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Providing Retiree Health Insurance Encourages Early Retirement

The strong link between health insurance and employment in the United States may cause workers to delay retirement until they become eligible for Medicare at age 65. However, some employers extend health insurance benefits to their retirees, and individuals who are eligible for such benefits need not wait until age 65 to retire with group health coverage.

In **Does Retiree Health Insurance Encourage Early Retirement** (NBER Working Paper No. 17703), authors **Steven Nyce, Sylvester Schieber, John Shoven, Sita Slavov, and David Wise** use employee-level data from 64 diverse firms that are clients of TowersWatson, a leading benefits consulting firm, to investigate the impact

of retiree health insurance on early retirement. After controlling for individual characteristics and pension incentives, they find that employees

Moreover, higher subsidy rates are associated with greater turnover than lower subsidy rates. For example, an employer contribution of 50

“Employees under the age of 65 have substantially higher turnover rates at firms that offer subsidized retiree health coverage than at firms that do not.”

under the age of 65 have substantially higher turnover rates at firms that offer subsidized retiree health coverage than at firms that do not. Subsidized retiree health coverage has its strongest effects at ages 62 and 63, resulting in a 21 percent increase in the probability of turnover at age 62 and a 32 percent increase in the probability of turnover at age 63.

percent or more of the cost of health insurance raises turnover by nearly 34 percent at age 62, and by nearly 44 percent at age 63. The authors estimate that a subsidy of 50 percent or more lowers the expected retirement age by 9 months overall, and by more than a year for workers with 15 or more years of experience.

—Claire Brunel

Changing Inequality in College Entry and Completion

In the seventy years since 1940, college has become an increasingly prevalent part of young Americans' lives. The rate of college entry has increased by 50 percentage points and the rate of college completion (by age 25) has quadrupled. But during the last half of this period, the period since 1975, these gains have become highly uneven among income groups.

The gaps in postsecondary edu-

cation between the children of low- and high-income families have been

Inequality in U.S. College Entry and Completion (NBER Working

“For those born in the early 1960s, there was little variation between men and women in terms of college completion. For those born in the early 1980s, women outperformed men at all income levels, but especially at the higher income levels.”

widening, according to **Martha Bailey** and **Susan Dynarski** writing in **Gains and Gaps: Changing**

Paper No. 17633). They find that for low-income children, college completion rates increased only 4 percentage

points between the generation born in the early 1960s and the one born in the early 1980s. However, among high-income children the improvement was 18 percentage points.

Bailey and Dynarski focus on two cohorts: those born between 1961 and 1964, and those born between 1979 and 1982. While the latter group received more college education at all income levels, the progress was most pronounced at the top of the income range. Those born to parents at the top half of the income distribution boosted their college entry rates by some 22 percentage points between the two periods. Those at the bottom quarter of the income distribution saw only a 10 percentage-point improvement. Rates of college completion showed a similar pattern: an increase of 18 percentage points for the top income quartile as compared with only 4 percentage

points for the bottom quartile.

This rising inequality was mostly a female phenomenon, and a relatively new one. For those born in the early 1960s, there was little variation between men and women in terms of college completion. For those born in the early 1980s, women outperformed men at all income levels, but especially at the higher income levels. “In college entry, persistence, and completion, women in the top-income quartile have pulled away from the rest of the population,” the authors write.

This female advantage varies by ethnic group. Black women have held the advantage over black men in college graduation rates for every cohort born after 1915. For white women, the gender difference was a disadvantage for cohorts born before 1960, but has been an advantage for most of those born since then. The most

dramatic widening of the gender gap has occurred among non-Hispanic whites. This gap is roughly 10 percentage points for cohorts born in the early 1980s.

Bailey and Dynarski find that differences in high school graduation rates explain roughly half of the gap in college entry between the lowest- and highest-income students in both the early and later age cohorts. The authors note that gender differences have been present, although not as marked as recently, for a long time. Even 70 years ago, a greater share of women than men graduated from high school. Cognitive ability, as measured by the Armed Forces Qualification Test, explains more of the gap in the early cohort than in the latter one.

—Laurent Belsie

New Estimates of the Housing Wealth Effect

If the value of a homeowner’s house rises by one dollar, how much will that homeowner increase spending on consumption? In **The Housing Wealth Effect: The Crucial Roles of Demographics, Wealth Distribution, and Wealth Shares** (NBER Working Paper No. 17740), authors **Charles Calomiris, Stanley Longhofer, and William Miles** determine that the impact of housing wealth on consumer spending depends crucially on the age and wealth distribution within states, as well as on the share of housing wealth relative to total wealth. In particular, they find that young people, who are more likely to be credit-constrained, and older homeowners, who are likely to be “trading down” on their housing stock, experience the largest housing wealth effects. Housing wealth effects also are higher in years when housing wealth shares represent a larger portion of overall wealth and in years with higher pov-

erty rates. Thus, there tends to be huge variation over time and across states in the size of housing wealth effects.

“On average, a single dollar increase in housing wealth raises consumption by between five and eight cents.”

For this study, the researchers constructed a new annual dataset for each of the U.S. states for the period 1981–2009, taking into account the relative amount of state-level housing and securities wealth in any given year. They also considered differences in age distribution and poverty rates, both across states and over time, because housing wealth effects tend to be larger in state-years with high proportions of young and old people, and in state-years with higher poverty rates. In addition, they estimated holdings of corporate stock in each state by calculating aggregate U.S. stock wealth and multiplying by each state’s share of aggregate mutual fund holdings.

Calomiris, Longhofer, and Miles find that consumption responds positively to innovations in both housing

wealth and securities wealth, but that housing wealth effects are significantly larger than stock wealth effects. They estimate that on average, a single dollar increase in housing wealth raises consumption by between five and eight cents. In contrast, the same dollar increase in the value of securities wealth raises consumption by less than two cents. Nonetheless, there is substantial variation across states and over time in both of these consumption responses to wealth changes, which are related to the age, poverty, and wealth characteristics of various states at particular points in time.

—Matt Nesvisky

The Labor Market in China, 1989–2009

Buffeted by dramatic structural and economic changes in its demand for labor over the past two decades, China's workforce has adjusted in ways often seen in advanced economies. However, according to **Wei Chi, Richard Freeman, and Hongbin Li** writing in **Adjusting to Really Big Changes: The Labor Market in China, 1989–2009** (NBER Working Paper No. 17721), China's labor market has shown a marked difference: cohorts who enter the workforce at favorable or unfavorable times see their wages and occupational position revert to the average much more rapidly than in most Western economies.

This study suggests that three factors are behind this enhanced flexibility: 1) rapid economic growth; 2) high employee turnover; and 3) the weakness of China's internal labor markets. "The Chinese labor market has responded about as well as one could expect to the changes in the demand and supply factors and institutional shocks in this critical period in Chinese economic history," write the authors.

China has accomplished a dramatic transformation in less than three decades. Until the 1980s, it had no real labor market. State-owned enterprises were the only employers; government agencies assigned workers to jobs. But starting with agri-

culture and product markets, the government began to loosen the reins of control. Firms began to decide how many workers they needed. Workers got to choose

in earnings more than tripled, then fell back somewhat in 2009.

All of this may sound familiar. "Overall, the adjustments in China to

"[In the U.S.] cohort effects persist for over a decade, [but] in China cohort effects associated with the supply/demand balance diminished within three years."

for whom they worked. Labor began to adjust to changes in demand and supply as China's urban economy grew rapidly.

By focusing on the period 1989–2009, the authors find that this liberalization had three major effects: 1) Wage differentials widened—the pay gap between better-educated and less-educated workers increased and then stabilized. Through 1990, the premium for more experienced workers shrank. Then it grew massively, especially for older workers whose pay had been limited in the pre-reform era. The more experience workers had, the more likely they were to have white collar jobs. 2) Young workers saw wages and job opportunities vary depending on the state of the economy when they started looking for work. 3) The size of the cohort entering the workforce had a direct impact on wages: larger cohorts reduced wages. Rising gross domestic product increased wages and wage inequality. Between 1989 and 2008, the inequality

changes in supply and demand are similar to those in the US (which faced more modest market pressures)," the authors write. Only in the persistence of cohort differentials did the two vary in a substantial way. "Whereas in those countries [like the US and other advanced economies] cohort effects persist for over a decade, in China cohort effects associated with the supply/demand balance diminished within three years."

For example, the authors found that if a particularly large class of Chinese graduating from college depressed starting salaries by 10 percent from the predicted trend, the students' wages would grow faster than expected—about 12 to 14 percent—over the next three to five years, allowing them to catch up. The same was true for those forced to take less desirable positions. Within three to four years, they typically were able to get jobs on a par with those of earlier cohorts at the same stage in their careers.

—Laurent Belsie

Measuring the Effects of the 1991 Federal Alcohol Tax Increase

Because consumers reduce alcohol consumption in response to price increases, rising excise taxes on alcohol are associated with reduced levels of alcohol abuse and the related consequences for public health and safety. In **The Virtuous Tax: Lifesaving and Crime-Prevention Effects of the 1991 Federal Alcohol-Tax Increase** (NBER Working Paper No. 17709), authors **Philip Cook** and **Christine**

Piette Durrance estimate the effects of a change in the federal tax on alcohol that took place on January 1, 1991.

ing for overall inflation) nationwide.

The authors find that this price increase resulted in a reduction of 4.7

"[A tax induced increase of 6 percent in alcohol prices] resulted in a reduction of 4.7 percent in injury deaths nationwide."

The federal government doubled the tax on beer and raised tax rates on wine and spirits as well, and alcohol prices jumped an average of 6 percent (adjust-

percent in injury deaths nationwide during the first year. Both violent and property crime also declined after this increase in the federal tax on alcohol.

Violent crime — especially robbery, aggravated assault, and rape — was apparently more sensitive to the level of alcohol consumption within a state than property crime. Among

the category of property crimes, burglary and motor vehicle theft rates were most sensitive to a state's per capita alcohol consumption after the tax increase. The authors' results demon-

strate that the alcohol-price elasticity for several health and safety outcomes is closely related to average alcohol consumption.

—Lester Picker

Airports, Air Pollution, and Health

Airports are among the largest sources of air pollution in the United States. In fact, Los Angeles International Airport is the largest source of carbon monoxide (CO) in the state of California. Average airplane taxi time — the amount of time that an airplane spends between the gate and runway — increased by 23 percent from 1995 to 2007. This increase in average congestion, combined with an increased number of flights, translates to an aggregate increase of over one million airplane hours per year spent idling on runways, leading to significantly higher levels of local ambient air pollution.

In **Airports, Air Pollution, and Contemporaneous Health** (NBER Working Paper No. 17684), authors **Wolfram Schlenker** and **Reed Walker** show how runway traffic congestion from East Coast airports influences runway congestion on the West Coast,

subsequently increasing pollution levels in areas surrounding California airports. They find that these East Coast driven changes in California pollution

ing within 10 km of one of the 12 California airports in their study.

In examining the explanation for the observed pollution-health rela-

“Small amounts of ambient air pollution ... can have substantial effects on the incidence of local respiratory illness.”

levels, which are arguably unrelated to local weather and other conditions in California, are associated with adverse health outcomes and hence to respiratory and heart related hospital admissions. These effects are larger in areas adjacent to and downwind from airports on a given day. Infants and the elderly are more sensitive to these pollution fluctuations, but even adults ages 20–64 are affected. Schlenker and Walker estimate that a single standard deviation increase in daily pollution levels is responsible for at least \$1 million per day in hospitalization costs for the 6 million people liv-

relationship, the authors find that CO, rather than other pollutants such as ozone or nitrogen oxides, is primarily responsible for the observed health effects. They find no evidence of forward displacement or delayed impacts of pollution, or that people in areas with larger pollution shocks are either less susceptible or less responsive to pollution. These findings suggest that relatively small amounts of ambient air pollution, far below current CO ambient air quality standards, can have substantial effects on the incidence of local respiratory illness.

—Lester Picker

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