

Research Statement

Meta Brown, Assistant Professor, University of Wisconsin - Madison

I am an applied microeconomist with broad interest in the economics of the family and in topics in public and labor economics. Much of my specific work focuses on intergenerational economic linkages over the life-cycle of the family. However, the following projects also touch on the traditional labor, public and health economics subjects of unemployed search, Social Security design and family long-term care arrangements.

Parental Contributions to Post-Secondary Education

From 2003 to 2007 I received NIA/NICHD funding (along with 3 Wisconsin colleagues) to investigate cash and educational transfers from parents to children. One striking observation that motivated our proposal was that transfers that parents make for college are more common and larger than all other cash transfers that parents make to their adult children. The following papers reflect our efforts to understand the financial connections between parents and children in the U.S., and to apply this understanding to the contentious question of how successful U.S. policies are at providing students with access to credit for college.

“A New Test of Educational Borrowing Constraints,” with John Karl Scholz and Ananth Seshadri of UW, August 2007. Models of investment and borrowing for education typically treat the family as a unitary decision-maker. Doing so may conceal the nature of borrowing constraints, since adults with college-age children are likely at a life-cycle stage where credit constraints are not important. We instead propose a simple model of altruistic parents and a child where both parties can make investments in education and for other purposes, and parents can transfer cash to their child. The model implies that educational investment is inefficient for intergenerationally constrained parent-child pairs. The constraint arises because parents of constrained children rationally do not pay the share of college expenses that is assumed by federal financial aid formulas. The model highlights new empirical implications of borrowing constraints for education, which we examine using data from the Health and Retirement Study (HRS) and the National Longitudinal Study of Youth 1997 cohort. The data are consistent with quantitatively important borrowing constraints for higher education.

This paper has been presented recently at the University of Chicago, Brookings and the University of Western Ontario, and will soon be presented at Duke, Brown and by invitation at the fall meeting of the NBER Economics of Education program. It is currently under review.

“Tied Transfers,” with Maurizio Mazzocco of Duke and John Karl Scholz, and Ananth Seshadri of UW, September 2006. We find that more than half of Wisconsin Longitudinal Study (WLS) and HRS parents make transfers to fund their children’s post-secondary education, and that the mean positive transfer is roughly \$28,000 in 1992 dollars for each group. In an attempt to understand this important phenomenon, we model the distinct human capital investment choices of a parent and child with multiple transfer and investment opportunities. Our model improves on previous research in its ability to pin down transfer levels, timing and form. It makes three testable predictions for the relationship between college investments and cash transfers, which alternative unitary and naive models do not match. Estimates based on the HRS and WLS are consistent with all three implications, suggesting that the model, in which family members behave noncooperatively in the presence of capital market imperfections and earnings uncertainty, provides a useful framework for examining household transfer patterns.

This paper has been presented recently at Yale, Wisconsin-Milwaukee, Cornell, Michigan, Missouri and the NBER. This October we are completing extensive revisions of the September 2006 draft, after which we intend to submit the paper for publication.

“Non-custodial Parents’ Voluntary and Court-Ordered College Contributions.” The only substantial group of U.S. parents ever legally required to pay for college are non-custodial divorced parents required to do so by divorce settlements. The legislation supporting such settlements was generated by the concern that non-custodial parents shirk college payment responsibilities, but relied on little empirical evidence. In addition, settlement-based college contributions can exempt increases in non-custodial parents’ income from federal aid calculations. This study seeks to determine whether empirical evidence is consistent with non-custodial parents shirking on college contributions, and under what circumstances early and late contribution requirements may support efficient human capital investment for children of divorce.

This is a new and ongoing project.

Marriage, Divorce and Investment in Children

Christopher Flinn of New York University and I are engaged in ongoing research on parents’ dynamic choices of marital status, fertility and investment in children, and the response of their behavior to child support and marital dissolution policies. This research line has been funded by the NSF from 2005 through August 2008.

“Investment in Child Quality Over Marital States,” with Christopher Flinn of NYU, July 2006.

We develop a continuous time model of parents' marital status choices and investments in children, with the main goal being the determination of how policies toward divorce influence outcomes for children. Estimates are derived for model parameters of interest using the method of simulated moments, and widely varying state child support guidelines and marital dissolution standards contribute to identification. Simulations based on the model explore the effects of changes in custody allocations and child support standards on outcomes for children of married and divorced parents. We find that, while small changes in children's academic attainment are induced by significant shifts in custody and support, the major effects of these policies in both intact and divided households are on the distribution of welfare between parents. Further, children's attainments are not necessarily best served by the divorce-minimizing policy.

This paper has been presented recently at Georgetown, Rochester, the 2007 AEA meetings, NIU, the Stanford Institute for Theoretical Economics and UNC-Greensboro. We are revising the paper and will submit it this fall.

“Fertility, Marriage Dynamics and Investment in Children,” with Christopher Flinn of NYU. Our continuous-time, duration-based approach to estimating family structure and child investment dynamics is particularly well suited to the subject of marriage, divorce and fertility timing. We are using data on couples’ duration in marriage to multiple fertility events and to divorce, along with a detailed state divorce policy roster, to study the effects of family law and marriage stability on fertility choices and other investments in the family.

This is a new and ongoing project.

Economics of Aging: Family Long-Term Care Decisions and Social Security

The following three independent papers represent my early and continuing interest in long-term care and the economics of aging. The first two were supported by a 2002-3 Sandell Grant for Junior Scholars in Retirement Research from Boston College’s Center for Retirement Research.

“End-of-Life Transfers and the Decision to Care for a Parent,” previous version July 2004, current version February 2007. Three-quarters of the disabled U.S. elderly live outside of institutions, and the majority of these community residents derive unpaid, informal care from their children. This study uses a dynamic structural model to investigate the relative importance of potential end-of-life transfers and other, non-financial factors in determining family care arrangements. The imposed structure accounts for

the complex manner in which expected bequests depend on parents' current liquid assets, mortality probabilities and life insurance. The rich data available from the AHEAD study allow separate identification of the effects of parents' mortality risk and care needs, and of children's values of time and parents' affluence, on equilibrium transfers and care. Model estimates indicate that parents' care needs, rather than their financial need or potential transfers, are paramount in families' caregiving decisions.

This paper has been revised and resubmitted to the International Economic Review.

“Informal Care and the Division of End-of-Life Transfers.” Unmarried parents in the Asset and Health Dynamics Among the Oldest Old (AHEAD) study derive the majority of their long-term care hours from their children, and child caregivers are generally unpaid. This paper examines the extent to which the division of end-of-life transfers compensates caregiving children. In a model of siblings' altruistic contribution of care to a shared parent, the parent's estate division is found to influence total family care, even where care contingencies are unenforced. Evidence in the AHEAD data that end-of-life transfers favor both current and expected caregivers, and that children make altruistic but resource-constrained caregiving decisions, is consistent with a theory of estate division in which planned end-of-life transfers elicit care from altruistic children.

This paper appeared in the Winter 2006 edition of the Journal of Human Resources.

“Mandatory Retirement Saving and the Efficiency Consequences of Transfers to the Elderly,” previous draft January 2005, this draft October 2007. This paper provides an efficiency-based motivation for mandatory retirement saving where savers are rational and lifespans are certain. In a model of the investment and transfer decisions of a benevolent government and a citizen, the distortion of young workers' saving by the government's preferred means-tested transfer to the aged is corrected through a mandatory saving program. The optimal policy rationalizes the structure of the existing Social Security earnings tax. In addition, the theory addresses two standing concerns regarding the suitability of the free rider problem as a rationale for mandatory retirement saving.

This paper is currently under review.

New directions

The following submitted search experiment paper and nascent bankruptcy project are examples of my broader research interests.

“Real Time Search in the Laboratory and the Market,” with Christopher Flinn and Andrew Schotter of NYU, August 2007. While widely accepted models of labor market search from stationary environments imply a constant reservation wage policy, the empirical evidence strongly suggests that reservation wages decline in search duration. This paper reports the results of the first real-time-search experiment, performed to investigate the time dependence of search behavior. The controlled environment subjects face is stationary, and the payoff-maximizing reservation wage is constant. Nevertheless, subjects' reservation wages decline sharply over time. We investigate two hypotheses to explain this decline. In the first the decline is attributable to mounting search costs, while in the second subjects experience increasing disutility of search over time. Our data support the second reason and we substantiate this conclusion both experimentally and econometrically. We look for external validation of the results by estimating hazard rates using Survey of Income and Program Participation data. Our experimental results suggest a new behavioral explanation for both reservation wage declines and non-monotonic employment hazards observed in the field.

This paper is currently under review.

Personal Bankruptcy and Consumer Credit. Over the past few years I've been following the literature on personal bankruptcy and consumer credit, and I've taught leading papers, including those of colleagues, to my graduate classes. Much of the recent research suggests that large changes in the market for unsecured consumer debt are behind the growing importance of consumer bankruptcy, and hence

bankruptcy policy, in the U.S. Further, optimal bankruptcy policy has been studied assuming both rational borrowers and Laibson-style hyperbolic discounters, with stark differences in the resulting prescriptions. I am working on extracting information on borrower rationality from the ability to report features of existing debt contracts (interest rate, borrowing limit), and using this to relate borrower types to responses to policy and credit supply changes.