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## How Daughters Affect Their Legislator Fathers' Voting on Women's Issues

Economists have long concerned themselves with environmental influences on an individual's beliefs and behaviors. There has been significant research done on the effects of environmental factors such as neighborhood, peers, parents, and siblings on such behaviors as educational attainment, welfare use, and marriage. The idea that family, and in particular children, can influence parental behavior seems obvious. In fact, psychologists have shown that parenting daughters will increase the parents' feminist sympathies. However, among economists, the concept of children's influence on parents has been neglected.

In **Female Socialization: How Daughters Affect Their Legislator Fathers' Voting on Women's Issues** (NBER Working Paper No. 11924), author **Ebonya Washington** considers whether children can influence parental behavior outside of the household, in the way that neighbors and peers continue to exert influence over an individual's behavior even when the individual is not in the presence of the neighbor or the peer. The author chooses to examine attitudinal shifts in the political arena, asking whether parenting daughters increases a Congressperson's propensity to vote liberally on bills

affecting women's issues. Using Congressional voting record scores compiled by the National Organization of Women (NOW) and the National Right to Life Committee (NRLC), Washington finds that the presence of female children is a positive and significant predictor of voting on women's issues.

By turning to the universe of votes recorded in the 105th

Congress, she demonstrates that the influence of daughters is most prevalent on a women's issue for which gender differences are small: reproductive rights. The concentration of the daughter effect in the reproductive rights arena is not surprising, given that past research has demonstrated a link between parenting daughters and liberal beliefs on women's issues. Reproductive rights is an issue that is thought of as uniquely female; for those voting on reproductive rights, having females in their lives would be particularly salient. A second reason for the pattern of the daughter effect is that reproductive rights are a moral issue. Previous research has shown that legislators are subject to

less party pressure and are therefore more free to vote their own views on moral issues. Washington finds that, conditional on number of children, parenting an additional female child increases the propensity of a member of Congress to vote liberally on women's issues, particularly reproductive rights. Such a voting pattern does not seem to be explained away

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Congress, she demonstrates that the influence of daughters is most prevalent on a women's issue for which gender differences are small: reproductive rights. The concentration of the daughter effect in the reproductive rights arena is not surprising, given that past research has demonstrated a link between parenting daughters and liberal beliefs on women's issues. Reproductive rights is an issue that is thought of as uniquely female; for those voting on reproductive rights, having females in their lives would be particularly salient. A second reason for the pattern of the daughter effect is that reproductive rights are a moral issue. Previous research has shown that legislators are subject to

by constituency preferences, suggesting not only that parenting daughters affects preferences, but also that those personal preferences affect legislative behavior.

These results suggest that there may be other reverse causalities in the parental/child attitude relationship that should be explored. The results also have a bearing on the body of research on Congressional voting. This paper not only provides a robustness check on the finding that ideology affects legislative voting, it also serves to identify an additional component of that ideology: child gender composition.

— Les Picker

## America's Unsustainable Current Account Deficit

The amount of foreign capital inflows required to sustain an American economy in which both the government and individuals eschew savings and spend beyond their means — and imports far exceed exports — has soared to record highs. But even if the foreign appetite for U.S. Treasury securities and other U.S. assets continues to grow, a day of reckoning for what economists call our “current account deficit” is likely to arrive soon. And the price will be paid in a currency drop that will significantly reduce domestic economic growth.

That's the conclusion of a study by NBER Research Associate **Sebastian Edwards**. In **Is the U.S. Current Account Deficit Sustainable? And If So How Costly Is Adjustment Likely to Be?** (NBER Working Paper No. 11541), Edwards provides a detailed analysis that culminates in blunt answers to these questions: No, it is not sustainable and the adjustment, if history is any guide, is likely to be “painful and costly,” causing U.S. economic output, measured as gross domestic product or GDP, to plummet. “The results from this investigation indicate that major current account reversals have tended to result in large declines in GDP,” Edwards writes. “These estimates indicate that, on average ... the decline in GDP growth per capita has been in the range of 3.6 to 5 percent in the first years of adjustment. Three years after initial adjustment, GDP growth will still be below its long-term trend.”

The U.S. current account deficit essentially is a reflection of the fact that U.S. expenditure exceeds its income. Escalating federal budget deficits, an anemic national savings

rate, and widening trade deficits all interact to produce a ballooning dependence on large inflows of money from abroad. Edwards points out that a number of experts are particularly concerned that the reliance on foreign central banks, especially those in Asian countries, to purchase U.S. Treasury securities has made America extremely “vulnerable to sudden changes in expectations and economic sentiments.”

As of 2004, the net amount of U.S. liabilities, including Treasury

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securities, held by foreigners was equal to 29 percent of GDP. Our current account deficit was equal to almost 6 percent of GDP and growing, giving the United States the dubious distinction, Edwards observes, of being “the only large industrial country that has run current account deficits in excess of 5 percent.”

“Never in the history of modern economics has a large industrial country run persistent current account deficits of the magnitude posted by the U.S. since 2000,” Edwards writes. Edwards acknowledges that, in part, the current account predicament is a reflection of the fact that the United States sits at the center of an “international financial system where its assets have been in high demand.” But he points out that its record-setting account deficit “also suggests that the U.S. is moving into uncharted waters.”

Edwards notes in the near-term the sustainability of the deficit will “depend on whether foreign

investors will continue to add U.S. assets to their investment portfolio.” In his analysis of the situation, rather than assume (as some have) that the deficit has maxed out and a pullback is imminent, he crafts a scenario in which foreign demand continues to grow, with holdings eventually reaching an equivalent of 60 percent of GDP.

“What makes this approach interesting is that even under this optimistic scenario, it is highly likely that in the not too distant future

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the U.S. current account will undergo significant reversal,” he writes.

In other words, even if the United States has special status in the global economy and is a very attractive place to park one's money, foreign investors are unlikely to keep propping up U.S. trade and budget imbalances and spending sprees indefinitely. Edwards describes a potential future in which the demand for U.S. assets continues to increase for the next four years until the value of foreign holdings peaks at 60 percent of GDP, but then falls back to 50 percent by 2010.

The result, Edwards believes, would be a 21-to-28 percent depreciation in the value of the trade-weighted dollar and a considerable slowdown of the American economy. And that may be a “best case” scenario. He warns that the damage inflicted on the U.S. economy by a sharper and/or more immediate correction in the current account deficit could actually be much worse.

“It is important to keep in mind that this simulation still assumes that the long run net demand by foreigners for U.S. assets (will be) significantly higher — 20 percent of GDP higher, to be more precise — than its current level,” he writes. “I

have not presented the results from ‘pessimistic’ scenarios, where foreigners reduce their net demand for U.S. assets below the current level (of about 30 percent of GDP). Suffice it to say that under that scenario the current account reversal is

even more pronounced, as is the concomitant real depreciation (in the dollar).”

— Matthew Davis

## Do Macro Variables, Asset Markets, Or Surveys Forecast Inflation Better?

**I**n **Do Macro Variables, Asset Markets or Surveys Forecast Inflation Better?** (NBER Working Paper No. 11538), authors **Andrew Ang, Geert Bekaert, and Min Wei** compare and contrast four traditional methods of predicting inflation in the United States: time-series models; regressions based on the Phillips curve using measures of economic activity; term-structure models derived from asset prices; and periodic business and consumer surveys. They conclude decisively that the survey-based measures yield the best results for forecasting CPI (Consumer Price Index) inflation.

Previous studies focused on only one or two of the different forecasting methods. Ang, Bekaert, and Wei are the first to evaluate inflation forecasts that take into account potential time-varying risk premiums. Their study also examines forecasts produced from composite series of real activity, extracting common components from many individual macroeconomic series.

The authors examine forecasts for several different CPI measures — CPI for all items, CPI excluding shelter, CPI excluding food and energy, or core CPI — and for the Personal Consumption Expenditure

deflator (PCE). They consider two forecast periods: the post-1985 and post-1995 periods. They study three inflation expectation surveys: the semi-annual Livingston survey of economists from industry, government and academia; the Survey of

bination methods, surveys overwhelmingly dominate for forecasting CPI inflation; the data consistently place the highest weights on the survey forecasts and little weight on other forecasting methods.

Because surveys combine infor-

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“It is striking that the Michigan Survey of Consumers produces aggregate forecasts of CPI inflation that beat time-series, Phillips curve economic models, and forecasts based on interest rates. The Livingston and SPF surveys do better still.”

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Professional Forecasters (SPF), which focuses mainly on the business sector and predicts changes in the quarterly average of the seasonally adjusted urban consumer price index; and the monthly Michigan Survey of Consumers.

Their major conclusion is that survey forecasts outperform the other three methods of forecasting inflation. They find that information on interest rates does not generally lead to better predictions and in fact often leads to inferior forecasts than analyses using only measures of aggregate economic activity, like unemployment. Another interesting finding of their study is that combining several forecasts does not usually lead to better forecasting than using single forecasts. In com-

mation from numerous sources, they may be pooling and efficiently aggregating large amounts of information. The superior information in median survey forecasts may be attributable to an effect similar to that of econometric forecasting models that average across potentially hundreds of different individual forecasts and extract common components. It is striking that the Michigan Survey of Consumers produces aggregate forecasts of CPI inflation that beat time-series, Phillips curve economic models, and forecasts based on interest rates. The Livingston and SPF surveys do better still.

— Matt Nesvisky

## What Do Parents Value in Education?

In many school districts across the United States parents can express a preference for their child's elementary school teacher. Given that all teachers have distinct strengths and weaknesses, the requests that parents make may provide insight into the things they value in education.

In **What Do Parents Value in Education? An Empirical Investigation of Parents' Revealed Preferences for Teachers** (NBER Working Paper No. 11494), a study by **Brian Jacob** and **Lars Lefgren**, the findings are somewhat surprising. It seems that, on average, parents strongly prefer teachers whom principals describe as the most popular with students — that is, those who are good at promoting student satisfaction. In contrast, parents place relatively less value on a teacher's ability to raise standardized mathematics or reading achievement scores. This suggests that “softer” teacher attributes may be quite important to parents.

However, the average preference masks striking differences across family demographics. Families with children in higher poverty and minority schools in the district strongly value student achievement. When they make requests, they are more likely to pick teachers who provide high “value-added” in terms of student achievement scores and teachers whom the principal rates highly in terms of factors such as organization, classroom management, and enhancing student achievement. However, these parents were essentially indifferent to the principal's report of a teacher's ability to promote student satisfaction. Interestingly, the results are exactly reversed for families in higher-income schools. These parents are most likely to request teachers

whom the principal describes as “a good role model” and/or good at promoting student satisfaction. They do not choose teachers who provide high “value-added” in terms of student achievement, or who receive high scores in this area from their principal.

The authors suggest several potential explanations for this finding. First, they note that education should be viewed as a consumption

as those embodied in the “No Child Left Behind” program of President Bush. Another risk is that school choice could lead to segregation across demographic groups, driven by the preferences of the parents.

At the same time, though, the findings of this research imply that low-income families are quite able to recognize high quality teachers, and that they strongly value good achievement levels for their chil-

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good as well as an investment good, and that it is possible that wealthier parents simply place a higher premium on the consumption value of schooling. Second, the authors note that these findings are consistent with a declining marginal utility of achievement on the part of parents. In other words, wealthier parents may believe that their children already have something of a head start in basic reading and math skills, so they value a strictly achievement-oriented teacher less highly than more disadvantaged parents whose children may not have these basic skills. More generally, these results suggest that what parents want from school is likely to depend on family circumstances as well as on parent preferences.

Since advantaged and disadvantaged parents exhibit these differences in regards to particular educational policies or programs, there are “important implications for current school reform strategies,” the authors note. For example, well-to-do and poor communities are likely to react quite differently to educational accountability policies, such

dren. “This result belies the concern that school choice programs will not benefit poor children because their parents will not fully recognize or sufficiently value academic achievement,” Jacobs and Lefgren write.

This study also suggests that the preference of parents to have their children attending racial or socially homogenous schools, a factor found in earlier studies, may not reflect a desire for segregation per se, but instead may reflect an interest in a particular type of curriculum or pedagogy. The socioeconomic composition of the school may merely serve as a signal for certain educational practices.

The data for the study comes from a mid-size school district in the western United States. The students are 73 percent white, and 21 percent Latino. Some 48 percent of all students receive free or reduced price lunch, which the authors use as a measure of whether families are poor. Achievement levels in district are almost exactly at the average of the nation.

With the cooperation of the

district authorities, the authors were able to collect parental requests for specific elementary school teachers during the 2003–4 and 2004–5 school years. The final sample consisted of 251 teachers who taught core academic subjects in grades 2 to 6 in eleven elementary schools. In this sample, roughly 30 percent of parents requested a teacher each year and 84 percent of teachers received at least one parental request. The average number of requests for those teachers was eight. Principals reported that they were generally able to honor almost

all requests, giving parents an incentive to truthfully reveal their first preference.

These requests were then linked to a variety of teacher characteristics, such as age, experience, educational attainment, undergraduate and graduate institution attended, and teacher license and certification information.

In addition, the authors used individual student test scores and demographic information to create “value-added” measures of each teacher’s effectiveness at raising student achievement, which helped

give an indication of the effectiveness of the teachers. Finally, the authors took a survey of principals in February 2003, asking them to confidentially evaluate their teachers on a variety of dimensions, including dedication and work ethic, classroom management, parent satisfaction, positive relationship with administrators, and ability to raise math and reading scores.

— David R. Francis

## Service Offshoring Raises U.S. Productivity

It is increasingly common today that when U.S. consumers seek out help with their American-made product, the person handling the call or Internet chat session is sitting at a desk on the other side of the world. This is just one example of the growing tendency in the U.S. manufacturing sector to “out-source” key services — which can include, among other things, technical support, medical claims processing, and software development — to providers in other countries.

In **Service Offshoring and Productivity: Evidence from the United States** (NBER Working Paper No. 11926), co-authors **Mary Amiti** and **Shang-Jin Wei** note that service outsourcing is doing more than fueling an economic boom in the tech-savvy provinces of India. It is also playing a major role in one of the big economic stories of the last decade: the surging productivity of American manufacturing firms. They find that American firms are

getting bigger boosts in productivity from outsourcing services to overseas providers than from the more familiar practice of turning to foreign concerns for manufacturing materials, such as parts and packaging.

Amiti and Shang-Jin find that from 1992 to 2000, “service offshoring” accounted for around 11 percent of the productivity growth in U.S. manufacturing industries compared to the 3 to 6 percent gain attributable to imported material

shoring is still low compared to material offshoring, this business practice is expected to grow as new technologies make it possible to access cheaper foreign labor and different skills.”

As for the significant effect on productivity, the authors observe, outsourcing in general — whether it involves material goods or services — can usher in new levels of efficiency. But, they view purchasing services from abroad as offering the greatest potential for gain. “When

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“From 1992 to 2000, ‘service offshoring’ accounted for around 11 percent of the productivity growth in U.S. manufacturing industries.”

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inputs. Their analysis is the first comprehensive study to find a link between service offshoring and productivity. “Sourcing service outputs from abroad by U.S. firms is growing rapidly,” they observe. “Although the level of service off-

firms decide to outsource materials or services to overseas locations they relocate the less efficient parts of their production stage, so average productivity increases,” they write. “The remaining workers may become more efficient if offshoring

makes it possible for firms to restructure in a way that pushes out the technology frontier. This is more likely to arise from offshoring service inputs, such as computing and information, rather than offshoring material inputs.”

Amiti and Shang-Jin note that additional research is needed to understand more precisely how buying services from foreign providers boosts domestic produc-

tivity. They also are interested in how the rise in service offshoring might affect U.S. incomes. Economists have long linked the rise of material outsourcing to the fact that for the last twenty years, wages for skilled workers have been increasing faster than wages for unskilled workers, a gap often referred to as the “skill premium.” The authors observe that “service offshoring is likely to be more skill

intensive than material offshoring” so, “it will be interesting to see what effects, if any, service offshoring has on the wage skill premium.”

— Matthew Davis



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