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Relatively Few Women Have Successful Careers and Family

Not many female college graduates are "having it all." Only about 15 percent of women who got degrees around 1972 and were born around 1950 are succeeding in the often-trumpeted goal of having both a career and a family. Among those who have had a successful career, as indicated by income level, nearly 50 percent were childless, according to NBER Research Associate **Claudia Goldin**.

"Career still entails large costs," she writes in **Career and Family: College Women Look to the Past** (*NBER Working Paper No. 5188*). Goldin examines five cohorts, or generations, of female college graduates, starting with those graduating in 1910 and ending with the 1972 cohort. She concludes: "No cohort of college graduate women in the past had a high success rate in combining family and career."

The problem today is no longer that women are less educated, Goldin notes. College women have succeeded in achieving parity in numbers with their male counterparts, and get educations about equal to those received by men. More women continue in professional and graduate schools than ever before. Yet, most of the generation of college women coming close to the end of their childbearing years are not doing as well financially as men in the workplace.

The first cohort, graduating around 1910, usually faced a stark choice of family or career, Goldin finds. Career almost always meant teaching. College men in this generation married and had families at about the same rate as

men without higher education. But more than 50 percent of college-graduate women in this cohort either did not marry or, if they did so, did not have children.

Women in the second birth group, graduating around 1933 and born around 1910, attained higher marriage rates than their predecessors. These women entered the workplace just after graduation, Goldin notes. They remained at work for several years, frequently with aspirations, rarely fulfilled, of a full career. But eventually they had children and dropped out of the work force.

This pattern was reversed in the cohort graduating around 1955 and born around 1933. These female graduates tended to have family first, career later—again often teaching. Teaching al-

tunity costs of their four years of higher education, their husbands did well financially. Their "Mrs." degrees were worth nearly half of the total returns from their B.A.s, Goldin notes. Those who married in the last year of college or the year after graduation—"early birds" in Goldin terminology—found husbands whose earnings were greater than those who married later.

Members of the next cohort, graduating from 1966 to 1979, often have delayed marriage and children while they pursued a career. They are currently between 38 and 51 years old, and their childbirth and marital histories are nearly complete. To study this group, Goldin uses the National Longitudinal Survey, a survey of young women that began in 1968 and continued through 1988. She defines "success" in a number of ways. One is ex-

"The current cohort . . . is the first in U.S. history to contain even a small group who managed to reach midlife with both family and career."

lowed such timing without a large career penalty. Teaching credentials generally remained valid during job interruptions. Many women attended college for "the opportunity to marry a college-educated man," as Goldin puts it. They married and had children at about the same rate as their noncollege contemporaries. Although their own careers usually weren't sufficiently lucrative to justify the tuition and oppor-

ceeding the income of the male college graduate at the top of the bottom 25 percent of male graduates in two or three consecutive years. An estimated 26 to 33 percent of female graduates passed that financial mark. "Family" is defined as having at least one child. Of those who attained "career," only 50 percent had "family." Therefore, just 13 percent to 17 percent of the cohort "had it all."

The current cohort, Goldin says, is the first in U.S. history to contain even a small group who managed to reach midlife with both family and career. But divorce was more common among those who attained a career (nearly 44

percent) than among those who didn't (around 23 percent). Those percentages do not change much if the women had children. "It was career, not children, that somehow affected divorce, or vice-versa," Goldin concludes.

Also, marriage was less frequent among those college women who eventually would attain career. In 1985, only 53 percent of the career group was currently married, whereas 79 percent of the noncareer group was. DRF

The High Cost of Zero-Downpayment Mortgages

Encouraging homeownership has been a major goal of U.S. economic policy for many decades. One method has been to promote mortgage lending to borrowers who would not normally qualify for commercial mortgage loans, by offering subsidized loans with lower downpayment requirements. Last year, the Clinton administration proposed an extension of low-downpayment lending to lower-income homebuyers.

In **Mortgage Default and Low-Downpayment Loans: The Costs of Public Subsidy** (*NBER Working Paper No. 5184*), Deng, Quigley, and Van Order use techniques from modern portfolio theory to analyze the costs of subsidized mortgages. Their empirical analysis is based on mortgage history data, maintained by the Federal Home Loan Mortgage Corporation, covering nearly 1.5 million single-family mort-

low the rate for the first three quarters of 1995); another in which the unemployment rate is 8 percent (a rate typically achieved only in recessions). For each of these broad scenarios, they then estimate default rates for families at different income levels if house prices rise, on average, by 10 percent per year, 5 percent, or not at all (zero). The simulations suggest that with zero-downpayment loans, low-income households—those with incomes below 50 percent of the median—will default on their mortgages at rates twice as high as those who were required to pay 10 percent down.

"[I]n an unfavorable economic environment, the cost to taxpayers [of low-downpayment mortgages] can approach or even exceed 10 percent of the total amount of the mortgage loans."

The estimated costs of zero-downpayment loan programs depend upon the pricing of these mortgages to consumers. If they are priced in a manner appropriate to mortgages with 10 percent downpayments, then the estimated additional costs are around 2 to 4 percent of the total face amounts of the loans, provided house prices appreciate steadily. In an economic scenario in which house prices stay flat, the costs of the program are much higher. The authors' estimates suggest that additional program costs would be between \$74,000 and \$87,000 for every million dollars of lending. If policymakers do not factor in expected losses when pricing these loans, the losses from default could exceed 10 percent of the funds available for loans. RN

While the benefits of these programs to borrowers are obvious, the costs to the government—and taxpayers—are typically difficult to estimate, since they depend both on economic variables and on the behavior of the mortgage borrowers. In a new study for the NBER, **Yongheng Deng, John Quigley, and Robert Van Order** find that the default costs of low-downpayment loans are significant. In fact, in an unfavorable economic environment, the cost to taxpayers can approach or even exceed 10 percent of the total amount of the mortgage loans.

gages issued between 1976 and 1983.

A key result of this analysis is that the way mortgage borrowers behave—in terms of prepaying or defaulting on their mortgages—depends both on the behavior of house prices and on interest rates. While several recent empirical studies have investigated mortgage default or prepayment risk, none has treated the interdependence of these two options.

The authors estimate default costs for two economic scenarios: one in which the unemployment rate is 4 percent (more than a point and a half be-

Tax Rate Increases Cause Large Deadweight Losses

Because taxes change the way that individuals behave, they impose a loss on taxpayers that is larger than the amount of revenue the government receives from the taxes. In an extreme case, raising the tax on some product

might reduce purchases of that product by so much that the government would not collect any more revenue at the higher tax rate than they did at the lower rate. But consumers still would be worse off, because they would be

induced to spend their money on other products that they did not value as highly.

The same thing occurs even if the higher tax on the product succeeds in raising some money. Consumers are

worse off by more than the extra revenue that the government collects because they respond to the tax-induced price increase by changing what they buy, substituting something they like less for the product whose price has been increased by the tax. Economists use the term "deadweight loss" to refer to the amount that taxpayers lose in excess of the revenue that the government collects. More specifically, the deadweight loss is the difference between the extra revenue that the government receives from a tax increase and the amount that individuals would have to be paid to make them as well off after the tax increase as they were before it.

The personal income tax distorts behavior in a variety of ways: inducing individuals to spend more on tax-deductible items (including home mortgages); to take compensation in forms that are not taxed (such as health insurance, life insurance, or better working conditions); and even to work less (through earlier retirement, and reduced working hours among second earners in married couples). All of these legal forms of tax avoidance cause deadweight losses.

In a new NBER study, **Tax Avoidance and the Deadweight Loss of**

the Income Tax (*NBER Working Paper No. 5055*), Research Associate **Martin Feldstein** estimates the deadweight loss associated with changes in personal income tax rates. Using the NBER TAXSIM model, a computerized simulation analysis based on an any-

only \$26 billion. In addition, the reduced work effort and the shift away from taxable cash income to other types of compensation also would reduce the payroll tax revenue by an estimated \$4 billion. The total revenue gain from a 10 percent rise in all per-

"[A] 10 percent across-the-board reduction in all tax rates would be expected to lose about \$22 billion a year, while reducing the deadweight loss of the tax system by more than \$40 billion."

mous sample of more than 100,000 individual tax returns provided by the Internal Revenue Service, he estimates that increasing all personal tax rates in 1995 by 10 percent would create a deadweight loss of more than \$40 billion.

By comparison, if there were no induced changes in taxpayer behavior, a 10 percent increase in tax rates would raise \$56 billion in additional revenue. However, since the higher tax rates cause taxable income to decline, the increase in revenue is substantially smaller than this \$56 billion. The TAXSIM analysis implies that the personal income tax collections would rise by

personal income tax rates is therefore only about \$22 billion. Comparing the roughly \$44 billion deadweight loss to this additional revenue indicates that a 10 percent rise in all tax rates brings \$2 of deadweight loss for each additional dollar of revenue.

Feldstein notes that decreasing all income tax rates by 10 percent would reduce revenue and deadweight loss by similar amounts. Thus a 10 percent across-the-board reduction in all tax rates would be expected to lose about \$22 billion a year, while reducing the deadweight loss of the tax system by more than \$40 billion.

U.S. Interest Rates Are Key in Emerging Markets

Six or seven years into the debt "crisis" of 1982, many observers had begun to despair that voluntary capital flows into some developing countries ever would resume. After 1989, though, the situation changed dramatically. Beginning in 1990, and perhaps ending in 1994, capital flows—some taking the form of portfolio investment—flooded into emerging markets in East Asia, Latin America, and many other parts of the world.

In **Liberalized Portfolio Capital Inflows in Emerging Markets: Sterilization, Expectations, and the Incompleteness of Interest Rate Convergence** (*NBER Working Paper No. 5156*), **Jeffrey Frankel** and **Chudozie Okongwu** examine interest rates in nine Latin American and East Asian countries during 1987–94 to discover why, despite capital market liberalization and a resurgence of portfolio capi-

tal inflows during the second half of the period, interest rates there remained high and failed to converge to U.S. levels. They find that the single largest component of the gap in interest rates is expectations of depreciation of the local currencies against the dollar. Further, they find that U.S. interest rates have a big effect on local interest rates, and that there is a highly significant degree of capital flow offset to monetary policy.

Frankel and Okongwu examine portfolio capital inflows in particular in Argentina, Chile, Mexico, the Philippines, and Korea. They find first that U.S. interest rates are a very major influence in the emerging markets. Their effect on both portfolio capital flows and local interest rates is high and significant. Indeed, changes in U.S. interest rates seem to affect local interest rates more than one-for-one.

Second, the authors find a substantial offset to monetary policy: for Mexico, for example, an expansion of the monetary base is followed within the same quarter by a capital outflow that is more than one-fourth the size of the expansion.

Third, country risk and remaining capital controls are not the major reasons why interest rates in capital-receiving countries remained above U.S. interest rates in 1990–4. To be sure, country risk, measured for example by the discount in the secondary debt market, is a significant determinant of interest rates. But a decomposition of interest differentials shows that the currency premium is generally larger than the country premium. When countries have difficulty sterilizing inflows, in the sense that the issue of domestic bonds drives up the local interest rate, the interest differential can be interpreted

as compensation for fears of future depreciation.

Fourth, Mexican interest rates be-

Frankel and Okongwu point out that it is useful to look at local dollar-denominated interest rates, when they

“[D]espite capital market liberalization and a resurgence of portfolio capital inflows during the second half of the period, interest rates there remained high and failed to converge to U.S. levels.”

tween June 1993 and December 1994 were affected adversely by both increases in U.S. interest rates and political events in Mexico. The effects show up both in Mexican dollar-denominated interest rates (tesobonos) and in peso-denominated rates.

are available, to measure the country premium (that is, the spread over U.S. dollar interest rates). Nevertheless, they caution, it can be dangerous to look only at dollar interest rates. After the capital flows to Mexico began to reverse in February 1994, the Mexican

response was sterilized intervention of the reserve outflows. Anyone who judged the success of this response by looking at tesobono interest rates underestimated the magnitude of the problem. The increase in peso interest rates was much greater than the increase in dollar interest rates in Mexico, signifying a large increase in the currency premium and a lack of sustainability in the exchange rate policy.

Methodologically, the most important innovation in this study is the use of a measure of exchange rate expectations that comes from *Currency Forecasters' Digest*. The quarterly portfolio capital flow data come from the World Bank's International Economics Department.

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