Credit Where Credit Is Due

Although you may think credit cards are a routine part of everyone's daily life, in fact they're not. To be sure, credit cards are central in the lives of the well off, with 96 percent of those earning over $100,000/year using them. But at the same time, only 42 percent of those earning under $20,000/year use credit cards.

This disparity in credit card use amounts to a non-trivial transfer of wealth from the poor to the rich. Why? The merchant fees that credit networks charge merchants inflate the market prices of goods and services. But because merchants typically charge the same price regardless of payment method, the cost of using credit cards is being subsidized by the (disproportionately poor) nonusers.

In a fascinating study of this phenomenon, Scott Schuh, Oz Shy, and Joanna Stavins analyze the market of fees and payments around card networks. They find that, on average, cash-paying households transfer $151 annually to card users, while credit-card-paying households receive a subsidy of $1,482 annually from cash users. As a result of the disproportionate use of credit among the affluent, these transfers and subsidies result in an average annual wealth transfer of $443 dollars from poor households to wealthy households.

Scott Schuh, Oz Shy, and Joanna Stavins. 2010. "*Who Gains and Who Loses from Credit Card Payments? Theory and Calibrations.*" Federal Reserve Bank of Boston Public Policy Discussion Paper No. 10-3. Boston, Federal Reserve Bank of Boston.

Combat Scars?

The term "combat scar" typically refers to the physical scars suffered by those wounded in military combat. But does combat exposure have equally scarring effects on veterans' economic prospects once they come home? And do these scarring effects afflict all veterans equally? We might expect, for example, that veterans from poor backgrounds would be especially affected by combat exposure, as their families haven't the resources to cover medical costs, prolonged unemployment, and other bad consequences of combat-generated disabilities.

A recent study by Alair MacLean suggests such expectations are wrong. Using data from the Panel Study of Income Dynamics, MacLean finds that all veterans who were involved in military combat had difficulties reintegrating into the labor market following their service, a result that's troubling given the high and sustained levels of military combat over the past decade. The most surprising result, however, is that combat exposure is equally scarring to *all* veterans regardless of race or family background.

If the usual rule is that more vulnerable socioeconomic groups typically do worse, it's reasonable to ask why, in this case, there's an apparent exception. The answer may be the Veteran's Administration (VA). Although health in the United States is typically a direct function of money and status, the VA plays an equalizing role by offering access to quality health care to rich and poor veterans alike. As a result, disadvantaged veterans may be able to recover from the physical and psychological impacts of combat at levels comparable to their more advantaged peers.

Alair Maclean. 2010. "The Things They Carry: Combat, Disability, and Unemployment among U.S. Men." *American Sociological Review, 20*, 1–23.

The Rocky Road to Retirement

In light of concerns about Social Security's long-term solvency, many commentators now argue that U.S. workers should be encouraged to work until they are much older. This suggestion appeals to many not just because it would reduce Social Security expenditures but also because employee pension plans are becoming less common, retiree health benefits are becoming less generous, and the health and life expectancy of the elderly are improving.

A new study by Richard W. Johnson, Barbara A. Butrica, and Corina Mommaerts of the Urban Institute casts further light on the changing retirement histories of Americans. They examine the trajectories of three different cohorts: those born from 1913 to 1917 (the G.I. Generation), those born from 1933 to 1937 (the Silent Generation), and those born from 1943 to 1947 (the early Baby Boom Generation). The conventional wisdom about changing retirement patterns seems partly on the mark. It turns out, for example, that the Baby Boomers who work past 62 are increasingly engaging in part-time work and have frequently "unretired" after periods of retirement. By age 65, for example, 40 percent of early Baby Boomer men had not yet retired, compared with only 20 percent of men in the second "Silent Generation" cohort.

If some of the facts are consistent, then, with the new conventional wisdom on retirement, in other respects the extent of change appears to have been overstated. Notably, the most common retirement age is still only 62, a threshold that has not changed much across cohorts. Also, while workers today are more likely to forgo a permanent exit from the work force and to move to part-time work or to "unretire" later, many workers continue to buck this trend and are still retiring early.

Although the usual stylized facts about changing retirement profiles are therefore partly on the mark, they also conceal much complexity and heterogeneity among Americans. There's no simple transition to a new form. Instead, the new and old retirement forms appear to be coexisting in ways that will make policy changes difficult to fashion.

Richard W. Johnson, Barbara Butrica, and Corina Mommaerts. 2010. "*Work and Retirement Patterns for the G.I. Generation, Silent Generation, and Early Boomers: Thirty Years of Change.*" Washington, D.C.: The Urban Institute.

Advertising for Men?

In 1964, Title VII of the Civil Rights Act made it illegal to advertise for a job based on certain personal characteristics, such as gender. Although employers are precluded from directly specifying a preference for a particular gender, they may still harbor biases that can work more covertly to segregate women and men into different occupations. But how important are these much-discussed covert mechanisms? Are job advertisements worded in ways that operate, perhaps in quite subtle ways, to induce women to apply to female-dominated occupations and men to apply to male-dominated occupations?

Danielle Gaucher and Justin Friesen have completed a fascinating new study that (a) examines how jobs are advertised and (b) follows up with a series of randomized experiments exploring whether the wording of job advertisements affects male and female application decisions. They first examined jobs found in two online job banks and demonstrated that advertisements for male-dominated jobs were especially likely to employ "masculine wording" (in which words such as "leader," "competitive," or "dominant" were featured). The researchers then showed experimentally that jobs advertised with such masculine wording were perceived by applicants as more male-dominated and thus became less appealing to women (in part because they viewed the jobs as less inclusive).

It follows that, even when overt discrimination is outlawed, more subtle practices continue to generate gender inequality. These results thus suggest that, if we are ever going to achieve full gender equality, we will likely have to take on not just overt practices but also more subtle and disguised ones.

Danielle Gaucher and Justin Friesen. 2011. "Evidence That Gendered Wording in Job Advertisements Exists and Sustains Gender Inequality." *Journal of Personality and Social Psychology, 101(1)*, 109–128.

Long-Term Gains for the Long-Term Unemployed

The rise of the long-term unemployed is one of the defining features of the economic downturn. In the United States, the ranks of those who have been officially unemployed for at least six months have grown to almost 6.5 million people, a group that's roughly equal in size to the population of the entire state of Massachusetts. And worse yet, since 2008, another few million have dropped out of the labor force altogether (i.e., they are no longer looking for work). How can this massive and still-growing group be helped? There are some who have argued that the long-term unemployed are a lost cause because employers prefer to hire new entrants or the short-term unemployed.

But new evidence suggests that there may be hope. In a just-released MDRC report, researchers report on a large-scale random assignment evaluation of a program called the "UK Employment Retention and Advancement Programme," or ERA. The program combined "post-employment" coaching (up to two years of help from an employment adviser) with substantial cash rewards, dubbed "retention bonuses," for maintaining consistent full-time work. If they remained employed, participants could also receive assistance with tuition costs as well as a bonus for completing job training.

The results were impressive, especially for the seemingly hardest-to-reach group of long-term unemployed participants. Relative to those in the control group, participants experienced a 12 percent increase in earnings, while also reducing their use of public benefit programs. The cost of ERA was therefore offset by reduced spending on benefits, as well as increased tax receipts.

Is an ERA-style program the answer for the United States too? It's certainly not the *only* answer. Most obviously, work-based assistance works better when there are jobs to be had, which means that efforts must now focus on increasing the number of jobs. But the ERA program suggests that, when jobs are available, it's indeed possible to crack the long-term unemployment problem.

Richard Hendra,et al. 2011. *Breaking the Low-Pay, No-Pay Cycle: Final Evidence from the UK Employment Retention and Advancement (ERA) Demonstration*. New York: MDRC.

Early Onset of Inequality

It's hard to do a job well when you're sick. When a worker is chronically sick, the difficulties only multiply, and there can be substantial cumulative losses in lifetime earnings and in other labor market outcomes. But what about children who are chronically sick? Does their poor health come to haunt them many years later when they enter the labor market?

New research by Steven A. Haas, M. Maria Glymour, and Lisa F. Berkman shows that poor childhood health does indeed have a long arm that reaches into adulthood. Relative to their healthy counterparts, men who experienced poor health in childhood begin to earn less in their mid-30s, with this disparity increasing in their mid-40s and then dissipating thereafter. For women, health-related earnings disparities don't emerge until age 40, but they then strengthen as they approach 50. Although the pattern of health-related deficits differs by gender, women and men with unhealthy childhoods experienced much the same total loss in lifetime earnings (i.e., approximately $20,000).

Why do children pay a long-term price for poor health? Although the mechanisms aren't entirely clear, it appears that it's driven in part by reduced educational attainment (i.e., it's difficult to do well in school when you're sick) and by an earlier onset of chronic health problems in adulthood (i.e., unhealthy children become unhealthy adults). If we're unwilling to take on childhood poverty itself, this result suggests the fruitful fallback approach of attempting to reduce the childhood health problems that are associated with poverty.

Steven A. Haas, M. Maria Glymour, and Lisa F. Berkman. 2011. "Childhood Health and Labor Market Inequality over the Life Course." *Journal of Health and Social Behavior, 52(3)*, 298–313.