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The Quiet Revolution That Transformed Women's Work

About 35 years ago, a revolution took place in the labor market and educational experiences of American women. In **From the Valley to the Summit: The Quiet Revolution That Transformed Women's Work** (NBER Working Paper No. 10335), NBER Research Associate **Claudia Goldin** describes the changes that took place in women's labor market expectations, their labor market participation, college majors, college graduation rates, professional degrees, and age at first marriage.

In 1968, the National Longitudinal Survey of Youth asked females aged 14 to 21 what they expected to be doing at age 35. About 30 percent of the 20 to 21 year olds said they would be working. By 1975, 65 percent of the younger women, then also 20 to 21 years old, said they would be working. The percentage rose until 1979 and then remained substantially unchanged throughout the 1980s.

This change in labor market expectations was accompanied by radical changes in educational concentrations as women shifted from majors that were job- or consumption-oriented to those that rewarded long-term investment in a career. In 1966, 40 percent of female college graduates majored in education, 17 percent majored in English & Literature or foreign languages, and 2 percent majored in Business & Management. By 1998, only 12 percent of women majored in education; enrollment in business majors

soared. In fact, 22 percent of all female undergraduates majored in business by 1988, when undergraduate interest in the subject peaked. Overall, measures of sex segregation in college majors fell by half between 1966 and 1998.

Women's educational investment also rose sharply. For those born from 1946 to 1965, the ratio of women-to-men graduating from college increased from 0.65 to more than 0.95. Women also began

and the invention of reliable contraception. Although government mandates and changes in attitudes clearly were contributing factors, research on the effect of anti-discrimination laws has not shown that they had a strong effect on women's employment and earnings. Measures of the effect of feminist perspectives are harder to quantify. The birth control pill, though, had the direct effect of reducing both the risk and the cost of having sex. It therefore also eliminated an

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enrolling in postgraduate medical, dental, legal, and MBA programs. In 1970, female first-year students in law schools represented less than 5 percent of all such students — for medical schools, the figure for females was 10 percent. Then, the number of female first-year students in these programs began climbing. By the 1990s, roughly 45 percent of all first-year students in law schools were women and more than 40 percent were in medical school.

What caused these changes? Goldin considers three possibilities: the passage of government mandates outlawing discrimination against women in hiring and higher education; changes in attitudes resulting from the resurgence of feminism following the Civil Rights movement;

important reason for early marriage, making investment in a career-oriented education more feasible.

Previous research on the effect of changes in state laws that allowed young women access to birth control pills suggests that it is strongly and positively related to both age at first marriage and the fraction of women pursuing professional careers. Because reliable contraception combined with changing social attitudes and laws making labor markets more hospitable, large numbers of women left traditional forms of female employment and sought careers. They are the reason that today's commentators can have meaningful discussions about "women at the top."

—Linda Gorman

Mexico's Problems: Don't Blame NAFTA

Over the last few years Mexico's economy, and most notably its exports, have stagnated. It's tempting to deduce from this that Mexico's aggressive moves to lower barriers to trade and investment — its participation in the North American Free Trade Agreement (NAFTA) chief among them — produced the opposite of their intended effect, extinguishing rather than igniting growth. But in **NAFTA and Mexico's Less-Than-Stellar Performance** (NBER Working Paper No. 10289), authors **Aaron Tornell, Frank Westermann, and Lorenza Martinez** argue that trade liberalization has done its part, providing extraordinary growth in exports and producing a surge in foreign investment. The problem with Mexico, they assert, is that while it has excelled in thinking globally, it has failed to act locally. Most notably, they suggest, Mexico's inability to reform domestic lending and contracting practices in the wake of the financial or "Tequila" crisis of the mid-1990s has produced a protracted credit crunch, one that initially did damage mainly to non-export companies but is now hurting the once high-flying export-oriented firms that depend on them for goods and services.

Tornell and his co-authors see constraints on credit as the main explanation for the fact that, from the first quarter of 2001 through the second quarter of 2003, growth in Mexico has been practically at a standstill and non-oil exports have fallen an average of one percent a year. "We argue that Mexico's less-than-stellar growth is not due to liberalization... and that in all likelihood, growth would have been slower without liberalization and NAFTA," the authors write. "In fact, in the wake of the crisis, exports experienced extraordinary growth and (economic conditions) recovered quite quickly."

Indeed, Mexico's emergence from its financial crisis — a crisis characterized by a huge currency devaluation and a massive amount of bad loans — had been touted in many quarters as one of the great economic success stories of the late 20th century. So what took the wind out of its sails?

Tornell, Westermann, and Martinez observe that in the post-crisis world, Mexico rode back into the realm of relative economic health largely on the backs of its export-oriented industries. And a key reason these firms were able to do so well is that they had access to international financial markets and were the main recipients of foreign direct investment. So, with the peso plunging to historical lows, export companies were able to use that external finance to buy goods, services, and other "inputs" from non-export oriented Mexican companies at what the authors note were "fire sale prices". But while the export-oriented firms rapidly rebounded, for those not in the export sector — companies that

the authors observe that "a distinctive fact about Mexico... is that in the wake of the Tequila crisis, Mexico's credit crunch was both more severe and more protracted than a typical" developing country emerging from a similar situation.

In fact, the credit crunch never really ended. The authors note that the amount of real domestic credit fell by "an astounding 58 percent between 1994 and 2002." For non-export companies, available credit has fallen by 72 percent.

Tornell, Westermann, and Martinez believe that the credit crunch which has now trickled up, so to speak, to dampen exports is largely if not entirely of Mexico's making and not a result of its greater exposure to

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don't usually attract foreign investment — things got bad and then things got worse, to the point that many went from having fire sales to no sales at all.

Eventually, the non-export or "nontradeables" sector was unable to adequately supply export-oriented businesses with "inputs" such as freight services, repairs, or the critical materials needed to keep a textile or chemical plant operating at capacity, for example. And these kinks in the supply chain caused exports to fall, dragging down the economy in the process. "This is the bottleneck effect, which implies that sustainable growth cannot be supported only by export growth," the authors state. "This effect is key to understanding Mexico's recent performance."

Tornell, Westermann, and Martinez acknowledge that a U.S. recession and competition from China have played a part in Mexico's troubles. But they contend that what has really hurt Mexico is the fact that the credit crunch has depressed investment in non-export companies. Constraints on credit are to be expected in the wake of the kind of currency devaluations that affected Mexico in the mid-1990s. But

global markets. They contend that after the crisis Mexico failed to enact the reforms that eventually would have eased the credit crunch and give non-export companies access to the capital they needed to keep abreast of the demands from the export sector.

For example, after the crisis it became so obvious that Mexican authorities would do little if anything to borrowers who defaulted on their debts — such as allowing creditors to take collateral used to secure a loan — that the country developed what many Mexicans called the "cultura de no pago" or a culture of nonpayment. Even borrowers who could have made good on their debts decided "why pay if there are no consequences for nonpayment?"

Meanwhile, banks had other incentives not to lend. They were still making profits thanks to government compensation for loans that went sour during the financial crisis. In order to jump-start credit growth, in 2000 the government instituted reforms to give banks a greater ability to enforce loan contracts. However, it remains unclear whether they will have much practical effect on the economy.

— Matthew Davis

How the 1960s' Riots Hurt African-Americans

Any American of a certain age remembers the race-related riots that tore through U. S. numerous cities in the 1960s. Between 1964 and 1971, civil disturbances (as many as 700, by one count) resulted in large numbers of injuries, deaths, and arrests, as well as considerable property damage, concentrated in predominantly black areas.

Although the United States has experienced race-related civil disturbances throughout its history, the

from 1960 to 1970.

Until 1975, the racial gap in average earnings among full-time male workers in the United States narrowed. There were periods of sharp convergence, as in the 1940s, alternating with periods of relative stasis, as in the 1950s and early 1960s. After 1970, racial convergence in earnings slowed markedly, in part because many low-wage black males were no longer engaged in full-time work, the authors note.

“The riots had economically significant negative effects on blacks’ income and employment. Further, those effects may have been larger in the long run — from 1960 to 1980 — than in the short run — from 1960 to 1970.”

1960s events were unprecedented in their frequency and scope. Law enforcement authorities took extraordinary measures to end the riots, sometimes including the mobilization of National Guard units. The most deadly riots were in Detroit (1967), Los Angeles (1965), and Newark (1967). Measuring riot severity by also including arrests, injuries, and arson adds Washington (1968) to that list. Particularly following the death of Martin Luther King in April 1968, the riots signaled the end of the carefully orchestrated, non-violent demonstrations of the early Civil Rights Movement.

Social scientists have studied the causes of the riots for a long time. Now two NBER papers by **William Collins** and **Robert Margo** instead examine the economic impact of the riots on African Americans and on the cities where they took place. In the first paper, **The Labor Market Effects of the 1960s Riots** (NBER Working Paper No. 10243), they find that the riots had economically significant negative effects on blacks’ income and employment. Further, those effects may have been larger in the long run — from 1960 to 1980 — than in the short run —

The proportion of blacks living in high-poverty urban neighborhoods increased as well, and residential segregation led to increasingly poor socioeconomic outcomes among young blacks. In this context, Collins and Margo attempt to detect whether the riots contributed to a downward economic spiral that hurt employment opportunities, incomes, and property values.

Although they characterize their baseline estimates as “tentative,” Collins and Margo find a relative

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decline in median black family income of approximately 9 percent in cities that experienced severe riots relative to those that did not, controlling for several other relevant city characteristics. There is also some evidence of an adverse effect on adult male employment rates, particularly in the 1970s. Between 1960 and 1980, severe riot cities had relative declines in male employment rates of 4 to 7 percentage points. Individual-level data for the 1970s suggests that this decline was especial-

ly large for men under the age of 30.

In the second paper, **The Economic Aftermath of the 1960s Riots: Evidence from Property Values** (NBER Working Paper No. 10493), Margo and Collins investigate the influence of riots on central city residential property values, especially black-owned properties. They find that the riots significantly depressed the median value of black-owned property between 1960 and 1970, with little or no rebound in the 1970s. The baseline estimates for severe-riot cities relative to small-or-no-riot cities range from approximately 14 to 20 percent for black-owned properties, and from 6 to 10 percent for all central-city residential properties. Household-level data for the 1970s indicate that the racial gap in property values widened substantially in riot-afflicted cities relative to others.

The exact mechanisms through which the riots affected economic activity over a long period of time are difficult to identify, but a large number of potentially reinforcing channels exist. Property risk might seem higher in central city neighborhoods than before the riots, causing insurance premiums to rise; taxes for income redistribution or more police and fire

protection might increase, and municipal bonds may be more difficult to place; retail outlets might close; businesses and employment opportunities might relocate; middle and higher income households might move away; burned out buildings might be an eyesore; and so on. These damaging aspects of riots, the authors find, apparently outweighed outside assistance directed toward the riot areas in the wake of the disturbances.

— David R. Francis

Self-Employment: More May Not Be Better

A recent body of economic literature supports the notion that the self-employed are more satisfied with their jobs than are employees. The research finds this to be true across most OECD countries, with Austria, Finland, and Greece the major exceptions.

However, in **Self-Employment: More May Not Be Better** (NBER Working Paper No. 10286), NBER Research Associate **David Blanchflower** distinguishes a number of less desirable aspects of being self-employed which do not appear to have been quantified previously. His study helps to explain why so many of those who express a desire to become self-employed are thwarted in that desire for many reasons, including the difficulty in obtaining capital.

Blanchflower finds that self-employment rates are generally down across the OECD. The main exceptions are the United Kingdom and New Zealand. The strong patterns evident in the data across countries show that the probability of being self-employed across the OECD is higher for men and for older workers as compared with younger workers. In Europe, the probabilities of being

self-employed are lower the more educated an individual is, while the opposite is true in the United States. Some groups of immigrants also have higher rates of self-employment than the indigenous population.

Capital constraints appear to bind especially tightly in the United States for firms owned by minorities and women. The low rates of self-employment of blacks and Hispanics in the United States appear, in part,

the fact that very high proportions of employees say they would like to set up their own business, the reality is quite different.

The evidence in this paper suggests that people may well be able to judge what is in their own best interest, which is precisely why they remain as employees. The self-employed work under a lot of pressure; they report that they find their work stressful; they come home from

“Despite the fact that very high proportions of employees say they would like to set up their own business, the reality is quite different... Being self-employed is difficult and appears to require rare talents.”

to be driven by liquidity constraints. There is evidence that liquidity constraints are felt in other countries as well, including the United Kingdom, Finland, Australia, Canada, and Sweden.

Blanchflower suggests that people may have an unrealistically rosy view of what it is like to run their own business, rather than staying with the comparative security of being an employee. A surprisingly high proportion of employees say they would prefer to be self-employed. Despite

work exhausted and are constantly under strain; they lose sleep due to worry; and they place more weight on work than they do on leisure. However, they are also especially likely to say that they have control over their lives and to report a high level of satisfaction with their lives. Being self-employed is difficult and appears to require rare talents; Blanchflower concludes that self-employment is not for everyone.

— Les Picker

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