

# The NBER Digest

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## Government Policies Shift Aged from Their Children to Nursing Homes

Interstate differences in government policies have a substantial effect on the utilization of nursing homes by the elderly, according to a new NBER study, **Policy Options for Long-Term Care** (*NBER Working Paper No. 4302*), by **David Cutler** and **Louise Sheiner**. Their research also indicates that most of the elderly currently in government-financed nursing homes otherwise would be living with their children, not by themselves.

Cutler and Sheiner show that states that allow individuals to qualify for Medicaid while still keeping a share of their income or assets have greater rates of nursing home utilization than states without such provisions. Similarly, states where Medicaid payments to nursing homes are closer to private charges for nursing home care also have a higher proportion of the elderly population in nursing homes.

The commonly held perception that the elderly admitted to nursing homes would otherwise be living alone and without support is incorrect, according to Cutler and Sheiner. Instead, in states with more restrictive policies, the elderly are more like-

ly to live with their children. In addition, as the ease of acquiring Medicaid increases or payments become more generous, fewer elderly receive substantial day-to-day help from their children.

Cutler and Sheiner also find that, in states where the gap between Medicaid payments and market prices is larger, poor people have less access to nursing home care. An "underpayment" that results in a one percentage point decline in nursing home utilization for high-income individuals produces a 2.5 percentage point decline in utilization for those with low incomes.

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The authors note that more than \$47 billion was spent on nursing homes in 1989, nearly 1 percent of GDP. The government was the primary fi-

nancer of such care: 61 percent of the total was paid by Medicaid or by individuals on Medicaid, and 7.5 percent by Medicare. Since the ranks of the elderly are projected to increase at more than triple the rate of the population as a whole over the next 30 years, the proportion of GDP spent on long-term care is also sure to increase if current policies are continued. RN

## Sources of Economic Growth

Growth rates of per capita gross domestic product (GDP) vary substantially from country to country. Among 116 countries from 1965 to 1985, the lowest one-fifth had an average growth rate of real per capita GDP of -1.3 percent. By contrast, for the highest one-fifth, the average growth rate was 4.8 percent.

In **Losers and Winners in Economic Growth** (NBER Working Paper No. 4341), **Robert Barro** and **Jong-Wha Lee** point out that, over a 20-year period, real per capita GDP fell by 23 percent for the typical country in the lowest quintile of growth rates. For the typical country with growth in the highest quintile, real per capita GDP rose by 161 percent. In Sudan and Jamaica for example, two low-growth countries, real per capita GDP fell from \$729 and \$1807 respectively in 1965, to \$540 and \$1725 in 1985 (all in 1980 U.S. dollars). Over those same years, real per capita GDP in Botswana and South Korea, two high-growth countries, rose from \$530 and \$797 respectively to \$1762 and \$3056. The authors conclude that "even over periods as short as 20 years, the variations in growth rates made dramatic differences in the average living standards of a country's residents."

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Barro and Lee find that six major factors cause economic growth rates to vary dramatically. The first is a "catch-up" factor. That is, a country grows faster if it begins with low real per capita GDP relative to its initial level of human capital, in terms of educational attainment and health. This gap between income and human capital

helps to explain the rapid growth of East Asian countries over this period. Second, an additional year of secondary schooling for males raises the growth rate by 1.4 percentage points. Barro and Lee also find that an increase in life expectancy, one measure of health, by five years raises the GDP growth rate by 0.7 percentage points per year.

The fourth factor that causes growth to increase is investment. For a 10 percentage point increase in the ratio of investment to GDP, the growth rate is 0.8 percentage points higher per year.

On the other hand, Barro and Lee find that the higher the level of government intervention, the lower the rate of economic growth. A 10 percentage point increase in the ratio of government consumption to GDP, for example, lowers the growth rate by 1.6 percentage points per year. Another measure of the amount of government distortion of the market is the size of the black-market premium on foreign exchange. Barro and Lee find that a 10 percentage point increase in that premium reduced the growth rate by 0.3 percentage points per year.

Finally, political revolution reduces economic growth. Barro and Lee argue that the higher the probability of revolution, the less stable property rights are and, therefore, the lower the incentive to invest is. They find that an increase in the frequency of revolution by 0.2 per year reduces the annual growth rate by 0.3 percentage points.

DRH

## Lower Wages Mean Fewer Benefits for Women

According to a new study by NBER Faculty Research Fellow **Janet Currie**, married women who work full time, year round not only earn just 67 percent of the wage received by married men. They also are less likely to have pension plans or health insurance provided by their employers than men are. While 68 percent of married men had pension plans and 87 percent had health insurance, only 54 percent of married women had pension plans and 71 percent had health coverage, she finds.

One explanation for the lower wages and benefits received by women is their lack of job seniority compared to men, their marital status, and the possibility that they have less education than working men. However, Currie estimates that women earn 73 percent of the wage received by men with the same age, education, marital status, number of children, and race. Women also are 5 percent less likely than men with similar characteristics to receive a pension, 8 percent less likely to receive health benefits, and 11 percent less likely to have disability insurance. The women are 3 percent more likely to have paid sick leave than the men, though.

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In **Gender Gaps in Benefits Coverage** (*NBER Working Paper No. 4265*), Currie discovers that most of the difference in fringe benefit coverage is associated with the fact that women work in low-wage jobs. Currie finds that, among men and women who receive the same wages, there is no difference between the sexes in pension and health insurance coverage.

Currie's analysis is based on a sample of full-time, year-round, private-sector workers, ranging in age from 18 to 64. There were about 5300 men and 4000 women in her sample. DRF

## **Easy Money Leads to Lower Exchange Rates**

The relationship between monetary policy and exchange rates has been the subject of sharp debate in recent years. Some economists assume that, at least in the short run, a monetary expansion leads to lower interest rates and to currency depreciation. However, another school of thought is that monetary easing by the central bank leads to higher interest rates and, therefore, to a stronger, not a weaker, currency. In a new NBER study, **Martin Eichenbaum** and **Charles Evans** conclude that the first theory is correct.

In **Some Empirical Evidence on the Effects of Monetary Policy Shocks on Exchange Rates** (*NBER Working Paper No. 4271*), Eichen-

baum and Evans explore the impact of shocks to monetary policy using three different schemes for identifying shocks that occurred between 1974 and 1990. These schemes are based on the movements in the ratio of nonborrowed to total bank reserves, the federal funds rate, and the index of monetary policy developed by David and Christina Romer. The authors then examine how spot exchange rates (both nominal and real) for five major foreign currencies responded to those shocks.

Using all three definitions of a monetary policy shock, Eichenbaum and Evans find that expansionary U.S. monetary policy leads to a decline in real U.S. interest rates and a wider spread between U.S. and foreign interest rates. The interest rate gap also results in a lower exchange rate between the dollar and each of the other five currencies considered. While the impact of monetary policy shocks is significant in the short run, it takes two to three years before a policy shock has its maximum effect on exchange rates.

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Further, U.S. monetary policy shocks have less of an immediate impact on the nominal exchange rate between the dollar and the British pound than on the rates for the yen, the lira, the mark, and the French franc. The relationship between U.S. monetary policy and exchange rates existed during the period of fixed exchange rates prior to 1971 too, the authors find, but the impact of U.S. monetary expansions was less apparent because U.S. policy was less volatile than under the more recent floating exchange rate regime. This suggests that increased volatility in U.S. monetary policy contributed to the increased volatility of exchange rates in the post-Bretton Woods era.

Eichenbaum and Evans caution that, while their work demonstrates the importance of monetary policy to exchange rates, it also shows that monetary policy accounts for far less than half of the movement in exchange rates. “Our results are entirely consistent with the notion that real changes which affect the relative prices of the different goods produced by different countries were at least as important as monetary policy in the process of exchange rate determination,” they conclude. ML



# New NBER Book

## *Studies in International Taxation*

Edited by Alberto Giovannini, R. Glenn Hubbard, and Joel B. Slemrod, this volume analyzes the effects of international taxation on the business decisions of multinational corporations. It considers the form of ownership of foreign corporate equity; whether tax incentives affect the level and location of R and D activities; and the patterns of international income shifting. The empirical research presented in this volume will be useful to the ongoing policy debate on reforming the taxation of multinational businesses in the United States and abroad. It should be of interest to practitioners and students of public finance and international economics, and is priced at \$46.

Giovannini, Hubbard, and Slemrod are all NBER research associates. Giovannini is also the Jerome A. Chazen Professor of International Business at Co-

lumbia University. Hubbard is the former deputy assistant secretary for tax policy analysis of the U.S. Department of the Treasury, and is a professor of economics and finance at the Graduate School of Business, Columbia University. Slemrod is a professor of business economics, public policy, and economics at the University of Michigan School of Business Administration.

This volume may be ordered directly from the University of Chicago Press, Order Department, 11030 South Langley Avenue, Chicago, IL 60628. Academic discounts of 10 percent for individual volumes and 20 percent for standing orders for *all* NBER books published by the University of Chicago Press are available to university faculty; orders must be sent on university stationery.



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