimations. For example, the Current Population Survey includes only about 60,000 households per survey for all the occupations in the entire United States. At the state level, therefore, there may be only 1 or 2 respondents in some occupations, which renders estimation impossible in most cases. Nevertheless, the author has done a commendable job where estimation is possible.

Chapter 7 presents a useful summary and a list of recommendations and policy implications. The recommendations focus on the need for government and employers to place more emphasis on education and training of workers already in the United States. Practitioners and policy makers are urged by the author to take note of forecasted shortages and to plan accordingly. It is unfortunate that the book focuses primarily on using the estimates to plan immigration, and that it is only in the last few sentences of the book that readers are told how the estimates might be used in strategies to improve conditions for workers currently in the U.S. labor force.

Overall, the book would benefit greatly by being organized differently. One major section should have been devoted to exploring all aspects of each variable (theoretical aspects, practical aspects, and actual data), with one chapter on the specific technical methodology used and another on the results of the estimation model. However, for readers who do not mind skipping around among chapters, the book will be a worthwhile reference.

The book also is a good starting point for research on the subject, because it summarizes and integrates a number of streams of research stretching back to the 1960s. Since it is relatively short (with only 154 pages of text and tables) and contains limited technical discussions, it can be read and digested in an afternoon. Also, since the book contains actual data that can be used in further research, it can be saved for future reference as a valuable resource.

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Job Creation and Destruction. By Steven J. Davis, John C. Haltiwanger, and Scott Schuh. Cambridge, Mass.: MIT Press, 1996. 260 pp. ISBN 0-262-04152-9, $27.50.

Although the authors of this book were not