

The NBER Digest

NATIONAL BUREAU OF ECONOMIC RESEARCH

www.nber.org

January 1998

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Recent Immigrants Less Likely to go to Prison than Natives

Recent immigrants aren't as likely to go to prison as native-born Americans. Nor are they as likely to be institutionalized as earlier immigrants. Indeed, if natives had the same low probability of being incarcerated as all immigrants, the nation's jails and prisons would have one-third fewer inmates, according to an NBER Working Paper by **Kristin Butcher** and **Anne Piehl**.

In **Recent Immigrants: Unexpected Implications for Crime and Incarceration** (NBER Working Paper No. 6067), they compare institutionalization rates of various groups of the population in the census years 1980 and 1990, focusing on 18-to-40-year-old males, the demographic group most prone to ending up behind bars. In this group, 70 percent of those institutionalized were put there because they have been convicted of a crime, according to 1980 statistics. The remainder are in

mental institutions, hospitals, and drug treatment centers.

Earlier research has shown that recent immigrants have poorer labor market experiences than native-born Americans or earlier cohorts of immigrants. A purely economic model of criminal behavior, which sees the likelihood of an individual

earlier immigrants or the native-born.

Among native-born men, 1.35 percent were institutionalized in 1980 and 2.16 percent in 1990. By comparison, 0.7 percent of male immigrants were institutionalized in 1980 and 1.49 percent in 1990. To investigate the extent to which differences

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engaging in criminal behavior as influenced strongly by whether he or she has opportunities for well-paid legal employment, would imply that recent immigrants should be more likely to commit crimes and go to jail than natives. But this study concludes that recent immigrants are less likely to be institutionalized than

in the immigrant and native-born populations explain these differences, the authors predict institutionalization rates for immigrants assuming they function like natives. Based solely on the age distributions across the two populations, immigrants should have about the same percentage incarcerated as natives,

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but they do not. If education, race, and ethnicity of immigrants are taken into account, immigrants should have a much higher institutionalization rate than natives (on the order of 3–4 percent), but they do not.

Low levels of education are strongly associated with a high probability of being institutionalized, but less so for immigrants than natives. In 1990, native-born dropouts were 5.9 percent more likely to be incarcerated than college graduates; for immigrants, the difference was only 1.9 percent. The same is the case for some races and ethnic groups. Black natives are much more likely to be

incarcerated than black immigrants. In 1990, native-born blacks were 6.9 percent more likely to be institutionalized than native-born white non-Hispanics; among immigrants, blacks were only 2.9 percent more likely to be incarcerated. Asian immigrants have lower institutionalization rates than white non-Hispanic immigrants.

In further analyses, the authors compare those immigrants who arrived in the United States in the late 1980s to those who arrived in the late 1970s, finding that more recent immigrants are less likely to be institutionalized (relative to

natives) than earlier arrivals were after a similar length of stay. Finally, comparing the experience of immigrants over time, they conclude that immigrants assimilate to the higher institutionalization rates of the native born. However, more recent immigrants appear to assimilate less quickly than earlier immigrants. Butcher and Piehl see the possibility of even better news. Since youth involvement in crime is related strongly to the criminality of family members, the lower institutionalization rates of immigrants could persist in lower criminal activity of their children. — David R. Francis

Free Trade, Growth, and Convergence

In **Free Trade, Growth, and Convergence** (NBER Working Paper No. 6095), Faculty Research Fellow **Dan Ben-David** and **Michael Loewy** ask how free trade affects output levels and steady-state growth rates. Emphasizing the role of trade in the dissemination of knowledge, they show that increased trade can lead to income convergence among nations and increased growth rates for all.

dence of widespread slowdowns in growth during the postwar years which occurred in conjunction with the increasing trend towards liberalization of trade. They ask whether this apparently negative relationship between trade and growth is the correct way to view the evidence. They suggest that the longer-run perspective might present a more accurate account of the link between the two.

For example, both World Wars I and II were accompanied by sharp

old growth paths, the majority of post-WWII countries moved to new long-run paths characterized by higher income levels and faster growth.

The analysis in this paper is based upon the premise that free trade spurs the dissemination of knowledge. Specifically, per capita growth depends on the accumulation of knowledge by each country, which in turn depends on the domestic and foreign stocks of knowledge. The extent to which domestic goods are exposed to foreign trade affects the extent of knowledge spillovers across countries. The authors examine the impact of tariff reductions by one or more countries within the context of this model. They are able to simulate not only long-run or “steady-state” behavior, but also the behavior of countries during the transition from one steady state to the next as a result of changes in commercial policy.

Ben-David and Loewy find that: 1) countries with similar technologies will grow at the same rates in the steady state, although not necessarily at the same levels; 2) a unilateral

“...the removal of trade barriers by the EEC countries during the postwar period coincided with movement to new, higher and steeper, growth paths by each country.”

The debate over free trade has heightened during the past decade with the enlargement of NAFTA and the creation of the World Trade Organization. Critical to this debate is the question of whether freer trade reduces income disparity among trading partners and, to the extent that the income gap is reduced, whether this reduction comes at the expense of the wealthier trade partners.

In this study, the authors cite evi-

drops in output levels that were followed by initially high growth, as countries rebounded to their respective pre-war growth paths. These high growth rates were bound to fall eventually. But in contrast with the aftermath of World War I, the period following World War II saw a host of important changes, not the least of which was movement towards free trade. The result was that while most post-WWI countries returned to their

reduction of tariffs by one country is enough to raise the steady-state growth rates of all countries — although more widespread reductions have even stronger growth effects; 3) unilateral trade liberalization may enable the reforming country to overtake and surpass wealthier countries.

They then compare their predictions with evidence on five of the six original founding countries of the European Economic Community (EEC). While these countries showed no tendencies towards income convergence or divergence between

1870 and WWII, the post-WWII period was characterized by both extensive trade liberalization by the EEC and a marked reduction in income disparity among member countries. As Ben-David and Loewy show, the reduction in the income gap was not a result of faster growth by the relatively poorer countries coming at the expense of slower growth by the Community's relatively wealthy countries. In fact, the removal of trade barriers by the EEC countries during the postwar period coincided with movement to new,

higher and steeper, growth paths by each country. Export-GDP ratios in each of the countries were substantially higher as well.

Finally, the authors argue that less developed countries tend to erect protective trade barriers, which are counterproductive, since they serve to restrict the flow of knowledge through the trade pipeline. They caution that it will be difficult to reduce the income gaps between these countries and developed nations as long as barriers on their trade remain in place. — Les Picker

Openness Spreads the Benefits of R and D

Investing in research and development (R and D) and lowering barriers to trade and investment are cited routinely as two of the most effective ways to stimulate economic growth. The dilemma from a global perspective is that when it comes to R and D, almost all of it takes place in just a handful of industrialized countries, a fact that would seem to make attempts to lessen income disparities between industrialized and developing countries a monumental task.

But in **R&D and Productivity: the International Connection** (NBER Working Paper No. 6101), Research Associate **Elhanan Helpman** argues that a less-noticed benefit of liberalized trade is its potential to ferry the fruits of R and D — not just products, but productivity gains as well — to a number of countries, thus reducing the impact of “skewed” R and D expenditures. “The larger a country’s exposure to the international economy,” Helpman writes,

“the more it gains from R and D activities in other countries.”

Helpman views technological innovation as a “major force” for increasing incomes in modern economies, mainly by boosting productivity. And he sees international trade as a way for countries to reap, on the cheap, the benefits of another nation’s R and D. Helpman argues that some of these rewards accrue with “no special effort or investment.” Such things

technology transfer. “Some of the fastest growing economies have relied on it extensively, such as Japan in the immediate postwar era and the newly industrializing countries in East Asia more recently,” he writes. Given the many economic benefits already linked to foreign trade and investment, Helpman points out that their ability to distribute productivity gains “driven by R and D make them all the more important.”

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as “manufacturing techniques and organizational methods,” he writes, can be acquired from a trading partner “in the normal course of business.”

There also is the simple fact, Helpman observes, that “international trade and investment provide opportunities for a deliberate effort to imitate foreign products and methods.” While not a cost-free exercise, Helpman sees it as an effective means of

“This means that we have reasons to be optimistic about recent trends towards a tighter integration of national economies,” he writes. “And it means that technological developments in industrialized countries that have been perceived by many to be detrimental to the developing countries may in fact be good for them after all.” — Matthew Davis

Social Security Work Incentives are Unfair for Older Retirees

Various economists have noted that the Social Security system may give the elderly an incentive to retire earlier than they otherwise would. In a recent NBER study, **Social Security and Retirement in the U.S.** (NBER Working Paper No. 6097), Research Associates **Peter Diamond** and **Jonathan Gruber** find that for early retirees, the system does not have much of an effect on incentives

Social Security taxes—for workers at each age. They call this value the worker's social security wealth (SSW). They then compute the change in SSW for each additional year of work.

For median-earning married males aged 56 to 61, the researchers find, there is a net "tax" on earning. This is driven primarily by the Social Security payroll taxes that the worker pays on earnings, taxes that are not offset in present value dollars by the

for one year. This is interesting, Diamond and Gruber note, because even though the system subsidizes work for 62-year-old median-earning males, the male retirement rate jumps at age 62.

The net "tax" jumps dramatically for a typical male employee who works in the year following his 65th birthday. Working during that year reduces his SSW by \$2,450, which is almost 19 percent of what he would earn that year. Not surprisingly, almost 25 percent of men who worked the previous year retire in the year after they reach their 65th birthday. A man with average earnings who works in the year following his 69th birthday faces a net Social Security "tax" rate of more than 45 percent on his earnings that year.

Diamond and Gruber also perform the calculations for high-income and low-income males and for single males. They find that the age pattern and amount of disincentive varies according to income and marital status; for single workers, the implicit tax on work is much higher than for other groups.—David R. Henderson

"A man with average earnings who works in the year following his 69th birthday faces a net Social Security 'tax' rate of more than 45 percent on his earnings that year."

to work, but it imposes stiff penalties on work past age 65.

Diamond and Gruber note that the Social Security benefit that a worker receives is related positively, in a complicated way, to the average earnings of the worker in his or her 35 years of highest real earnings. They compute the present value—the value in the present of all future Social Security benefits minus future

added benefits which the worker qualifies to receive. The most surprising conclusion in this study is that a worker who works one year after his 62nd birthday receives a net subsidy from the system for doing so, because the actuarial adjustment he receives for delaying claiming benefits more than offsets both the payroll tax and the fact that the worker is delaying receipt of benefits

Does Public Radio Compete with Commercial Radio?

The radio holds a fond position in contemporary American culture. According to NBER Research Associate **Steven Berry** and Faculty Research Fellow **Joel Waldfogel**: "Radio signals are pure public goods whose total value to society is the sum of their value to advertisers and listeners." In **Public Radio in the United States: Does It Correct for Market Failure or Cannibalize**

Commercial Stations? (NBER Working Paper No. 6057), they note that since broadcasters can capture only part of their product as revenue, there are reasons to doubt that the market will provide the right amount of radio broadcasting. Hence, radio is a rich context for revisiting the classic economic problem of under provision.

The radio business in the United States clearly is dominated by commercial broadcasters. But the private

sector competes with government-supported public radio in a limited number of programming formats: news, jazz, and classical music. In this study, the authors ask: Do public and commercial classical stations compete for listening share and revenue? And, is public radio filling an unmet need, or is it crowding out commercial providers?

Berry and Waldfogel find that public broadcasting does crowd out commercial broadcasting in the

larger markets when it comes to classical music. There is much less competitive impact with jazz. Nor do public and commercial news programming seem to be substitutes for one another. "Although the bulk of government support for broadcasting goes to public stations in markets without commercial competition, a third of public funding of stations airing jazz and classical music programming is allocated to public stations in the markets which would be served by similar commercial programming in the absence of public broadcasting," the authors conclude.

The authors have gathered information on entry, programming, and listening for stations in 165 major U.S. markets. Their data on commer-

cial stations primarily comes from the Arbitron Company and Duncan's American Radio. Their information on public radio comes from five sources, including the Radio Research Consortium, the Corporation for

Berry and Waldfogel take great care to emphasize that their research doesn't address whether public funding of radio is wasteful or whether the government should allocate less money toward public broadcasting.

"...public broadcasting does crowd out commercial broadcasting in the larger markets when it comes to classical music. There is much less competitive impact with jazz."

Public Broadcasting, and National Public Radio. They divide the market into population quintiles, with the smallest markets below 245,500 and the largest over 1,197,2000. Only in the larger markets does the issue of potentially duplicative public support exist.

Answering these questions, they say, would require more research into the degree of similarity between public and commercial programming. It would also mean developing a better sense of the value listeners in different markets place on public broadcasting. — Chris Farrell

Minimum Wages Redistribute Income Among Low Income Families

After intense debate, Congress decided in the summer of 1996 to increase the federal minimum wage by 90 cents in two phases, from \$4.25 to \$4.75 on October 1, and to \$5.15 on September 1, 1997. Although the debate over the minimum wage focused on its effect on employment of young and less-skilled workers, the primary goal of the minimum wage hike was to raise the incomes of poor or near-poor working families. But in **Do Minimum Wages Fight Poverty?** (NBER Working Paper No. 6127), NBER Research Associate **David Neumark** and **William Wascher** suggest that the hike may not work.

Looking at increases in the minimum wage between 1986 and 1995, Neumark and Wascher find that over a one-to-two-year period, minimum wages help to raise the level of

income above the poverty line in some families, but push income below the poverty line in others. The poor families that benefit from an increase in the minimum wage do so because the higher minimum tends to raise earnings per worker in families with working members both before and after the increase.

On the other hand, during this same time period, the "disemployment effects" of minimum wages tend to lower the average number of workers per family, either because a working member loses a job or because a family member who would have been employed in the absence of the minimum wage increase is unable to find a job. This disemployment effect is concentrated among families that were previously only a little above the poverty line. Thus the decline in employment — which can lead to a relatively large change in income — results in some

families falling into poverty. Neumark and Wascher estimate that the net effect of a minimum wage increase is a one-half-to-one-percent-age-point increase in the proportion of families that are poor.

"Because not only the wage gains but also the disemployment effects of minimum wage increases are concentrated among low-income families, the various tradeoffs created by minimum wage increases more closely resemble income redistribution among low-income families than income redistribution from high- to low-income families," the authors write. "Given these findings, it is difficult to make a distributional or equity argument for minimum wages."

To estimate the effects of minimum wages on poor and near-poor families, Neumark and Wascher use annual Current Population Surveys (CPS) conducted by the Bureau of

the Census from 1986 through 1995, and information on changes made by individual states in state minimum wages. Matching the CPS files provides two years of data on families, allowing the authors to trace families' transitions into and out of pov-

ates tradeoffs with respect to the incomes of poor and low-income families. Some families gain and others lose.

According to the authors, previous research tells us very little about the effects of minimum wages on family

one family member may induce another member of the family to work less, or may lead to a change in family living arrangements. Alternatively, some workers disemployed because of a minimum wage increase may become eligible for government benefits, such as welfare, which could ease the negative effects on total family income. Finally, many minimum-wage workers are not in low-income families. The impact of minimum wage increases on poor families will be influenced by the level of family income of those minimum-wage workers who get the largest raises and, perhaps more importantly, by the family income of those who become disemployed.

— David R. Francis

“...minimum wages help to raise the level of income above the poverty line in some families, but push income below the poverty line in others.”

erty, or between other parts of the income distribution.

Using the matched CPS data, the authors find “no compelling evidence” that minimum wages help in the fight against poverty. A higher minimum wage, they write, gener-

incomes. In particular, knowing the likely employment effects of minimum wages on individual workers is not very helpful in assessing the impact of the minimum wage on the incomes of poor families. For example, a hike in the minimum wage for

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