

Knight (2002): Federal Grants and Crowd-Out of State Spending

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Why Do We Care?

- Policy: How does policy endogeneity affect how we interpret crowding-out?
- Economics: How do representatives respond to grant incentives?



Data

- Census: two sources of highway spending and grants

Methodology and Research Design

- OLS with omitted variable bias (preferences that influence both grant receipts and state highway spending)
- Corrected with state fixed effects
- Instruments: committee membership, party representation, and tenure

Contribution

- Corrects for policy endogeneity to find that federal highway grants do crowd out state spending

Things I Liked

- Creative instruments
- Finding a new solution to an older problem

Concerns

- Preferences are still unmeasurable



Extension

- Education grants