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What Factors Most Influence Abortion Rates?

The Supreme Court's 1973 decision legalizing abortion led to a rapid rise in abortion rates, which peaked in 1981 and have fallen somewhat since then. In a new study for the NBER, economists **Rebecca Blank, Christine George**, and **Rebecca London** are the first to use all available data on abortion rates between 1974 and 1988 for all 50 states and the District of Columbia to analyze how changes in policy, the political climate, economic and demographic variables, and the availability of providers determine abortion rates.

In **State Abortion Rates: The Impact of Policies, Providers, Politics, Demographics, and Economic Environment** (*NBER Working Paper No. 4853*), they find that because of limits on Medicaid funding for abortion, as much as 22 percent of the abortions that otherwise would occur among women eligible for Medicaid do not take place. In contrast to the strong effects of Medicaid funding restrictions, the authors find, parental consent requirements for teen abortions appear to have few effects on aggregate abortion rates.

Also, a substantial number of women cross state lines to find an abortion. Policies that restrict abortion funding for low-income women in a state are strongly associated with women in that state seeking abortions elsewhere, even those women not affected by the law. Having few abortion providers in a state does not reduce the number of abortions among women in that state, though, but rather induces more women to seek abortions out of state.

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Finally, Blank, George, and London caution that their results are based on data through 1988 only and that, since 1988, the political and policy landscape for abortion has changed substantially.

New Evidence on the Effects of Monetary Policy

The Fed has been tightening monetary policy since February 1994. In **New Evidence on the Effects of Monetary Policy Shocks** (*NBER Working Paper No. 4699*), **Lawrence Christiano, Martin Eichenbaum,** and **Charles Evans** ask: how do the actions of the Federal Reserve affect the borrowing and lending activities of different sectors of the economy? According to their results, a contractionary monetary policy action causes net funds raised in financial markets by the business sector (that is, net borrowing) to increase for roughly a year. Thereafter, as the recession induced by the policy action gains momentum, net funds raised by the business sector begin to fall. The first finding is consistent with the fact that business borrowing has been strong in 1994. It is too early to tell whether the second finding will be corroborated by the 1995 data. However, there are already some indications of a slowdown in aggregate economic activity.

The authors also find that net funds raised by the household sector remain roughly unchanged for several quarters after a contractionary monetary policy action. There is also an initial decrease in net funds raised by the government. Primarily, this reflects a short-lived increase in personal tax receipts. But after a year or so, as the recession induced by the policy action takes hold, net funds raised by the household sector fall while net funds raised by the government rise. This last phenomenon is manifested by an increase in the government budget deficit.

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To make their argument, the authors develop two measures of monetary policy actions. One is based on movements in the nonborrowed component of bank reserves; the other is based on movements in the rate of interest on federal funds. Both measures give qualitatively similar results. After one of these "monetary shocks," first there is a fall in nonborrowed reserves, total reserves, M1, the Federal Reserve's holdings of government securities, and a rise in the federal funds rate. Then there is a persistent decline in real GNP, employment, retail sales, and nonfinancial corporate profits, as well as an increase in unemployment and manufacturing inventories. Finally, there is a sharp, persistent decline in commodity prices.

The authors also find that the rate of increase of the GDP price deflator (a broad-based measure of the price level) does not change for roughly a year after the Fed policy action. After a year, the rate of increase of the GDP price deflator declines.

The Welfare State and Competitiveness

In 1960, European governments spent an average of 10 percent of their gross domestic product (GDP) on social programs and 12 percent on the purchase of goods and services. By 1988, those figures had reversed themselves, so that about 25 percent of GDP was going to social programs and 18 percent to goods and services. According to a new study for the NBER by **Alberto Alesina** and **Roberto Perotti,** this movement toward a "welfare state" has resulted in a loss of competitiveness among European countries—that is, a rise in their labor costs, relative to other countries, and an increase in the relative price of their exports compared to imports.

In **The Welfare State and Competitiveness** (*NBER Working Paper No. 4810*), the authors describe the links between government spending and reduced competitiveness. An increase in

income taxes to finance redistribution (from current workers to the unemployed and retired) induces labor unions to increase pressure on wages. The new higher wages push up the price of goods and make exports relatively more expensive than imports, inducing a loss of competitiveness. This in turn causes a reduction in the demand for the country's exports and a fall in employment in those sectors that produce them. This same chain of events—from higher wages to higher prices and lower employment—leads to a fall in employment in the sector that produces nontradable goods, too, the authors explain.

"[W]hen taxes on labor increase by 1 percent of GDP, unit labor costs in countries with moderately strong unions (which they term 'an intermediate level of centralization') increase by up to 3 percent relative to competitors'."

To test their theory, Alesina and Perotti use data from 14 European countries covering 1960–90. They find that when taxes on labor increase by 1 percent of GDP, unit labor costs in countries with moderately strong unions (which they term "an intermediate level of centralization") increase by up to 3 percent relative to competitors'. In addition, labor taxation—or income taxes—has significant negative effects on profit margins, and positive effects on the relative prices of nontraded goods, they conclude.

Are Returns to College Education Likely to Decline in the '90s?

In the United States in the 1970s, the demand for well-educated workers was declining while the proportion of college graduates was increasing rapidly. As a consequence, the wage difference between high-school-educated and college-educated employees was relatively small. In the 1980s, by contrast, the supply of college graduates stabilized while the demand for their skills accelerated. The wage premium for a college education therefore increased a great deal, to a record high level by historical standards.

By the year 2000, the proportion of people aged 25 to 29 with at least a college education is projected to increase from its current 23 percent to 31 percent. If the demand for young college-educated employees remains steady throughout the 1990s, then this increased supply of educated workers would reduce their wage premium by about 25 percent by the year 2002, according to a new study by **Jacob Mincer.**

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In **Investment in U.S. Education and Training** (*NBER Working Paper No. 4844*), Mincer reports that the return to the cost of a college education in terms of higher earnings had fallen to 4 percent a year in the 1970s, as the baby boom generation entered the work force. That return rose to a peak of about 12 percent over the last half dozen years or so, with the college graduation of the "baby bust" generation and a strong demand for skilled and educated workers. Another reason for the high return on education is that rapidly rising tuition costs have restrained college enrollments somewhat. In a minor way, in-

creased imports of products made by low-skill workers, the growth in immigration of unskilled workers, and the decline in trade unions all have contributed to keeping down the wages of workers with a high school education or less.

The projected 25 percent decline in the wage premium would bring the return to a college education at least halfway back toward its long-term average, or to a more normal level of 6 to 8 percent, Mincer estimates.

It is "probably unrealistic" to assume that the demand for human capital will stop rising, he writes. But if demand grew at half the pace of the 1980s, the upward pressure on the wage premium for a college education would just about neutralize the rising supply of college graduates. Skill differentials would remain about as wide as they are now, though, since a shortage of skilled people would continue, Mincer writes.

In 1989, there were 13.1 million U.S. students enrolled in post-secondary education, including 3.8 million in two-year colleges, 6.8 million in four-year colleges and universities, and 2.5 million in postgraduate schooling. The 1989 expenditures of $131 billion on post-secondary education constituted 2.7 percent of national output (GNP), amounting to about $10,000 per student, at least 50 percent more than the country ranked next in spending.

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