Death and Taxes

BY CHARLES GERENA

"Aging and Strategic Learning: The Impact of Spousal Incentives on Financial Literacy." Joanne W. Hsu, Federal Reserve Board of Governors Finance and Economics Discussion Series Working Paper 2011-53, October 2011.

Women tend to live longer than men. When a woman's husband dies, she faces the prospect of dealing with the household's finances alone. In households where the wife was already primarily responsible for financial matters, she is accustomed to this responsibility. In other households, it requires the wife to adjust to a new role under difficult circumstances.

Joanne Hsu, an economist at the Federal Reserve Board of Governors, created a model to examine a married woman's incentives to increase her financial literacy, including her likelihood of widowhood in the future.

"In sum, the model predicts that a woman will acquire financial knowledge very slowly at the beginning of the marriage and delay larger investments in human capital," Hsu explains. "The rate of investing will increase as the expected time of widowhood approaches. After her husband dies, she takes charge of the finances and accrues payoffs to her financial knowledge."

Using data from a national survey of households and other sources, Hsu ran the model and found that wives did increase their financial literacy in various ways as their husbands aged. As the time to potential widowhood grew nearer, women accelerated their literacy efforts, though the expected length of widowhood was not a statistically significant incentive.

"Do Borrower Rights Improve Borrower Outcomes? Evidence From the Foreclosure Process." Kristopher Gerardi, Lauren Lambie-Hanson, and Paul S. Willen, Federal Reserve Bank of Boston Public Policy Discussion Paper 11-9, December 2011 (also published as Federal Reserve Bank of Atlanta Working Paper 2011-16, November 2011).

It's commonly believed that the best way to stem the tide of foreclosures is to strengthen protections for homeowners in default. Kristopher Gerardi at the Atlanta Fed, and Lauren Lambie-Hanson and Paul Willen at the Boston Fed decided to test this intuition by evaluating two types of borrower protections. In both cases, foreclosures were delayed but not prevented.

When someone defaults on a mortgage, the lender usually has two choices — petition a court to foreclose on the house and auction the property, or carry out the foreclosure process itself if the borrower agreed to give the lender that right, known as the "power of sale." In 20 states, only judicial foreclosures are permitted. Gerardi, Lambie-Hanson, and Willen found that the foreclosure process was much longer in these states.

"A year after a borrower enters serious default, which we define as becoming 90 days delinquent, lenders had auctioned off only 14 percent of properties in judicial states compared to 35 percent in power-of-sale states," noted the paper's authors.

This delay might seem like a good outcome because it gives borrowers time to fix things. In fact, borrowers in states with judicial foreclosures were no more likely to become current on the mortgage or pay it off. They stayed in their houses longer, but the unhappy ending still happened.

Gerardi, Lambie-Hanson, and Willen also examined a Massachusetts law passed in November 2007 that suspends foreclosure proceedings for 90 days. They compared mortgage outcomes in Massachusetts before and after the law's implementation with outcomes in three neighboring states with no major changes in their foreclosure regulations. Here, too, the borrower protection resulted in no significant change in modification rates.

The authors surmise that the 90-day waiting period wasn't enough time for borrowers in default to solve their problems. Massachusetts lawmakers may have come to the same conclusion — they extended the waiting period to 150 days in August 2010. There is insufficient evidence to evaluate the results of that change.

"How the U.S. Tax System Stacks Up Against Other G-7 Economies." Anthony Landry, Federal Reserve Bank of Dallas Economic Letter, vol. 6, no. 12, November 2011.

Anthony Landry, a senior research economist at the Dallas Fed, combed through aggregate data from the Organization for Economic Cooperation and Development to see how U.S. tax policy compares with that of the other Group of Seven industrialized nations: Canada, France, Germany, Italy, Japan, and the United Kingdom.

As in other G-7 countries, income taxes account for the bulk of the government's revenue, mostly levies on workers' paychecks rather than taxes on capital or corporate income. Value-added and excise taxes on goods and services account for a smaller percentage of revenue here, partly due to the fact that the United States has the lowest consumption sales tax rate among the G-7 nations.

Together with the lowest labor income taxes among the G-7, this arguably puts the United States in a competitive position globally to attract skilled workers. On the other hand, the United States had the second-highest corporate tax rate among G-7 countries (second only to Japan). **RF**