

Precisely what is Précis? If you can't read this ...

Our dictionary defines précis (n) as “a brief summary of essential points, statements, or facts.” This department will, from the tremendous amount of information that passes across our editors’ desks, briefly summarize that which we find to be at least interesting, if not essential. Our goal is to précis (v.t) three or four articles, newsletter items, reports, working papers, and so forth, per month on this single page. Please let us know which items are most interesting and feel free to suggest essential reading that we may have missed.

GS-11 CEOs?

Some academic research and a great deal of journalism hold the view that corporate chief executives are paid like bureaucrats. That is, many studies report there is at best a weak link between CEO pay and firm performance. In a National Bureau of Economic Research working paper, *Are CEOs really paid like Bureaucrats?*, Brian J. Hall and Jeffrey B. Lieberman take exception to this view.

Using a 15-year panel data set that is more recent, larger, or more comprehensive in its measures of compensation than data used in earlier research, Hall and Lieberman conclude that when CEO’s holdings of stock and stock options are considered, the elasticity of pay to performance is about 3.9. This is roughly 30 times larger than earlier estimates that considered salary and bonus only.

However, say Hall and Lieberman, “We do not claim that current CEO contracts are efficient. Nor do we claim that current pay-to-performance sensitivity is sufficiently high. ... However, we believe that our findings do contradict the claim that CEO contracts are wildly inefficient because there is no correlation between performance and pay. Our evidence demonstrates that the fortunes of CEOs are strongly related to the fortunes of the companies they manage.”

... you may face heavy financial penalties in the American labor market, according to the OECD Centre for Educational Research and Innovation report *Education Policy Analysis 1997*. Of 12 countries that participated in the first two waves of the International Adult Literacy Survey, the United States reported the largest relative earnings disadvantages for workers who had very poor basic skills.

The earnings disadvantage applied for poor skills both at understanding information from written texts and at applying arithmetic operations to situations encountered in day-to-day living. Somewhat alarmingly, about one-fifth of the U.S. population aged 16 to 64 was found to be at Level 1 (very poor skills) on the “prose scale” and a similar proportion were at Level 1 on the “quantitative scale.”

On the prose scale, the smallest penalties were reported in Sweden, while Germany had the smallest penalty for very poor skills on the quantitative scale. Only 7.5 percent of working age Swedes were at Level 1 in prose and only 6.7 percent of Germans were rated as having very poor quantitative skills.

Trends in job security

Federal Reserve Bank of San Francisco analysts Rob Valletta and Randy O’Toole have taken data from the CPS and its supplements to see what they have to say indirectly about job security. Over the longer term, they write in the Bank’s *Economic Letter*, a small, but statistically significant, uptrend in new permanent dismissals as a share of employment combined with a more pronounced downtrend in new quits as a share of employment suggest that job security has been declining. When they turn to recent short-run data, however, they find rates of permanent dismissal and quits are not different from what one would expect given the 20-year trend and contemporaneous unemployment rates.

Thus, they conclude that the impact of the possible long-run deterioration of job security on observable behavior by workers and firms has been relatively small and the recent behavior of dismissals and quits does not appear to represent much of a departure from or acceleration of long term trends.

Can we measure job quality?

Twenty-five years ago we thought we could, according to Chris Tilly in his *Industrial Relations Journal* article. “Arresting the decline of good jobs in the USA?” Before coming to his negative conclusion on the issue, Tilly reviews the conceptual difficulties that have grown around the measurement of job quality. First is the very notion that jobs can be ranked independently from, and prior to knowing the characteristics of the incumbent. Second, there may be multiple qualitative distinctions between jobs. Third, aggregate measure of central tendency may conceal significant variation. Fourth, the choice of absolute or relative measures is always an issue. And, finally, the definition of a good job is a moving target—today’s workers may value different things in a job than earlier generations did.

These issues make it nearly impossible to create an adequate single, summary measure of job quality, according to Tilly. Thus, he suggests reviewing evidence on seven dimensions of job quality, each of which measure some important part of the concept for today’s labor market wages, fringe benefits, due process (protection from arbitrary discipline), hours flexibility, job permanence or security, upward mobility, and control over the work process. Oddly enough, Tilly leaves out a measure of occupational status. The status concept is one of the two that in a summary of earlier research he notes, “Despite their shortcomings, earnings and occupational status are not bad as quick-and-dirty measures of job quality.” □