

The Literature Corner: Recent Publications of Interest to Forensic Economists

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Abstract

In this regular feature of the *Litigation Economics Review*, we provide an annotated listing of recent publications that are likely to be of interest to forensic economists. In compiling such a list, we search the non-forensic economics literature, a literature that because of time constraints or different disciplinary interests is not likely to be visited frequently (or maybe not at all) by many of us. As always, we select articles based on their potential relevance to forensic economists in their work and in their research, and therefore exclude any articles not passing the well-known WTF test. Although some of the publications that we note might also be periodically brought to the attention of NAFE members via the LISTSERV, not all NAFE members subscribe to the LISTSERV. Also, information about recent publications provided on the LISTSERV is somewhat sporadic and dependent on the time and goodwill of those providing the information. Finally, in a regular feature such as this, we are able to summarize, categorize, and link the publications in a way that is not always possible with the LISTSERV.

We always welcome suggestions (such as "Have you seen this article?" or "Why don't you two take a hike?") from our readers. Please note, though, that the article descriptions in The Literature Corner are necessarily brief and cannot convey all the richness of detail and qualifications appearing in the articles themselves. Also, although most of the works we highlight will generally have appeared in the last year, we have elected to follow no strict statute of limitations.

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In this issue we highlight articles of interest in the areas of earnings, disability, education, retirement, employment, consumption expenditures, the value of life, and employment discrimination. Articles are arranged by topical area.

Consumption Expenditures

Paulin, Geoffrey D., and Abby L. Duly. "Planning Ahead: Consumer Expenditure Patterns in Retirement," *Monthly Labor Review*, Vol. 125, No. 7, July 2002, pp. 38-58.

When making a deduction for personal consumption in wrongful death cases, there is the question of how much to deduct for the decedent's personal consumption in what would have been the decedent's retirement years, or the issue may arise as a question about the empirical validity of some offset assumption, such as that retirement pension income would have offset the decedent's personal consumption. Hence, research on the spending patterns of persons after retirement is quite relevant for the forensic economist. In this article the authors study the impact of retirement on consumer spending by comparing expenditure patterns of families near retirement with those of retirees. The article also describes related research studies, the data from the U.S. Consumer Expenditure Survey, and the demographic characteristics of the "pre-retired" and the "retired." Finally,

regression analysis is used to explore differences in expenditure patterns caused by demographic and income differences for pre-retired and retired consumers. For single men, single women and married couples, regression analysis is used to predict the probability of purchasing various categories of goods and services and to see whether these probabilities differ significantly for the pre-retired and the retired. For single men, the only statistically significant difference is for transportation, with outlays dropping significantly. For single women and married couples, none of the differences in probability of purchase is statistically significant.

Paulin, Geoffrey D., and Yoon G. Lee. "Expenditures of Single Parents: How Does Gender Figure In?" *Monthly Labor Review*, Vol. 125, No. 7, July 2002, pp. 16-37.

In recent decades the proportion of single-parent families has of course been rising. In all, single-parent families with their own children under the age of 18 now account for about 28% of all family households. This article compares levels of expenditures and budget shares in single-mother and single-father households. The data used are from the interview component of the Consumer Expenditure Survey. For the most part, the authors found that expenditure patterns are pretty much the same for both genders, once demographic and economic characteristics (especially income) are taken into account.

Disability

Beegle, Kathleen, and Wendy A. Stock. "The Labor Market Effects of Disability Discrimination Laws," *Journal of Human Resources*, Vol. 38, No. 4, Fall 2003, pp. 806-859.

The Americans with Disabilities Act (ADA) was passed in 1990 with the intention of improving the labor market outcomes for persons having disabilities. The fundamental assumption underlying the ADA was that there is labor market discrimination against persons with disabilities and a lack of access to employment opportunities. The ADA was designed to establish, inter alia, equal access to employment in both the public and private sectors for persons with disabilities. Critics of the ADA countered that the act raises the cost of hiring workers with disabilities and may, as a consequence, worsen the labor market outcomes of disabled persons relative to those with no disabilities. Beegle and Stock present evidence of the effects of anti-discrimination laws that support the critics. The evidence is based on variation in the legal environment induced by state-level discrimination laws passed prior to the ADA. They find that disability discrimination laws are associated with (a)

lower labor force participation rates for the disabled in states with such laws compared to states without them and (b) lower relative earnings. Curiously, however, the state laws were not associated with lower relative employment rates for the disabled. Beegle and Stock speculate that the laws induced disabled workers to shift to lower paying jobs or the composition of disabled workers shifted toward those with lower productivity.

Boden, Leslie I., and Monica Galizzi. "Income Losses of Women and Men Injured at Work," *Journal of Human Resources*, Vol. 38, No. 3, Summer 2003, pp. 722-57.

This study analyzes the post-injury earnings losses of workers injured on the job during 1989-90 in the state of Wisconsin. The authors find that women and men have similar levels of lost earnings at the time of the injury. However, in the three and one-half year period following the injury, women lose an average of 9.2% of their earnings, while men lose only 6.5%. Differences in observed personal, employer, and injury characteristics do not seem to explain the gender differences in lost earnings. The data suggest that women are employed less after injury, but this can account for only about half of the gender earnings gap. It is possible that injuries may cause a greater reduction in women's hours of work, but the evidence is only suggestive. The authors conclude that gender discrimination is a plausible explanation.

Charles, Kerwin Kofi. "The Long-Term Structure of Earnings Losses among Work-Limited Disabled Workers," *Journal of Human Resources*, Vol. 38, No. 3, Summer 2003, pp. 618-646.

This article investigates the dynamic effects of disability on earnings. Panel data from the Panel Study of Income Dynamics for 1968-93 and fixed effects methods are used to assess how earnings of disabled workers deviate from expected levels over many years before and after the onset of disability. The article also examines how worker characteristics, particularly age, affect earnings losses from disability. Disabled men experience sharp drops in earnings that pre-date the measured date of onset. Earnings recover rapidly soon after onset, however, and then follow a modest downward trend, resulting in annual earnings losses of about 12% per year. Being older at onset, nonwhite, more chronically disabled and less educated all cause the losses from disability to be larger and the recovery smaller. Many of the differences across groups appear to derive from industry affiliation after onset. All the findings of the paper are consistent with a human capital explanation of the disability process.

Symposium. "Disability and Employment," *Industrial Relations*, Vol. 42, No. 1, January 2003.

The low employment level of persons with disabilities was an important factor behind the passing of the Americans with Disabilities Act (ADA) of 1990. Since that time, scholarly interest in disability and employment issues has grown enormously, with much of the research dealing with the effects of the ADA. This symposium consists of three such articles, along with an introduction by the symposium editors (Douglas Kruse and Thomas Hale). Below we summarize two that we believe forensic economists will find useful.

Lee, Barbara A. "A Decade of the Americans with Disabilities Act: Judicial Outcomes and Unresolved Problems." *Industrial Relations*, Vol. 42, No. 1, January 2003, pp. 11-30.

This article is useful for forensic economists wishing a brief overview of the requirements and effects of the Americans with Disabilities Act (ADA) Lee first presents a short review of the literature on disability and the ADA, in particular that part of the Act dealing with cost and compliance. She then discusses litigation trends under the ADA both prior to and after a number of significant rulings by the Supreme Court. As to the effects of the ADA, in the abstract to her article she states: "A decade after its enactment the Americans with Disabilities Act (ADA) has not resulted in the substantial employment gains for individuals with disabilities that its proponents had predicted. It also has not resulted in many legal victories for disabled individuals who have challenged alleged discriminatory actions by their employees."

Kruse, Douglas, and Lisa Schur. "Employment of People with Disabilities Following the ADA." *Industrial Relations*, Vol. 42, No. 1, January 2003, pp. 31-66.

The purpose of the ADA was to increase employment among the disabled. However, because it can raise the cost to employers of hiring people with disabilities due to the need to make reasonable accommodations and also because of the risk of lawsuits, some have argued (and some prior studies have purportedly found) that the ADA may actually decrease employment of the disabled. This article looks at employment trends of people with disabilities since the passage of the Act using Survey of Income and Program Participation (SIPP) data. The authors find evidence of decreased employment among those reporting work disabilities in the first few years following passage of the ADA, but increased employment when using an alternative (one that may be more appropriate) measure of ADA coverage. These findings indicate that the definition of disability used is crucial in measuring the impact of the Act. The authors also find that workers with

disabilities tend to be strongly affected by labor market tightness and that the adage "last hired, first fired" applies to many of them.

Yelin, Edward H., and Laura Trupin. "Disability and the Characteristics of Employment," *Monthly Labor Review*, Vol. 126, No. 5, May 2003, pp. 20-31.

The authors of this article use the California Work and Health Survey, conducted annually from 1998-2000, to examine the "work situations" of persons with disabilities: i.e., their employment rates, the strength of their attachment to the labor force, terms of hire, and working conditions. Not surprisingly, they find that persons with disabilities have lower employment rates than the non-disabled. Moreover, the difference between employment rates of the two groups is greater for those with lower levels of education. Persons with disabilities also experience rates of job loss that are nearly double the rates of job loss of those without disabilities, and the former group are much less likely to report a promotion or to have found a better job. Once employed, though, persons with and without disabilities do not seem to differ with respect to working conditions. Both groups seem about equally likely to be self-employed, to be working a regular day shift, to have regular working hours, and even to have wide latitude in making decisions.

Earnings

Anderson, Deborah J.; Melissa Binder; and Kate Krause. "The Motherhood Wage Penalty Revisited: Experience, Heterogeneity, Work Effort, and Work-Schedule Flexibility," *Industrial and Labor Relations Review*, Vol. 56, No. 2, January 2003, pp. 273-294.

It is well known that on average mothers earn less than women without children. Several possible explanations have been offered in the past for this phenomenon, among them: unobserved heterogeneity among mothers in the timing of their return to work; human capital differences; wives subordinating their own careers to those of their husbands; mothers being less productive at work because they have dissipated their energy caring for their children (the work-effort hypothesis). In this article the authors analyze data from the 1968-88 National Longitudinal Survey of Young Women and estimate a 10% "motherhood wage gap." They find that human capital differences and unobserved heterogeneity explain 55-57% of the gap, but find little support for the work-effort hypothesis.

Antecol, Heather, and Kelly Bedard. "The Relative Earnings of Young Mexican, Black, and White Women," *Industrial and Labor Relations Review*, Vol. 56, No. 1, October 2002, pp. 122-135.

In recent years there has been renewed interest in the relatively poor labor market outcomes faced by

disadvantaged groups in the U.S., but most of the studies have focused on men. In this article the authors analyze data from the National Longitudinal Survey of Youth. They find that young Mexican women earned 9.5% less than young white women in 1994, the primary reason being differences in education. They also find that young black women earned 13.2% less than young white women in this same year, but in this case differences in labor force attachment seems to be the most important determinant.

Black, Dan A.; Hoda R. Makar; Seth G. Sanders; and Lowell J. Taylor. "The Earnings Effects of Sexual Orientation," *Industrial and Labor Relations Review*, Vol. 56, No. 3, April 2003, pp. 449-469.

Using data from the General Social Survey from 1989-96, the authors find that gay men earn 14% to 16% less than married heterosexual men, and also perhaps somewhat less than single heterosexual men. By contrast, lesbian women earn between 20% and 34% more than comparable single and married heterosexual women. The authors rationalize the earnings difference for gay men compared to married heterosexual men by use of Gary Becker's explanation that single men (including, presumably, many gay men) should be expected to earn less than similar married men because these single men specialize less intensively in market production. To support a family, married men are driven to accept job transfers, accept more stressful jobs, and work longer hours. In the case of lesbian women, the authors argue that they will have made decisions taking into account that they are unlikely to form traditional households in which they specialize in household production.

Carpenter, Christopher, "New Evidence on Gay and Lesbian Household Incomes," *Contemporary Economic Policy*, Vol. 22, No. 1, January 2004, pp. 78-94.

Unlike the previous study, which focuses on the earnings of persons, this study focuses on household income. One key issue addressed in the article is whether same-sex unmarried partner (SSUP) households are truly gay or lesbian. The author uses the Centers for Disease Control Behavioral Risk Factor Surveillance System (BRFSS) as an alternative data source to the 1990 Decennial Census, and makes extensive comparisons between these two data sources. He finds that same-sex female households experience large and robust resource penalties relative to married couples. He also finds that household income in different-sex cohabitating households and same-sexed male households is lower than household income in married couple households.

Haugen, Steven E. "Characteristics of Minimum Wage Workers in 2002," *Monthly Labor Review*, Vol. 126, No. 9, September, 2003, pp. 37-40.

About 3 out of 5 workers (some 72.7 million) in 2002 were paid by the hour; and about 570,000 reported earning exactly \$5.15 per hour, the prevailing federal minimum wage, while 1.6 million reported being paid below the minimum wage. Half of the workers earning \$5.15 per hour or less were under age 25 and about one-fourth were aged 16 to 19. About 3 out of 5 workers paid less than the minimum wage were employed in food service occupations. Under the tip credit provisions of the federal minimum wage, an employee who receives tips can be paid a wage below \$5.15, provided that the employee's tips, combined with a cash wage of at least \$2.13 per hour, equal at least \$5.15. The highest proportion of workers with wages at or below \$5.15 per hour worked in retail trade. The proportion of hourly paid workers earning the federal minimum wage or less has trended downward since 1979, from about 15% (roughly 8% for men and 20% for women) of workers to about 3% (roughly 2.5% for men and 3.5% for women) in 2002.

Education

Gill, Andrew M.; and Duane E. Leigh. "Do the Returns to Community College Differ between Academic and Vocational Programs?" *Journal of Human Resources*, Vol. 38, No. 1, Winter 2003, pp. 134-155.

Do graduates of a four-year college who started at a two-year college suffer any labor market disadvantage relative to those who started at a four-year college? This study finds that the answer is "no." Policies that encourage students to begin their college careers at a community college appear to have little negative impact on ultimate labor market opportunities. How effective are community college programs in boosting labor market earnings? This study finds that there is a substantial increased earnings payoff of 31% for white males and 45% for black males. Finally, do community college students sort themselves between transfer tracks and terminal training in accord with comparative advantage? The answer again appears to be "yes." Self-selection is positive for both terminal and transfer programs.

Lochner, Lance, and Enrico Moretti. "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports," *American Economic Review*, Vol. 94, No. 1, March 2004, pp. 155-189.

The authors note that there are many theoretical reasons to expect that education reduces crime. By raising earnings, education raises the opportunity cost of crime and the cost of time spent in prison. Education may also make individuals less impatient and more risk averse, further reducing the incentive

to commit crimes. The authors use data from the U.S. Census Bureau on incarceration, state-level data on arrests from the Uniform Crime Reports, and self-report data from the NLSY to explore empirically the relationship between schooling and criminal participation. All three data sources produce the same conclusion: education significantly reduces criminal activity. A significant part of the measured effect of education on crime can be attributed to the increase in wages associated with schooling. The authors note further that there is a social benefit to increased schooling not taken into account by the individuals themselves. They estimate that a 1% increase in the high school completion rate among all men ages 20-60 would save the United States as much as \$1.4 billion per year in reduced costs from crime incurred by victims and society at large, or about \$1,170 - \$2,100 per high school dropout.

Plug, Erik. "Estimating the Effect of Mother's Schooling on Children's Schooling Using a Sample of Adoptees," *American Economic Review*, Vol. 94, No. 1, March 2004, pp. 358-368.

In the forensic literature on probability of educational attainment (See John Kane and Lawrence M. Spizman, "An Update on the Educational Attainment Model for a Minor Child," *Journal of Forensic Economics*, Vol. 14, No. 2 (Spring/Summer, 2001), pp. 155-66, and references therein cited), the coefficients on father's education are uniformly smaller than those of the education of the mother. This means that the education of the father seems to have less influence than that of the mother on the probability of various levels of educational attainment for both male and female children. (See Tables 3, 4 and 5 of the above-referenced paper.) These empirical results in Kane/Spizman run counter to the findings of Plug because, as Plug would argue, they do not control for inherited abilities and associative mating. With data from the Wisconsin Longitudinal Survey for the years 1957 and 1992, Plug focuses on adoptive children. He reasons that "if adopted children share only their parents' environment and not their parents' genes, any relation between the schooling of adoptees and their adoptive parents is driven by the influence parents have on their children's environment, and not by parents passing on their genes. Controlling for inherited abilities and associative mating ... the association between mother's (but not father's) and child schooling disappears." (p. 358)

Employment

Ahituv, Avner, and Marta Tienda. "Employment, Motherhood, and School Continuation Decisions of Young White, Black, and Hispanic Women," *Journal of Labor Economics*, Vol. 22, No. 1, January 2004, pp. 115-158.

This paper examines the empirical relationship between early employment activity and school continuation decisions. The data used in the analysis are from the National Longitudinal Survey of Youth (NLSY), a nationally representative random sample of 12,866 men and women aged 14-21 as of January 1, 1979, who were interviewed annually for the subsequent 16 years. In a very sophisticated model that estimates schooling, labor supply and birth decisions jointly, it is found that the rate of school withdrawal increases as work intensity rises. This result helps explain the premature departure of Hispanic girls from secondary school and the premature departure of young black women from college. While some work is not deleterious to school performance, excessive youth employment induces long-run wage stagnation for early school leavers and potentially increases race and ethnic inequities.

DeSimone, Jeff. "Illegal Drug Use and Employment," *Journal of Labor Economics*, Vol. 20, No. 4, October 2002, pp. 952-977.

What effect does illegal drug use – in particular, marijuana and cocaine – have on an individual's likelihood of employment? Previous studies have reported mixed evidence. The author uses data from the National Longitudinal Survey of Youth from 1984 and 1988. His results indicate that the use of each drug substantially reduces the likelihood of employment, with cocaine use having an employment effect that is 50-100% greater than the employment effect associated with marijuana use. The author also notes that the reduction in employment that drug use brings about also has many other effects, such as increased turnover and lower return on human capital investment.

Gottschalk, Peter, and Michael Hansen. "Is the Proportion of College Workers in Noncollege Jobs Increasing?" *Journal of Labor Economics*, Vol. 21, No. 2, April 2003, pp. 449-472.

Conventional wisdom, coffee pot chatter, and barroom musings (we definitely can attest to this third source) all seem to suggest that the answer to the question posed in the article's title is "yes." However, the subject has been up to this point virtually ignored in the economics literature. One reason, of course, is the somewhat subjective nature of any classification scheme for college and noncollege jobs. In this article the authors provide a more rigorous definition of and framework for what

constitutes noncollege jobs. They find that the proportion of college-educated workers in noncollege jobs actually declined from the mid-1980s to the mid-1990s. Furthermore, they find no evidence to support the claim that the proportion of college graduates forced to accept noncollege jobs was rising over this period.

Hecker, Daniel E. "Occupational Employment Projections to 2012," *Monthly Labor Review*, Vol. 127, No. 2, February 2004, pp. 80-105.

This very detailed article (most of it consists of tables) presents the latest projections of employment by the U.S. Bureau of Labor Statistics for the period 2002-2012. In addition to presenting changes in the structure of employment at the major occupational group level (e.g., professional occupations and service occupations), the article also provides information on "detailed" occupations (e.g., barbers, teachers, funeral directors, etc.). Forensic economists who are asked to project earnings losses in personal injury and wrongful death cases will therefore find this article quite useful. It should be noted, though, that the projections contained in this article are also the ones used to provide the background for future employment opportunities discussed in the *Occupational Outlook Handbook*.

Kletzer, Lori G., and Robert W. Fairlie. "The Long-Term Costs of Job Displacement for Young Adult Workers," *Industrial and Labor Relations Review*, Vol. 56, No. 4, July 2003, pp. 682-698.

Using data from the NLSY, the authors estimate the long-term costs of job displacement for young adults. Earnings losses were large for the first three years after displacement. However, earnings losses for young adults were relatively short-lived, compared to the results found in other studies for more mature workers. Relative to what would have been expected had it not been for job loss, the shortfall of annual earnings was 9% for men and 12.5% for women, with the shortfall of hourly wages 21.2% for men (who apparently worked more hours, thereby keeping the annual earnings shortfall to only 9%). The composition of earnings losses also appears to differ between younger and older workers. For the latter, the total losses represent actual, immediate earnings losses, whereas for the former, the loss of opportunities for rapid earnings growth is more important.

Toossi, Mitra. "Labor Force Projections to 2012: The Graying of the U.S. Workforce," *Monthly Labor Review*, Vol. 127, No. 2, February 2004, pp. 37-57.

This article describes the way the U.S. labor force will change over the next 8 years. In the words of the author, "The labor force will continue to age, with the annual growth rate of the 55-years-and-older group projected to be nearly 4 times that of the

overall labor force; as the participation rates of older age groups increase, the older population's share of the workforce will rise." (p. 37)

Employment Discrimination

Polsky, Gregg D., and Stephen F. Befort. "Employment Discrimination Remedies and Tax Gross Ups," *Iowa Law Review*, Vol. 90, October 2004, pp. 3-56.

This article is "must reading" for computing economic damages in an employment discrimination case. A successful plaintiff in an employment discrimination case may also be awarded attorney fees under federal anti-discrimination statutes. The award for economic damages of back and front pay and the award of attorney fees may cause the plaintiff to incur tax liabilities so large as to exceed the size of the economic damage award itself. Polsky and Befort examine the issue of tax gross ups as a method of overcoming the adverse tax consequences of an award. In the words of the authors, "This article considers whether a successful employment discrimination plaintiff may be entitled, under current law, to receive an augmented award (a "gross up") to neutralize certain adverse federal income tax consequences. The question of whether such a gross up is allowed, the resolution of which can have drastic effects on litigants, has received almost no attention from practitioners, judges and academics. Because of the potentially enormous impact of the alternative minimum tax (AMT) on discrimination lawsuit recoveries, however, the gross up issue is now beginning to appear in reported cases." (p. 3)

Retirement

Bahizi, Pierre. "Retirement Expenditures by Race and Hispanic Origin," *Monthly Labor Review*, Vol. 126, No. 6, June 2003, pp. 20-22.

This brief article describes the expenditure differences of Whites, Hispanics, and Blacks during retirement. The author uses data from the Consumer Expenditure Interview Survey from 1996-2001 and finds (not surprisingly) that there are differences among the groups in the percentages of their expenditures allocated to food, housing, transportation, healthcare, and entertainment. For example, Hispanic retirees spend a larger percentage of their expenditures than the other two groups on food, shelter (rent), and transportation. Blacks spend a larger percentage on used cars, personal care expenditures, apparel, and tobacco products. White retirees, finally, spend a larger share on food away from home, entertainment, and public transportation. Of course some of these expenditure differences are no doubt due to income, but (alas!) the author does not say how much.

Johnson, Richard. "The Puzzle of Later Male Retirement," *Economic Review*, Vol. 87, No. 3, 2002, pp. 5-26.

This is a nice overview article on recent trends in male retirement in the U.S. As is well known, until about 1985 the proportion of older men who worked for pay showed a downward trend. Since that time, the proportion has either been stable or it has been rising. Various theories (not mutually exclusive) have been put forth to explain why American men are retiring later: changes to Social Security, the decline of defined-benefit pensions, and the slower growth of the overall U.S. labor force, which would increase employment opportunities for older men. The author reviews the trends in older men's labor supply and tests to see which of these theories seems to best explain the change in retirement trends. He finds that reductions in the Social Security penalties associated with working can partially explain lower retirement rates at age 65, but there seems to be little effect associated with the reduction of social security benefits. All in all, a good part of the reversal of the previous downward trend observed about 1985 "remains a puzzle" in the words of the author.

Value of Life

Viscusi, W. Kip. "The Value of Life: Estimates with Risks by Occupation and Industry," *Economic Inquiry*, Vol. 42, No. 1, January 2004, pp. 29-48.

The author presents new estimates of the "value of life." These estimates take into account differences in occupational risk within specific industries. The bias in value-of-life estimates from using industry risk without taking into account differences in occupational risk is found to be very large. For example, in Viscusi's full sample log wage equations, the value of life is \$5.0 million in year 2000 dollars, whereas it is \$10.7 million based solely on industry risk. For blue-collar male workers, the value of life using occupational-industry risks is \$7.5 million, but \$10.0 million using industry risks alone. Blue-collar females have a value of life of \$9.1 million using occupational-industry risks, but only \$7.2 million using industry risks alone. Viscusi notes two problems remaining with his refined estimates of the value of life. As he puts it, "First, particularly for females, the fatality risk coefficients had mixed signs and were not statistically significant. Second, even for males, the wage-risk trade-offs for the full male sub-sample were not higher than the implicit values for blue-collar workers, whereas in theory workers self-selecting into blue-collar jobs should have a lower value of life." (p. 47).