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IRA Saving Is New Saving

Most money saved in Individual Retirement Accounts (IRAs) is new saving, according to the NBER's **Daniel Feenberg** and **Jonathan Skinner.** They find that people who invest in IRAs usually are saving more than they would have otherwise, not simply moving assets from one account to another.

In **Sources of IRA Saving** (*NBER Working Paper No. 2845*), Feenberg and Skinner explain that if a substantial fraction of the money in IRAs was simply transferred from taxable investments, then the taxable income of IRA purchasers would be lower than if they had not purchased IRAs. But the authors find the opposite to be true: between 1980–1, when IRAs were not widely used, and 1984 when they were, taxable income from assets *rose* more for IRA purchasers than for those with the same wealth but no IRAs. This is not simply a reflection of different tastes for saving, since Feenberg and Skinner control for such differences by including the 1981 level of each individual's wealth in their analysis.

Could IRA purchasers have kept their income from taxable assets increasing by borrowing to finance their IRAs? If so, then the apparent increase in saving would be illusory, since it would be offset by increased debt. Feenberg and Skinner find some evidence that this happened: the tax-deductible interest payments of IRA owners rose more than those of nonowners, implying that debts also must have risen. But the authors point out that the increase in interest payments was more than offset by the increase in gross taxable income from dividends and interest. Therefore, they conclude, net taxable income from assets rose more for IRA purchasers than for nonpurchasers. This confirms the view that IRA saving was largely new saving.

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Feenberg and Skinner also point out that if IRA investors were mainly "reshuffling" assets rather than increasing their saving, many of them would have depleted their liquid assets after a few years and stopped buying IRAs. If so, the authors write, IRAs gradually would have become concentrated among high-income individuals with more liquid assets. This simply did not happen, according to Feenberg and Skinner: in both 1982 and 1986, the first and last years of widespread eligibility for tax-deductible contributions to IRAs, the bottom half of taxpayers accounted for 8 percent of IRA purchases. Moreover, of the taxpayers with financial wealth of less than $2000 who purchased an IRA in 1982, 71 percent bought IRAs in 1983 and 66 percent bought them in 1984. With such a low level of wealth to begin with, many of these people would have been unable to maintain their contributions if they had simply reshuffled assets. Feenberg and Skinner conclude that: "We can decisively rule out the simple reshuffling view of IRAs." IRA saving appears to be new saving.

DRH

"Boomers" Drive Housing Prices Up

During the 1970s, the price of housing, adjusted for inflation, grew by 19 percent. According to a new NBER study by **Greg Mankiw** and **David Weil,** it was primarily the entry of the baby boom generation into the housing market that caused this increase in real housing prices. Since the baby bust generation is entering its house-buying years, housing demand will grow more slowly in the 1990s than at any time in the past 40 years, Mankiw and Weil predict.

The baby boom took place between 1946 and 1964. In 1945, 2.86 million babies were born; at the peak of the boom in 1957, 4.3 million babies were born. In 1973, the trough of the baby bust, there were only 3.14 million births.

In **The Baby Boom, the Baby Bust, and the Housing Market** (*NBER Working Paper No. 2794*), Mankiw and Weil find that the demand for housing rises sharply between the ages of 20 and 30 and declines gradually after age 40. When the baby boom generation reached their 20s during the 1970s, housing demand increased dramatically. Mankiw and Weil estimate that the growth in housing demand attributable to demographic changes alone was 1.2 percent per year during the 1950s, 1.3 percent annually during the 1960s, and 1.7 percent annually during the 1970s.

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As the baby bust generation reaches adulthood, however, this pattern will reverse itself. Mankiw and Weil forecast that housing demand will have grown 1.3 percent annually during the 1980s, 0.7 percent annually during the 1990s, and 0.6 percent annually during the first decade of the next century.

The authors estimate that a 1 percent decrease in the demand for housing below the historical trend leads to a 5.3 percent decrease in the real price of housing. Mankiw and Weil caution that income growth and regional shifts in economic activity also affect housing prices. However, they conclude that if the historical relationship between housing demand and prices continues to hold, the real price of housing could fall by 3 percent per year over the next 20 years —for a total decline of as much as 47 percent by the year 2007.

Unionism in Developed Countries

During the 1970s and 1980s, union representation fell dramatically in the United States and Japan, changed very little in Canada, West Germany, and France, and rose considerably in some of the Scandinavian countries. As a share of nonagricultural wage and salary employees, union membership declined from 31 percent in 1970 to 17 percent in 1985–6 in the United States and dropped from 35 percent to 28 percent in Japan. In the United Kingdom, union membership rose from 51 percent in 1970 to 58 percent in 1979 and then, during the Thatcher years, fell to 51 percent by 1985–6. In West Germany, France, Canada, Australia, New Zealand, Ireland, Switzerland, and Norway, union density rose in the 1970s and remained stable in the 1980s. However, in Denmark union density rose from 66 percent in 1970 to 96 percent in 1985–6; in Finland it rose from 56 percent to 85 percent, and in Sweden from 79 percent to 96 percent.

In **On the Divergence in Unionism among Developed Countries** (*NBER Working Paper No. 2817*), NBER Research Associate **Richard Freeman** concludes that the best explanation for the divergence in union experience among countries is the level and effectiveness of management opposition to unionism: the degree of opposition makes it more or less difficult for unions to organize workers.

This divergence also is explained partially by relatively modest differences in the institutions that govern labor relations in the various countries. Further, union growth is associated with rapid inflation, presumably because nonunion workers decide they need union contracts to preserve real earnings.

Freeman finds too that "private sector unionism is a more fragile institution than is widely recognized. The broader implication is that in a world of economic and social flux the structuring of labor relations is not a once-and-for-all process of setting up procedures and institutions. Rather, it is a process that must be undertaken time and again as environmental changes alter the balance of power between workers and management and their conflicting and coincident interests."

In the 1970s and 1980s, management in the United States turned against unions and collective bargaining to a degree not seen anywhere else in the free world. Virtually all firms that faced National Labor Relations Board representation elections, by which their employees could choose to unionize, engaged in expensive, aggressive campaigns to persuade and pressure workers to reject unions. Unfair labor practices, such as firing union activists, skyrocketed to rates five or six times those in earlier decades. Large nonunion firms consciously copied union seniority and grievance procedures to deter employee interest in unions.

Management declared war on unions, says Freeman, because of higher union wages. With decentralized union bargaining, U.S. corporate management had a profit incentive to defeat the unions. Also, a militant, market-oriented ideology was growing, justifying nearly any anti-union action as preserving management flexibility; management began to use new, sophisticated union-prevention technology.

In Japan, government and management have made successful efforts to reduce membership in the unions representing railway workers and teachers. As in the United States, there has been a precipitous drop in union organization of new workers relative to the growing work force.

In the United Kingdom, the principal cause of the 1980s drop in union density appears to be the government's industrial relations law. That law, passed under Prime Minister Margaret Thatcher, shifted the balance of power in the workplace to management and weakened the ability of unions to organize. In Canada and Ireland, legal restrictions on opposition to unions have enabled them to improve their position modestly, even though companies have an incentive to discourage them.

"The composition of union members in all developed countries has shifted from private sector blue collar workers to public sector white collar workers."

Freeman shows that unions fared best in neocorporatist settings; that is, in such countries as Denmark, Finland, and Sweden with highly regulated labor markets in which unions and management engage in national bargaining. Finally, Freeman finds that the composition of union members in all developed countries has shifted from private sector blue collar workers to public sector white collar workers. This has resulted in increasing divisions within union movements. DRF

Japanese Pricing at Home and Abroad

When the dollar fell relative to the yen after 1985, many Japanese firms responded by cutting the yen prices of their exports in order to hold down the dollar prices of their products in U.S. markets. At the same time, they kept the prices of their goods sold inside Japan relatively constant. The result, according to NBER Research Associate **Richard Marston,** has been that the yen prices of Japanese exports have fallen sharply relative to the prices of the same goods sold in Japan. Marston concludes that this shows that the Japanese markets may be closed not only to foreign products but even to the re-import of Japanese products.

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In **Pricing to Market in Japanese Manufacturing** (*NBER Working Paper No. 2905*), Marston examines monthly export and domestic wholesale prices of 17 products: eight from the transport industry, including passenger cars and motorcycles, and nine electronics products, such as color TVs and tape recorders. He studies price behavior for February 1980 to December 1987 using price indexes for exports (FOB) and domestic goods (at the primary wholesale level).

Marston finds that Japanese exporters tend to raise their markups on exports when the yen depreciates and lower those markups when the yen appreciates. For instance, makers of small passenger cars, motorcycles, agricultural tractors, and copying machines adjusted their export prices only by about half of the change in the exchange rate. This pricing behavior helps to explain why Japanese exporters have been able to retain market share in export markets despite the sizable appreciation of the yen since 1985. Of the 17 products that Marston examined, only cameras had their export prices remain roughly in line with domestic prices through the period. Marston also shows that this pricing behavior is not just a recent phenomenon associated with the appreciation of the yen since 1985. Twelve of the 17 products exhibited just as much relative price variation when the yen depreciated in the early 1980s as when it later appreciated.

Recent NBER Books

Money, History, and International Finance

Money, History, and International Finance: Essays in Honor of Anna J. Schwartz, edited by Michael D. Bordo, is now available from the University of Chicago Press for $35. This NBER conference report presents five papers and the discussions from a 1987 conference in honor of the publication of Schwartz's *Money in Historical Perspective.* The volume also includes special remarks by Milton Friedman and Karl Brunner, an introduction written by Bordo, and a brief foreword by Martin Feldstein. It should be a helpful reference work in monetary economics for students, policymakers, and academic economists.

Bordo is an NBER research associate and a professor of economics at the University of South Carolina.

This volume may be ordered directly from the University of Chicago Press, Order Department, 11030 South Langley Avenue, Chicago, IL 60628. Academic discounts of 10 percent for individual volumes and 20 percent for standing orders for *all* NBER books published by the University of Chicago Press are available to university faculty; orders must be sent on university stationery.

Tax Policy and the Economy

Tax Policy and the Economy, edited by Lawrence H. Summers, is now available from The MIT Press for $13.95. This is the third in an annual series of NBER paperback volumes based on a conference on tax policy held each November. The papers in this volume cover: venture capital and capital gains taxation; sources of IRA savings; the effect on the 1983-4 recovery of budget deficits, tax incentives, and the dollar; the incentive effects of the corporate alternative minimum tax; and Japanese tax reform and corporate investment.

This volume is nontechnical and should appeal not only to academic, government, and corporate economists, but also to tax attorneys, individuals in business, and anyone with an interest in the policy debate over taxes.

Summers is the Nathaniel Ropes Professor of Political Economy at Harvard University and an NBER research associate.

This volume may be ordered directly from The MIT Press, 55 Hayward Street, Cambridge, MA 02142; the telephone number is (617) 253-2884.

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