Summary of the Papers

THIS ISSUE contains papers presented on December 10 and 11, 1993, at the eighth Brookings Microeconomics Panel. The papers address issues in labor, industrial organization, political economy, international trade, and health. Clifford Winston and Robert Crandall examine historical relationships between federal regulatory policies and voters' presidential preferences. Robert Staiger and Frank Wolak relate the timing of dumping investigations to the economic impact of U.S. antidumping laws. Donald Kenkel and David Ribar investigate whether alcohol consumption affects the earnings of young adults. Patricia Anderson and Bruce Meyer provide new evidence on the extent of job tenure and turnover. Henry Aaron and Barry Bosworth analyze the politics and economics of recent health care reform proposals. Paul Joskow, Richard Schmalensee, and Natalia Tsukanova describe Russia's industrial structure and competition policies.

Winston and Crandall on Regulation and Elections

Economists now recognize that political institutions have an important bearing on both the extent and success of economic regulation. Despite this awareness, economists know little about politicians' incentives to impose and enforce regulations. Winston and Crandall advance the hypothesis that political motives may be just as important as economic motives in explaining the rise of federal economic regulation. They find correlations between presidential election returns and federal regulatory policies. Specifically, they conclude that after World War II, increases in economic regulatory activity reduced the vote for the incumbent party's presidential nominee; simultaneously, increases in social regulation helped incumbent party nominees. Curiously, the con-

verse is true before World War II. The authors interpret these patterns as evidence that voters have "populist" preferences. These preferences may increase pressure on politicians to enhance consumer welfare.

Winston and Crandall begin by discussing why political motives might affect the extent of economic and social regulation. Specifically, they explore what different regulatory theories say about the dramatic increase in federal regulation after 1900. They identify the election and reelection interests of presidential candidates and their parties as important factors. The authors argue that if voters hold the president responsible for federal regulations, then presidents and their parties have incentives to pass favorable regulations. Such a theory presumes that voters are aware of regulatory changes and vote accordingly. This leads Winston and Crandall to construct empirical models that reveal whether voters respond to changes in federal regulatory policies.

The empirical section of the paper addresses two main issues. First, the authors develop a baseline model that incorporates nonregulatory factors known to affect presidential elections. Here, previous studies guide the baseline specifications. Second, the authors develop measures of regulatory activity. A main contribution is the development of a set of annual time series detailing the extent and evolution of federal regulatory activity. Although the authors construct both employment and expenditure measures, they settle on employment measures. The paper's figures graphically display the rapid escalation of government programs following 1900 and how the mix of economic and social regulation has changed.

The empirical sections of the paper estimate several different panel data regression models. These regressions explain the share of the vote received by the incumbent party's presidential nominee as a function of lagged federal regulatory variables and other controls. In separate tables the authors report estimated vote shares by election, along with estimated federal regulatory activity. Although they recognize that their estimates suggest voters respond favorably to welfare-enhancing regulations, they note that regulatory policy has not always enhanced consumer welfare. They explain this divergence by arguing that politicians rely on a portfolio of policies to win reelection. At times they may trade off regulatory goals with other interests, such as party ideology, to win reelection. The existence of these tradeoffs makes it difficult to predict the future of federal regulatory policies.

Staiger and Wolak on Antidumping Laws

Most international trade agreements contain clauses that prevent countries from "unfairly" dumping goods in foreign markets. These antidumping laws give domestic agencies broad investigative powers and authority to impose substantial tariffs. Foreign companies complain that these laws restrict trade and competition. Despite these complaints, few studies have examined the economic impact of these laws. Staiger and Wolak investigate whether U.S. antidumping laws have restricted imports or had anticompetitive consequences. Using data on U.S. antidumping petitions filed between 1980 and 1985, they identify several channels by which these suits reduce imports and domestic output.

The authors begin by defining dumping and the process that the United States uses to enforce dumping legislation. They next describe how the International Trade Commission and the International Trade Administration investigate complaints filed by U.S. companies. They argue that the broad powers of these agencies may make investigation threats as important as the threat of duties. Their discussion identifies three indirect paths by which investigations may restrict trade. They label these the investigation, suspension, and withdrawal effects. Their discussion also identifies two distinct filing strategies that domestic companies might use to restrict imports.

Although several studies have measured the effects of antidumping duties on trade flows, few have tried to draw inferences about investigative effects. In part this is because investigations raise complex strategic issues. Nonduty costs also pose difficult measurement issues. To isolate strategic nonduty effects, the authors develop a three equation econometric model that relates the stages of dumping investigations to changes in imports and industry output. This model incorporates both observable and unobservable factors that affect domestic competition and demand. An extended version of the model also includes an equation that explains the filing strategies of domestic firms.

Staiger and Wolak estimate the parameters of their econometric model using data on all U.S. antidumping petitions filed between 1980 and 1985. Because they do not observe firm production or imports, they estimate their model at the industry level. Their estimates imply that nonduty channels have economically and statistically significant impacts on imports and domestic output. Specifically, suspensions and

investigations have negative and significant effects. There is little evidence of withdrawal effects. The authors also find that domestic firms file petitions both because investigations deter foreign firms and because they anticipate that duties will reduce imports and domestic output.

Kenkel and Ribar on Alcohol Consumption

Donald Kenkel and David Ribar revisit an old debate: does alcohol consumption negatively affect labor market performance? The answer to this question is important both because the government heavily regulates and taxes alcohol and because some studies imply that alcohol consumption significantly reduces worker productivity. The authors cite one recent study that estimates the national cost of alcohol consumption in 1990 at nearly $100 billion. Kenkel and Ribar question both the measurement methods of previous studies and the finding by some that mild to moderate alcohol consumption may increase earnings and productivity.

Kenkel and Ribar examine the effect of alcohol on the earnings and marital status of young adults. They examine young adults because they are most affected by alcohol control policies and because the National Longitudinal Survey of Youths (NLSY) contains untapped information on alcohol consumption. The NLSY also has other advantages, including detailed information on family background and parental alcohol consumption. A particularly novel aspect of this data set is the information it contains on siblings. The sibling data enable the authors to control for unobserved socioeconomic and background effects.

The empirical models in the second section review alternative explanations for observed correlations between alcohol consumption and labor market outcomes. The authors emphasize the endogeneity of alcohol consumption and earnings and the need for instruments that separate consumption and labor market decisions. This discussion leads the authors to construct price and tax rate instruments. The authors also discuss and construct several different measures of alcohol consumption.

The authors' main empirical specifications report least squares and instrumental variable estimates of the effect of alcohol consumption on earnings, hours of work, and marital status. These specifications differ

in their treatment of unobservables and the individual and sibling information they include. Kenkel and Ribar draw several conclusions from their different specifications. First, while least squares estimates reveal mild effects of alcohol on earnings and hours, these effects differ for men and women. Men's earnings fall with consumption, while women's earning rise with moderate and heavy consumption. Second, the statistical significance of these effects usually disappears in longitudinal and sibling specifications. Third, while the instrumental variable estimates show much larger negative effects of alcohol on male earnings, alcohol also appears to increase female hours and occasionally earnings substantially. Fourth, the authors consistently find that alcohol consumption negatively affects marital status. The authors conclude that, taken together, alcohol consumption does not seem to have large negative effects on earnings of young men or women.

Anderson and Meyer on Labor Turnover

Both macroeconomists and microeconomists study the dynamics of labor markets, and in particular the prevalence and character of labor turnover. Many macroeconomic theories, for example, examine the effect of implicit labor contracts on the response of employment and unemployment to labor market shocks. Many microeconomic theories study how job tenure and turnover affect the quality of job matches and workers' returns to experience. Anderson and Meyer use newly available unemployment insurance payroll records to describe turnover patterns. Their paper reveals substantial turnover and dramatic differences across time and industries.

Most empirical studies of labor turnover and of the creation and destruction of jobs over the business cycle rely on manufacturing data, often data primarily from large firms. The unemployment insurance records used in this paper cover all industries, and many of the analyses examine firms of all sizes. Probably most important, the authors have both firm characteristics and longitudinal information on workers, data which allow several new types of analyses. In particular, the authors divide turnover into turnover of jobs, turnover of people within jobs, and temporary layoffs and recalls.

The authors begin with a review of job turnover theories and their

implications for job tenure and layoffs. The authors have quarterly payroll data from eight states during the period 1978 to 1984. These records follow workers who work for a covered employer and remain within the same state. The empirical section of the paper begins with tabulations of turnover rates and job tenure by industry, firm size, wage class, state, and economic environment. These results are followed by a more formal analysis of the relationships, where linear probability models are estimated.

Anderson and Meyer find substantial turnover. In many cases turnover is much larger and more likely to be permanent than has been reported in previous studies. The hazard rate for permanent separation declines rapidly with tenure. After two years on the job, permanent separation rates level off at 6–9 percent a year. Temporary separations do not appear to vary with tenure. Additionally, turnover rates differ widely across industries. Agriculture and construction have much higher rates than manufacturing, while financial services and public sector jobs have lower rates. The authors also find that turnover falls with firm size and workers' wages. Despite the finding that a large fraction of turnover is permanent and concentrated among a smaller fraction of workers, these large effects on turnover probabilities of the level of earnings, industry, and firm size remain even when the authors allow for individual fixed effects. An additional finding is that most permanent turnover is procyclical and most temporary turnover is countercyclical. In a similar analysis of the losses from turnover, measured as unemployment and lost earnings, the authors conclude that, although turnover does not appear to cause large earnings losses on average, a small fraction of separations do result in very large losses.

The final empirical section takes advantage of the fact that the data contain information on both workers and firms. Anderson and Meyer first define three components of total turnover: job match creation and destruction, where workers move among continuing positions; job position creation and destruction, where firms are growing and declining; and temporary turnover. The authors' decomposition of turnover indicates that about 28 percent of turnover is temporary, while 31 percent results from job position creation and destruction, and the rest results from job match creation and destruction. The composition of turnover is found to vary by industry and over the business cycle, however. The

authors conclude by providing several economic explanations for their findings.

Aaron and Bosworth on Health Care Reform

The recent escalation of health care costs in the United States has renewed calls for changes in America's health care system. Most reform packages blend proposals for greater government intervention with calls for greater competition among insurance and health care providers. These proposals raise complex political and economic questions: Who will pay for added coverage? Will provider competition slow the escalation of health costs? Additionally, economists have raised questions about the medium- and long-run impacts of health care reform on U.S. employment, inflation, industrial productivity, and competitiveness. The Aaron and Bosworth paper provides a timely synthesis of these issues.

Aaron and Bosworth argue that it is technically easy and inexpensive to finance universal coverage. They claim the more difficult issue is determining who will bear the additional costs of universal coverage. Presently most proposals would require that employers sponsor and pay for insurance. Because most small firms currently do not offer health care coverage, they appear to have the most to lose under employer sponsorship. No plan would force small low-wage firms to bear the full cost of insuring their workers. The authors note that the political feasibility of these plans rests on the generosity of subsidies. In practice, these subsidies could result in significant deficits.

The authors also reason that the budgetary impact of the Clinton plan depends on changes in other areas, including changes in insurance and health care delivery. The current Clinton plan presumes that most added costs can be offset through reductions in waste and fraud and through the efficiencies of new health care alliances. The authors note that medicare and medicaid savings also may reduce costs. The extent of short-run savings from new health care alliances is less easily documented. The authors suggest, however, that there is a clearer case for long-run savings.

Aaron and Bosworth see little macroeconomic impact of employer-sponsored universal coverage. They base their argument on calculations

that estimate the likely employment, output, and inflation impacts of employer-sponsored plans. They also argue that the plan overall will have little effect on the balance of trade and U.S. competitiveness.

The latter sections of the paper deal with two of the more controversial aspects of health care reform: government cost controls, and the shift from experience rating to community rating insurance systems. Aaron and Bosworth observe that the Clinton plan contains little analysis of how cost controls will affect the availability and quality of care. They argue that the likely impact depends critically on what causes inflation. If costs have risen because of quality improvements, then caps may cause rationing of high-quality care and reduce quality innovation. Alternatively, if costs have risen because of waste or administrative inefficiencies, then caps may not distort incentives and may reduce costs.

The final sections of the paper weigh the costs and benefits of community versus experience rating systems. Although experience rating has the advantage of promoting cost-reducing behavior by individuals, the authors point out that health care is dominated by risks that are beyond the control of the individual. Furthermore, the current system provides very limited scope for individual incentives because of the emphasis on large group plans. Experience rating of employer-provided plans also creates perverse incentives to discriminate in hiring against workers with high expected health care costs. The authors conclude that a shift to community rating would offer substantial equity benefits and reduced discrimination with only minor efficiency losses in terms of the incentives individuals face. Community rating creates a difficult choice for reimbursement policy, however. Prospective payment encourages insurers and providers to operate efficiently but rewards the selection of patients who will demand little care. Available systems of "risk-rated" payments are not sufficiently accurate to prevent such activity. Thus it may be necessary to set premiums partly on a retrospective basis, thereby muting incentives for efficiency.

Joskow, Schmalensee, and Tsukanova on Russian Competition Policy

Many essays have documented the historic changes taking place in Russia. Most economic analyses focus on the macroeconomic conse-

quences of reform, especially changes in prices, output, and employment. Paul Joskow, Richard Schmalensee, and Natalia Tsukanova provide a detailed microeconomic analysis of Russian industrial markets, identifying many economic and political constraints that have affected and will affect Russia's move toward an open, competitive economy.

The authors begin by arguing for the importance of industrial restructuring in Russia's transition. Their case has two parts. First, they argue that privatization itself cannot easily change institutions and capital. Few developed product or capital markets exist. Firms also find it expensive to distribute their products beyond local markets. Second, Russia historically has encouraged anticompetitive institutions and practices, including monopoly, price regulation, and geographic concentration. These practices have given public and private groups powerful incentives to resist competition and maintain regulation.

Emphasizing the importance of understanding the political and economic climate that Russia inherited from the former Soviet Union, the authors decribe various historical and institutional factors that have shaped recent efforts to privatize Russian industry. The authors document the hierarchical structure of Soviet industrial and production associations, the large-scale and vertical integration of Russian firms, the importance of the military-industrial complex, and the lack of developed input, transportation, and retail networks. They also describe factors that led to the demise of central economic control and the rise of trade associations. Subsequent sections describe Russian privatization and antimonopoly policy. These sections emphasize the tension between historical precedents for central control and the goal of decentralizing capital and input markets. The final sections discuss the role that Russia's competition policy will play in any transition and the approaches that are likely to enhance the ability of Russian firms and policymakers to meet the challenges of the postprivatization period. The authors speculate that reform is likely to produce a relatively competitive economy but caution that there is no guarantee that the transition will be smooth or timely.