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Blacks Leave Work Force Early Because of Health Problems

Since War II, black men of working age usually have been less likely to be in the labor force than white men of working age. This racial gap in the labor force participation rate has tended to widen as men age. In contrast, black women historically have shown a greater attachment to the labor force than white women. But this difference has tended to narrow, or to disappear, as women enter their 40s and 50s. And, as workers approach their 60s, participation rates tend to drop faster among all blacks than among all whites.

In **Race Differences in Labor Force Attachment and Disability Status** (NBER Working Paper No. 5536), NBER Research Associate **John Bound, Michael Schoenbaum,** and **Timothy Waidmann** confirm that health is an extremely important determinant of early exit from the labor force for both black and white men and women in their 50s. In fact, their estimates suggest that health differences can explain almost all of the two-to-one difference between the fraction of black versus white middle-aged men out of the workforce. And, were it not for the marked differences in health, black women in their 50s would be substantially more likely to work than white women.

While health is important for both blacks and whites in accounting for early exit from the labor force, it seems to play a more central role for blacks than for whites. Blacks in poor health are more likely to leave the workforce than whites in poor health, Bound and his coauthors find.

The Health and Retirement Survey for 1992–3 that was employed in this study contains information on many of the forces thought to influence labor market behavior, including health status and functional ability, income, assets, pension coverage, demographic characteristics, and family structure. The Survey's extensive health measures allowed the

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authors to resolve some ambiguities about self-reported work disability. Black men and women are substantially more likely to identify themselves as physically unable to work than white men and women, with both the fraction of disabled and the racial gap increasing dramatically with age.

Bound, Schoenbaum, and Waidmann investigate the possibility that race differences in self-reported limitations on work reflect economic or social forces, rather than differences in actual health. They learn that genuine health problems account for the bulk of the differences in labor force participation between blacks and whites. At the same time, they find evidence that the availability of public transfer programs, such as Social Security Disability Insurance and Supplemental Social Security, plays a larger role in enabling older black workers in poor health to leave the labor force than it does for whites.

> "[H]ealth differences can explain almost all of the two-to-one difference between the fraction of black versus white middle-aged men out of the workforce."

DRF

Demographics and Savings Rates in Asia

East Asia's remarkable growth has been the economic success story of the past decade. That success, repeated studies have shown, is attributable in large part to the region's extremely high rates of saving and investment. But according to an NBER Working Paper by **Matthew Higgins** and **Jeffrey Williamson,** economic policymakers can claim little credit for a key factor in East Asia's remarkable savings and investment record: demographic change.

In **Asian Demography and Foreign Capital Dependence** (NBER Working Paper No. 5560), Higgins and Williamson reconsider a thesis first advanced by Ansley Coale and Edgar Hoover in 1958—that economies can grow faster when they are not burdened with large populations of children or old people. Asia provides an interesting test, because different parts of the continent have dramatically different patterns of population change. In the 1960s, more than 40 percent of the population in every Asian nation except Japan was under the age of 15. Since then, the "youth dependency rate" has dropped sharply in Asia's fastest-growing nations: from a peak of 40 percent to 26 percent in China; from 43 percent to 25 percent in South Korea; from 41 percent to 20 percent in Hong Kong; from 35 percent to 18 percent in Japan. Most of Asia's slower-growing countries, however, have not seen such a revolutionary population shift. In Pakistan, for example, 46 percent of the people are younger than 15, and that percentage has not changed significantly since the 1960s.

> "[S]avings rates have risen above 30 percent of gross domestic product in East and Southeast Asia where dependence rates have plummeted . . . while savings rates have not risen in South Asian countries with high dependency rates."

Changes in Asia's age distribution have had a statistically significant effect, Higgins and Williamson find, with youth and old-age dependency depressing both savings and investment rates. The strongest impact occurs when a large share of the population is aged ten and under or over 64. This explains why savings rates have risen above 30 percent of gross domestic product in East and Southeast Asia where dependency rates have plummeted, the authors suggest, while savings rates have not risen in South Asian countries with high dependency rates. In East Asia, now one of the world's greatest capital-exporting regions, "this dependency rate effect appears to have accounted for all of the great surge in savings rates," the authors report.

A lack of domestic savings makes capital inflows essential in countries with high dependency rates. In general, Asian countries with a disproportionate share of the population under age 40 run current account

deficits, with deficits turning to surpluses as the population ages. Higgins and Williamson suggest that these findings imply "that relatively young nations pass through a relatively long period of foreign capital dependency which includes periods of child, adolescent, and young adult gluts." Global capital markets, the authors write, thus become a mechanism for transferring capital from one country's old to other countries' young.

Future demographic change will alter the picture dramatically, Higgins and Williamson predict. In Japan, an aging population will lead to a lower savings rate, but also to reduced demand for investment, so Japan will continue to be a capital exporter. South Asia will eliminate its dependence on foreign capital by 2025 as a greater share of its population reaches prime working age. Southeast's Asia aging population will lead the region to become a large capital exporter to the rest of the world, with China, Korea, and Singapore running current account surpluses well above 10 percent of GDP. "If demographic forces are allowed to have their way, capital flows across Asian borders will be very different three decades from today," Higgins and Williamson conclude.

ML

International Differences in Shareholder and Creditor Rights

Does an owner of a share of stock in Mexico have the same rights as a shareholder in Germany or India? Is a creditor in Italy protected as well as one in Switzerland? Do laws protecting investors actually differ between countries in systematic ways? Are these laws sufficiently enforced everywhere? And finally, do these potential differences matter for corporate finance?

A recent NBER working paper by **Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer,** and **Robert Vishny** addresses these questions by examining the actual legal rules governing investor protection, as well as the quality of law enforcement, in 49 countries around the world. It turns out that there are only four broad "families," or "origins," of most laws governing investor protection, and commercial laws more generally. These families are: the English, or common law; the French civil law; the German civil law; and the Scandinavian civil law. Most countries have adopted their legal systems either through colonization or conquest by England, France, or Germany (as well as by Spain, which was conquered by Napoleon, and so adopted its laws from France). Thus, a study of investor protections in different countries is largely a study of the nature of protection in the four legal families.

In **Law and Finance** (NBER Working Paper No. 5661), the authors examine a variety of legal rules governing shareholder protection, including the ability to vote by mail, the opportunity for cumulative voting for directors, the ease of calling an extraordinary shareholder meeting, and the existence of minority protections, such as the right to sue directors. They also consider several rules governing the protection of creditors, including the lack of automatic stays on assets, the mandatory replacement of managers in bankruptcy, and restrictions on management's right to seek court protection from creditors. They find a striking pattern in all of these data: on average, countries with the common law origin protect investors the most, and countries with the French civil law origin protect them the least. Accordingly, a shareholder or a creditor in Australia is protected by law much better than a shareholder in Italy. The German and Scandinavian origins are intermediate in their protection of investors. Moreover, these differences in investor protection do not disappear as countries grow richer.

> "[O]n average, countries with the common law origin protect investors the most, and countries with the French civil law origin protect them the least."

Of course, legal rules would make little difference if they were not enforced. Using estimates of the quality of law enforcement in different countries, including local investors' assessments of the quality of their judicial systems, as well as of the quality of accounting standards in different countries, the authors find that the countries with

French origin have the worst quality of law enforcement, too. The German and Scandinavian countries are the best in this dimension, but the English countries are close behind. However, the quality of law enforcement is correlated highly with living standards. Controlling for per capita GDP, only the French origin countries stand out for their particularly poor quality of law enforcement.

La Porta et al examine one potentially important cost of the poor protection of investors: an excessive concentration of ownership of public companies, and the closely related lack of public ownership of shares. They find that, in general, ownership of publicly traded companies is concentrated highly almost everywhere in the world: in an average country in their sample, the three largest shareholders control an average of 46 percent of the equity capital of the top ten firms. Even so, ownership concentration tends to be even higher in the French origin countries. Moreover, this origin effect works precisely through the poor protection of investors and the poor quality of law enforcement in the French origin countries. Poor legal protection of investors, then, definitely appears to have its costs.

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