

MRRC RESEARCHER

*John Laitner discusses his MRRC-
supported research*

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Q: What are your research interests and how do they square with the goals of the MRRC?

A: Long-run growth has always been the most interesting topic in economics for me. Saving, labor supply, and technological progress are the cornerstones of growth. Domestic sources of saving are households' desires to provide for their old age and to provide a cushion of protection against risks, and efforts of exceptionally prosperous households to build estates for their descendants. The first is "life-cycle saving;" the second is "dynastic saving." Economists' so-called "life-cycle model" covers household labor supply decisions as well as lifetime saving and consumption.

The size and provisions of the Social Security system have a major impact on life-cycle saving and on choices of when to retire. A lot of the impetus for recent reform proposals has to do with trying to encourage more life-cycle saving. Global aging makes labor supply an especially timely topic as well. Technological change affects private and government finances, and the economy's prospects in general – but it is harder to think of how its course might be influenced.

Q: Talk about your recent MRRC research.

A: Growing female labor force participation, especially among married women, is a change of tremendous importance—of the same magnitude as the shift from rural to urban life styles 150 years ago. Economists need to make their models of life-cycle behavior more sophisticated to encompass and shed light on this change. My work with Chris House and Dmitry Stoloyarov attempts to model the choice that women now have in allocating their time between home production and market work.

We were first interested in the "net" gain to households from increased female labor-force participation – in other words, we wanted to assess the fraction of a dollar earned that is left over after purchasing substitutes (like child care and restaurant meals) for lost female home production. We were able to study this issue using newly available Health and Retirement Study (HRS) data on households' life profiles of earnings and accumulations of net worth at retirement. Our result: a household nets about 75 cents, after paying for substitutes, for every dollar of female earnings (House, Laitner, Stoloyarov, "Valuing Lost Home Production in Dual-Earner Couples," WP 2005-099).

This year (MRRC project UM06-10) we have extended the scope of our analysis to include a symmetric treatment of men's time-allocation decisions. Separately identifying the implications of male and female behavior within couples turned out to be more subtle in practice than our original data source could handle. Fortunately we have been able to surmount this by deploying a second data set, the Consumer Expenditure Survey, simultaneously with the HRS. Our original suspicion was that

households behave as if men's home production is less valuable than women's. Our current results are bearing that out. An especially interesting consequence of the new modeling is its ability to shed light jointly on why women's market labor supply tends to appear more variable than men's and why household consumption tends to fall after retirement.

Rising female labor-force participation has greatly improved Social Security's finances in recent decades. Economists need, I believe, to refine their models to more fully encompass the changes and to understand what may happen next. Since better work options have almost surely made child rearing more expensive, we also need to keep thinking about whether the Social Security system is fair to working families and what reforms are indicated to keep up with the times.

My work with Daniel Silverman studies labor supply from a different angle, emphasizing male decisions of when to retire. A puzzle is that as longevity has increased, men's retirement ages have tended, if anything, to decrease. Dan and I have constructed a model that focuses on households' tradeoff between more leisure and longer work lives. The exceptional data resources of the HRS enable us to estimate the model's parameters (see also Laitner MRRC WP 2003-050). We are in the process of using the model to study a possible Social Security reform, suggested by ourselves and a number of others, namely, what if individuals completed their Social Security tax after, say, 35-49 years, with their benefits set. Then, if they chose to continue working, they would get to keep 10.6% more of their earnings. We presented preliminary results at the American Economic Association Annual Meetings 2006 (Laitner and Silverman, "Consumption and Retirement: Evaluating Social Security Reform with a Life-Cycle Model"; see also Laitner and Silverman MRRC WP 2005-099). Our most current analysis, which tries to treat disability comprehensively, suggests that the above reform might increase work lives by about a year. In an aging economy, this could be a welcome change.

Q: Low U.S. savings rates are frequently cited in the news. What topics in savings behavior seem the most significant to you?

A: I have long thought that estate building on the part of high-income families was one key to understanding American saving (see Laitner, MRRC WP 2002-020; Laitner, "Wealth Inequality and Altruistic Bequests," *American Economic Review*, May 2002). I have come around to believing that new data sources—especially the HRS—open new avenues for understanding life-cycle saving. Maybe I can study estates as the residual component to U.S. saving.

This coming year I hope to return to my earlier work (Laitner, MRRC WP 2004-083) on household earning uncertainty over the life cycle. A household that discovers, in midlife, that its earnings trajectory is more favorable than average, for instance, might choose to accumulate unusually high net worth to create an estate, or it might raise its consumption or decide to retire early. The previous work implied that inter-household trajectory differences were potentially important.

Q: What about technological progress?

A: Dmitry Stoloyarov and I have studied whether older workers benefit as much from technological progress as younger ones (Laitner and Stoloyarov, "Technological Progress and Worker Productivity at Different Ages," MRRC WP 2005-107). We found, somewhat to our surprise, that they did.

More generally, technological progress has been slower since 1970 than before. Whether it resumes its old pace or remains slow will have tremendous effects in the future on career paths, returns to saving, and household needs to save at different ages.

Sources:

Technological Progress and Worker Productivity at Different Ages by John P. Laitner and Dmitry Stoloyarov, WP 2005-107. December 2005.

Valuing Lost Home Production in Dual-Earner Couple by John P. Laitner, Christopher House, and Dmitry Stoloyarov, WP 2005-097. March 2005.

Estimating Life-cycle Parameters from Consumption Behavior at Retirement by John P. Laitner and Daniel Silverman, WP 2005-099. February 2005.

Labor Supply Responses to Social Security by John P. Laitner, WP 2003-050. June 2003.

Secular Changes in Wealth Inequality and Inheritance by John P. Laitner, WP 2001-020. October 2001.



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