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Which Groups Suffer Most in the Labor Market During Recessions?

In **Who Suffers During Recessions?** (NBER Working Paper No. 17951), co-authors **Hilary Hoynes, Douglas Miller, and Jessamyn Schaller** find that the impacts of the Great Recession (December 2007 to June 2009) have been greater for men, for black and Hispanic workers, for young workers, and for less educated workers than for others in the labor market. While the recent recession was deeper than several other recent downturns, the pattern of unemployment and job opportunity cycles across demographic groups has been remarkably stable in recessions since at least the late 1970s. This is the case despite the dramatic changes in the labor market over the past 30 years, including the increase of women in the labor force, Hispanic immigration, the decline of manufacturing, and so on.

Using population survey and national time-series data, Hoynes, Miller, and Schaller find that in terms of job losses, the Great Recession has affected men

more than women. But their analysis also shows that in previous recessions and recoveries, men experienced more cyclical labor

“[The] groups [that] experienced the greatest employment losses in the Great Recession [were] ... the same groups who lost in the recessions of the 1980s.”

market outcomes. This is largely because men are more likely to be employed in highly cyclical industries, such as construction and manufacturing. Women are more likely to be employed in less cyclical industries, such as services and public administration. While the pattern of labor market effects across sub-groups in the 2007–9 recession appears similar to that in the two recessions of the early 1980s, it did have a somewhat greater effect on women’s employment — although in this recession as in past recessions, the effects on women were smaller than those on men. The recent recession was felt more strongly among the youngest and oldest workers. Hoynes, Miller, and Schaller further find that rel-

ative to the 1980s recovery, the current recovery is being experienced more by men than women largely because of a drop in the

cyclical of women’s employment during this recovery.

The researchers conclude that the overall picture is one of stability in the demographic patterns of response to the business cycle over time. Which groups experienced the greatest employment losses in the Great Recession? The same groups who lost in the recessions of the 1980s, and who experience weaker labor market outcomes even in good times. The authors therefore conclude that the labor market effects of the Great Recession were different from those of business cycles over the three previous decades in size and length, but not in type.

— Matt Nesvisky

Education and Labor Market Effects of College-Prep Incentive Programs

The Advanced Placement Incentive Program (APIP) is one of a number of initiatives designed to encourage U.S. high school students in inner-city schools to take more difficult AP courses. APIP provides cash incentives for passing grades on AP tests in selected Texas school districts: the APIP students receive between \$100 and \$500 for each AP score of 3 or above, and teachers receive \$100 to \$500 for each 3 or above earned by students enrolled in their courses. Teachers who participate receive additional training from the College Board and also may be eligible for bonuses of \$2,000 to \$10,000. Private donors defray about 70 percent of APIP costs.

In **Do College-Prep Programs Improve Long-Term Outcomes** (NBER Working Paper No. 17859), **C. Kirabo Jackson** finds that the APIP strategy of paying eleventh- and twelfth-grade students and teachers for passing AP scores increases participation in the AP program, raises college attendance,

improves college persistence, makes employment more likely, and is associated with higher earnings. His research compares outcomes for students at high schools that participate in the APIP program with outcomes for students at otherwise comparable schools that are not participating. A school's participation in the APIP program raised the fraction of students taking an AP course from 22 percent to 30 percent. The fraction of students taking an AP exam went from about 5.5 percent to 6.8 percent. The fraction of students who passed an AP exam went from 4.7 percent to 5.4 percent.

“Paying eleventh- and twelfth-grade students and teachers for passing AP scores ... makes employment more likely, and is associated with higher earnings.”

After he corrects for individual test scores before entering the APIP program, and for student ethnicity, gender, English proficiency, and eligibility for a free lunch, Jackson finds that a school's participation in the

the probability of ever enrolling as a college sophomore by about 6.6 percentage points (20 percent), and the probability of ever enrolling as a college junior by 2 percentage points (11 percent). Students from APIP-participating schools were not more likely to earn a college degree, but they were 2.2 percentage points (4 percent) more likely to be employed, and they enjoyed a 3.7 percent earnings advantage, in 2010. The study tracked high school students for the period between 1993 and 2005. Hispanic students had larger improvements in educational attainment and earnings than other participants in the program.

—Linda Gorman

Private Equity Performance

Despite the large increase in investments in private equity funds, and the concomitant increase in academic and practitioner scrutiny of them, the his-

torical performance of private equity (PE) remains uncertain. Up until now, there has been uneven disclosure of private equity returns, leading to ques-

tions about the quality of the data that have been available. Several commercial enterprises collect performance data, but not for all funds, and not necessarily on

fund cash flows. Also, because the source of the data is often obscure, concerns about biases in the samples persist.

In **Private Equity Performance: What Do We Know?** (NBER Working Paper No. 17874), co-authors **Robert Harris, Tim Jenkinson, and Steven Kaplan** take advantage of a new research-quality cash flow dataset to better understand private equity funds and the returns they provide to investors. They find that it is highly likely that buyout funds have outperformed public markets in the 1980s, 1990s, and 2000s. Their estimates imply that each dollar invested in the average fund returned at least 20 percent more than a dollar invested in the S&P 500. This works out to an outperformance of at least 3 percent per year.

For the more recent vintage funds, the eventual performance will depend on the ultimate realization of their remaining investments, which could be higher or lower than the current valuations upon which the authors rely. All of the performance results are net

of fees. The authors also acknowledge that confirmation of their PE outperformance result must

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await the appearance of a complete buyout fund dataset which does not currently exist.

This research also finds that Venture Capital (VC) funds outperformed public markets substantially in the 1990s, but have underperformed them in the 2000s. Vintage-year performance — where vintage year is defined as the year when the fund begins investing — for buyout and VC funds, both absolute and relative to public markets, decreases with the level of aggregate capital committed to the relevant asset class. This suggests that a contrarian investment strategy would have been successful in the past in these asset classes. The magnitudes of these relationships have been greater for VC funds.

Finally, although it is natural to benchmark private equity returns against public markets,

investing in a portfolio of private equity funds across vintage years inevitably involves uncertainties and potential costs related to the timing of cash flows and the liquidity of holdings that differ from those in public markets. For instance, there is uncertainty regarding how much to commit to private equity funds to achieve a target portfolio allocation because of the uncertain time profile of capital calls and realizations. Consequently, there exists “commitment risk” when investing in private equity. This contrasts with investing in public markets where there is no distinction between capital committed and invested, and trading is continuous.

— Lester Picker

The Incentive Effects of Marginal Tax Rates

Marginal income tax rates in the United States changed frequently and substantially in the 1920s and 1930s, and those changes varied greatly across income groups at the top of the income distribution. In **The**

Incentive Effects of Marginal Tax Rates: Evidence from the Interwar Era (NBER Working Paper No. 17860), **Christina Romer** and **David Romer** use this variation to get a clearer sense of the economic effects of

changes in marginal tax rates.

Interwar tax changes typically had small effects on revenues (because tax rates were low for most households) and even smaller effects on budget deficits (because taxes and spend-

ing usually changed in the same direction). Romer and Romer therefore argue that to the extent the changes mattered, it was likely through the incentive effects of changes in marginal tax rates. They analyze the short-run effects of marginal rates by examining the response of reported taxable income, and the long-run effects by studying the behavior of investment.

Romer and Romer find that changes in marginal rates had a statistically significant but economically modest effect on reported taxable income. A decrease in the marginal tax rate that raised the after-tax share of income by 1 percent raised reported taxable income by 0.2 percent. This elasticity is lower

than what most comparable studies using postwar data find, in ways that affected longer-run growth. Romer and Romer

“A decrease in the marginal tax rate that raised the after-tax share of income by 1 percent raised reported taxable income by 0.2 percent.”

particularly for high-income taxpayers. Furthermore, because of the extreme variation in marginal rates in the interwar era, the elasticity is measured with greater precision than in most postwar studies.

Although these results suggest that the effects of changes in tax rates on short-run labor supply and the tendency to shield income from taxation were of limited economic significance in this period, it is possible that tax rate changes skewed investment

therefore examine indicators of investment and entrepreneurial activity. They find no evidence that the large swings in marginal rates had an important impact on investment in new machinery, commercial and industrial construction, or the costs of financing government versus private investment, but suggestive evidence that they may have affected business formation.

— Claire Brunel

The Decision to Delay Social Security Benefits

For a large subset of Americans, there may be substantial financial benefits to delaying filing for Social Security benefits. Benefits can be claimed as early as age 62 or as late as age 70. Delay means a larger monthly payment once payments begin, and for people of average life expectancy, that larger payment offsets the foregone benefits during the delay period, according to **John Shoven** and **Sita Nataraj Slavov**, authors of **The Decision to Delay Social Security Benefits: Theory and Evidence** (NBER Working

Paper No. 17866). “Delaying Social Security is equivalent to purchasing a real annuity,”

“Even if the benefit adjustment for delaying benefits is fair on average from an actuarial point of view ... the adjustment won’t be actuarially fair for everyone.”

the authors write. “Individuals who delay forgo benefits in the current year in exchange for a higher monthly benefit for the rest of their lives.”

One of the authors’ key observations is that even if the benefit adjustment for delaying benefits is fair on average from an actu-

arial point of view, in the sense that the average person gets the same net present value of Social

Security benefits no matter when he chooses to start taking benefits, the adjustment won’t be actuarially fair for everyone. For example: those who don’t expect to live a long time would benefit by claiming benefits early; those who expect to live a long time would be better off delaying.

A “delay” strategy is particularly beneficial for married couples. The primary earner can delay claiming benefits, while the secondary earner takes benefits early. If the secondary earner outlives the primary earner, he or she gets to step up to the primary earner’s benefits. That strategy helps married two-earner couples most, but married one-earner couples also benefit. “Delaying the primary earner’s benefit is equivalent to purchasing a second-to-die or joint life annuity,” the authors write. “In contrast, a single person who delays claiming only receives a single life annuity based on his or her own earnings record.”

Interest rates also play a role in determining the financial rewards to claiming benefits at different ages. The lower the real rates, the better it is to delay benefits. Secondary earners in two-earner households benefit less from delaying than primary earners, but even they can increase the present value of their benefits

by delaying if real interest rates are 1.6 percent or less. Singles also gain from delaying benefits until age 64 if interest rates are below 3.5 percent (for men) or 4.1 percent (for women).

Life expectancy also figures into the equation. While benefits have been adjusted downward in private annuities to account for increasing life expectancy, the terms of delaying Social Security benefits from 62 to full retirement age have been largely unchanged for a half century (although the full retirement age has been adjusted modestly upward). And the benefits of delaying beyond full retirement have improved: someone born in 1924 added an extra 3 percent in base benefits for every year of delay; for those born in 1943 or later, the advantage is 8 percent a year.

Although the study’s simulations suggest that many people would be able to raise the net present value of their Social Security benefits by delay-

ing, that’s not how new retirees tend to act. Among those who were not working at the time of their claim, more than 75 percent claim benefits within two months of stopping work or turning 62, whichever is later. “Delaying is strongly associated with working in the wave just prior to turning 62, and with planning to work after age 62,” the authors conclude. Moreover, the authors find little impact for the factors that affect the present value calculation. “We find no evidence of a consistent relationship between claiming behavior and factors that influence the actuarial advantage of delay, including gender and marital status, interest rates, subjective discount rates, or subjective assessments of life expectancy,” they write. The only characteristic beyond date of retirement that seems to influence the timing is college education: those with some college are more likely to delay benefits than those who haven’t attended.

— Laurent Belsie

Hiring Decisions for High-Value Employees: Evidence from March Madness Performance

In **Does March Madness Lead to Irrational Exuberance in the NBA Draft? High-Value Employee Selection Decisions and Decision-Making Bias** (NBER Working Paper No. 17928), authors **Casey Ichniowski** and **Anne**

Preston assemble an extensive and detailed dataset on the per-

formance of collegiate and professional basketball players over the years 1997–2010 to answer two questions: does perfor-

“If anything, unexpected performance in the MM tournament deserves more weight than it gets in the draft decisions.”

formance of collegiate and professional basketball players over

mance in the NCAA “March Madness” (MM) college bas-

ketball tournament affect NBA teams' draft decisions? And if it does, do NBA teams overweight player performance in these extensively-covered games, or are adjustments to the draft order for MM performance justified by players' subsequent performance in the NBA?

Investigating the idea that decision makers often irrationally overweight recent, vivid, and dramatic information, such as how players perform in the much-hyped MM tournament, the researchers find that unexpected MM performance does indeed affect draft decisions. Their analysis consistently shows that draft decisions are affected by unexpected team

wins and unexpected player scoring. They estimate that having one more MM win for your team than your team's seeding would predict and contributing to that win by scoring 4 more points in the MM tournament than your regular season average would predict (all else equal) improves a player's draft position by 4.7 slots.

However, the authors find that NBA personnel who are making these draft decisions are using the information from March Madness performance in a rational way. If anything, unexpected performance in the MM tournament deserves more weight than it gets in the draft decisions. How col-

legians perform under the glare of intense media attention and large arena crowds in a lose-and-go-home championship tournament appears to provide important information about the true potential of these players as professional NBA players.

Finally, the authors find that players with positive draft bumps because of unexpectedly good performance in the March Madness tournament are more likely to become NBA superstars in the league than are players who were selected at similar positions in the draft but who did not have any March Madness-induced bump in their draft order.

— Lester Picker

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