

The Decision to Export

BY CHARLES GERENA

“Understanding Exports From the Plant Up.” George Alessandria and Horag Choi, Federal Reserve Bank of Philadelphia *Business Review*, Fourth Quarter 2010, pp. 1-11.

Selling to foreign markets isn't easy, but it often can boost local job growth along with an exporter's sales figures. That's why states send their governors on trade missions and offer various incentives to encourage exporting.

But does exporting itself beget success, or are successful companies in a better position to become exporters? George Alessandria at the Philadelphia Fed and Horag Choi at Monash University address this question in a recent paper.

Using data from manufacturers in the United States, Canada, and Chile, the economists determined the distinguishing features of exporters — they are bigger, more productive, and more profitable than nonexporters. Then they modeled the decision of a plant to export or sell domestically to explain these characteristics. Their conclusion was that the process of exporting does not necessarily transform less productive firms into superstars.

“Our simple model shows that causation may run from superstar to exporting,” notes Alessandria and Choi. “Indeed, future exporters tend to be more productive and to grow faster even before they enter export markets.”

“The Effect of Falling Home Prices on Small Business Borrowing.” Mark E. Schweitzer and Scott A. Shane, Federal Reserve Bank of Cleveland *Economic Commentary* 2010-18, December 2010.

It has been widely reported that the housing market's downturn has sharply affected residential construction. A recent analysis by the Cleveland Fed suggests that reduced lending to small businesses should not be overlooked in the process — and that, in fact, the two issues are in some ways connected.

One reason for reduced lending is that many business owners have seen the equity in their homes dry up. At focus groups convened by the Federal Reserve last summer, businesses owners reported that the reduced value of their homes made it difficult to provide collateral for loans. “Other participants said that the reduced value of homes has made home equity borrowing as a source of business capital more difficult to come by, also contributing to the difficulty many small businesses face in obtaining sufficient capital to finance their operations,” notes Mark Schweitzer, the Cleveland Fed's director of research, and Scott Shane, a professor at Case Western Reserve University.

To support this anecdotal evidence, Schweitzer and Shane analyzed survey data. They found that in 2007

between one-fifth and one-quarter of business owners had obtained a loan against the equity in their homes or used their primary residences as collateral for business purposes. They also found that the use of home equity lines rapidly expanded during the last decade as home prices increased. And when prices fell, home equity borrowing declined sharply. However, it isn't clear how much of these changes were due to other factors such as changes in the availability of home equity lines.

Finally, as the authors point out, not all small businesses owners are equally affected by declines in home prices. Those more likely to leverage their residences include “companies in the real estate and construction industries, those located in the states with the largest increases in home prices during the boom, younger and smaller businesses, companies with lesser financial prospects, and those not planning to borrow from banks.”

Still, there is enough of a correlation between home values and small businesses' access to capital to inform policymakers. “Returning small business owners to prerecession levels of credit access will require an increase in home prices or a weaning of small business owners from the use of home equity as a source of financing,” writes the report's authors.

“How Do Sudden Large Losses in Wealth Affect Labor Force Participation?” Eric French and David Benson, Federal Reserve Bank of Chicago, *Chicago Fed Letter* 282, January 2011.

Another frequently reported effect of the housing market downturn is that workers are delaying retirement to replace large and sudden losses in household wealth. Chicago Fed economists Eric French and David Benson decided to find out whether declines in home values (as well as drops in some stock prices) have significantly affected the U.S. labor market.

“On the surface, labor force participation statistics for older individuals seem consistent with anecdotes about delayed retirements,” note French and Benson. While labor force participation for most age groups has been falling, it has been rising for those aged 55 to 64.

But this upward trend dates back to the early 1990s. So, other factors, such as longer life spans and changes in pensions and Social Security rules, may have encouraged delayed retirements as well.

French and Benson estimated the wealth losses of older workers approaching retirement and plugged those data into an equation that relates changes in wealth to changes in the labor supply. The result: The labor force participation rate for workers aged 51 to 65 would be 2.9 percentage points lower if asset prices hadn't declined between 2006 and 2010. **RF**