

IN THIS ISSUE

- The Impact of Health Insurance Reform in Massachusetts
- Congressional Support for Subprime Lending
- Rational Choice, Voter Turnout, and Union Elections
- Dividends, Share Repurchases, and Tax Incentives
- Uncertainty and Economic Activity
- The Importance of Sticky Wages

The Impact of Health Insurance Reform in Massachusetts

The national health care legislation passed in March 2010 requires U.S. citizens to obtain health insurance coverage. Modeled on legislation passed in Massachusetts in 2006, the new federal law contains many provisions that are similar to that state's reform, including new requirements for employers and expansions in subsidized health insurance.

In **The Impact of Health Care Reform on Hospital and Preventive Care: Evidence from Massachusetts** (NBER Working Paper No. 16012), co-authors **Jonathan Kolstad** and **Amanda Kowalski** note that the Massachusetts changes undertaken in 2006 present a novel opportunity for analyzing the impact of a mandated expansion in health insurance coverage more generally—and perhaps for predicting the effect of the federal bill. Using hospital discharge data, they conclude that the Commonwealth's health insurance reform reduced the number of uninsured among the inpatient hospital population by 36 percent. The reform increased coverage most among: young adults and the near elderly, men, people from the lowest-income zip codes, and people identified as black and Hispanic.

Insurance through Medicaid, the state-run federal program designed for low-income people, expanded by approximately 30 percent among nonelderly residents of Massachusetts. The largest change occurred in 2006 and the first half of 2007, immediately following pas-

after the Massachusetts reform, treatment intensity— as measured by length of hospital stays— decreased by approximately 1 percent.

Use of hospital emergency rooms for routine care also declined after 2006: the reform's expanded insurance coverage

“[Massachusetts] health insurance reform reduced the number of uninsured among the inpatient hospital population by 36 percent.”

sage of the new law. The researchers note that some of the Medicaid expansion appears to have crowded out private coverage, which decreased among the hospitalized population by almost 4 percentage points during the same period. CommCare, a new state-subsidized program for insuring low-to-moderate income residents, began covering 1.2 percentage points of the hospitalized population, also suggesting some crowd-out of other coverage for those individuals.

Coverage through Medicare, which provides insurance for those over age 65, did not change significantly in the elderly population. And, after the reform, the total number of newly insured and their doctors apparently did not demand more inpatient care. In fact,

resulted in a 2 percentage point decrease in the fraction of hospital admissions from the emergency room. The reduction in emergency admissions was particularly pronounced among people in low-income areas of the state.

Hospital admissions for treating preventable conditions also fell. The authors find a decrease of 2.7 percentage points in inpatient admissions attributable to preventable conditions.

The authors note that the Massachusetts mandate for individual insurance coverage widened access to outpatient treatment and thus management of preventable conditions. Despite finding other hospital impacts, this study finds no evidence that hospital cost growth increased following the reform.

— Sarah H. Wright

Congressional Support for Subprime Lending

At the peak of the recent housing boom, subprime mortgage com-

panies were loaning \$600 billion per year to homebuyers with poor credit

histories. In **The Political Economy of the Subprime Mortgage Credit**

Expansion (NBER Working Paper No.16107), co-authors **Atif Mian**, **Amir Sufi**, and **Francesco Trebbi** explore the links between the rapid growth of the subprime industry and Congressional politics and policy. Focusing on the period between 2002 and 2007, they document a sharp increase in campaign contributions and lobbying activity by the mortgage industry. Using data from the Center for Responsive Politics, the researchers find that the industry's campaign contributions increased somewhat between 1998 and 2002. But they began to accelerate rapidly in 2002, and rose by 80 percent between 2002 and 2006. Moreover, the study finds that these contributions were targeted to members of Congress whose dis-

tricts included a large fraction of subprime borrowers.

The researchers study legislators'

"Pressure on the U.S. government to expand subprime credit came from *both* mortgage lenders *and* subprime borrowers."

votes on more than 700 bills that related to housing—specifically, bills tagged by the Congressional Research Service as related to “affordable housing,” “home ownership,” and “subprime.” They find that over time, campaign contributions became a stronger predictor of representatives’ voting. Similarly, the fraction of a legislator’s district that consisted of subprime borrowers — as measured by consumer credit scores from Equifax — also became a more powerful explanation

of voting patterns over time. The correlation between the concentration of subprime borrowers and voting pat-

terns was greater in 2004, when subprime credit was beginning to flow, than in 1996, when subprime mortgages were still a small share of the overall mortgage market.

The authors conclude that “pressure on the U.S. government to expand subprime credit came from *both* mortgage lenders *and* subprime borrowers.”

— Kimberly Blanton

Rational Choice, Voter Turnout, and Union Elections

Why do people vote in elections with many participants, even if their vote may not be pivotal? In **Rational Choice and Voter Turnout: Evidence from Union Representation Elections** (NBER Working Paper No. 16160), **Henry Farber** studies over 75,000 union representation elections held from 1972–2009 in the United States to try to address that question.

These government supervised, secret-ballot elections on the question of whether the workers would like to be represented by a union, generally held at the workplace, provide a good way to study voter behavior: many of them have few enough eligible voters that individuals can reasonably expect that their votes may be pivotal. Farber finds that in a typical union representation election, over 80 percent of individuals vote without any consideration of whether their vote will be pivotal. However, for about 20 percent of voters the probability of voting is related to the likelihood that their

vote will be pivotal, which depends on election size and the expected closeness of the election.

Farber’s finding suggests that

“For about 20 percent of voters, the probability of voting is related to the likelihood that their vote will be pivotal, which depends on election size and expected closeness of the election.”

the behavior of a substantial group of voters — but still a minority — is consistent with the standard rational choice model. This model recognizes that when voting is costly, individuals will consider the consequences of the various electoral outcomes and the probability that their vote will be pivotal in deciding whether or not to vote. In large elections, the likelihood that an individual’s vote will be pivotal is so small as to make it unlikely that the expected benefit of voting will outweigh the costs. Thus the rational choice model predicts lower turnout rates in larger elections and higher turnout rates in elections where preferences are relatively evenly split.

Farber admits that there are limits to how far the lessons learned by studying turnout in NLRB representation elections can be generalized

to larger political elections. First, even relatively small local elections are much larger than most elections in his study. Second, the physical cost of voting in political elections is higher, because the elections generally are held at a location to which the voter must travel, while NLRB representation elections are held in the work place. Finally, for an individual the stakes in a political election are generally lower than in an election that can fundamentally alter the employment situation. All of these factors likely contribute to the higher turnout observed in NLRB representation elections.

— Lester Picker

Dividends, Share Repurchases, and Tax Incentives

In **Dividends, Share Repurchases, and Tax Clienteles: Evidence from the 2003 Reductions in Shareholder Taxes** (NBER Working Paper No. 16129), co-authors **Jennifer Blouin, Jana Raedy, and Douglas Shackelford** analyze how firms' investor composition and shareholder distributions changed after a 2003 reduction in the dividend and capital gains tax rates for individuals. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) reduced the maximum tax rate on dividends from 39 percent to 15 percent for individuals. It also lowered the maximum individual tax rate on capital gains, which applies to repurchases of shares, from 20 percent to 15 percent. These changes may have altered the tax-efficient mix of dividends and capital gains, at least for some individual investors, and prompted them to re-balance their portfolios.

The researchers find that the net effect of these changes was to make firms that distributed profits mostly through dividends more attractive for

individual investors than those that distributed profits mostly through share repurchases. They conclude that corporate directors and officers, but not other individual investors, rebalanced their portfolios to maximize

“Firms with large individual ownership boosted the dividend portion of their total payouts, beginning a few months after enactment of the tax cuts.”

after-tax returns in light of the new tax rules enacted in 2003 and that their firms adjusted their distribution policy — specifically, increasing dividends in lieu of share repurchases — in a manner consistent with the altered tax incentives for individual investors.

Analyzing data from 1,923 firms before and after the introduction of JGTRRA, the researchers find that 145 companies initiated dividends after JGTRRA, while only 30 firms omitted dividends. More than 200 firms began repurchasing shares after enactment of JGTRRA, while 370 companies stopped repurchasing shares. Twenty-six firms both initiated divi-

dends and ceased repurchasing shares after passage of JGTRRA, while three firms omitted dividends and began repurchasing shares. Among 702 firms that repurchased shares both before and after JGTRRA, 90 of them initi-

ated dividends while 10 omitted dividends. And, among the 408 firms that paid dividends both before and after JGTRRA, 46 began repurchasing shares after its passage, but 58 stopped buying back shares.

Firms with large individual ownership boosted the dividend portion of their total payouts, beginning a few months after enactment of the tax cuts. Firms were particularly responsive to the changed tax incentives if their directors and officers held large equity positions, but also if there were other individuals and mutual funds with particularly large holdings.

— Frank Byrt

Uncertainty and Economic Activity

In **Uncertainty and Economic Activity: Evidence from Business Survey Data** (NBER Working Paper No. 16143), researchers **Ruediger Bachmann, Steffen Elstner, and Eric Sims** use micro data from the Federal Reserve Bank of Philadelphia's Business Outlook Survey and Germany's IFO Business Climate Index to investigate how measures of business uncertainty, which are derived from manager's business expectations, are related to economic activity. They find that increases in business uncertainty are associated with prolonged declines in economic activity. However, they find no evidence of the “wait-and-

see” effect — that is, a large decline in economic activity when uncertainty rises, followed by a rapid rebound in economic activity when uncertainty declines. Instead, increases in business uncertainty appear to have effects simi-

“Increases in business uncertainty are associated with prolonged declines in economic activity.”

lar to declines in business confidence. Bachmann, Elstner, and Sims argue that periods of high uncertainty are a reflection of bad economic times or bad economic news.

Waiting for uncertain events to be resolved is more valuable when the

level of uncertainty is high than when it is low, so when firms find themselves in a period of heightened uncertainty, they may stop investing and hiring, leading the economy to slip into a recession. Because these wait-

and-see dynamics are likely to take place quickly, the researchers use partly confidential monthly data from business surveys to investigate the relationship between uncertainty and economic activity. They argue that these high-frequency business survey data

are well suited to measuring the direct impact of uncertainty on economic decisionmaking. In particular, business survey data capture the mind set of actual decisionmakers, as opposed to the views of outside experts. Also, the confidential survey microdata allow comparison of expectations and realizations of economic variables.

Bachmann, Elstner, and Sims consistently find that increases in uncer-

tainty are associated with protracted negative effects on economic activity. The short-run “impact effect” of an increase in uncertainty, however, is small. Negative long-run shocks appear to raise uncertainty, which leads the authors to conclude that higher reported uncertainty is a reflection of bad economic times.

Bachmann, Elstner, and Sims think of recessions as times of sev-

ered business and customer relationships and of failing business models. Business and customer relationships have to be reestablished and business models altered when the economy is at trough. This generates uncertainty. In booms, in contrast, businesses have little incentive to change their operating practices.

—Matt Nesvisky

The Importance of Sticky Wages

Wages are “sticky” if employers are slow to adjust them in response to changing economic conditions. In **Some Evidence on the Importance of Sticky Wages** (NBER Working Paper No. 16130), co-authors **Alessandro Barattieri, Susanto Basu, and Peter Gottschalk** analyze data on U.S. wages, employment, and demographic characteristics for the period 1996–9 from the Survey of Income and Program Participation. The authors find that in the average three-month period, the probability of a nominal wage change is 18 percent for workers who are paid by the hour. For salaried workers, the

probability drops to 5 percent.

The frequency of wage adjustment does not vary substantially across industries or occupations, they find. Moreover, despite some evidence of minor seasonal patterns, the frequency

of wage adjustment does not change significantly throughout the year. That is, there is no specific time during the year when an individual is most likely to experience a wage change. Individual wages usually are adjusted once a year,

but because different employers make these adjustments at different times, wage changes at the economy-wide level are spread throughout the year.

Some macroeconomic variables do appear to influence the likelihood of

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of wage adjustment does not change significantly throughout the year. That is, there is no specific time during the year when an individual is most likely to experience a wage change. Individual wages usually are adjusted once a year,

wage changes. For example, both an increase in the consumer price inflation rate and a rise in the unemployment rate are associated with increases in the probability of wage adjustment.

—Claire Brunel

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