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The U.S. Labor Market: Status Quo or a New Normal?

The recession of 2007 to 2009 caused such high and persistent unemployment that it led many to conclude that the labor market had undergone structural changes, making it difficult or impossible to return to pre-recession employment levels. But in **The United States Labor Market: Status Quo or A New Normal?** (NBER Working Paper No. 18386), **Edward Lazear** and **James Spletzer** suggest that cyclical, not structural forces, are behind the surge in unemployment from 4.4 percent in the spring of 2007 to 10 percent in the fall of 2009, and the slow decline since then.

“[T]he current recession does not appear fundamentally different from prior ones, except that it is worse,” they conclude. They fail to find “any compelling evidence that there have been changes in the structure of the labor market that are capable of explaining the pattern of persistently high unemployment rates.” Instead, they

note that “the evidence points to primarily cyclic factors.”

The authors note that there

“[There is no] compelling evidence that there have been changes in the structure of the labor market that are capable of explaining the [recent] pattern of persistently high unemployment rates.”

are a number of ongoing, long-term industrial and demographic shifts in the labor market, but that none of these factors can explain the recent rise in unemployment. For example, the relative decline in U.S. manufacturing jobs has been under way for a half century, and the rise in female employment dates back to the second half of the twentieth century. The U.S. labor force is also aging, but again this is a long-term trend.

The authors’ evidence suggests that long-term trends played a limited role in the recent recession and other past recessions. For example, in each of the business cycles between

December 1979 and March 2012, the rise or fall in unemployment can be explained by

changes in gender-specific unemployment rates, not by shifts in the gender composition of the workforce. Similarly, the aging of the workforce does not correlate very strongly with shifts in the unemployment rate during business cycle sub-periods. Since November 1982 the changing age composition of the workforce has lowered the unemployment rate by eight-tenths of a percentage point. This trend is reinforced by changes such as the rising education of the workforce and the shift toward service jobs, which have worked to lower unemployment over the last four decades.

The authors suggest that the

rapid rise in unemployment during the 2007–9 recession can be explained almost entirely by the rise in unemployment within industries. Some industries such as construction, manufacturing, and retail trade saw unemployment soar. But these were the same industries that saw large decreases in unemployment during the recovery. The construction sector, for example, accounted for 19.4 percent of the increase in the national unemployment rate during the recession; this sector also accounted for 21.5 percent of the decline in the unemployment rate during the recovery.

The same phenomenon has occurred with mismatch—the difference between vacancies and the number of unemployed in an industry, occupation, or loca-

tion. Industrial mismatch rose during the 2007–9 recession, and then declined just as quickly. Occupational mismatch—always higher than industrial mismatch and less sensitive to the business cycle—rose during the recent recession but has since fallen below its pre-recession level. “There is no evidence that the recession resulted in a long-lasting skills gap that would require retraining experienced workers to work in different industries,” the authors conclude. “Turning unemployed manufacturing and construction workers into nurses and teachers would not provide those workers with immediate jobs; there is already a surplus of unemployed even in the low unemployment industries.”

There are at least two areas

where this recession appears different than previous ones. First, the long-term unemployed make up a larger share of total unemployment than in past downturns, even those with comparably high unemployment rates. Second, there are more vacancies per unemployed person than even a couple of years ago. This shift of the Beveridge curve—which measures the relationship between job openings and the unemployment rate—may suggest that some permanent structural change is under way and is keeping the unemployed from filling the jobs that are available. The authors conclude that the reason for such a shift, if it has indeed occurred, won’t be known until unemployment returns to normal levels.

— Laurent Belsie

Dependent Coverage Eligibility and the Health Insurance Status of Young Adults

The 2010 federal health reform—the Patient Protection and Affordable Care Act—required that with the first plan renewal on or after September 2010, all private health insurance plans treat children up to the age of 26 as dependents, eligible to be covered under a parent’s family plan. A number of states had already enacted similar legislation that applied to some health insurance plans, but such laws did not cover the large employer plans operated under the Employee Retirement Income

Security Act (ERISA)—those plans cover a substantial fraction of the privately insured people in the United States.

Kristen Lloyd use data from the Current Population Survey to compare changes in the fraction of insured adults under the age

“The federal requirement reduced the uninsurance rate of eligible young adults by 3.5 percent ... expanding the set of insured individuals by roughly 716,000.”

In **The Role of Federal and State Dependent Coverage Eligibility Policies on the Health Insurance Status of Young Adults** (NBER Working Paper 18254), **Joel Cantor, Alan Monheit, Derek DeLia,** and

of 26 with changes in the fraction of insured among those aged 27–30. They make this comparison both before and after dependent coverage eligibility took effect, and they find that the federal requirement increased

the share of individuals covered by non-spousal dependent coverage by 5.3 percentage points. Similarly, the federal requirement reduced the uninsurance rate of eligible young adults by 3.5 percentage points. This translates into expanding the set of insured individuals by roughly 716,000 in just the first several months of implementation of this provision of the Affordable Care Act.

The authors also considered the joint impact of the federal reform and previously imple-

mented state laws that expanded dependent coverage. They find that young adults targeted by both laws experienced an 8.7 percentage point increase in non-spousal dependent coverage and an 8.3 percentage point decline in un-insurance as compared to the smaller impacts seen among young adults eligible only under the federal reform.

This research reflects changes in coverage over just the first few months of implementation of the new policy. The authors note

that while the dependent coverage expansion led to a “rapid and large reduction in the number of uninsured young adults,” the additional enrollment may lead to future increases in family premiums. They also speculate on other potential effects of the legislation, including the possibility that businesses that primarily employ young adults may “become less likely to offer coverage as fewer young workers seek their own health benefits.”

—Linda Gorman

Public Procurement and the Private Supply of Green Buildings

In recent decades, a number of federal, state, and local government procurement programs have been implemented to promote increased use of “green” products, with the dual goal of helping the environment and boosting market demand for environmentally friendly products. In **Public Procurement and the Private Supply of Green Buildings** (NBER Working Paper No. 18385), co-authors **Timothy Simcoe** and **Michael Toffel** conclude that municipal policies requiring construction of green public buildings do more than just create demand for certain green construction products. These policies have spillover effects in stimulating private-sector adoption of the standards used to define green government buildings – in this case, the Leadership in Energy and

Environmental Design (LEED) standard — and the policies induce supplier investments in professional expertise in green-building related practices.

on “maintenance and repair construction” coming from federal, state, and local governments, the potential impact of green-building policies on private-sector

“Government purchasing policies can break deadlocks that emerge when coordinated investments are required to adopt a common standard.”

Previous studies have documented that governments use their formidable procurement powers to increase demand for all sorts of environmentally friendly products, including paint, paper, lumber, cleaning supplies, fuel types, and even electricity. More recently, government agencies both in the United States and Europe have expanded procurement policies to include construction of entire green public buildings. With 26.3 percent of all U.S. real estate spending

demand and supply chains can be substantial.

The authors investigate whether government green-building policies have a spillover effect on the private sector’s investment in green-building expertise and use of green-building practices. LEED, which was developed in 1998 by the non-profit U.S. Green Building Council, awards points for incorporating specific design elements in the construction and renovation of facilities. LEED was still emerg-

ing as an industry standard early last decade when government agencies began adopting green-building policies, many of which referred to LEED requirements, for government buildings.

The authors collected data on 735 California cities from 2001 to 2008 using information from a variety of public and private sources, then analyzed the spread of LEED projects and LEED-accredited professionals such as architects, contractors, and consultants. They conclude that government green-building procurement policies effectively “jump started” standards adoption by

private-sector players. “Overall, our findings suggest that government purchasing policies can break deadlocks that emerge when coordinated investments are required to adopt a common standard and that this stimulates the private-sector market for the goods and services targeted by government green procurement policies,” they write.

They also find that LEED standards diffused nearly twice as fast among private-sector developers in cities that adopted green-building policies, compared to other cities of similar size, demographics, and environ-

mental preferences. Perhaps more significantly, the evidence shows that private-sector adoption of LEED standards spread to cities neighboring those with green-building policies, indicating that LEED spillovers resulted from broader industry acceptance of green-building standards. Indeed, there were spillover effects on private real estate development that occurred even when municipal green building procurement policies did not provide explicit rules or incentives to encourage private adoption.

— Jay Fitzgerald

Does Health Information Technology Reduce Costs?

Some analysts have suggested that the adoption of electronic medical records (EMR) by hospitals could eventually reduce annual U.S. healthcare expenditures by one third or more. Others have been far less sanguine about such projections, arguing that adopting such information technologies may in fact increase costs.

In **The Trillion Dollar Conundrum: Complementarities and Health Information Technology** (NBER Working Paper No. 18281), **David Dranove, Christopher Forman, Avi Goldfarb, and Shane Greenstein** analyze data from 1996–2009 on thousands of U.S. hospitals and their use of EMR. They find that, on average, EMR

adoption appears to be associated with higher costs. However, drawing on principles developed for the study of productivity in

tions continue to experience an increase in costs, even after several years. Hospitals that had employed IT staff to work on

“Over time, complementary IT skills are expected to become more widely available, and the various components more widely deployed. If so, more hospitals will enjoy the benefits of EMR and it may yet fulfill its promise.”

business computing, they show that adoption of EMR yields different outcomes over time, across locations, and across hospitals. For example, adoption of both basic and advanced EMR is initially associated with a rise in costs, but longer-term cost effects vary. After three years, hospitals in IT-intensive locations experience a 3.4 percent decrease in costs. Hospitals in other loca-

older generations of software also enjoyed cost reductions relative to their less “IT-savvy” peers.

These results suggest that the principles for effective implementation of other types of business computing apply to the adoption on EMR: it takes time to be effective and it is most effective when implemented by people with prior experience with the technology. Moreover,

as more and more communities become IT-rich and more hospitals become IT-savvy, EMR may generate greater savings.

The authors write: “While EMR’s past mixed performance

is no guarantee of a future result, the past experience also is no guarantee of future failure. Over time, complementary IT skills are expected to become more widely available, and the various compo-

nents more widely deployed. If so, more hospitals will enjoy the benefits of EMR and it may yet fulfill its promise.”

— Matt Nesvisky

“Cognitive Fatigue” and Task Performance

In many education and work environments, students or workers must perform several mental tasks in a short period of time. And just as with physical fatigue, cognitive fatigue can occur, and can affect performance if those tasks are scheduled close together.

In **The Impact of Time Between Cognitive Tasks on Performance: Evidence from Advanced Placement Exams** (NBER Working Paper No. 18436), **Ian Fillmore** and **Devin Pope** analyze data on a 10-percent sample of all Advanced Placement (AP) exam takers who took two (and only two) exams in the same year between 1996 and 2001. Their sample consists of

thousands of students who were tested on the same two AP subjects but with varied time gaps

between their two exams.

They find that performance improves significantly with more days between exams. Increasing the number of days between exams from one to ten improves the probability of passing both exams by 8 percent.

The authors also find that the relationship between total points on the two exams and time between the exams is almost entirely linear, which suggests

that increasing the time between exams from one to three days has a similar impact on performance

“Increasing the number of days between exams from one to ten improves the probability of passing both exams by 8 percent.”

as increasing the time between exams from eight to ten days. Furthermore, the benefit of more spacing between exams is driven almost entirely by the increase in performance on the second exam. They discover some differences across demographic groups, with women and Asians benefiting more than other groups from increasing the time between exams.

— Lester Picker

Parsing the Evidence of the Financial Crisis 2007–9

In **Which Financial Frictions? Parsing the Evidence of the Financial Crisis 2007–9** (NBER Working Paper No. 18335), co-authors **Tobias Adrian**, **Paolo Colla**, and **Hyun Song Shin** revisit a long standing

debate about whether financial frictions manifest themselves through shocks to the demand for credit — deterioration of creditworthiness of borrowers — or shocks to the supply of credit — tighter lending criteria applied by the lender. Using both

aggregate data from the Flow of Funds and firm-level data from COMPUSTAT and other sources, they argue that the evidence from the recent crisis overwhelmingly points to a shock in the supply of intermediated credit by banks and other financial intermediaries.

During the recent crisis, bank lending to firms declined: loan issuances dropped 75 percent, and the probability of obtaining a loan fell by 14 percent. At the same time, though, bond issuances increased. Large, rated firms with access to the bond market were able to compensate for the reduction in bank lending by increasing their borrowing from the bond market, leaving total financing unchanged. In contrast, bank-dependent firms suffered a reduction in bank financing without being able to tap the bond market; they witnessed a marked decrease in the amount of new credit. This analysis highlights the fact that firm attributes are an important determinant of the

effect of a financial shock. The authors find that firms with more tangible assets, higher credit rat-

increases to make up most of the gap. 3) Credit spreads for both bank loans and newly-issued

“During the recent crisis, bank lending to firms declined: loan issuances dropped 75 percent, and the probability of obtaining a loan fell by 14 percent.”

ings, better project quality, fewer growth opportunities, and lower leverage, were better equipped to withstand the contraction of bank credit during the crisis.

The authors document five “stylized facts” that need to be explained in any model of financial frictions. 1) Both bank and bond financing are quantitatively important for non-financial corporations. 2) In downturns, bank loans contract, but bond finance

bonds rise during downturns. 4) Changes in debt issued by banks are reflected nearly one-for-one in bank lending. 5) Bank leverage is procyclical. They conclude that models of financial frictions need to recognize that the impact of credit on real activity is largely the result of sharply rising risk premiums during a financial crisis, rather than a direct effect of a contraction in the total quantity of credit.

— Claire Brunel

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