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Health Insurance for Retirees Hastens Retirement Only Slightly

About 78 percent of male full-time employees and 62 percent of female full-time employees over age 40 have health insurance coverage provided by their employers. Of these workers, about 70 percent have employers who will continue to pay for this insurance coverage after they retire, according to a new NBER study by **Alan Gustman** and **Thomas Steinmeier**. They estimate that the cost to firms of the health benefit per retired worker is about two-thirds of the cost per currently employed worker.

In **Employer-Provided Health Insurance and Retirement Behavior** (*NBER Working Paper No. 4307*), Gustman and Steinmeier explain that employees will tend to retire earlier if they know that their health benefits will continue after they stop working.

However, the authors estimate that the provision of health benefits has only a negligible effect on retirement decisions. Extending retiree health insurance to all workers with health insurance coverage on the job, compared to a situation with no retiree health insurance for anyone,

"Extending retiree health insurance to all workers . . . would reduce the average retirement age among all workers by less than three weeks."

would reduce the average retirement age among all workers by less than three weeks, Gustman and Steinmeier find. DRH

Poison Pills Didn't Stop Hostile Takeovers

At first glance, the collapse of the market for corporate control in the late 1980s seems to be a simple story: As hostile takeovers became commonplace, corporate management took defensive action, either by adopting antitakeover provisions, such as "poison pills," or by successfully lobbying their state governments to erect legislative barriers. By 1991, one or more of these "shark repellents" protected 87 percent of all listed corporations, and the percentage of companies receiving initial takeover offers had fallen to 0.5 percent per month—one-third the peak rate achieved in 1987 and 1988, and about the same level as had existed in the mid-1970s.

But in a new NBER study, **Robert Comment** and **G. William Schwert** show that antitakeover measures do not deter takeovers and probably did not cause the demise of the market for corporate control. In fact, such measures actually raise the price stockholders receive for their shares by almost 18 percent.

In **Poison or Placebo? Evidence on the Deterrent and Wealth Effects of Modern Antitakeover Measures** (*NBER Working Paper No. 4316*), Comment and Schwert consider all companies whose shares traded on the New York or American Stock Exchanges from 1977 to 1991. While they note that the spread of new antitakeover methods and the demise of the hostile takeover are linked closely over time, they remain skeptical about the causal connection between the two. For example, more than two-thirds of all attempted hostile bids during the first half of the 1980s were settled by negotiation, suggesting that management already possessed some bargaining power even before the rise of antitakeover barriers.

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Further, while companies' stock prices tended to fall after the adoption of antitakeover measures, the size of the decline does not seem consistent with systematic deterrence. Most of the evidence shows that stock prices fell by 1 percent or less after adoption of antitakeover provisions.

Instead, Comment and Schwert argue that the 1980s restructuring boom most likely succumbed to regulatory actions and market forces. One significant event was the collapse of Drexel Burnham Lambert, the investment bank most active in financing hostile takeovers. Drexel's legal and regulatory problems began in 1988 and the firm went bankrupt in February 1990. The recession and credit crunch that began in mid-1990 also contributed by depressing asset prices and raising the cost of financing. RN

State and Local Taxes Are Progressive

During the 1980s, various changes in federal, state, and local tax rules and rates combined to produce changes in the burden imposed by state and local taxes. Now in a new NBER study, **Gilbert Metcalf** estimates these tax burdens as a share of consumption, as well as using the more traditional estimate, as a share of household income.

In **The Lifetime Incidence of State and Local Taxes: Measuring Changes During the 1980s** (*NBER Working Paper No. 4252*), Metcalf considers the entire state and local system of general sales, personal income, and property taxes. He finds that this entire system, as a fraction of household consumption, was progressive (that is, took a larger share from households with high consumption than from households with low consumption) in 1984, and became more progressive through the 1980s. In contrast, as a fraction of household income, the system of state and local taxes was regressive in 1984, and became more regressive over the next five years.

Metcalf explains that a consumption-based measure better reflects the lifetime ability of households to pay taxes than a measure based on annual income. He suggests that households decide how much to consume based on their lifetime, rather than their annual, income. Young households are likely to have higher income later in life; old households are likely to have had higher income earlier in life. Many of these households will look poor on an annual, but not on a lifetime, income basis.

Studies that lump together households at the beginning of their careers, or living off accumulated savings, with households that are poor over their entire lifetime may provide a misleading picture of the burden of taxation. To control for this problem, Metcalf uses annual consumption as a proxy for lifetime income in measuring the tax burden.

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When he calculates sales taxes alone as a percentage of income, he finds that the sales tax burden of the poorest tenth of households was 2.7 times the tax burden of the richest tenth in 1984, and 1.8 times the tax burden of the top tenth in 1989. However, the tax burden of households with the lowest consumption was only about 60 percent of the burden of the top consuming tenth, both in 1984 and 1989. Put differently, Metcalf finds surprisingly that state and local taxes appear to be progressive when measured on a consumption basis.

By both income- and consumption-based measures, state and local personal income taxes were progressive in 1984 and remained so in 1989. At the end of the decade, the poorest tenth paid one-quarter of the burden of the top tenth based on consumption, and one-tenth of the burden of the top group based on annual income.

Finally, Metcalf finds that property taxes are regressive, although less as a share of consumption than as a share of annual income. DRH

Trade Is Becoming Regionalized

The prospect of the world breaking into regional trading blocs has become a major preoccupation of economists, businesspeople, and trade officials. Recent trade agreements, such as the transformation of the European Community into a single internal market, the 1969 U.S.–Canada agreement, and the proposed North American Free Trade Agreement among Canada, Mexico, and the United States all have contributed to this concern. The fear is that, if countries give special preferences to other countries within their bloc, trade with nonmembers will diminish in importance, and many of the economic benefits of an open trading system will be lost. A new study by NBER Research Associate **Jeffrey Frankel** and Faculty Research Fellow **Shang-Jin Wei** suggests that those fears are not entirely unfounded, because trade within the evolving blocs is growing much faster than trade outside them.

In **Trade Blocs and Currency Blocs** (*NBER Working Paper No. 4335*), Frankel and Wei seek to determine whether trade is becoming regionalized by considering changes in bilateral trade patterns among a sample of 63 countries from 1980 to 1990. Even after accounting for the size of each country's economy, its income per person, the distance between each pair of countries, and the fact that some countries share land borders that facilitate trade, they find that a disproportionate share of trade takes place within geographic regions rather than between regions. The strongest regional effect in their study is in a bloc of Pacific countries stretching from the United States and Canada to East Asia and Australia. Trade between pairs of those countries is, on average, more than three times as great as their size, distance, and per capita incomes would predict. Trade among the East Asian members of that larger group is particularly intense.

"By 1990 EC members were trading 68 percent more with one another than proximity, income, and the countries' openness to imports would predict."

The Western Hemisphere shows signs of becoming a stronger trade bloc. The countries of the Americas trade nearly two-and-a-half times as much with one another as would be expected based on size, income, distance, and common borders alone, and the relative importance of trade within the hemisphere rose markedly between 1985 and 1990.

The European Community has become a more significant trade bloc as well, Frankel and Wei report. In 1980, their data show, membership in the EC explains relatively little of the 12 EC nations' trade. But the EC effect increased markedly throughout the decade, so that by 1990 EC members were trading 68 percent more with one another than proximity, income, and the coun-

tries' openness to imports would predict. The member nations of the European Free Trade Association (EFTA) do not appear to function as part of the EC bloc, though.

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Frankel and Wei also examine whether their measure of the European countries' openness diminished during the 1980s, perhaps indicating that the growth in intra-European trade is caused in part by the erection of external barriers that divert trade from other countries. The only region where there is clear evidence of trade diversion in the 1980s is the EFTA.

Frankel and Wei find that the effect of exchange rate variability in the 1980s on these trade patterns was minor, though. While currencies in Europe generally were stabilized around the German mark, and Western Hemisphere and Asian currencies tended to be loosely linked to the U.S. dollar, those efforts at currency stabilization did not contribute substantially to the decade's trade patterns. "Real exchange rate variability has an effect on trade volume," they conclude. "It explains only a very small fraction of the intraregional trade bias." Indeed, the effect of exchange rate variability, although significant earlier, had disappeared by 1990. Perhaps that was because of the growing use of forward contracts, options, and other instruments to hedge risk. ML

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