Literature Report

张晨峰, 华东理工大学商学院

Abstract

Seeing is believing- can increasing the number of female leaders reduce sex selection in rural India?

- Journal of Development Economics---2017---Priti Kalsi

Cultural values regarding gender roles encourage gender discrimination and the practice of sex selection. Increasing political and work force participation of women challenges such norms. Exploiting the implementation of an Indian law that required one-third of local political seats to be reserved for women, I investigate the impact of female leadership on sex selection in rural India. I find an increase in the survival of higher birth order girls if political seats at the local level have been reserved for women. I argue that the likely underlying mechanism is a change in beliefs due to exposure to female leaders.

Childhood health and the wantedness of male and female children

- Journal of Development Economics---2017---Giordano Palloni

Maternal desire for children of a particular sex has important implications for the well-being of household members. A simple theoretical model predicts that when a child is born of their mother's preferred sex, parents will allocate more resources towards that child, resulting in healthier children. I test this prediction empirically using a longitudinal data set from Indonesia. Each mother's preferred sex, defined by whether she prefers for future children to be male or female, is matched to the observed sex of her subsequent child. Because this measure of maternal sex preference is established before conception, identification requires only that the sex at birth of the subsequent child is random. I find that children born of their mother's preferred sex are heavier, have a higher body mass index, and experience fewer illnesses in early childhood. I show that reductions in subsequent fertility can explain roughly half of the total effect.

Subsidies with export share requirements in China

- Journal of Development Economics---2017---Fabrice Defever,Alejandro Riaño

A subsidy is subject to an export share requirement (ESR) when firms must export more than a certain share of their output to receive it. Such incentives are frequently found in free trade zones, export processing regimes and measures targeted at foreign investors, both in China and other developing countries. In this paper we provide the first quantitative assessment of the effect that using subsidies with ESR has on exports, the intensity of competition and welfare, both in the enacting country and its trading partners, using a two-country model of trade with heterogeneous firms. We find that the subsidy with ESR boosts exports more than an equivalent unconditional subsidy available to all exporters. Crucially, the subsidy with ESR provides greater protection to low-profitability firms, while the unconditional subsidy does the opposite. The combination of export promotion and lower intensity of domestic competition generated by the subsidy with ESR can be described as "protectionism through exporting." The imposition of an ESR, however, greatly exacerbates the welfare loss associated with subsidizing exporters.

Extended families and child well-being

- Journal of Development Economics---2017---Daniel LaFave,Duncan Thomas

Whereas the extended family plays a central role in many models of economic behavior, particularly in developing countries, there is a paucity of empirical evidence on the extent and nature of resource sharing among non coresident family members. This is in sharp contrast with abundant evidence that the distribution of resources within households predicts household spending and savings patterns. To fill this gap, the collective model of household decision-making is extended to the family. The model is particularly appealing in this context because it places few restrictions on preferences of individual family members who may or may not be coresident and does not specify a specific bargaining mechanism that underlies negotiations. The model yields empirical tests of whether the behavior of family members is (Pareto) efficient.

1807: Economic shocks, conflict and the slave trade

- Journal of Development Economics---2017---James Fenske,Namrata Kala

A large fraction of modern global conflicts has occurred in Africa, resulting in a disproportionate number of fatalities compared to other regions. Many of Africa's conflicts have deep historical roots. In this paper, we contribute to understanding the determinants of historical African conflict by studying an important historical source of conflict: suppression of the slave trade after 1807. We use geo-coded data on African conflicts to uncover a discontinuous increase in conflict after 1807 in areas affected by the slave trade, indicating that suppression increased the incidence of conflict between Africans. In West Africa, the slave trade declined. This empowered interests that rivaled existing authorities, and political leaders resorted to violence in order to maintain their influence. In West-Central and South-East Africa, slave exports increased after 1807 and were produced through violence.

Be patient when measuring hyperbolic discounting: Stationarity, time consistency and time invariance in a field experiment

- Journal of Development Economics---2017---Wendy Janssens,Berber Kramer,Lisette Swart

Hyperbolic discounting is one potential reason why savings remain low among the poor. Most evidence of hyperbolic discounting is based on violations of either stationarity or time consistency. Stationarity is violated when intertemporal choices differ for trade-offs in the near versus the more distant future. Time consistency is violated if the optimal allocation for specific dates changes over time. Both types of choice reversals may however also result from time-varying discount rates. Hyperbolic discounting is an unambiguous explanation for choice reversals only if the same individuals violate both stationarity and time consistency. Our field experiment in Nigeria examines the extent to which this is the case. The experiment measured both stationarity and time consistency for the same participants. Violations of the two rarely coincide, especially among more liquidity-constrained participants. Thus, in a context of liquidity constraints, eliciting only one type of choice reversal is insufficient to identify hyperbolic discounting.

Health, Enterprise, and Labor Complementarity in the Household

- Journal of Development Economics---2017---Achyuta Adhvaryu,Anant Nyshadham

We study the role of household enterprise as a coping mechanism after health shocks. Using variation in the cost of traveling to formal sector health facilities to predict recovery from acute illness in Tanzania, we show that individuals with prolonged illness switch from farm labor to enterprise activity. This response occurs along both the extensive (entry) and intensive (capital stock and labor supply) margins. Family members who are not ill exhibit exactly the same pattern of responses. Deriving a simple extension to the canonical agricultural household model, we show that our results suggest complementarities in household labor.

The persistent effects of novelty-seeking traits on comparative economic development

- Journal of Development Economics---2017---Erkan Gören

The issue of novelty-seeking traits have been related to important economic attitudes such as risk-taking, entrepreneurial, and explorative behaviors that foster technological progress and, thus, economic development. However, numerous molecular genetic studies have shown that novelty-seeking bearing individuals are prone to certain psychological “disadvantages” such as Attention Deficit Hyperactivity Disorder (ADHD), leading to occupational and educational difficulties in modern societies. Using a recent compilation of DRD4 exon III allele frequencies – a particular gene variant that population geneticists have found to be sometimes associated with the human phenotype of novelty-seeking behavior – this paper advances a new country-level measure on the prevalence of novelty-seeking traits for a large number of countries worldwide. The results suggest a stable non-monotonic inverted U-shaped relationship between the country-level DRD4 exon III allele frequency measure and economic development. This finding is suggestive of the potential “benefits” and “costs” of novelty-seeking traits for the aggregate economy.

Childcare effects on maternal employment: Evidence from Chile

- Journal of Development Economics---2017---Claudia Martínez A.,Marcela Perticara,Claudia Martínez A.

Using a randomized experiment, this study examines whether offering afterschool care for children aged between 6 and 13 has an impact on labor market outcomes for women in Chile. The results show that program participation increases employment by 5% and labor force participation by 7%, while the intervention also generates substantial childcare substitution. The results also suggest that the provision of afterschool care for older children triggers the use of free daycare for young (ineligible) children.

Transnational insurgents: Evidence from Colombia’s FARC at the border with Chávez’s Venezuela

- Journal of Development Economics---2017---Luis R. Martínez

Many insurgent groups operate across international borders, but transnational insurgent activities are seldom observable and little is known about their consequences. In this paper I show that activity by Colombian insurgent group FARC increased disproportionately in Colombian municipalities next to the border with Venezuela after Hugo Chávez became president of the latter. I argue that FARC’s reliance on short-range weaponry and non-mechanized transportation limited the area in which the group could expand its operations as a result of access to a cross-border safe haven. In consequence, the finding above constitutes evidence of increased FARC presence in Venezuela during the Chávez administration. Exploiting the plausibly exogenous change of government in Venezuela, I find that Colombian municipalities more exposed to a cross-border guerrilla sanctuary experience large increases in the intensity of violence, as well as reductions in local tax revenue and educational enrolment.

Trade and labor reallocation with heterogeneous enforcement of labor regulations

- Journal of Development Economics---2017---Rita Almeida,Jennifer Poole

This paper revisits the question of how trade affects labor market outcomes in a developing country setting. We explore the fact that plants face varying degrees of exposure to the enforcement of labor market regulations, and rely on Brazil's currency crisis in 1999 as an exogenous source of variation in access to foreign markets. Using administrative data on employers and their employees, and on the enforcement of labor regulations at the city level over Brazil's crisis period, we document that the way a currency shock affects employment depends on the stringency of de facto labor market regulations. In particular, we show for Brazil, a country with strict de jure labor regulation, that after a depreciation, plants facing stricter enforcement of the labor law increase employment by less than plants facing looser enforcement. These findings are consistent with the hypothesis that, in the context of strict de jure labor market regulations, increased enforcement limits the plant-level productivity gains associated with a more global market. Therefore, increasing the flexibility of de jure regulations may allow for broader access to the gains from trade.

Financial development, income inequality, and the redistributive effects of monetary policy

- Journal of Development Economics---2017---Edgar A. Ghossoub,Robert R. Reed

How should financial systems be designed to limit income inequality? Does the redistributive impact of inflation depend on the extent of financial development? Should optimal monetary policy vary across countries with different levels of financial development? In order to address these questions, we develop a monetary growth production model with heterogeneous agents. In our economy, optimal policy needs to weigh the effects of policy across two groups – capital owners and individuals who hold liquid assets. In this environment, we compare various economies that are identical in every aspect except for their level of financial development. Interestingly, we generally find that economies at the highest stages of financial development (economies in which money, bonds, and claims to capital are traded) experience the highest amount of capital formation and social welfare as long as inflation is low. Yet, regardless of the extent of financial development, there are generally redistributive consequences from inflation. Moreover, the model tends to predict that economies with relatively small stock markets produce the highest levels of income inequality. Empirical work examining the role of money growth and the implications of financial development across countries is consistent with predictions from the model.

Fertility at work: Children and women's labor market outcomes in urban Ghana

- Journal of Development Economics---2017---Rachel Heath

While it is commonly assumed that fertility decreases female labor supply, I show theoretically that fertility can increase female labor supply if returns to financial inputs in children are sufficiently high compared to returns to time investments. Using six rounds of a panel survey from urban Ghana, I find evidence of countervailing effects behind a net zero effect of young children on women's hours of work: labor supply on the extensive margin drops, but women who remain in the labor force increase their hours in response to a child. Women's labor supply particularly increases in response to a young child if there are older siblings or other adults in the household. By contrast, men's labor supply does not change in response to young children.

Poverty traps, convergence, and the dynamics of household income

- Journal of Development Economics---2017---Raj Arunachalam,Ajay Shenoy

We design a new method to detect household poverty traps. We apply the method to a unique panel that follows rural Indian households over thirty years. We find no evidence of poverty traps. Most households had annual income growth of over 2%, and income mobility is high. We then design and apply a method to detect conditional convergence. We find that upper castes are converging to a level of wealth 3 times as high as disadvantaged castes.

Compulsory licensing and innovation – Historical evidence from German patents after WWI

- Journal of Development Economics---2017---Joerg Baten,Nicola Bianchi,Petra Moser

Compulsory licensing allows governments to license patented inventions without the consent of patent owners. Intended to mitigate the potential welfare losses from enforcing foreign-owned patents, many developing countries use this policy to improve access to drugs that are covered by foreign-owned patents. The effects of compulsory licensing on access to new drugs, however, are theoretically ambiguous: Compulsory licensing may encourage innovation by increasing competition or discourage innovation by reducing expected returns to R&D. Empirical evidence is rare, primarily because contemporary settings offer little exogenous variation in compulsory licensing. We address this empirical challenge by exploiting an event of compulsory licensing as a result of World War I when the US Trading with the Enemy Act made all German-owned patents available for licensing to US firms. Firm-level data on German patents indicate that compulsory licensing was associated with a 30 percent increase in invention by German firms whose inventions were licensed.

Seeing is believing? Evidence from an extension network experiment

- Journal of Development Economics---2017---Florence Kondylis,Valerie Mueller,Jessica Zhu

Extension is designed to enable lab-to-farm technology diffusion. Decentralized models assume that information flows from researchers to extension workers, and from extension agents to contact farmers (CFs). CFs should then train other farmers in their communities. Such a modality may fail to address informational inefficiencies and accountability issues. We run a field experiment to measure the impact of augmenting the CF model with a direct CF training on the diffusion of a new technology. All villages have CFs and access the same extension network. In treatment villages, CFs additionally receive a three-day, central training on the new technology. We track information transmission through two nodes of the extension network: from extension agents to CFs, and from CFs to other farmers. Directly training CFs leads to a large, statistically significant increase in adoption among CFs. However, higher levels of CF adoption have limited impact on the behavior of other farmers.

Roads, exports and employment: Evidence from a developing country

- Journal of Development Economics---2017---Christian Volpe Martincus,Jeronimo Carballo,Ana Cusolito

Domestic road programs are often justified on the basis of their presumed positive effects on firms' exports and accordingly on firms' employment. In this paper we evaluate this policy claim for Peru, a developing country whose regions were exposed to an asymmetric infrastructure shock. In so doing, we take advantage of detailed geo-referenced data on firm-level trade for the period 2003–2010 as well as on recent and historical road infrastructure. In particular, to identify the impacts of interest, we first exploit the dimensions of this dataset to account for regional-sectoral and even firm-level confounding factors through extensive sets of fixed effects. In addition, we conduct placebo exercises and carry out instrumental variable estimations whereby we instrument recent changes in the road network with the pre-Columbian Inca road network. Estimates concur in suggesting that improvements in transport infrastructure had a significant positive impact on firms' exports and thereby on firms' job growth.

Natural disasters and labor markets

- Journal of Development Economics---2017---Martina Kirchberger

While it is clear that natural disasters have serious welfare consequences for affected populations, less is known about how local labor markets in low-income countries adjust to such large shocks. Combining data from the Indonesia Family Life Survey, the DesInventar database, the U.S. Geological Survey, and district-level employment indicators, this paper explores how a large earthquake in Indonesia affected labor market outcomes, in particular the evolution of wages across sectors. I find that the earthquake had a positive effect on wage growth for workers who were employed in the agricultural sector at baseline. I propose two mechanisms for this result: a higher growth rate of the price of rice and a downward shift in the supply of workers in the agricultural sector. I show that evidence mainly supports the latter: labor shifted out of the agricultural sector into the construction sector, raising the marginal product of labor in agriculture.

WTO accession and tariff evasion

- Journal of Development Economics---2017---Beata Javorcik,Gaia Narciso

This study documents some unintended consequences of the World Trade Organization (WTO) membership by providing evidence on displacement of tariff evasion driven by the WTO accession process. The analysis focuses on the WTO Customs Valuation Agreement (CVA) which limits the discretion of customs officials when it comes to assessing the price of imports. While prior to the WTO accession customs officials are free to use their own judgment or apply minimum or reference prices, after their country joined the WTO they are mandated to accept the invoice price issued by the exporter. If customs officials enjoy discretion with respect to assessing the import price, they may assist importers with tariff evasion in exchange for bribes. Removing such discretion limits their ability to facilitate misrepresentation of import prices. Using data on 15 countries which joined the WTO between 1996 and 2008, we find a positive relationship between underreporting of import prices and the tariff rate, which is expected as the incentive to evade increases with the tariff rate. Importantly, this relationship disappears after a country joins the WTO. This result is consistent with the CVA closing one channel for corrupt behavior. However, we also find that changes to customs valuation procedures induce importers to seek alternative ways of tariff evasion, such as underreporting of quantities and product misclassification. The overall level of evasion remains unchanged.

Trade to aid: EU's temporary tariff waivers for flood-hit Pakistan

- Journal of Development Economics---2017---Juyoung Cheong,Do Won Kwak,Haishan Yuan

In this paper, we study the effectiveness of the first large-scale unilateral trade concessions as foreign aid for disaster relief, i.e., EU tariff waivers on goods heavily exported by Pakistan, which was severely hit by the 2010 floods. Using a triple-difference approach and a synthetic control approach, we find that the tariff waivers substantially increased Pakistan's exports to the EU. The export hike occurred within a few months after the waivers became effective, and did not significantly depress exports by competing countries. While the export boost brought greater employment opportunities in the tariff-waived industries, we find little evidence that the greater labor demands from trade were particularly beneficial to the areas most affected by the floods. Our findings suggest that trade policy may complement traditional means of foreign aid—but trade concessions alone may be inadequate, as the areas most affected by natural disasters may be poorly targeted.

Daughters, dowries, deliveries: The effect of marital payments on fertility choices in India

- Journal of Development Economics---2017---Marco Alfano

This paper investigates the effect of the differential pecuniary costs of sons and daughters on fertility decisions. The focus is on dowries in India, which increase the economic returns to sons and decrease the returns to daughters. The paper exploits an exogenous shift in the cost of girls relative to boys arising from a revision in anti-dowry law, which is shown to have decreased dowry transfers markedly. The reform is found to have attenuated the widely documented positive association between daughters and their parents' fertility. The effect is particularly pronounced for more autonomous women and for individuals living in areas characterised by strong preferences for sons.

The devil is in the details: The successes and limitations of bureaucratic reform in India

- Journal of Development Economics---2017---Iqbal Dhaliwal,Rema Hanna

Using a biometric technology to monitor the attendance of public health workers in India resulted in a 15 percent increase in staff presence, particularly for lower-level staff. The monitoring program led to a reduction in low-birth weight babies, highlighting the importance of improving provider presence. But, despite the government initiating this reform, there was ultimately a low demand by the government to use the higher quality attendance data available in real time to enforce their existing human resource policies (e.g. leave or salary deductions) due to logistical challenges and a not unrealistic fear of generating staff discord or increase in staff attrition, especially among doctors, who showed the least improvement in attendance. While we observed some gains from this type of monitoring program, technological solutions by themselves will not improve attendance of government staff without a willingness to use the data generated to enforce existing penalties.

Pre-colonial institutions and socioeconomic development: The case of Latin America

- Journal of Development Economics---2017---Luis Angeles,Aldo Elizalde

We study the effects of pre-colonial institutions on present-day socioeconomic outcomes for Latin America. Our thesis is that more advanced pre-colonial institutions relate to better socioeconomic outcomes today. We advance that pre-colonial institutions survived to our days thanks to the existence of largely self-governed Amerindian communities in rural Latin America. Amerindians groups with more advanced institutional capacity would have been able to organize and defend their interests in front of national governments; leading to better development outcomes for themselves and for the population at large. We test our thesis with a dataset of 324 sub-national administrative units covering all mainland Latin American countries. Our extensive range of controls covers factors such as climate, location, natural resources, colonial activities and pre-colonial characteristics – plus country fixed effects. Results strongly support our thesis.

All in the family: State capture in Tunisia

- Journal of Development Economics---2017---Bob Rijkers,Caroline Freund,Antonio Nucifora

We examine the relationship between entry regulation and the business interests of former President Ben Ali's family using firm-level data from Tunisia. Connected firms account for a disproportionate share of aggregate employment, output and profits, especially in sectors subject to authorization and restrictions on FDI. Quantile regressions show that profit and market share premia from being connected increase along the firm-size distribution, especially in highly regulated sectors. These patterns are partly explained by Ben Ali's relatives sorting into the most profitable sectors. The market shares of connected firms are positively correlated with exit and concentration rates in highly regulated sectors. Although causality is difficult to establish, the results are consistent with the hypothesis that the Ben Ali clan abused entry regulation for private gain at the expense of reduced competition.

Has climate change driven urbanization in Africa?

- Journal of Development Economics---2017---J. Vernon Henderson,Adam Storeygard,Uwe Deichmann

This paper documents strong but differentiated links between climate and urbanization in large panels of districts and cities in Sub-Saharan Africa, which has dried substantially in the past fifty years. The key dimension of heterogeneity is whether cities are likely to have manufacturing for export outside their regions, as opposed to being exclusively market towns providing local services to agricultural hinterlands. In regions where cities are likely to be manufacturing centers (25% of our sample), drier conditions increase urbanization and total urban incomes. There, urban migration provides an "escape" from negative agricultural moisture shocks. However, in the remaining market towns (75% of our sample), cities just service agriculture. Reduced farm incomes from negative shocks reduce demand for urban services and derived demand for urban labor. There, drying has little impact on urbanization or total urban incomes. Lack of structural transformation in Africa inhibits a better response to climate change.

Do disaster experience and knowledge affect insurance take-up decisions?

- Journal of Development Economics---2017---Jing Cai,Changcheng Song

This study examines the effect of experience and knowledge on weather insurance adoption. First, we conduct insurance games with farmers, and find that the treatment improves real insurance take-up by 46%. The effect is not driven by changes in risk attitudes and perceived probability of disasters, or by learning of insurance benefits, but is driven by the experience acquired in the game. Second, we find that providing information about the payout probability has a strong positive effect on insurance take-up. Finally, when subjects receive both treatments, the probability information has a greater impact on take-up than does the disaster experience.

Terrorism risk and democratic preferences in Pakistan

- Journal of Development Economics---2017---Faiz Rehman,Paolo Vanin

Beyond direct damages, terrorism creates fear and insecurity, potentially reducing support for democratic institutions if these are deemed inadequate to tackle the threat. To investigate this possibility, we use data from Pakistan, a country that experienced an exponential rise in terrorism since 2001. Exploiting individual-level data on democratic attitudes and district-level information on terrorist attacks, we document that persistent exposure to terrorism (and more broadly to violence) is associated to a significantly lower support for democratic values. This correlation is robust to various alternative specifications (including an IV strategy), relevant in magnitude, and more pronounced for individuals who are male, poor, or less exposed to the media. Terrorism thus threatens not only individuals, but also democratic institutions.

China as number one? Evidence from China's most recent patenting surge

- Journal of Development Economics---2017---Albert G.Z. Hu,Peng Zhang,Lijing Zhao

China overtook the U.S. in 2011 to become the country filing the largest number of patent applications. Has China's patenting ascendancy been propelled by Chinese firms' increasing technological sophistication or their much greater propensity to seek patents? Using a unique and never before used data set, where the State Intellectual Property Office (SIPO) patent records have been matched to their applicant firms by SIPO, we differentiate the two potential explanations by estimating a patent production function and by relating a firm's patents in force to its labor productivity. Our main findings are: 1) while the patenting surge has been an across-the-board phenomenon, most of the growth has come from the extensive margin of growth – firms that were not actively applying for patents in the past; 2) the correlation between patents and R&D and that between patents and labor productivity have become weaker, particularly for utility models and for the extensive margin of growth. These results suggest that non-innovation related motives for acquiring patents may have played an important role in the patenting surge.

Guns and butter? Fighting violence with the promise of development

- Journal of Development Economics---2017---Gaurav Khanna,Laura Zimmermann

There is growing awareness that development-oriented government policies may be an important counterinsurgency strategy, but existing papers are usually unable to disentangle various mechanisms. Using a regression-discontinuity design, we analyze the impact of one of the world's largest anti-poverty programs, India's NREGS, on the intensity of Maoist conflict. We find short-run increases of insurgency-related violence, police-initiated attacks, and insurgent attacks on civilians. We discuss how these results relate to established theories in the literature. One mechanism consistent with the empirical patterns is that NREGS induces civilians to share more information with the state, improving police effectiveness.

The welfare gains from macro-insurance against natural disasters

- Journal of Development Economics---2017---Eduardo Borensztein,Eduardo Cavallo,Olivier Jeanne

This paper uses a dynamic optimization model to estimate the welfare gains that a small open economy can derive from insuring against natural disasters with catastrophe (CAT) bonds. We calibrate the model by reference to the risk of earthquakes, floods and storms in developing countries. We find that the countries most vulnerable to these risks would find it optimal to use CAT bonds for insurance if the cost of issuing these bonds were significantly smaller than it is in the data. The welfare gains from CAT bonds range from small to substantial depending on how insurance affects the country's external borrowing constraint. The option of using CAT bonds may bring a welfare gain of several percentage points of annual consumption by enhancing the country's ability to borrow. These large gains disappear if the country can opportunistically default on its external debt.

Social capital, conflict and welfare

- Journal of Development Economics---2017---Colin Jennings,Santiago Sánchez-Pagés

This paper analyzes the role of external conflict as a force that can create social capital. Hostile intergroup interactions can help to resolve intra-group social dilemmas but these potential gains must be weighed against the insecurity of hostile relations with an outgroup. Our central result is that the presence of an outside threat can induce higher levels of social capital either because a protective aspect of social capital comes into play and/or as a reallocation of investments from private to social capital. Given that social capital is potentially subject to free-riding, the threat, by promoting a greater level of social capital, can be welfare improving. When the threat is severe, social capital and welfare are more likely to fall. This effect of an external threat on social capital is stronger in poor economies. These results can shed light on the sometimes contradicting empirical evidence on the relationship between conflict and social capital.

Civil conflict, domestic violence and intra-household bargaining in post-genocide Rwanda

- Journal of Development Economics---2017---Giulia La Mattina

This paper examines the long-term impact of civil conflict on domestic violence and intra-household bargaining using data from Rwanda. Women who married after the 1994 genocide experienced significantly increased domestic violence and reduced decision-making power relative to women who married before, with a greater effect for women in localities with high genocide intensity. Additionally, exposure to genocide reduced the household education expenditure in families of women who were of marriageable age after the genocide relative to families of older women. Part of the effect of the genocide on domestic violence was driven by changes in the marriage market sex ratios across localities and over time, which were mainly induced by the conflict. Through changes in intra-household bargaining, civil conflicts may impair the well-being of women and children in the long-term.

Direct democracy and resource allocation: Experimental evidence from Afghanistan

- Journal of Development Economics---2017---Andrew Beath,Fotini Christia,Ruben Enikolopov

Direct democracy is designed to better align policy outcomes with citizen preferences. To test this proposition, we randomized whether 250 villages across Afghanistan selected projects by secret-ballot referenda or by consultation meetings. We find that referenda reduce the influence of local elites over both project type and location. Consistent with previous experimental results, we also find that referenda improve villagers' perceptions of the local economy and of the quality of local governance. However, we find no systematic evidence that selecting projects via referenda increases the average impact of such projects.

The impact of reduced incidence of malaria and other mosquito-borne diseases on global population

- Journal of Development Economics---2017---Elizabeth Gooch

Interrupting mosquito-borne disease (MBD) transmission was a 20th-century development. By exploiting a natural experiment hinging on the interaction between the probable onset of efforts to suppress MBD and the potential benefit to local communities' average health, this research finds that suppressing MBD explains at least 1.5% of the increase in global population growth since 1900. In Africa, estimates suggest 14% of growth is due to controlling MBD. Globally, the treatment effect is relatively uniform across the 20th century, while in Africa, population grew relatively faster after the widespread DDT spraying of the 1960s. Additionally, this research finds that different indices of historical malaria prevalence reveal complementary insights into the reduction of MBD and subsequent population growth. Robustness of the measured impacts are explored further using regional characteristics, such as topographic boundaries on the extent of Anopheles mosquitoes, as well as by controlling for other factors that could influence population growth.

Income inequality and the quality of public services: A developing country perspective

- Journal of Development Economics---2016---Sukanta Bhattacharya,Sarani Saha,Sarmila Banerjee

That the high growth-rising inequality phenomenon – experienced by many high growth developing economies in the recent past – may lead to discontent among the poor is a well-discussed issue. This paper argues that as the demand for higher quality of the public services rises with income, the rising income in the hands of the rich leads to their dissatisfaction about the quality of available public services, thereby inducing them to form their own club for self-provision of the public services whenever possible. This, however, results in a lowering of quality available to the others outside the club despite less crowding at the publicly provided facilities.

Does flattening government improve economic performance? Evidence from China

- Journal of Development Economics---2016---Pei Li,Yi Lu,Jin Wang

This paper examines a causal relationship between the flattening of a government hierarchy and economic performance by exploiting a panel data set on government reorganization in China from 1995 to 2012. Delayering has led to increases in revenue and inter-governmental transfers for county governments, but the associated enlarged span of control makes it difficult for upper-level governments to coordinate and monitor local ones. This has led to a reduction in county governments' total public expenditure and pro-growth expenditure, as well as an increase in land corruption. Overall, the flattening of the government hierarchy has a negative effect on economic performance.

The economic consequences of mutual help in extended families

- Journal of Development Economics---2016---Jean-Marie Baland,Isabelle Bonjean,Catherine Guirkinger,Roberta Ziparo

In the absence of well-developed markets for credit and insurance, extended families play a major role as a traditional system of mutual help. However these arrangements have important consequences on economic choices. In this paper, we use first hand data from Western Cameroon to explore this question. We find that the large majority of transfers follow a given pattern whereby elder siblings support their younger siblings in the early stages of their lives who in turn reciprocate by supporting their elder siblings when they have children. We interpret this pattern as a generalised system of reciprocal credit within the extended family. We propose a simple overlapping generation model to investigate its welfare properties. We then explore the implications of this pattern on labour market outcomes and find evidence of large disincentive effects. This pattern of transfers also implies that younger siblings are more educated but have fewer and less educated children.

Mass media effects on non-governmental organizations

- Journal of Development Economics---2016---Mathieu Couttenier,Sophie Hatte

Globalization has raised concerns that multinational firms develop commercial activities at the expense of the environment or human rights, especially in developing countries. As firms' practices are not fully observable by stakeholders, NGOs have applied pressure on firms by organizing information campaigns. This paper studies how media coverage affects how effective NGOs are in monitoring firms. We make use of large media shocks, generated by big sports events, that crowd out media coverage of firms' practices in event host and participant countries, and increase coverage of sponsors. We find NGOs to respond consistently. NGOs are more likely to disseminate critical coverage of firms sponsoring sports events, and are less likely to spotlight firms' practices in the event host and participant countries. We also find that NGOs take advantage of sports events to increase their impact on sponsors, since campaigns about sponsors trigger a significant negative reaction in the stock market.

Does environmental regulation drive away inbound foreign direct investment? Evidence from a quasi-natural experiment in China

- Journal of Development Economics---2016---Xiqian Cai,Yi Lu,Mingqin Wu,Linhui Yu

This paper investigates whether environmental regulation affects inbound foreign direct investment. The identification uses the Two Control Zones (TCZ) policy implemented by the Chinese government in 1998, in which tougher environmental regulations were imposed in TCZ cities but not others. Our difference-in-difference-in-differences estimation explores three-dimension variations; specifically, city (i.e., TCZ versus non-TCZ cities), industry (i.e., more polluting industries relative to less polluting ones), and year (i.e., before and after the TCZ policy). We find that tougher environmental regulation leads to less foreign direct investment. Meanwhile, we find that foreign multinationals from countries with better environmental protections than China are insensitive to the toughening environmental regulation, while those from countries with worse environmental protections than China show strong negative responses.

Do land revenue windfalls create a political resource curse? Evidence from China

- Journal of Development Economics---2016---Ting Chen,James Kung

By analyzing a panel on the political turnovers of 4390 county leaders in China during 1999–2008, we find that the revenue windfalls accrued to these officials from land sales have undermined the effectiveness of the promotion system for government officials. Instead of rewarding efforts made to boost GDP growth, promotion is positively correlated with signaling efforts, and with corruption. The robust positive relationship between land revenue windfalls and political turnover, or specifically promotion, suggests that those who are politically connected to their superiors and those beyond the prime age for promotion are the primary beneficiaries. The case for corruption is substantiated by the evidence inferred from anti-corruption crackdowns, which reveals that the additional effect of land revenue on political turnover and size of bureaucracy (a proxy for corruption) decreases significantly in crackdowns but that land revenue has no effect on city construction expenditure (a proxy for signaling).

Small price incentives increase women's access to land titles in Tanzania

- Journal of Development Economics---2016---Daniel Ayalew Ali,Matthew Collin,Klaus Deininger,Stefan Dercon,Justin Sandefur,Andrew Zeitlin

We present results from a field experiment using price incentives to address two obstacles to women's access to formal land ownership. First, the price of formal land titles is often prohibitive, restricting access for both men and women. Second, when formal titles are issued, men are recorded as the sole owners of household land in the vast majority of cases. In theory, these problems may be in tension: requirements to grant women equal ownership may reduce the overall household demand for titling. In practice, we find no such trade-off: when residents of low-income, unplanned settlements in Dar es Salaam were offered price discounts for formal land titles, demand rose significantly. Price elasticity of demand was unchanged when price discounts were conditional on registering a woman as (co-)owner of household land. Furthermore, conditional price discounts achieved near gender parity in land ownership.

The long-run effects of treated water on education: The rural drinking water program in China

- Journal of Development Economics---2016---Jing Zhang,Lixin Xu

Since little is known about the long-run effect of treated water, we examine the educational benefit to rural youth in China from a major water treatment program started in the 1980s. By employing a data set covering two decades and encompassing more than 4700 individuals between ages 18 and 25, we find that, on average, the program increased the completed grades of education of rural youth by 1.1years. Moreover, the effect was highly heterogeneous across gender and age of exposure. Rural girls benefited from water treatment more than rural boys such that the water treatment program completely eliminated the gender gap in education in treated villages. Young rural people with access to treated water in early childhood experienced significantly higher gains in schooling attainment (i.e., by more than a year) than those that gained access at later stages of life. Our analysis suggests that this program was cost-effective.

Favoritism

- Journal of Development Economics---2016---Yann Bramoullé,Sanjeev Goyal

Favoritism refers to the act of offering jobs, contracts and resources to members of one's own social group in preference to others who are outside the group. This paper examines the economic origins and the consequences of favoritism.

What happens when a woman wins an election? Evidence from close races in Brazil

- Journal of Development Economics---2016---Fernanda Brollo,Ugo Troiano

We analyze close elections between male and female mayoral candidates in Brazilian municipalities to provide novel evidence on the role of women as policymakers. Using an objective measure of corruption based on random government audits, we find that female mayors are less likely to engage in corruption compared to male mayors. We also find that female mayors hire fewer temporary public employees than male mayors during the electoral year and tend to attract less campaign contributions when running for reelection. Moreover, our results show that female mayors have a lower reelection probability than male mayors. We interpret our findings as suggesting that male incumbents are more likely to engage in strategic behavior and this improves their electoral performance. Other explanations receive less support from the data.

Does firm ownership structure matter? Evidence from sugar mills in India

- Journal of Development Economics---2016---Sandip Sukhtankar

This paper examines the effect of firm ownership structure on firm behavior and the economic outcomes of upstream suppliers by comparing privately owned sugar mills to cooperatives and public mills in India. In this setting, government support for cooperative and public mills allows meaningful variation in ownership structure to be observed, while the "command area" zoning system – whereby mills are given monopsony power to operate within an assigned area – helps tackle the identification challenge. The borders of command areas allow for a geographic regression discontinuity design, where underlying soil, weather, and institutional characteristics are exactly the same but ownership structure changes across boundaries. Using satellite images overlaid on digital maps to measure sugarcane grown along the borders, as well as a survey to determine the effects of crop choices on farmer welfare, I find that private mills encourage sugarcane production. Greater cane cultivation is tied to better credit provided by private mills, and it results in higher income and consumption for farmers.

Can a poverty-reducing and progressive tax and transfer system hurt the poor?

- Journal of Development Economics---2016---Sean Higgins,Nora Lustig

To analyze anti-poverty policies in tandem with the taxes used to pay for them, comparisons of poverty before and after taxes and transfers are often used. We show that these comparisons, as well as measures of horizontal equity and progressivity, can fail to capture an important aspect: that a substantial proportion of the poor are made poorer (or non-poor made poor) by the tax and transfer system. We illustrate with data from seventeen developing countries: in fifteen, the fiscal system is poverty-reducing and progressive, but in ten of these at least one-quarter of the poor pay more in taxes than they receive in transfers. We call this fiscal impoverishment, and axiomatically derive a measure of its extent. An analogous measure of fiscal gains of the poor is also derived, and we show that changes in the poverty gap can be decomposed into our axiomatic measures of fiscal impoverishment and gains.

The return of the prodigy son: Do return migrants make better leaders?

- Journal of Development Economics---2016---Marion Mercier

This paper describes the relationship between political leaders' migration experience and the evolution of democracy during their leadership. We build up an original database on the personal background of 932 politicians who were at the head of the executive power in a developing country over the 1960–2004 period. These data reveal the existence of a positive correlation between the fact that leaders studied abroad and the change in the score of democracy in their country during their tenure, for leaders who reach power in initially autocratic settings. This correlation notably appears to be driven by leaders who studied in high-income OECD countries. The main finding, confirmed by various robustness tests, adds up to the recent literature on the effects of the characteristics of political leaders. It also suggests a new channel through which migration may shape development and politics in the sending countries — namely, the political elites.

Foreign employees as channel for technology transfer: Evidence from MNC's subsidiaries in Mexico

- Journal of Development Economics---2016---Estefania Santacreu-Vasut,Kensuke Teshima

This paper studies the role of foreign employees as a channel for technology transfer in multinational companies (MNCs). We build a simple model of MNC choice between foreign and domestic management as a function of industry characteristics and of institutional quality. We find that foreign employees are a channel for technology transfer within high-tech MNCs. Further, the reliance of MNCs on foreign employees is U-shaped in terms of institutional quality. Our model implies that we should observe the same pattern between technology transfer and institutional quality. We use a unique dataset that links information on technology transfer and the presence of foreign employees in subsidiaries in Mexico with data on judicial efficiency across Mexican states. The evidence is consistent with the implications of the model and difficult to reconcile with alternative hypotheses.

Nutrition, information and household behavior: Experimental evidence from Malawi

- Journal of Development Economics---2016---Emla Fitzsimons,Bansi Malde,Alice Mesnard,Marcos Vera-Hernandez

Incorrect knowledge of the health production function may lead to inefficient household choices and thereby to the production of suboptimal levels of health. This paper studies the effects of a randomized intervention in rural Malawi that, over a six-month period, provided mothers of young infants with information on child nutrition without supplying any monetary or in-kind resources. A simple model first investigates theoretically how nutrition and other household choices including labor supply may change in response to the improved nutrition knowledge observed in the intervention areas. We then show empirically that the intervention improved child nutrition, household food consumption and consequently health. We find evidence that labor supply increased, which might have contributed to partially fund the increase in food consumption. This paper is the first to study whether non-health choices, particularly parental labor supply, might be affected by parents' knowledge of the child health production function.

The migration response to increasing temperatures

- Journal of Development Economics---2016---Cristina Cattaneo,Giovanni Peri

Climate change, especially the warming trend experienced in recent years by several countries, could affect agricultural productivity. As a consequence the income of rural populations will change, and with it the incentives for people to remain in rural areas. Using data from 115 countries between 1960 and 2000, we analyze the effect of differential warming trends across countries on the probability of either migrating out of the country or from rural to urban areas. We find that higher temperatures in middle-income economies increased migration rates to urban areas and to other countries. In poor countries, higher temperatures reduced the probability of migration to cities and to other countries, consistently with the presence of severe liquidity constraints. In middle-income countries, migration represents an important margin of adjustment to global warming, potentially contributing to structural change and even increasing income per worker. Such a mechanism, however, does not seem to work in poor economies.

Human capital in the long run

- Journal of Development Economics---2016---Jong-Wha Lee,Hanol Lee

This study presents new data sets on long-run enrollment ratios, educational attainment, and human capital stock measures for numerous countries. We construct a complete data set of historical enrollment ratios, subdivided by education level and gender, for 111 countries from 1820 to 1945 (at five-year intervals) by using newly compiled census observations and information on the year of establishment of the oldest school in individual countries. Then, by utilizing these enrollment ratios, as well as available census data from 1945 onward on different age groups' educational attainment, we construct a data set of estimated educational attainment, disaggregated by gender and age group, and aggregate human capital stock that spans from

1870 to 2010. The data show that over the past two centuries, there has been remarkable growth in average educational attainment and human capital stock as well as a narrowing of the gap in average educational attainment between nations.

A better vision for development: Eyeglasses and academic performance in rural primary schools in China

- Journal of Development Economics---2016---Paul Glewwe,Albert Park,Meng Zhao

About 10% of primary school students in developing countries have poor vision, but very few of them wear glasses. Almost no research examines the impact of poor vision on school performance, and simple OLS estimates could be biased because studying harder may adversely affects one's vision. This paper presents results from a randomized trial in Western China that offered free eyeglasses to rural primary school students. Our preferred estimates, which exclude township pairs for which students in the control township were mistakenly provided eyeglasses, indicate that wearing eyeglasses for one academic year increased the average test scores of students with poor vision by 0.16 to 0.22 standard deviations, equivalent to 0.3 to 0.5 additional years of schooling. These estimates are averages across the two counties where the intervention was conducted. We also find that the benefits are greater for underperforming students. A simple cost-benefit analysis suggests very high economic returns to wearing eyeglasses, raising the question of why such investments are not made by most families. We find that girls are more likely to refuse free eyeglasses, and that parental lack of awareness of vision problems, mothers' education, and economic factors (expenditures per capita and price) significantly affect whether children wear eyeglasses in the absence of the intervention.

Optimal fiscal management of commodity price shocks

- Journal of Development Economics---2016---Pierre-Richard Agénor

This paper analyzes how low-income countries should optimally respond, through fiscal policy, to commodity price shocks. The model accounts for imperfect access to world capital markets and a variety of externalities associated with public infrastructure, including utility benefits, a direct complementarity effect with private investment, and reduced distribution costs. However, public capital is also subject to congestion and absorption constraints, with the latter affecting the efficiency of infrastructure investment. The optimal windfall allocation rule between spending today and asset accumulation is determined so as to minimize a social loss function defined in terms of the volatility of private consumption and either the nonresource primary fiscal balance or a more general index of macroeconomic stability, which accounts for the volatility of the real exchange rate.

Long-run cultural divergence: Evidence from the Neolithic Revolution

- Journal of Development Economics---2016---Ola Olsson,Christopher Paik

This paper investigates the long-run influence of the Neolithic Revolution on contemporary cultural norms as reflected in the dimension of collectivism–individualism. We present a theory of agricultural origins of cultural divergence, where we claim that the advent of farming in a core region was characterized by collectivist values and eventually triggered the out-migration of individualistic farmers towards more and more peripheral areas. This migration pattern caused the initial cultural divergence, which remained persistent over generations. Using detailed data on the date of adoption of Neolithic agriculture among Western regions and countries, the empirical findings show that the regions which adopted agriculture early also value obedience more and feel less in control of their lives. The findings add to the literature by suggesting the possibility of extremely long-lasting norms and beliefs influencing today's socioeconomic outcomes.

Inequality, neighbourhoods and welfare of the poor

- Journal of Development Economics---2016---Namrata Gulati,Tridip Ray

This paper investigates how neighbourhood effects interacting with income inequality affect poor people's ability to access basic facilities like health care services, schooling, and so on. We model this interaction by integrating consumers' income distribution with the spatial distribution of their location and explore the consequences of an increase in income inequality or variations in the neighbourhood characteristics on the welfare of the rich and poor in general, and their access to market in particular. We find that, in general, the impact will be non-monotonic owing to an interesting trade-off between the provision effect and the price effect. On the one hand, there is the positive ‘provision effect’ : higher valuation of the rich attracts the supplier to enter into the neighbourhood, allowing the poor who live sufficiently close by to access the service. On the other hand, there is the negative ‘price effect’ : the service provider charges a higher price higher is the income or larger is the proportion of the rich in the neighbourhood. In the extreme, there exists the possibility of complete exclusion of poor from the market: the service provider caters only to the rich and the poor has absolutely no market access. We have identified the higher income gap between rich and poor as the key factor that exposes the poor to this complete exclusion possibility.

Born free

- Journal of Development Economics---2016---Nils-Petter Lagerlof

This paper studies coercive labor institutions in a Malthusian framework, where class is hereditary: children born by free workers are free, while children of slaves are the property of their parents' masters. When productivity increases in an urban and slave-free sector, and more free workers migrate there, slave owners respond by feeding slaves better to increase their reproduction, and thus replace migrating free workers with the slaves' offspring. As as result, slaves are made better off in the short run, while their long-run representation in the rural workforce—and possibly even the overall population—increases.

Follow the money not the cash: Comparing methods for identifying consumption and investment responses to a liquidity shock

- Journal of Development Economics---2016---Dean Karlan,Adam Osman,Jonathan Zinman

Measuring the impacts of liquidity shocks on spending is difficult methodologically but important for theory, practice, and policy. We compare three approaches for tackling this question: directly asking borrowers how they spend proceeds from a loan (direct elicitation); asking borrowers using a list randomization technique (indirect elicitation) that allows them to answer discretely in cases where loan uses are at odds with lender policies or social norms; and, a counterfactual analysis in which we compare household and enterprise cash outflows for those in a treatment group, randomly assigned to receive credit, to a control group. The counterfactual analysis yields an estimate that about 100% of loan-financed spending is on business inventory. For the direct and indirect elicitations, we find evidence of both strategic misreporting and “following the cash” : borrowers likely report what they physically did with cash proceeds, rather than counterfactual spending.

Preferences and the home bias in trade

- Journal of Development Economics---2016---Mitchell Morey

Why is there less observed trade than is predicted by neoclassical trade models? A home bias in consumption due to preferences can partially explain this. Using data from a randomly assigned auction mechanism and survey conducted in Madagascar, respondents' willingness to pay for rice of varying quality and origin is investigated. By imposing a novel structure on traditional valuation collection methods, one finds that consumers will pay approximately 8% more for home-grown rice. The key result is that consumers place greater value on an item produced in their own country without any tangible reason to do so other than the product's origin. This preference-based explanation is one piece of the mosaic of factors that cause disproportionate consumption of domestically produced goods. This paper provides concrete evidence in favor of structuring trade models to allow for an explicit home bias in preferences.

Natural resources, decentralization, and risk sharing: Can resource booms unify nations?

- Journal of Development Economics---2016---Fidel Perez-Sebastian,Ohad Raveh,Fidel Perez Sebastian

Previous studies imply that a positive regional fiscal shock, such as a resource boom, strengthens the desire for separation. In this paper we present a new and opposite perspective. We construct a model of endogenous fiscal decentralization that builds on two key notions: a trade-off between risk sharing and heterogeneity, and a positive association between resource booms and risk. The model shows that a resource windfall causes the nation to centralize as a mechanism to either share risk and/or prevent local capture, depending on the relative bargaining power of the central and regional governments. We provide cross country empirical evidence for the main hypotheses, finding that resource booms: (i) decrease the level of fiscal decentralization with no U-shaped patterns, (ii) cause the former due to risk sharing incentives primarily when regional governments are relatively strong, and (iii) have no effect on political decentralization.

Local political business cycles: Evidence from Philippine municipalities

- Journal of Development Economics---2016---Julien Labonne

This paper establishes the existence of short-term political business cycles in the Philippines over the period 2003–2009. Examining a balanced panel of 1143 municipalities shows that employment levels increase in the two pre-electoral quarters and drop sharply in the two quarters following elections. Further results are consistent with the cycles being generated by incumbents' attempts to increase their chances of re-election. Cycles are stronger in sectors that incumbents are more able to influence, and when they expect stronger electoral competition. Evidence suggests that these cycles are detrimental to development.

Informal monitoring and enforcement mechanisms in public service delivery: Evidence from the public distribution system in India

- Journal of Development Economics---2016---Sriniketh Nagavarapu,Sheetal Sekhri

This paper shows that social networks provide informal monitoring and enforcement services that can curb leakages and improve the efficacy of public service delivery. We examine India's targeted public distribution system, under which poor households are entitled to subsidized grains and fuel. We show that Scheduled Castes (SCs) are more likely to buy grains when facing SC delivery agents, but there is no difference in the take up of fuel. We develop a theoretical framework positing that increased informal monitoring and enforcement drive our findings. We test our theory using observational survey data and unique data that we collected. Our empirical results provide strong support for the testable implications.

Election cycles in natural resource rents: Empirical evidence

- Journal of Development Economics---2016---Jeroen Klomp,Jakob de Haan

We examine whether governments' natural resource rents are affected by upcoming elections and if so, whether the incumbent uses these additional rents for re-election purposes. Estimates of a dynamic panel model for about 60 countries for 1975–2011 suggest that elections increase natural resource rents. The incumbent uses these rents for expanding public spending and reducing taxes before elections. However, these electoral cycle effects are statistically significant only in young democracies. Our results also suggest that election effects are stronger in countries with limited access to free media, limited political checks and balances, and a presidential system.

Does product complexity matter for firms' output volatility?

- Journal of Development Economics---2016---Daniela Maggioni,Alessia Lo Turco,Mauro Gallegati

With this paper we provide the first micro-level evidence on the linkage between firm complexity and volatility. By defining product complexity à la Hausmann and Hidalgo (2009), we find that a higher complexity level of a firm's product basket is associated to a reduction of its output fluctuations. This evidence is robust to the control for omitted variables, sample selection, and to the use of alternative volatility and complexity indicators. Across similar firms, active in different sectors and regions, both technological factors and product market conditions explain the effect of complexity on volatility. However, within narrowly defined sectors and locations, the complexity–volatility nexus fully reflects the role of the human capital content of firms' product baskets.

The impact of US sanctions on poverty

- Journal of Development Economics---2016---Matthias Neuenkirch,Florian Neumeier

In this paper, we analyze the effect of US economic sanctions on the target countries' poverty gap during the period 1982–2011. Econometrically, we employ a matching approach to account for differences in the countries' economic and political environment and the likelihood of being exposed to US sanctions. Our results indicate that US sanctions are adversely affecting those living in poverty as we observe a 3.8 percentage point (pp) larger poverty gap in sanctioned countries compared to a control group that is as close as possible in terms of observable pretreatment characteristics. In addition, we show that the impact of sanctions on poverty (i) increases with the severity of sanctions, (ii) is larger for multilateral sanctions than for unilateral sanctions imposed by only the United States, and (iii) is long-lasting as the poverty gap increases over the first 21years of a sanction regime.

On sweatshop jobs and decent work

- Journal of Development Economics---2016---Nancy Chau

This paper argues that while rooting out sweatshop conditions raises unemployment, the potential gains include an increase in decent work employment, a pro-worker shift in distribution, and an improvement in overall efficiency. In a search model of employment inspired by firm- and household-level evidence about the harm that sweatshop conditions pose to workers' capability to be productive at work and to be vertically mobile, this paper unpacks the irony of job losses and efficiency gains by examining equilibria where, unless regulations are in place, employers tolerate unproductive sweatshop conditions, and where workers accept insufficiently compensating sweatshop wages.

Landownership concentration and the expansion of education

- Journal of Development Economics---2016---Francesco Cinnirella,Erik Hornung

We study the relationship between large landownership concentration and the expansion of mass education in nineteenth-century Prussia. Cross-sectional estimates show a negative association between landownership concentration and enrollment rates. Fixed-effects panel estimates indicate that regions with an initially stronger landownership concentration exhibit increasing enrollment rates. This relationship is not driven by differences in the supply of schooling. We argue that the implementation of agricultural reforms including the stepwise abolition of serfdom is an important driver of the change in enrollment. The results are consistent with the interpretation that emancipation from labor coercion increased the private demand for education.

With a little help from my friends: Global electioneering and World Bank lending

- Journal of Development Economics---2016---Erasmus Kersting,Christopher Kilby

This paper investigates how World Bank lending responds to upcoming elections in borrowing countries. We find that investment project loans disburse faster when countries are aligned with the United States in the UN. Moreover, disbursement accelerates in the run-up to competitive executive elections if the government is geopolitically aligned with the U.S. but decelerates if the government is not. These disbursement patterns are consistent with global electioneering that serves U.S. foreign policy interests but jeopardizes the development effectiveness of multilateral lending.

Informal sector, regulatory compliance, and leakage

- Journal of Development Economics---2016---Soham Baksi,Pinaki Bose

The paper models a vertically related formal and informal sector, and endogenizes the size and regulatory compliance status of the informal sector. When the formal sector can circumvent costly regulations by outsourcing polluting intermediate goods from the informal sector, stricter regulations increase (when the "composition effect" of regulation dominates its "scale effect") or decrease total pollution, and may even have a non-monotonic impact. We identify conditions under which a partially compliant informal sector acts as a source of leakage, and examine implications for optimal enforcement policy. Further, we show that price discrimination by the formal sector, when it purchases the intermediate goods from the informal sector, can worsen regulatory compliance by the informal sector and lead to more pollution.

Unexceptional exporter performance in China? The role of processing trade

- Journal of Development Economics---2016---Mi Dai,Madhura Maitra,Miaojie Yu

The firm level trade literature finds that exporters are exceptional performers for a wide range of countries and measures. Paradoxically, the one documented exception is the world's largest exporter, China. We show that this puzzling finding is entirely driven by firms that engage only in export processing — the activity of assembling tariff exempted imported inputs into final goods for resale in the foreign markets. We find that processing exporters are less productive than non-processing exporters and non-exporters, and have inferior performance in many other aspects such as profitability, wages, R&D and skill intensity. Accounting for processing exporters explains the abnormality in exporter performance in China documented in the previous literature. Low fixed costs of processing exporting, as well as the trade and industrial policies favoring processing exporters are both responsible for the low productivity of processing exporters. Our analysis suggests that distinguishing between processing and non-processing exporters is crucial for understanding firm-level exporting behavior in China. It also provides caveats in analyzing the exporter performance in other developing countries that are highly integrated into the global value chains.

A theory of interactions between MFIs and informal lenders

- Journal of Development Economics---2016---Dilip Mookherjee,A. Motta

We provide a theoretical analysis of effects of entry of a microfinance institution (MFI) into an informal credit market which is segmented, whereby informal lenders derive some market power owing to privileged information concerning borrower-specific default risks. Relative to informal lenders, the MFI has a cost advantage and an informational disadvantage regarding borrower risk. Borrowers differ along another dimension: landholding, which is observable to all lenders. MFI entry is shown to induce selection effects (across risk and landownership dimensions) in shifts of borrowers from informal lenders to the MFI, which could raise informal interest rates, as observed in many LDCs. The model is consistent with evidence from Bangladesh and West Bengal, in contrast to hypotheses based on cream-skimming, scale-diseconomy-inducing, collusion-facilitating or crowding-in effects of MFIs on informal credit. The model implies that MFI entry is Pareto improving for borrowers, irrespective of effects on informal interest rates.

Optimal (partial) group liability in microfinance lending

- Journal of Development Economics---2016---Treb Allen

This paper develops a model of group borrowing that incorporates partial group liability, where borrowers are penalized if their group members default but are not held responsible for the entirety of the failed loan. The model illustrates a trade-off of group liability lending: while higher levels of group liability increase within group risk-sharing, if liability is too high, borrowers strategically default. The model predicts the existence of an optimal partial liability that maximizes transfers between group members while avoiding strategic default. Consistent with this prediction, loan officers from a large microfinance institution in southern Mexico who rarely allow one group member to repay while the other defaults achieve substantially lower default rates than loan officers for whom the practice is commonplace or for those for whom it has never occurred. Structural estimation using repayment data suggests that while a partial liability below full liability may reduce default rates, the incidence of strategic default is rare.

Group lending without joint liability

- Journal of Development Economics---2016---Jonathan de Quidt,Thiemo Fetzer,Maitreesh Ghatak

This paper contrasts individual liability lending with and without groups to joint liability lending. We are motivated by an apparent shift away from the use of joint liability by microfinance institutions, combined with recent evidence that a) converting joint liability groups to individual liability groups did not affect repayment rates, and b) an intervention that increased social capital in individual liability borrowing groups led to improved repayment performance. First, we show that individual lending with or without groups may constitute a welfare improvement over joint liability, so long as borrowers have sufficient social capital to sustain mutual insurance. Second, we explore how the lender's lower transaction costs in group lending can encourage insurance by reducing the amount borrowers have to pay to bail one another out. Third, we discuss how group meetings might encourage insurance, either by increasing the incentive to invest in social capital, or because the time spent in meetings can facilitate setting up insurance arrangements. Finally, we perform a simple simulation exercise, evaluating quantitatively the welfare impacts of alternative forms of lending and how they relate to social capital.

Dynamic microlending under adverse selection: Can it rival group lending?

- Journal of Development Economics---2016---Christian Ahlin,Brian Waters

We derive an optimal lending contract in a two-period adverse selection model with limited commitment on the borrower side. The contract involves "penalty" interest rates after default, and favorable rates after success. Under some conditions, it also charges first-time borrowers higher rates than repeat borrowers, as in "relationship lending", because the lender is constrained to keep borrowing attractive while using revealed information to price for risk. We compare the efficiency of a group lending contract (of the kind popularized by the microcredit movement) to the dynamic, individual contract. Both types of contracts reveal the same information, but the contracts face different constraints on using the information to improve risk-pricing. As a result, either type of contract can lead to greater efficiency depending on specifics of the environment – opening the possibility that dynamic lending has played a role comparable to that of group lending in the success of microcredit. We also characterize the optimal dynamic group contract when both lending techniques are feasible, and find that it combines both approaches, but with varying emphases. A recurrent theme is that in more marginal environments, dynamic lending performs relatively better than, and is prioritized over, group lending. We also discuss a number of extensions, including (spatially and serially) correlated risk and the effect of competition.

Microcredit and adjustment to environmental shock: Evidence from the Great Famine in Ireland

- Journal of Development Economics---2016---Tyler Goodspeed

The Great Famine of Ireland from 1845 to 51 ranks as one of the most lethal of all time, claiming approximately one eighth of the country's population. Utilizing Famine Relief Commission reports to develop a micro-level dataset of blight severity, I find that in the short run, districts more severely infected by blight experienced larger population declines and accumulations of buffer livestock by small- to medium-sized farms. In the medium and long runs, however, worse affected districts experienced greater substitutions toward other tillage crops and grazing livestock, particularly by small- to medium-sized farms. Using annual reports of the Irish Loan Funds, I further find that access to microfinance credit was an important factor in non-demographic adjustment to blight. Worse affected districts with at least one microfinance fund during the famine experienced substantially smaller relative population declines and larger relative increases in buffer livestock during and immediately after the famine, and greater relative medium- and long-run substitutions toward other crops and grazing livestock, than worse affected districts without a fund.

The value of children: Inter-generational support, fertility, and human capital

- Journal of Development Economics---2016---Jaqueline Oliveira

This paper offers robust empirical evidence of a Darwinian pro-natalist mechanism: parents can improve their old-age support with an additional child. Using the incidence of first-born twins as an instrument for fertility outcomes, I find that Chinese senior parents with more children receive more financial transfers and are more likely to co-reside with an adult child. They are also less likely to work past retirement age. The estimated effects are large, despite the evidence that adult children from larger families are less educated and earn significantly less. Interestingly, the effect of an increase in the number of children on old-age support does not depend on the child's gender.

Too much and too fast? Public investment scaling-up and absorptive capacity

- Journal of Development Economics---2016---Andrea Presbitero

A recent trend in several low-income developing countries has been a rapid scaling-up of public investment. It is argued that in the presence of limited absorptive capacity countries are not able – in terms of skills, institutions, and management – to translate additional public investment into sustained output growth. We test for the presence of absorptive capacity constraints using a large dataset of World Bank investment projects, approved between 1970 and 2007 in 80 countries. Our results indicate that projects undertaken in periods of public investment scaling-up are less likely to be successful, although this effect is relatively small, especially in poor and capital scarce countries. We also verify that this effect is unrelated to large aid flows and donor fragmentation.

Do job fairs matter? Experimental evidence on the impact of job-fair attendance

- Journal of Development Economics---2016---Emily Beam

I estimate the causal impact of attending a job fair on employment outcomes and labor market perceptions, using a randomized encouragement design to induce individuals in the rural Philippines to attend a nearby job fair for domestic and overseas work. Attending a job fair matters: though it does not facilitate direct matches with a job-fair employer, attendance leads to a large increase in reported formal sector employment and in the likelihood of looking for any work outside the region in the months following the job fair. Several overseas recruitment agencies participated in the job fair, and attendance affects individuals' overseas labor market perceptions but does not encourage them to take steps to migrate. These results suggest that job fairs can be important tools for encouraging individuals to move to the formal sector and for conveying information about labor market prospects.

The effect of saving on risk attitudes and intertemporal choices

- Journal of Development Economics---2016---Leandro Carvalho,Silvia Prina,Justin Sydnor

We investigate whether access to savings accounts affects choices individuals make about financial risk and intertemporal tradeoffs. We exploit a field experiment that randomized access to savings accounts among a largely unbanked population of Nepalese villagers. One year after the accounts were introduced, we administered lottery-choice and intertemporal-choice tasks to the treatment and control groups. We find that the treatment is more willing to take risks in the lottery-choice task and is more responsive to changes in experimental interest rates in the intertemporal-choice task. The results on time discounting are less conclusive, but suggest that the treatment group is more willing to delay receiving money. These results suggest that access to formal savings devices has a positive feedback loop for poor families by increasing their willingness to take risks and to delay gratification.

Divorce, abortion, and the child sex ratio: The impact of divorce reform in China

- Journal of Development Economics---2016---Ang Sun,Yaohui Zhao

This paper estimates the effect of China's pro-women divorce reform on sex-selection behavior within marriages. The 2001 reform liberalized divorce in favor of women and secured women's property rights after separation. The paper applies a regression discontinuity analysis on the child sex ratio and finds that the likelihood of having a son after a firstborn daughter decreased by 8.1 percentage points, amounting to a reduction of 11.7% compared with the prior proportion of male children. Further analyses provide evidence in support of the hypothesis that improved divorce options empower women within marriage, and enable them to avoid health-damaging sex-selective abortion. The effect of the divorce reform is stronger in provinces where divorce is comparatively viable because of more lenient family planning policies governing fertility in the next marriage. The effect is also stronger among women who face higher health costs of abortion.

Impact of Village Savings and Loan Associations: Evidence from a cluster randomized trial

- Journal of Development Economics---2016---Christopher Ksoll,Helene Lilleør,Jonas Helth Lønborg,Ole Dahl Rasmussen

The vast majority of the world's poor live in rural areas of developing countries with little access to financial services. Setting up Village Savings and Loan Associations (VSLAs) has become an increasingly widespread intervention aimed at improving local financial intermediation. Using a cluster randomized trial we investigate the impact of VSLAs in Northern Malawi over a two year period. We find evidence of positive and significant intention-to-treat effects on several outcomes, including the number of meals consumed per day, household expenditure as measured by the USAID Poverty Assessment Tool, and the number of rooms in the dwelling. This effect is linked to an increase in savings and credit obtained through the VSLAs, which has increased agricultural investments and income from small businesses.

Islam, inequality and pre-industrial comparative development

- Journal of Development Economics---2016---Stelios Michalopoulos,Alireza Naghavi,Giovanni Prarolo

This study explores the interaction between trade and geography in shaping the Islamic economic doctrine in its first few centuries. We build a model where an unequal distribution of land quality in the presence of trade opportunities conferred differential gains from trade across regions, fostering predatory behavior by groups residing in the poorly endowed territories. We show that in such an environment it was mutually beneficial to institute an economic system of income redistribution featuring income transfers in return for safe passage to conduct trade. A commitment problem, however, rendered a merely static redistribution scheme unsustainable. Islam developed a set of dynamic redistributive rules that were self-enforcing, in regions where arid lands dominated the landscape. While such principles fostered the expansion of trade within the Muslim world, they limited the accumulation of wealth by the commercial elite, shaping the economic trajectory of Islamic lands in the pre-industrial era.

Measuring the measurement error: A method to qualitatively validate survey data

- Journal of Development Economics---2016---Christopher Blattman,Julian Jamison,Tricia Koroknay-Palicz,Katherine Rodrigues,Margaret Sheridan

Empirical social science relies heavily on self-reported data, but subjects may misreport behaviors, especially sensitive ones such as crime or drug abuse. If a treatment influences survey misreporting, it biases causal estimates. We develop a validation technique that uses intensive qualitative work to assess survey misreporting and pilot it in a field experiment where subjects were assigned to receive cash, therapy, both, or neither. According to survey responses, both treatments reduced crime and other sensitive behaviors. Local researchers spent several days with a random subsample of subjects after surveys, building trust and obtaining verbal confirmation of four sensitive behaviors and two expenditures. In this instance, validation showed survey underreporting of most sensitive behaviors was low and uncorrelated with treatment, while expenditures were under reported in the survey across all arms, but especially in the control group. We use these data to develop measurement error bounds on treatment effects estimated from surveys.

Sons as widowhood insurance: Evidence from Senegal

- Journal of Development Economics---2016---Sylvie Lambert,Pauline Rossi

Exploiting original data from a Senegalese household survey, we provide evidence that fertility choices are partly driven by women's needs for widowhood insurance. We use a duration model of birth intervals to show that women most at risk in case of widowhood intensify their fertility, shortening birth spacing, until they get a son. Insurance through sons might entail substantial health costs since short birth spacing raises maternal and infant mortality rates.

Income inequality and violent crime: Evidence from Mexico's drug war

- Journal of Development Economics---2016---Ted Enamorado,Luis Lopez-Calva,Carlos Rodríguez-Castelán,Hernan Winkler

The goal of this paper is to examine the effect of inequality on crime rates in a unique context, Mexico's drug war. The analysis exploits an original dataset containing inequality and crime statistics on more than 2000 Mexican municipalities over a 20-year period. To uncover the causal effect of inequality on crime, we use an instrumental variable for the Gini coefficient that combines the initial income distribution at the municipality level with national trends. Our estimates indicate that a one-point increment in the Gini coefficient between 2007 and 2010 translates into an increase of more that 36% in the number of drug-related homicides per 100,000 inhabitants. The fact that the effect found during the drug war is substantially greater is likely caused by the rise in rents to be extracted through crime and an expansion in the employment opportunities in the illegal sector through the proliferation of drug trafficking organizations (DTOs), accompanied by a decline in legal job opportunities and a reduction in the probability of being caught given the resource constraints faced by the law enforcement system. Combined, the latter factors made the expected benefits of criminal activity shift in a socially undesirable direction after 2007.

Current account norms in natural resource rich and capital scarce economies

- Journal of Development Economics---2016---Juliana D. Araujo,Bin Grace Li,Marcos Poplawski-Ribeiro,Luis-Felipe Zanna

The permanent income hypothesis implies that frictionless open economies with exhaustible natural resources should save abroad most of their resource windfalls and, therefore, feature current account surpluses. Resource rich developing countries (RRDCs), on the other hand, face substantial development needs and tight external borrowing constraints. By relaxing these constraints and providing a key financing source for public investment, resource windfalls might then be associated with current account deficits or at least low surpluses. In this paper, we develop a neoclassical model with private and public investment and several pervasive features in RRDCs, including absorptive capacity constraints, inefficiencies in investment, borrowing constraints, and capital scarcity. We use the model to study the role of investment and these frictions in shaping the current account dynamics under windfalls. Since consumption and investment decisions are optimal, the model also serves to analyze current account norms (benchmarks). We apply the model to the Economic and Monetary Community of Central Africa and discuss how our results can be used to inform external sustainability analyses in RRDCs.

Airtime transfers and mobile communications: Evidence in the aftermath of natural disasters

- Journal of Development Economics---2016---Joshua E. Blumenstock,Nathan Eagle,Marcel Fafchamps

We provide empirical evidence that Rwandans use the mobile phone network to transfer airtime to those affected by unexpected shocks. Using an extensive dataset on mobile phone activity in Rwanda and exploiting the quasi-random timing and location of natural disasters, we show that individuals make transfers and calls to people affected by disasters. The magnitude of these transfers is small in absolute terms, but statistically significant; in response to the Lake Kivu earthquake of 2008, we estimate that roughly US$84 in airtime was transferred to individuals in the affected region, that 70% of these transfers were immediately used to make outgoing calls, and that US$16,959 was spent calling those near the epicenter. Unlike other forms of interpersonal transfers, mobile airtime is sent over large geographic distances and in response to covariate shocks. Transfers are more likely to be sent to wealthy individuals, and are sent predominantly between pairs of individuals with a strong history of reciprocal favor exchange.

Witchcraft beliefs and the erosion of social capital: Evidence from Sub-Saharan Africa and beyond

- Journal of Development Economics---2016---Boris Gershman

This paper examines the relationship between witchcraft beliefs, a deep-rooted cultural phenomenon, and various elements of social capital. Using novel survey data from nineteen countries in Sub-Saharan Africa we establish a robust negative association between the prevalence of witchcraft beliefs and multiple measures of trust which holds after accounting for country fixed effects and potential confounding factors at the individual, regional, and ethnic-group levels. This finding extends to other metrics of social capital, namely charitable giving and participation in religious group activities. Such coexistence of witchcraft beliefs and antisocial attitudes stands in stark contrast to a well-explored alternative cultural equilibrium characterized by religious prosociality. Evidence from societies beyond Africa shows that in preindustrial communities where witchcraft is believed to be an important cause of illness, mistrust and other antisocial traits are inculcated since childhood. Furthermore, second-generation immigrants in Europe originating from countries with widespread witchcraft beliefs are generally less trusting.

Emigration and democracy

- Journal of Development Economics---2016---Frédéric Docquier,Elisabetta Lodigiani,Hillel Rapoport,Maurice Schiff

International migration is an important determinant of institutions, not considered so far in the development literature. Using cross-sectional and panel estimation for a large sample of developing countries, we find that openness to emigration has a positive effect on home-country institutional development (as measured by standard democracy indices). The results are robust to a wide range of specifications and identification methods. Remarkably, the cross-sectional estimates are fully in line with the implied long-run relationship from dynamic panel regressions.

Insuring health or insuring wealth? An experimental evaluation of health insurance in rural Cambodia

- Journal of Development Economics---2016---David Levine,Rachel Polimeni,Ian Ramage

We randomize the insurance premium for the SKY micro-health insurance program in rural Cambodia, allowing us to estimate the causal effects of health insurance on economic, health care utilization, and health outcomes. SKY insurance has its greatest impact on economic outcomes. SKY also changed health-seeking behavior, increasing the use of covered public facilities and decreasing the use of uncovered private care for major illnesses. As expected, due to low statistical power, we did not find statistically significant impacts on health.

Violence and birth outcomes: Evidence from homicides in Brazil

- Journal of Development Economics---2016---Martin Foureaux Koppensteiner,Marco Manacorda

This paper uses microdata from Brazilian vital statistics on births and deaths between 2000 and 2010 to estimate the impact of in-utero exposure to local violence – measured by homicide rates – on birth outcomes. The estimates show that exposure to violence during the first trimester of pregnancy leads to a small but precisely estimated increase in the risk of low birthweight and prematurity. Effects are found both in small municipalities, where homicides are rare, and in large municipalities, where violence is endemic, and are particularly pronounced among children of poorly educated mothers, implying that violence compounds the disadvantage that these children already suffer as a result of their households' lower socioeconomic status.

Labor market opportunities and women's decision making power within households

- Journal of Development Economics---2016---Kaveh Majlesi

Despite the perceived importance of labor market opportunities in shaping married women's outside option, and their bargaining power within households as a result, this link has received very little empirical attention. Using longitudinal data on who makes the decision on a wide range of issues within Mexican households and data from the administrative records of the Mexican Social Security Institute, this paper identifies the effects of relative changes in labor market opportunities for men and women on both working and non-working women's decision making power. I find that increases in labor market opportunities improve women's decision-making power as well as children's health. Using differential labor demand shocks across Mexican industries caused by China's admission to the WTO gives similar results.

Comparative advantage, international trade, and fertility

- Journal of Development Economics---2016---Quy-Toan Do,Andrei Levchenko,Claudio Raddatz

We analyze theoretically and empirically the impact of comparative advantage in international trade on fertility. We build a model in which industries differ in the extent to which they use female relative to male labor, and countries are characterized by Ricardian comparative advantage in either female-labor or male-labor intensive goods. The main prediction of the model is that countries with comparative advantage in female-labor intensive goods are characterized by lower fertility. This is because female wages, and therefore the opportunity cost of children are higher in those countries. We demonstrate empirically that countries with comparative advantage in industries employing primarily women exhibit lower fertility. We use a geography-based instrument for trade patterns to isolate the causal effect of comparative advantage on fertility

How do shocks to domestic factors affect real exchange rates of Asian developing countries?

- Journal of Development Economics---2016---Taya Dumrongrittikul,Heather Anderson

This paper examines real exchange rate responses to shocks in exchange rate determinants for fourteen Asian developing countries. The analysis is based on a panel structural vector error correction model, and the shocks are identified using sign and zero restrictions. We find that trade liberalization generates permanent depreciation, and higher government consumption causes persistent appreciation. Traded-sector productivity gains induce appreciation but their effects are not immediate and last only for a few years. Real exchange rate responses to unexpected monetary tightening are consistent with the long-run neutrality of money. The evidence suggests that trade liberalization and government consumption have a strong effect on real exchange rates, while the effects of traded-sector productivity shocks are much weaker.

Current account dynamics, real exchange rate adjustment, and the exchange rate regime in emerging-market economies

- Journal of Development Economics---2016---Olivier Gervais,Lawrence Schembri,Lena Suchanek

In emerging-market economies, real exchange rate adjustment is critical for achieving a sustainable current account position and thereby for helping to maintain macroeconomic and financial stability. This study examines two related hypotheses: (i) that real exchange rate adjustment promotes the rebalancing of the current account and (ii) that a flexible nominal exchange rate facilitates real exchange rate adjustment and thus the rebalancing of the current account. Evidence from an event-study analysis for a large set of emerging-market economies over the period 1975–2008 indicates that real exchange rate adjustment has contributed significantly to reducing current account imbalances. The adjustment of current account deficits in countries with a fixed exchange rate regime typically occurs through an exchange rate crisis, and substantial costs in terms of forgone output are incurred. Vector-error-correction analysis supports the findings of the event study; namely, in the long run, real exchange rate movements facilitate current account adjustment.

Can selective immigration policies reduce migrants' quality?

- Journal of Development Economics---2016---Simone Bertoli,Vianney Dequiedt,Yves Zenou

Destination countries can adopt selective immigration policies to improve migrants' quality. Screening potential migrants on the basis of observable characteristics also influences their self-selection on unobservables. We propose a model that analyzes the effects of selective immigration policies on migrants' quality, measured by their wages at destination. We show that the prevailing pattern of selection on unobservables influences the effect of an increase in selectivity, which can reduce migrants' quality when migrants are positively self-selected on unobservables. We also demonstrate that, in this case, the quality-maximizing share of educated migrants declines with the scale of migration.

The poor get poorer: Tracking relative poverty in India using a durables-based mixture model

- Journal of Development Economics---2016---Sudeshna Maitra

I propose the use of a durables-based mixture model to identify the consumption class structure of a population. The mixture model decomposes the marginal distribution of durables ownership across all households, into three conditional distributions (one each for lower, middle and upper classes), along with their weights in the population distribution, endogenously determining class membership. This approach provides a potentially deeper understanding of the dynamics of classes, in particular the lower class, than can be obtained using poverty lines or PCA alone. It avoids many well-known problems with expenditure data, ameliorates the impact of changing survey designs, and enables an analysis of the behavior and membership of classes over time. I use the mixture approach to show that the urban lower class in India became smaller but poorer during the 1990s.

Exporter behavior, country size and stage of development: Evidence from the exporter dynamics database

- Journal of Development Economics---2016---Ana M. Fernandes,Caroline Freund,Martha Denisse Pierola

We present new data on the micro-structure of the export sector for 45 countries and study how exporter behavior varies with country size and stage of development. Larger countries and more developed countries have more exporters, larger exporters, and a greater share of exports controlled by the top 5%. The extensive margin (more firms) plays a greater role than the intensive margin (average size) in supporting exports of larger countries. In contrast, the intensive margin is relatively more important in explaining the exports of richer countries. Exporter entry and exit rates are higher and entrant survival is lower at an early stage of development. We discuss the results in light of trade theories with heterogeneous firms and the empirical literature on resource allocation, firm size, and development. An implication from our findings is that developing countries export less because the top of the firm-size distribution is truncated.

Petro populism

- Journal of Development Economics---2016---Egil Matsen,Gisle Natvik,Ragnar Torvik

We aim to explain petro populism — the excessive use of oil revenues to buy political support. To reap the full gains of natural resource income, politicians need to remain in office over time. Hence, even a rent-seeking incumbent who prioritizes his own welfare above that of citizens, will want to provide voters with goods and services if it promotes his probability of remaining in office. While this incentive benefits citizens under the rule of rent-seekers, it adversely motivates benevolent policymakers to short-term overprovision of goods and services. In equilibrium, politicians of all types indulge in excessive resource extraction, while voters reward policies they realize cannot be sustained over time. Moreover, overextraction might even be reinforced as voters become better informed.

Macroinsurance for microenterprises: A randomized experiment in post-revolution Egypt

- Journal of Development Economics---2016---Matthew Groh,David McKenzie

Firms in many developing countries cite macroeconomic instability and political uncertainty as major constraints to their growth. We conduct a randomized experiment in post-revolution Egypt to measure the impact of insuring microenterprises against this uncertainty. Demand for macroeconomic shock insurance was high, with a take-up rate of 36.7%. However, purchasing insurance does not change the likelihood a business takes a new loan, the size of the loan, or how they invest this loan. We attribute this lack of effect to microenterprises largely investing in inventories and raw materials rather than irreversible investments like equipment, suggesting that macroeconomic and political risk is not inhibiting their investment behavior. The challenges of introducing an innovative insurance product in an environment where microentrepreneurs had little previous insurance exposure are particularly evident in a second year, where take-up was extremely low following political events that came close to, but did not, trigger insurance pay-outs.

Benefit in the wake of disaster: Long-run effects of earthquakes on welfare in rural Indonesia

- Journal of Development Economics---2016---Jérémie Gignoux,Marta Menéndez

We examine the long-term effects on individual economic outcomes of a set of earthquakes – numerous, large, but mostly not extreme – that occurred in rural Indonesia since 1985. Using longitudinal individual-level data from large-scale household surveys, together with precise measures of local ground tremors obtained from a US Geological Survey database, we identify the effects of earthquakes, exploiting the quasi-random spatial and temporal nature of their distribution. Affected individuals experience short-term economic losses but recover in the medium run (after 2–5 years), and even exhibit income and welfare gains in the long term (6–12 years). The stocks of productive assets, notably in farms, get reconstituted and public infrastructures are improved, seemingly partly through external aid, allowing productivity to recover. These findings tend to discount the presence of poverty traps and exhibit the potential long-term benefits from well-designed post-disaster interventions in contexts where disasters primarily affect physical assets.

Expanding export variety: The role of institutional reforms in developing countries

- Journal of Development Economics---2016---Liugang Sheng,Dennis Yang

This paper presents theory and evidence that institutional reforms in developing countries can help expand their product varieties in exports. Our model suggests that relaxing ownership restrictions on foreign direct investment, improving contract enforcement, and reducing offshoring cost can induce multinational companies to produce new products in host developing countries. Consistent with these theoretical predictions, we find empirical evidence that ownership liberalization, judicial quality and decline in offshoring costs played an important role in increasing the extensive margin of processing exports in China for the period of 1997–2007.

Where and how index insurance can boost the adoption of improved agricultural technologies

- Journal of Development Economics---2016---Michael Carter,Lan Cheng,Alexandros Sarris

Remote sensing and other advances have led to an outpouring of programs that offer index insurance to small scale farmers with the expectation that this insurance will enable adoption of improved technologies and boost living standards. Despite these expectations, the evidence to date on the uptake and impacts of insurance is mixed. This paper steps back and considers theoretically where index insurance might be most effective, and whether it should be offered as a standalone contract, or explicitly interlinked with credit contracts. Emerging from this analysis is a set of nuanced recommendations based on the structure of risk and the property rights (collateral) environment.

Long-run impacts of land regulation: Evidence from tenancy reform in India

- Journal of Development Economics---2016---Timothy Besley,Jessica Leight,Rohini Pande,Vijayendra Rao

Agricultural tenancy reforms have been widely enacted, but evidence on their long-run impact remains limited. In this paper, we provide such evidence by exploiting the quasi-random assignment of linguistically similar areas to different South Indian states that subsequently varied in tenancy regulation policies. Given imperfect credit markets, the impact of tenancy reform should vary by household wealth status, allowing us to exploit historic caste-based variation in landownership. Thirty years after the reforms, land inequality is lower in areas that saw greater intensity of tenancy reform, but the impact differs across caste groups. Tenancy reforms increase own cultivation among middle-caste households, but render low-caste households more likely to work as daily agricultural laborers. At the same time, agricultural wages increase. These results are consistent with tenancy regulations increasing land sales to relatively richer and more productive middle-caste tenants, but reducing land access for poorer low-caste tenants.

The wealth of subnations: Geography, institutions, and within-country development

- Journal of Development Economics---2016---Todd Mitton

I study determinants of economic development in a new dataset covering 1867 subnational regions from 101 countries, focusing on within-country effects of geography and institutions. Several geographic factors have significant explanatory power for within-country differences in per-capita GDP, including terrain ruggedness, tropical climate, ocean access, temperature range, storm risk, and natural resources such as oil, diamonds, or iron. Institutions have a significant positive effect on income among subnational regions with greater autonomy, suggesting that strong subnational institutions enhance development when not dominated by national institutions.

Does a ban on informal health providers save lives? Evidence from Malawi

- Journal of Development Economics---2016---Susan Godlonton,Edward N. Okeke

Informal health providers ranging from drug vendors to traditional healers account for a large fraction of health care provision in developing countries. They are, however, largely unlicensed and unregulated leading to concern that they provide ineffective and, in some cases, even harmful care. A new and controversial policy tool that has been proposed to alter household health seeking behavior is an outright ban on these informal providers. The theoretical effects of such a ban are ambiguous. In this paper, we study the effect of a ban on informal (traditional) birth attendants imposed by the Malawi government in 2007. To measure the effect of the ban, we use a difference-in-difference strategy exploiting variation across time and space in the intensity of exposure to the ban. Our most conservative estimates suggest that the ban decreased use of traditional attendants by about 15 percentage points. Approximately three quarters of this decline can be attributed to an increase in use of the formal sector and the remainder is accounted for by an increase in relative/friend-attended births. Despite the rather large shift from the informal to the formal sector, we do not find any evidence of a statistically significant reduction in newborn mortality on average. The results are robust to a triple difference specification using young children as a control group. We examine several explanations for this result and find evidence consistent with quality of formal care acting as a constraint on improvements in newborn health.

The heavy plow and the agricultural revolution in Medieval Europe

- Journal of Development Economics---2016---Thomas Andersen,Peter Jensen,Christian Skovsgaard

This research sheds new light on the much-debated link between agricultural productivity and development. We do so by estimating the causal impact of a large shock to agricultural productivity—the introduction of the heavy plow in the Middle Ages—on long run development. We build on the work of Lynn White, Jr. (1962), who argued that it was impossible to take proper advantage of the fertile clay soils of Northern Europe prior to the invention and widespread adoption of the heavy plow. We implement the test in a difference-in-difference set-up by exploiting regional variation in the presence of fertile clay soils. Using a high quality dataset for Denmark, we find that historical counties with relatively more fertile clay soil experienced higher urbanization after the heavy plow had its breakthrough, which was around AD 1000. We obtain a similar result, when we extend the test to European regions. Our findings substantiate that agricultural productivity can be an important driver of long-run development.

How general are time preferences? Eliciting good-specific discount rates

- Journal of Development Economics---2016---Diego Ubfal

This paper tests the commonly-used assumption that people apply a single discount rate to the utility from different sources of consumption. Using survey data from Uganda with both hypothetical and incentivized choices over different goods, we elicit time preferences from about 2400 subjects. We reject the null of equal discount rates across goods; the average person in our sample is more impatient about sugar, meat and starchy plantains than about money and a list of other goods. We review the assumptions to recover discount rates from experimental choices for the case of good-specific discounting. Consistently with the theoretical framework, we find convergence in discount rates across goods for two groups expected to engage in or think about arbitraging the rewards: traders and individuals with large quantities of the good at home. As an application, we evaluate empirically the conditions under which good-specific discounting could predict a low-asset poverty trap.

Conditional cash transfers, civil conflict and insurgent influence: Experimental evidence from the Philippines

- Journal of Development Economics---2016---Benjamin Crost,Joseph H. Felter,Patrick B. Johnston

Conditional cash transfer (CCT) programs are an increasingly popular tool for reducing poverty in conflict-affected areas. Despite their growing popularity, there is limited evidence on how CCT programs affect conflict and theoretical predictions are ambiguous. We estimate the effect of conditional cash transfers on civil conflict in the Philippines by exploiting an experiment that randomly assigned eligibility for a CCT program at the village level. We find that cash transfers caused a substantial decrease in conflict-related incidents in treatment villages relative to control villages in the first 9months of the program. Using unique data on local insurgent influence, we also find that the program reduced insurgent influence in treated villages. An analysis of possible spillovers yields inconclusive results. While we find no statistical evidence of spillovers, we also cannot rule out that the village-level effect was due to displacement of insurgent activity from treatment to control villages.

Capital imports composition, complementarities, and the skill premium in developing countries

- Journal of Development Economics---2016---Ohad Raveh,Ariell Reshef

We study how the composition of capital imports affects relative demand for skill and the skill premium in a sample of developing economies. Capital imports per se do not affect the skill premium; in contrast, their composition does. While imports of R&D-intensive capital equipment raise the skill premium, imports of less innovative equipment lower it. We estimate that R&D-intensive capital is complementary to skilled workers, whereas less innovative capital equipment is complementary to unskilled labor—which explains the composition effect. This mechanism has substantial explanatory power. Variation in tariffs, freight costs and overall barriers to trade, over time and across types of capital, favors imports of skill-complementary capital over other types. We calculate that reductions in barriers to trade increase inequality substantially in developing countries through the composition channel.

Legalize, tax, and deter: Optimal enforcement policies for corruptible officials

- Journal of Development Economics---2016---Alfredo Burlando,Alberto Motta

There is a heated debate on the merits of legalizing certain illegal, harmful and corrupting activities (such as trade in illicit drugs), but little theoretical insights on the consequences for optimal enforcement policies and corruption. We propose a model where the government hires law enforcers to report those who engage in a harmful activity. Offenders are allowed to respond by offering bribes to the law enforcers in exchange for their silence. When standard anti-corruption policies are costly to implement, we show that an alternative tax-and-legalize policy can yield significant benefits, especially in countries with weak institutions and for activities that are not too harmful. However, a tax-and-legalize scheme eliminates the distortions stemming from the threat of corruption by increasing the equilibrium number of harmful activities, which might explain why it is not as widespread a policy as the theory suggests.

Corruption's asymmetric impacts on firm innovation

- Journal of Development Economics---2016---Caroline Paunov

This paper documents the impacts of corruption on smaller- and larger-sized firms' adoption of quality certificates and patents. Using firm-level data for 48 developing and emerging countries, I analyze whether corruption's impacts are stronger on firms operating in industries that use quality certificates and patents more intensively. My results show that corruption reduces the likelihood that firms in these industries obtain quality certificates. Corruption affects particularly smaller firms but has no impacts on exporters or foreign- and publicly-owned firms. While corruption does not reduce patenting, it lowers machinery investments for innovation. By contrast, more reliable business environments foster firms' adoption of quality certificates.

Domestic road infrastructure and international trade: Evidence from Turkey

- Journal of Development Economics---2016---A. Kerem Coşar,Banu Demir

Drawing on the large-scale public investment in roads undertaken in Turkey during the 2000s, this paper contributes to our understanding of how internal transportation infrastructure affects regional access to international markets. Using data on international trade of Turkish provinces and the change in the capacity of the roads connecting them to the international gateways of the country, we estimate the distance elasticity of trade associated with roads of varying capacity. Three key results emerge. First, the cost of an average shipment over a high-capacity expressway is about 70% lower than it is over single-lane roads. Second, the present value of a 10-year stream of trade flows generated by a one-dollar investment in road infrastructure ranges between $0.7 and $2. Third, the reduction in transportation costs is greater the more transportation-sensitive an industry is. To the extent that efficient logistics enable countries to take part in global supply chains and exploit their comparative advantages, our findings have important developmental implications.

Entrepreneurship versus joblessness: Explaining the rise in self-employment

- Journal of Development Economics---2016---Paolo Falco,Luke Haywood

A large share of the workforce throughout the developing world is self-employed, and this proportion has increased in recent decades. Assessments of this development vary, with pull factors such as high returns to capital contrasted with push factors such as barriers to more desirable salaried jobs. Using a long panel dataset from Ghana, we empirically investigate the changing structure of earnings in self-employment relative to salaried work. Our analysis allows workers to sort into self-employment for different reasons, including expected earnings differentials and endogenous capital accumulation whilst highlighting constraints that workers may face. We estimate a correlated random coefficient model using IV-GMM, taking into account the endogeneity of sector choice and capital accumulation. We find that returns to productive characteristics in self-employment have increased significantly between 2004 and 2011 whilst self-employment has attracted increasingly skilled workers. This points against the negative view of self-employment as an occupation of last resort.

Does foreign aid harm political institutions?

- Journal of Development Economics---2016---Sam Jones,Finn Tarp

The notion that foreign aid harms the institutions of recipient governments remains prevalent. We combine new disaggregated aid data and various metrics of political institutions to re-examine this relationship. Long run cross-section and alternative dynamic panel estimators show a small positive net effect of total aid on political institutions. Distinguishing between types of aid according to their frequency domain and stated objectives, we find that this aggregate net effect is driven primarily by the positive contribution of more stable inflows of ‘governance aid’. We conclude that the data do not support the view that aid has had a systematic negative effect on political institutions.

Is informal risk-sharing less effective for the poor? Risk externalities and moral hazard in mutual insurance

- Journal of Development Economics---2016---Matthieu Delpierre,Bertrand Verheyden,Stéphanie Weynants

Poor farm-households are less keen to adopt high risk/high return technologies than rich households. Yet, the poor are more vulnerable to income shocks. We develop a model of endogenous risk-taking to explain these facts. In autarky, poor households adopt less risky production plans and obtain lower expected returns, but face higher relative risk than the rich. The introduction of risk-sharing generates negative risk externalities between agents. At the first best, the social planner imposes a homogeneous level of risk-taking in the group. At the second best, risk-taking is not enforceable and increases with insurance, generating moral hazard. Interestingly, the poor's risk-taking behavior is more sensitive to insurance. The social planner thus mitigates risk-taking by applying a lower insurance coverage in poor groups. The introduction of risk-sharing therefore reinforces the gap between rich and poor in terms of expected income and absolute risk, while the effect on relative risk is ambiguous.

“Flypaper effects” in transfers targeted to women: Evidence from BRAC's “Targeting the Ultra Poor” program in Bangladesh

- Journal of Development Economics---2015---Shalini Roy,Jinnat Ara,Narayan Das,Agnes Quisumbing

Many development interventions target transfers to women. However, little evidence directly explores the “flypaper effects” of whether women retain control over these transfers once within the household and how reallocation of the transfers affects women's empowerment. We study these dynamics in the context of BRAC's randomized CFPR-TUP program in Bangladesh, which provides livestock and training to rural women in “ultra poor” households. Our analysis confirms previous findings that CFPR-TUP increased household asset ownership, but shows complex effects on targeted women. Women appear to retain ownership over transferred livestock, but new investments from mobilized resources are largely owned by men. CFPR-TUP also reduces women's movement outside the home and control over income, consistent with transferred livestock requiring maintenance at home. However, beneficiary women also report “intangible” benefits such as increased social capital and, even with limited mobility, a preference for work inside the home given a hostile environment outside the home.

Reducing nonpayment for public utilities: Experimental evidence from South Africa

- Journal of Development Economics---2015---Andrea Szabo,Gergely Ujhelyi

Nonpayment for public utilities is an important constraint to expanding service access in developing countries. What are the causes of nonpayment and which policies are effective at addressing them? To study these questions, we implement and evaluate a randomized water education campaign in a low income peri-urban area in South Africa. We estimate substantial short-run treatment effects: on the order of a 25% increase in payments over a three-month period after which the effect dissipates. The evidence shows that the treatment did not operate by increasing consumers' information, or by creating reminders to pay or a threat of enforcement. Instead, households may have reciprocated the provider' s efforts by paying more. Our findings provide evidence that strategies other than increased enforcement can lower nonpayment.

Resource concentration and civil wars

- Journal of Development Economics---2015---Massimo Morelli,Dominic Rohner

This paper highlights the importance of natural resource concentration and ethnic group regional concentration for ethnic conflict. The existence of multiple conflict terrains (and hence multiple threat points) is the source of bargaining failure, similar to the one determined by the presence of offensive advantages. The theory predicts war to be more likely when resource concentration and group concentration are high, and the empirical analysis, both at the country level and at the ethnic group level, confirms the essential role of geographic concentration variables for civil war.

The persistent effects of in utero nutrition shocks over the life cycle: Evidence from Ramadan fasting

- Journal of Development Economics---2015---Muhammad Majid

More than a billion Muslims living today were potentially exposed to their mother's fasting in utero. This paper uses the Indonesian Family Life Survey to study the persistent effects of in utero exposure to Ramadan over the life cycle. The exposed children perform more child labor, score 7.4% lower on cognitive tests and 8.4% lower on math test scores. As adults, the exposed children work 4.7% fewer hours per week and are more likely to be self-employed. Estimates are robust to the inclusion of family fixed effects, particularly for hours worked and test scores. Moreover, results are strongest for religious Muslim families, while insignificant for non-Muslims. Back of the envelope calculations reveal an implied fasting rate of 68%–82% among pregnant Muslim women.

African polygamy: Past and present

- Journal of Development Economics---2015---James Fenske

I evaluate the impact of education on polygamy in Africa. Districts of French West Africa that received more colonial teachers and parts of sub-Saharan Africa that received Protestant or Catholic missions have lower polygamy rates in the present. I find no evidence of a causal effect of modern education on polygamy. Natural experiments that have expanded education in Nigeria, Zimbabwe, Sierra Leone and Kenya have not reduced polygamy. Colonial education and missionary education, then, have been more powerful sources of cultural change than the cases of modern schooling I consider.

Assessing teacher quality in India

- Journal of Development Economics---2015---Mehtabul Azam,Geeta Kingdon

Using administrative data from linked private schools from one Indian district that matches 8319 pupils to their subject specific teachers at the senior secondary level, we estimate the importance of individual teachers for student outcomes in the high-stake senior secondary exam (at the end of twelfth-grade) controlling for prior achievement at the secondary level (at the end of tenth-grade). In addition to controlling for prior achievement, we exploit the fact that students took exams in multiple subjects during their senior secondary exam to control for pupil fixed effects. We find a considerable variability in teacher effectiveness over a two year course—a one standard deviation improvement in teacher quality adds 0.366 standard deviation points in students score. Furthermore, consistent with studies in the US, we find that although teacher quality matters, the observed characteristics explain little of the variability in teacher quality.

Buying votes versus supplying public services: Political incentives to under-invest in pro-poor policies

- Journal of Development Economics---2015---Stuti Khemani

This paper provides evidence that vote buying in poor democracies is associated with lower investments in broadly delivered public services that have been shown to disproportionately benefit the poor. Using detailed data around the local institutional context in the Philippines, the paper shows how the correlation can be interpreted as arising in equilibrium under conditions of clientelism, when political strategies emphasize the provision of targeted benefits in exchange for political support. In places where households report more vote buying, government records show that municipalities invest less in basic health services for mothers and children; and, a higher percentage of children are recorded as severely under-weight. Corroborating evidence is provided using Afrobarometer surveys across 33 countries. Taken together, the evidence shows that where politicians purchase political support through targeted transfers, they are likely to trade it off against the provision of broader public services on which poor people rely.

Poverty, labor markets and trade liberalization in Indonesia

- Journal of Development Economics---2015---Krisztina Kis-Katos,Robert Sparrow

We measure the effects of trade liberalization over the period of 1993–2002 on regional poverty levels in 259 Indonesian districts, and investigate the labor market mechanisms behind these effects. The identification strategy relies on combining information on initial regional labor and product market structure with the exogenous tariff reduction schedule over four three-year periods. We add to the literature on local labor market effects of trade policies by distinguishing between tariffs for output markets and for intermediate inputs, and finding that poverty reduced especially in districts with a greater sector exposure to input tariff liberalization. Among the potential channels behind this effect, we show that low-skilled work participation and middle-skilled wages were more responsive to reductions in import tariffs on intermediate goods than to reductions in import tariffs on final outputs. These results point towards increasing firm competitiveness as a driving factor behind the beneficial poverty effects.

Human capital and the dynamic effects of trade

- Journal of Development Economics---2015---Raphael Auer

This paper examines the cross-country income and welfare consequences of trade-induced human capital (dis-)accumulation. The model is based on heterogeneous workers who make educational decisions in the presence of complete markets. When such heterogeneous workers invest in schooling, high type agents earn a surplus from their investment. In the presence of cross-country differences in skill-augmenting technology, trade shifts this surplus to rich countries that can use skills more efficiently. Thus, while the static gains from trade may lead to convergence, the dynamic gains from trade occur to initially rich countries, thus leading to cross-country divergence of income and welfare. The second part of the paper endogenizes world prices, documenting that as trade liberalization concentrates skills in countries with a high level of skill-augmenting technology, it thereby increases the effective global supply of skilled labor. Despite the resulting decline in the price of skill-intensive goods, trade is shown to be skill biased.

Pay, peek, punish? Repayment, information acquisition and punishment in a microcredit lab-in-the-field experiment

- Journal of Development Economics---2015---Kristina Czura

Despite remarkable repayment rates in microcredit group lending, anecdotal evidence from the field suggests that there is excessive punishment among group members. To quantify excessive peer punishment, I conduct a lab-in-the-field experiment with actual microcredit borrowers in rural India. I design a repayment coordination game with strategic default and the possibility of acquiring information about a peer's investment return (peer peeking) and of sanctioning a peer (peer punishment). I observe loan repayment of over 90% and punishment of around 85%. Punishment is classified as excessive compared to a game-theoretically derived benchmark of zero punishment and a behaviorally-rooted benchmark of unjust punishment. This gives solid support to the anecdotal evidence and manifests the concern of excessive peer pressure in microcredit group lending. The most promising explanation is that borrowers have internalized the mission indoctrination of the microlender of what constitutes a good borrower, namely repaying loans and disciplining peers.

Long run effects and intergenerational transmission of natural disasters: A case study on the 1970 Ancash Earthquake

- Journal of Development Economics---2015---German Caruso,Sebastian Miller

This study estimates the effects of the 1970 Ancash earthquake on human capital accumulation on the affected and subsequent generation, 37years after the shock, using Peruvian census of 1993 and 2007. The main finding is that males affected by the earthquake in utero completed on average 0.5years less schooling while females affected by the earthquake completed 0.8years less schooling. Moreover those affected by the earthquake also fare far worse in the marriage market and become parents at a much younger age. In addition children of mothers affected at birth by the earthquake have 0.4 less years of education, while those whose fathers were affected at birth show no effects. Other outcomes also suggest that welfare of the affected individuals has been negatively impacted in the long run. This research supports previous literature on shocks in early childhood, providing evidence of the existence of intergenerational transmission of shocks.

Stability of experimental and survey measures of risk, time, and social preferences: A review and some new results

- Journal of Development Economics---2015---Yating Chuang,Laura Schechter

Underlying preferences are often considered to be persistent, and are important inputs into economic models. We first conduct an extensive review of the disparate literature studying the stability of preferences measured in experiments. Then, we test the stability of individuals' choices in panel data from rural Paraguay over almost a decade. Answers to social preference survey questions are quite stable. Experimental measures of risk, time, and social preferences do not exhibit much stability. Correlations between experimental measures of risk aversion are a more precisely estimated zero, whereas correlations for time and social preferences are larger and noisier. We also find no systematic evidence that real world shocks influence play in games. We suggest that in a developing country context researchers should explore designing simpler experiments and including survey questions in addition to experiments to measure preferences.

Failure vs. displacement: Why an innovative anti-poverty program showed no net impact in South India

- Journal of Development Economics---2015---Jonathan Bauchet,Jonathan Morduch,Shamika Ravi

We analyze a randomized trial of an innovative anti-poverty program in South India, part of a series of pilot programs that provide "ultra-poor" households with inputs to create new, sustainable livelihoods (often tending livestock). In contrast with results from other pilots, we find no lasting net impact on income or asset accumulation in South India. We explore concerns with program implementation, data errors, and the existence of compelling employment alternatives. The baseline consumption data contain systematic errors, and income and consumption contain large outliers. Steps to address the problems leave the central findings largely intact: Wages for unskilled labor rose sharply in the area while the study was implemented, blunting the net impact of the intervention and highlighting one way that treatment effects depend on factors external to the intervention itself, such as broader employment opportunities.

Productive inefficiency in extended agricultural households: Evidence from Mali

- Journal of Development Economics---2015---Catherine Guirkinger,Jean-Philippe Platteau,Tatiana Goetghebuer

In Sub-Saharan African farm households, two types of plot management often coexist: collective fields are farmed jointly by household members under the authority of the head while individual plots are autonomously managed by members. In this paper we explore the productivity differentials between collective and individual plots in the context of extended family farms. We find that land yields are significantly larger on male private plots than on common plots after all appropriate controls have been included. Yet, the disadvantage of common plots exists only for care intensive crops and for cash crops. We provide evidence that the yield differentials stem from labor incentive problems. They may arise from the prevailing reward function and/or from preference heterogeneity over the use of the proceeds from the collective field.

Watchdogs of the Invisible Hand: NGO monitoring and industry equilibrium

- Journal of Development Economics---2015---Gani Aldashev,Michela Limardi,Thierry Verdier

Globalization has been accompanied by rising pressure from advocacy non-governmental organizations (NGOs) on multinational firms to act in socially-responsible manner. We analyze how NGO pressure interacts with industry structure, using a simple model of NGO-firm interaction embedded in an industry environment with endogenous markups and entry. We explain three key empirical patterns in developing-country industries under activist pressure: the degree of exit under more intense activist pressure, the differential response of industries to NGO activism, and the general rise of NGO activism following globalization.

Do better property rights improve local income?: Evidence from First Nations' treaties

- Journal of Development Economics---2015---Fernando M. Aragón

This paper examines the effect of an improvement in property rights on a local economy using the case of First Nations' modern treaties. These treaties are an important institutional reform that clarifies ownership of land and natural resources near Aboriginal communities. Using confidential micro-data, I find evidence of a positive impact of modern treaties on real income. The effect is driven by employment income and spreads across workers in industries not directly affected by the reform. I also find an increase in real wages and housing costs. The effects are similar in neighboring communities outside Indian reserves. These results are consistent with property right reforms creating a positive demand shock that affects the whole local economy. This is a yet understudied mechanism through which better property rights can generate positive local spillovers.

The resource curse exorcised: Evidence from a panel of countries

- Journal of Development Economics---2015---Brock Smith

This paper evaluates the impact of major natural resource discoveries since 1950 on GDP per capita. Using panel fixed-effects estimation and resource discoveries in countries that were not previously resource-rich as a plausibly exogenous source of variation, I find a positive effect on GDP per capita levels following resource exploitation that persists in the long term. Results vary significantly between OECD and non-OECD treatment countries, with effects concentrated within the non-OECD group. I further test GDP effects with synthetic control analysis on each individual treated country, yielding results consistent with the average effects found with the fixed-effects model.

Child mortality risk and fertility: Evidence from prevention of mother-to-child transmission of HIV

- Journal of Development Economics---2015---Nicholas Wilson

A fundamental question in development and growth is whether and how fast fertility responds to reductions in child mortality risk. I use the expansion of prevention of mother-to-child transmission of HIV (PMTCT) in Zambia to provide some of the first quasi-experimental evidence on this question. My results suggest that the local introduction of PMTCT reduced pregnancy rates by approximately 10%, particularly among likely HIV positive women and women in locations where PMTCT was available for a longer duration, and that PMTCT substantially increased breastfeeding rates.

Fiscal incentives and policy choices of local governments: Evidence from China

- Journal of Development Economics---2015---Li Han,James Kung

This paper examines how fiscal incentives affect the policy choices of local governments in the context of China. Based on exogenous changes in the intergovernmental revenue-sharing scheme, we construct a simulated instrumental variable to resolve the endogeneity problem. We find evidence that local governments shifted their efforts from fostering industrial growth to "urbanizing" China, i.e., to developing the real estate and construction sectors, when their retention rate of enterprise tax revenue was reduced. The increase from the new revenue source compensated for half of the losses in revenue that resulted from the reassignment of fiscal rights. The reassignment had also the effect of retarding the industrial growth of domestically-owned firms in particular.

Quality signaling through certification in developing countries

- Journal of Development Economics---2015---Emmanuelle Auriol,Steven G.M. Schilizzi

This paper studies how signaling the credence attributes of consumer goods distorts their market equilibrium in developing countries. Costs of certification, sunk in order to achieve credibility, play a key role in producing an oligopolistic market, leading to high prices that form a barrier for consumers in the South. To lower the cost, certification is better achieved by a single independent body which can be financed either by end consumers, through a fee, or by public subsidies. The paper identifies the conditions under which each funding mechanism is most efficient, taking into account the government's budget constraint. The theoretical analysis is motivated with reference to agricultural seed certification.

Financial development and the choice of trade partners

- Journal of Development Economics---2015---Jackie M.L. Chan,Kalina Manova

What determines the choice of countries' trade partners? We show theoretically and empirically that financial market imperfections affect the number and identity of exporters' destinations. Bigger economies with lower trade costs are more attractive markets because they offer higher export profits. This generates a pecking order of destinations such that firms serve all countries above a cut-off level of market potential. Credit constraints, however, raise this cut-off above the first best. Financially more advanced nations thus have more trade partners and go further down the pecking order, especially in sectors that rely heavily on the financial system. Our results provide new, systematic evidence that countries follow a hierarchy of export destinations, that market size and trade costs determine this hierarchy, and that financial frictions interact importantly with it. This has policy implications for the effects of cross-border linkages that depend on the number and identity of countries' trade partners.

Effects of renminbi appreciation on foreign firms: The role of processing exports

- Journal of Development Economics---2015---Barry Eichengreen,Hui Tong

We examine the impact of Chinese currency (renminbi) revaluation on firm valuations, focusing on the effect of surprise announcements of changes in China's currency policy on 9753 manufacturing firms in 44 countries. Renminbi appreciation has no significant impact on the valuation of firms in sectors exporting to China on average. But this "non-result" confounds a positive effect on firms in sectors exporting final goods to China with a negligible effect on those providing inputs for China's processing exports. We also find no significant effect on firms in sectors competing with China at home and in third markets. But again this "non-result" confounds the positive effect on firms competing with China in final goods with an insignificant effect on firms competing with China's processing exports. When evaluating the effects of renminbi appreciation on other countries, it follows, distinguishing processing trade from trade in final goods is key.

Social accountability to contain corruption

- Journal of Development Economics---2015---Ariane Lambert-Mogiliansky

In this paper we investigate the welfare properties of simple reappointment rules aimed at holding public officials accountable and monitoring their activity. Public officials allocate budget resources to various activities delivering public services to citizens. Officials have discretion over the use of resource, and can divert some of them for private ends. Due to a liability constraint, zero diversion can never be obtained in all states. The optimal reappointment mechanism under complete information is shown to exhibit some leniency. In the absence of information a rule with random verification in a pre-announced subset is shown to be optimal. Surprisingly, most common rules make little use of hard information about service delivery when available. By way of contrast, requesting that the public official defend his record publicly can be very useful if service users can refute false claims with cheap-talk complaints: the first-best complete information outcome can be approached.

A positive analysis of Fairtrade certification

- Journal of Development Economics---2015---Andrea Podhorsky

The Fairtrade program transfers income to farmers by establishing a price floor and an alternate distribution channel that bypasses intermediaries between the raw commodity and world markets. I develop a model of the international commodity supply chain, with monopolistically competitive final goods producers and consumers who value the ethical quality of goods. A small number of oligopsonistic intermediaries purchase the raw commodity from farmers in a given country and then sell to final goods producers in the world market. I consider the effects of a Fairtrade program that is too small to have an effect on the world price of the commodity. I show that the Fairtrade program decreases the intermediaries' market power and consequently, even farmers that are not selected into the program receive a higher wage than in the absence of the program. I establish the Pareto optimal Fairtrade price and assess the overall efficiency of the program. The program is a more efficient way to transfer income to farmers than a direct transfer equal to the premium commanded by certified products if the Fairtrade price is not set too high above the efficient wage for farmers. If the number of intermediaries were large, however, then the direct transfer would be more efficient than the program for all binding Fairtrade prices.

The relationship between federal budget amendments and local electoral power

- Journal of Development Economics---2015---Sergio Firpo,Vladimir Ponczek,Viviane Sanfelice

The objectives of this paper are twofold. First, we investigate whether politicians use resources from the federal budget to maintain and expand their political capital. Second, we examine whether such strategy is rewarded by voters. Do they vote for politicians who assist their municipalities through federal expenditures? We use data from legislative elections in Brazil, a country that does not use a single member district system to form its Chamber of Deputies. We use a regression discontinuity approach by exploring the results of close elections for the Chamber of Deputies. Our findings indicate that politicians tend to favor municipalities that were important to their elections and that voters support candidates who have brought resources to their localities.

A heterogeneous agent model of credit-linked index insurance and farm technology adoption

- Journal of Development Economics---2015---Katie Farrin,Mario Miranda

Protection from downside risk is a determinant of technology uptake among subsistence agricultural households. Access to credit, insurance and savings may stimulate technology adoption where new methods are riskier but higher-yielding or require sunk costs. In this paper, we employ a dynamic, stochastic, heterogeneous agent model where farm households have access to contingent credit and make savings, technology and loan repayment choices. Our approach is novel as insurance is modeled as a meso-level product, where the bank is indemnified before any payouts are distributed to borrowers; thus, it accounts for both supply- and demand-side concerns, showing a flow of effects when index insurance contracts are sold to risk aggregators for whom basis risk is lower. Results show letting the lender lay first claim on indemnities lowers default, which can decrease interest rates and expand credit access. Insurance and savings may also spur technology uptake.

Segregation and conflict: An empirical analysis

- Journal of Development Economics---2015---Alejandro Corvalan,Miguel Vargas

This paper examines the relationship between segregation and several intensities of civil conflict. Our results are as follows. First, both ethnic segregation and language segregation exhibit a strong and robust correlation with the incidence of conflict at any intensity level; that is, from civil wars to social disorder and protests. Conversely, religious segregation does not affect any type of conflict. Second, ethnic segregation and language segregation are related to the escalation and continuation of conflict but are unrelated to its onset. Regardless of the mechanism of segregation, its effect is unrelated to the outbreak of violence but it is related to the reinforcing of existing conflicts. Third, two channels of influence are trust and secession threats, in the sense that the measures associated with those channels are influenced by segregation and, at the same time, reduce the effect of the geographic group concentration on conflict.

Leveling with friends: Social networks and Indian farmers' demand for a technology with heterogeneous benefits

- Journal of Development Economics---2015---Nicholas Magnan,David Spielman,Travis Lybbert,Kajal Gulati

Agricultural technologies typically spread as farmers learn about profitability through social networks. This process can be nuanced, however, when net returns for some farmers may not be positive. We investigate how social learning influences demand for a resource-conserving technology in eastern Uttar Pradesh, India. We identify potential adopters through an experimental auction and randomly select a subset to adopt. We exploit this variation in adoption across networks to estimate network effects on demand for the technology one year later using a second auction. Technology benefits vary, and network effects are completely conditional on benefits. Having a benefiting adopter in one's network increased demand by over 50%, whereas having a non-benefiting adopter had no effect. These effects are strong enough to bring average demand in line with expected benefits. For many farmers, however, demand remains below the market price, suggesting that network effects will lead to increased—but not rapid widespread—adoption.

All in the family: Explaining the persistence of female genital cutting in West Africa

- Journal of Development Economics---2015---Marc Bellemare,Lindsey Novak,Tara L. Steinmetz

Why does female genital cutting (FGC) persist in certain places but has declined elsewhere? We study the persistence of FGC—proxied for by whether survey respondents are in favor of the practice continuing—in West Africa. We use 38 repeated cross-sectional country-year data sets covering 310,613 women aged 15 to 49 in 13 West African countries for the period 1995–2013. The data exhibit sufficient within-household variation to allow controlling for the unobserved heterogeneity between households, which in turn allows determining how much variation is due to factors at the levels of the individual, household, village, and beyond. Our results show that on average, 87% of the variation in FGC persistence can be attributed to household- and individual-level factors, with contributions from those levels of variation ranging from 71% in Nigeria in 2011 to 93% in Burkina Faso in 2006. Our results also suggest that once invariant factors across women aged 15 to 49 in the same household are accounted for, women who report having undergone FGC in West Africa are on average 16 percentage points more likely to be in favor of the practice.

Manufacturing growth and the lives of Bangladeshi women

- Journal of Development Economics---2015---Rachel Heath,Ahmed Mobarak

We study the effects of explosive growth in the Bangladeshi ready-made garments industry on the lives on Bangladeshi women. We compare the marriage, childbearing, school enrollment and employment decisions of women who gain greater access to garment sector jobs to women living further away from factories, to years before the factories arrive close to some villages, and to the marriage and enrollment decisions of their male siblings. Girls exposed to the garment sector delay marriage and childbirth. This stems from (a) young girls becoming more likely to be enrolled in school after garment jobs (which reward literacy and numeracy) arrive, and (b) older girls becoming more likely to be employed outside the home in garment-proximate villages. The demand for education generated through manufacturing growth appears to have a much larger effect on female educational attainment compared to a large-scale government conditional cash transfer program to encourage female schooling.

Banking the poor via savings accounts: Evidence from a field experiment

- Journal of Development Economics---2015---Silvia Prina

In a setting with low penetration of bank accounts, I randomly gave access to bank accounts with zero fees at local bank-branches to a large sample of female household heads in Nepal. The zero fees and physical proximity of the bank led to high take-up and usage rates compared to similar studies in other settings. However, impact on income, aggregate expenditures, and assets are too imprecisely estimated to draw a conclusion. I do find reallocation of expenditures across categories (e.g. more spending on education and meat and fish, and less on health and dowries), and higher ability to cope with shocks. On qualitative outcomes, I find households report that their overall financial situation has improved. The lack of a clear story on mechanisms, yet strong result on aggregate self-perception of financial wellbeing, is consistent with access to quality savings accounts leading to household improvements via multiple mechanisms.

Economic shocks, civil war and ethnicity

- Journal of Development Economics---2015---Thorsten Janus,Daniel Riera-Crichton

Using a novel cross-country panel dataset, we show that commodity terms of trade declines cause civil war in countries with intermediate ethnic diversity. The civil war effects for highly diverse or homogenous societies are negative and insignificant. Since the size of the largest ethnic group explains 96% of the variation in the ethnic diversity measure, we conjecture that a key problem may be ethnic dominance: countries where the ethnic plurality is large, but not so large it cannot be challenged, may be most vulnerable to economic shocks. The findings may help to bridge the partly distinct literatures linking ethnicity and economic factors to conflict.

Glass slippers and glass ceilings: An analysis of marital anticipation and female education

- Journal of Development Economics---2015---Saqib Jafarey,Dibyendu Maiti

This paper studies how marital anticipation affects female schooling in the presence of gender wage inequality and private benefits of education. Gender wage inequality induces a marital division of labour that creates (i) a marginal disincentive to girls' schooling and (ii) a tradeoff between consumption and education facing females in marriage markets. We show that in the presence of the last effect, an increase in the market wage can have negative consequences for the education of females who specialise in housework.

Rainfall and conflict: A cautionary tale

- Journal of Development Economics---2015---Heather Sarsons

There is evidence that, in some contexts, income shocks cause conflict. The literature demonstrating this relationship uses rainfall shocks to instrument for income shocks, arguing that in agriculturally-dependent regions, negative rain shocks lower income which incites violence. This identification strategy relies on the assumption that rainfall shocks affect conflict only through their impacts on income. This paper evaluates this exclusion restriction in the context of religious conflict in India. Using data on dam construction, I identify districts that are downstream from irrigation dams and show that income in these areas is much less sensitive to rainfall fluctuations. However, rain shocks remain equally strong predictors of riot incidence in these districts. I explore other channels through which rainfall might affect conflict.

Microfinance and dynamic incentives

- Journal of Development Economics---2015---D.A. Shapiro

Dynamic incentives, where incentives to repay are generated by granting access to future loans, are one of the methodologies used by microfinance institutions (MFIs). In this paper, I present a model of dynamic incentives where lenders are uncertain over how much borrowers value future loans. Loan terms are determined endogenously, and loans become more favorable as the probability of default becomes lower. I show that in all equilibria but one all borrowers, including the most patient ones, eventually default. I then consider an extension where borrowers can take loans from several lenders, double-dipping. Qualitatively, properties of equilibria with and without double-dipping are similar. In absolute terms, when borrowers are credit-constrained double-dipping equilibrium loans have to be more favorable to outweigh increased gains from default.

Efficient informal trade: Theory and experimental evidence from the Cape Town taxi market

- Journal of Development Economics---2015---Niklas Bengtsson

Informal sectors in developing countries are often thought of as responses to rigid and cumbersome market regulations. In this paper I study informal trade as a first-best outcome. In the model I propose rigid regulations can be necessary to achieve efficiency even though they are always sidestepped. The key assumption is that the regulations define the trading parties' fall-back position in case the informal bargaining process breaks down. I set up a field experiment to test the model's mechanisms in the Cape Town market for metered taxis. Consistent with the model, I find that sidestepping the regulations increase cost efficiency (taxis take the shortest route). The price is however unaffected, suggesting informal bargaining leads to a Pareto improvement.

The impact of a social program on labor informality: The case of AUH in Argentina

- Journal of Development Economics---2015---Santiago Garganta,Leonardo Gasparini

The recent Universal Child Allowance program in Argentina provides monthly cash transfers to unregistered workers with children. As the program is accessible only to those who are not in formal employment, it may discourage workers' transitions to the formal sector. In this paper we estimate this effect by comparing the transitions to registered jobs of eligible workers (with children) with a similar but not eligible group (without children) over time. The results suggest a statistically significant and economically large disincentive to the labor market formalization of the program beneficiaries. In contrast, there is no sufficient evidence for the existence of a significant incentive for registered workers to become informal.

Assessing the impact of World Bank preparation on project outcomes

- Journal of Development Economics---2015---Christopher Kilby

This paper assesses the impact of World Bank project preparation on project outcomes via a two-step estimation procedure. Using a stochastic frontier model, I generate a measure of World Bank project preparation duration based only on variation in political economy factors that are exogenous to latent project quality. Panel analysis of project data finds that projects with longer preparation periods are significantly more likely to have satisfactory outcome ratings. This result is robust across a range of specifications but the effects are conditional on the degree of economic vulnerability. The impact of World Bank preparation is greater in countries experiencing debt problems that may have fewer alternatives. Examining the impact of aid agency inputs into project preparation and design offers an alternative approach to measure the contribution of these agencies to development.

Public education spending and private substitution in urban China

- Journal of Development Economics---2015---Cheng Yuan,Lei Zhang

This paper documents robust evidence that increases in public spending on basic education are associated with significant reductions in household private tutoring spending in urban China. This reduction comes primarily from the top and bottom income households, suggesting multi-dimensional demands for private tutoring. It concentrates on households with an only boy and is larger for middle-school than primary-school children. Increases in public education spending are associated with significant reduction in school tuition, which is homogeneous across households of different income levels. Changes in household spending on textbooks in response to more public education spending are modest but statistically insignificant.

The role of group size in group lending

- Journal of Development Economics---2015---Christian Ahlin

This paper explores group size in joint liability lending, primarily in the adverse selection framework with local borrower information. A single, standardized contract that imposes full joint liability subject to a limited liability cap is optimal. Further, if gross returns to borrowing are moderately high, this contract results in perfectly efficient lending if groups are large enough. However, raising group size accomplishes nothing if there is no local borrower information. These results show that more is required for efficient lending than full within-group insurance, and highlight a complementarity between group size and social capital. Very similar results are shown in two different settings, ex ante and ex post moral hazard, though the type of social capital that complements group size varies across the settings. Taking a step toward modeling drawbacks of larger groups, it is shown that if information deteriorates sufficiently with group size, an intermediate group size does better than either extreme. Simulations suggest that most of the efficiency gains from larger groups are realized in group sizes below ten, and that outreach and efficiency can increase dramatically when a moderate group size threshold is crossed.

How geography affects quality

- Journal of Development Economics---2015---Volodymyr Lugovskyy,Alexandre Skiba

This paper connects the quality of product-level bilateral trade flows with the geographic position of the exporter. Theoretically we show that, in addition to commonly used importer characteristics, quality increases (i) in trade-weighted specific transportation cost to destinations other than the importer and (ii) in trade-weighted preference for quality of destinations other than the importer. These two channels extend the familiar Alchian–Allen and Linder theories to the multilateral setting.

Multinational price premium

- Journal of Development Economics---2015---Ying Ge,Huiwen Lai,Susan Chun Zhu

By exploring a rich data set that links international trade transactions to panel data of manufacturing firms from China during 2000–2006, we reveal new patterns of export prices across firms. We find that foreign firms charge about 28% higher prices than Chinese exporters after controls for firm productivity and product–destination–year fixed effects. We provide evidence that the multinational price premium is significantly correlated with the knowledge-based intangible assets within multinationals. The multinational price premium is substantially higher for firms with headquarters in more innovative countries and for firms that have technicians and managers sent from their parent companies. The price premium is even higher for majority- or wholly owned affiliates than for minority-owned affiliates. Our results imply that in addition to generating efficiency gains, multinationals can also enhance the capability of foreign affiliates to produce quality.

Evaluating seasonal food storage and credit programs in east Indonesia

- Journal of Development Economics---2015---Karna Basu,Maisy Wong

Predictable annual lean seasons occur in many rural areas, including West Timor in Indonesia. Imperfections in savings and credit markets make it difficult for staple farmers to convert harvest season output into lean season consumption. We conduct a randomized evaluation of a seasonal food storage program and a food credit program. By providing improved ways to transfer assets across seasons, each program functions as a subsidy on lean season consumption. We find that neither program had effects on staple food consumption. The storage program increased non-food consumption. The credit program increased reported income and reduced seasonal gaps in consumption. Our results are consistent with positive income effects through the expansion of budget sets, but suggest that the average household could be close to staple food satiation.

Fertility and rural labor market inefficiencies: Evidence from India

- Journal of Development Economics---2015---Prashant Bharadwaj

Informational frictions are an important source of inefficiency in rural labor markets. I examine the role of family size in mitigating costs that arise due to these frictions. I show that an increase in family size decreases the demand for hired labor in tasks for which worker output and effort are difficult to observe (monitoring intensive tasks). In contrast, in tasks for which worker output is easily observed, I find no relationship between family size and hired labor use. I provide evidence that supervision costs drive the preference for family labor in monitoring intensive tasks. As a consequence, larger families spend less time in supervision. I develop a theoretical framework, that illustrates the empirical challenge of identifying the link between family size and labor demand: factors that determine labor demand on the farm also determine family size. To address this endogeneity problem, I use exogenous variation in fertility induced by both a family planning policy in India, which provides cash incentives for sterilization take up, and income shocks. I show that while neither incentive payments nor income shocks by themselves are valid instruments for completed fertility, their interaction is a valid instrument. I infer that population control policies must take into account market inefficiencies that make larger families profitable.

Vote suppression and insecure property rights

- Journal of Development Economics---2015---Paul Castañeda Dower,Tobias Pfutze

While it is commonly understood that land is a political tool, there is surprisingly little empirical research on how insecure property rights affect political outcomes. In this paper, we show how a dominant political party can use insecure property rights to ensure politically compliant voter behavior and how this power is frustrated after the introduction of a land certification program. We test this hypothesis on data covering 10,000 Mexican municipal elections during the country's democratic transition. Exploiting the gradual rollout of a large-scale land certification program, we find that land titles significantly raised the number of votes for the main opposition parties. Importantly, this effect disappears once the dominant party, the Institutional Revolutionary Party (PRI), has already lost at least one election in the municipality. These results provide an additional explanation of the PRI's downfall and, more generally, illuminate the relationship between political power, institutions and resource allocation.

Corrupt governments do not receive more state-to-state aid: Governance and the delivery of foreign aid through non-state actors

- Journal of Development Economics---2015---Martin Acht,Toman Omar Mahmoud,Rainer Thiele,Toman Barsbai

A core result of the aid allocation literature is that the quality of governance in recipient countries does not affect the amounts of foreign aid received. Donor countries may still give aid to poorly-governed countries because of a dilemma they face: those countries most in need typically also lack proper institutions. This paper argues that donors try to resolve this dilemma by delivering aid through non-state actors. Using aid shares as well as absolute amounts of aid allocated through state and non-state channels and considering different dimensions of governance, we provide evidence that bypassing governments via NGOs and multilateral organizations is indeed a response to weak recipient state institutions. The effect is stronger in aid sectors where donors can more easily switch between channels, and weaker for higher levels of economic self-interest among donors.

Hicksian separability does not hold over space: Implications for the design of household surveys and price questionnaires

- Journal of Development Economics---2015---John Gibson,Bonggeun Kim

If relative prices of goods within a commodity group are constant, Hicksian separability lets the price of a single good represent the group price level. This is relied on by price questionnaires used with household surveys in developing countries and when constructing temporal and spatial deflators. Methods of estimating demand systems from household survey data also rely on Hicksian separability. Yet this restriction remains untested in cross-sections. We use unique data from Vietnam with multiple specifications from within the same food groups to test if within-group relative prices are constant over space. The data firmly reject these restrictions. Some guidelines for survey design are discussed, in terms of the characteristics of commodity groups that should be disaggregated and those that should have more elementary goods added to their linked price questionnaire.

Social capital, product imitation and growth with learning externalities

- Journal of Development Economics---2015---Pierre-Richard Agénor,Hinh T. Dinh

Links between social capital, human capital, and product imitation are studied in an overlapping generations model of economic growth with endogenous time allocation. Social capital promotes imitation and there is a two-way interaction between imitation and human capital. Building social capital (which brings direct utility) requires time and access to infrastructure. Because life expectancy is endogenously related to human capital, time allocation between market work and social capital accumulation is also endogenously determined. The analysis highlights a fundamental trade-off between learning externalities and the life cycle–time allocation effect. The model is calibrated for a low-income country. Numerical experiments show that a policy that helps to promote social capital accumulation may be highly effective to foster economic growth, even if it involves offsetting cuts in government spending on education. Offsetting cuts in infrastructure investment, however, may entail significant dynamic trade-offs.

The resource curse: A statistical mirage?

- Journal of Development Economics---2015---Alexander James

A surprising feature of resource-rich economies is slow growth. It is often argued that natural-resource production impedes development by creating market or institutional failures. This paper establishes an alternative explanation—a slow-growing resource sector. A declining resource sector is disproportionately reflected in resource-dependent countries. Additionally, there is little evidence that resource dependence impedes growth in non-resource sectors. More generally, this paper illustrates the importance of considering industry composition in cross-country growth regressions.

Suicide and property rights in India

- Journal of Development Economics---2015---Siwan Anderson,Garance Genicot

This paper studies the impact of female property rights on male and female suicide rates in India. Using state level variation in legal changes to women's property rights, we show that better property rights for women are associated with a decrease in the difference between female and male suicide rates, but an increase in both male and female suicides. We conjecture that increasing female property rights increased conflict within household and this increased conflict resulted in more suicides among both men and women in India. Using individual level data on domestic violence we find evidence that increased property rights for women did increase the incidence of wife beating in India. A model of intra-household bargaining with asymmetric information and costly conflict is consistent with these findings.

Heterogeneity and the formation of risk-sharing coalitions

- Journal of Development Economics---2015---Fernando Jaramillo,Hubert Kempf,Fabien Moizeau

We study the relationship between the distribution of individuals' attributes over the population and the extent of risk sharing in a risky environment. We consider a society where individuals voluntarily form risk-sharing groups in the absence of financial markets. We obtain a partition of society into distinct coalitions leading to partial risk sharing. When individuals differ only with respect to risk, the partition is homophily-based: the less risky agents congregate together and reject more risky ones into other coalitions. The distribution of risk affects the number and size of these coalitions. It turns out that individuals may pay a lower risk premium in more risky societies. We show that a higher heterogeneity in risk leads to a lower degree of partial risk sharing. The case of heterogenous risk aversion generates similar results. The empirical evidence on partial risk sharing can be understood when the endogenous partition of society into risk-sharing coalitions is taken into account.

Protecting child nutritional status in the aftermath of a financial crisis: Evidence from Indonesia

- Journal of Development Economics---2015---John Giles,Elan Satriawan

In response to concerns over the vulnerability of the young in the wake of Indonesia's 1997–1998 economic crises, the Government of Indonesia implemented a supplementary feeding program to support early childhood nutritional status. This paper exploits heterogeneity in duration of program exposure to evaluate the impact of the program on children aged 6 to 60months. By examining differences in nutritional status of treated younger children and a placebo group of older children, the analysis finds that the program improved the nutritional status of treated children, and most significantly, led to 7 and 15% declines in rates of moderate and severe stunting, respectively, for children aged 12 to 24months who were exposed to the program for at least 12months over two years.

Economic shocks in the fisheries sector and maritime piracy

- Journal of Development Economics---2015---Matthias Flückiger,Markus Ludwig

For a panel of 109 coastal countries, we show that negative economic shocks in the fisheries sector are associated with an increase in maritime piracy. Our identification strategy uses the variation in the phytoplankton abundance off the individual countries' coasts, measured by satellite data, as a source of such shocks. We find that plankton abundance is positively related to fish catches, but negatively associated with the incidence of piracy, the onset of piracy and the absolute number of pirate attacks. Our instrumental variable estimates indicate that a plankton shock that induces fish capture production to decrease by 10% increases the risk of piracy occurring by 10 percentage points. Similarly, a shock of the same magnitude increases the number of piracy attacks by 8.6%.

Oil, governance and the (mis)allocation of talent in developing countries

- Journal of Development Economics---2015---Christian Hubert Ebeke,Luc Omgba,Rachid Laajaj

This paper sheds light on the relationship between oil rent and the allocation of talent, toward rent-seeking versus more productive activities, conditional on the quality of institutions. Using a sample of 69 developing countries, we demonstrate that oil resources orient university students toward specializations that provide better future access to rents when institutions are weak. The results are robust to various specifications, datasets on governance quality and estimation methods. Oil affects the demand for each profession through a technological effect, indicating complementarity between oil and engineering, manufacturing and construction; however, it also increases the ‘size of the cake’. Therefore, when institutions are weak, oil increases the incentive to opt for professions with better access to rents (law, business, and the social sciences), rather than careers in engineering, creating a deviation from the optimal allocation between the two types of specialization.

A gender-based theory of the origin of the caste system of India

- Journal of Development Economics---2015---Chris Bidner,Mukesh Eswaran

We propose a theory of the origins of India's caste system by explicitly recognizing the productivity of women in complementing their husbands' occupation-specific skill. The theory explains the core features of the caste system: its hereditary and hierarchical nature, and its insistence on endogamy (marriage only within castes). Endogamy is embraced by a group to minimize an externality that arises when group members marry outsiders. We demonstrate why the caste system embodies gender asymmetries in punishments for violations of endogamy and tolerates hypergamy (marrying up) more than hypogamy (marrying down). Our model also speaks to other aspects of caste, such as commensality restrictions and arranged/child marriages. We suggest that India's caste system is so unique because the Brahmins sought to preserve and orally transmit the Hindu scriptures for over a millennium with no script. We show that economic considerations were of utmost importance in the emergence of the caste system.

Impact of the business environment on output and productivity in Africa

- Journal of Development Economics---2015---El-hadj Bah,Lei Fang

We develop a general equilibrium model to assess the quantitative effects of the business environment, including regulations, crime, corruption, infrastructure and access to finance, on output and total factor productivity (TFP) in Sub-Saharan Africa. The first four dimensions are modeled as a tax on output and the finance dimension is modeled as a borrowing constraint. The model is simulated for a sample of Sub-Saharan African countries using the country-specific financial development and the country-specific joint distribution between productivity and taxes. We find that the simulated output and TFP are highly correlated with those in the data and the model accounts for 48% of the variation of output in the data. Access to finance alone accounts for 39% and the other four dimensions account for 11% of the dispersion in output.

Electricity shortages and firm productivity: Evidence from China's industrial firms

- Journal of Development Economics---2015---Karen Fisher-Vanden,Erin Mansur,Wang, Qiong (Juliana)

Unreliable inputs to production, particularly those that are difficult to store, can significantly limit firms' productivity, leading them to react in a number of ways. This paper uses a panel of 23,000 energy-intensive, Chinese firms from 1999 to 2004 to examine how firms responded to severe power shortages in the early 2000s. Our results suggest that, in response to electricity scarcity, Chinese firms re-optimize among inputs to production by substituting materials for energy (both electric and non-electric sources)—a shift from "make" to "buy" of intermediate inputs to production. While outsourcing can be costly, Chinese firms were able to avoid substantial productivity losses by doing so. As a result of the increase in electricity scarcity from 1999 onward, we find that unit production costs increased by eight percent.

Migration, congestion externalities, and the evaluation of spatial investments

- Journal of Development Economics---2015---Taryn Dinkelman,Sam Schulhofer-Wohl

The direct benefits of infrastructure in developing countries can be large, but if new infrastructure induces in-migration, congestion of other local publicly provided goods may offset the direct benefits. Using the example of rural household electrification in South Africa, we demonstrate the importance of accounting for migration when evaluating welfare gains of spatial programs. We also provide a practical approach to computing welfare gains that does not rely on land prices. We develop a location choice model that incorporates missing land markets and allows for congestion in local land. Using this model, we construct welfare bounds as a function of the income and population effects of the new electricity infrastructure. A novel prediction from the model is that migration elasticities and congestion effects are especially large when land markets are missing. We empirically estimate these welfare bounds for rural electrification in South Africa, and show that congestion externalities from program-induced migration reduced local welfare gains by about 40%.

New exports from emerging markets: Do followers benefit from pioneers?

- Journal of Development Economics---2015---Rodrigo Wagner,Andres Zahler

We study the micro dynamics of new exports from a country. The modern international trade workhorse models (e.g. Melitz, 2003) assume heterogeneous productivity and, implicitly, predict that the ex-post largest exporters in a new product would be the pioneers, since they can pay back exploration costs. However, using detailed data on the early dynamics of new exports in Chile (1990–2007) we show that, on average, pioneers export less than comparable followers in the same new product. Moreover, followers are 40% more likely to enter a product if a pioneer survives more than one year exporting. These facts are consistent with pioneer-to-follower spillovers, or at least with stories in which the cost of entering early is disproportionally higher for larger exporters. Otherwise they would enter first. Firms better at “exploration” could be worse at “exploitation” (scale-up) in a new export product. This phenomenon is scarce, though, since in most new products pioneers are not followed, even if they survive.

Labor regulations and contract labor use: Evidence from Indian firms

- Journal of Development Economics---2015---Ritam Chaurey

Labor regulations in India differ by states and apply differently across types of laborers. The most restrictive laws make it harder to fire permanent workers for firms. However, these laws do not apply to workers hired through contractors (contract workers). Using firm-level data from India, I find that compared to firms in flexible labor regulations, those in more restrictive labor regimes hire more contract workers as a response to transitory local demand shocks. I find no differential response in hiring of permanent workers by firms faced with these shocks. This suggests that firms circumvent labor laws by hiring workers indirectly through contractors in the face of economic fluctuations.

Empowering women? Inheritance rights, female education and dowry payments in India

- Journal of Development Economics---2015---Sanchari Roy

This paper examines the impact of gender-progressive reforms to the inheritance law in India on women's outcomes. Despite stipulating that daughters would have equal shares as sons in ancestral property, I find that the reform failed to increase the actual likelihood of women inheriting property. Instead, parents appear to be “gifting” their share of land to their sons in order to circumvent the law. However, parents also appear to be compensating their daughters for such disinheritance by giving them alternative transfers in the form of either higher dowries or more education following the reform.

Giving kids a head start: The impact and mechanisms of early commitment of financial aid on poor students in rural China

- Journal of Development Economics---2015---Hongmei Yi,Yingquan Song,Chengfang Liu,Xiaoting Huang,Linxiu Zhang,Yunli Bai,Baoping Ren,Yaojiang Shi,Prashant Loyalka,James Chu,Scott Rozelle

We estimate the impact of two early commitment of financial aid (ECFA) programs—one at the start and one near the end of junior high school (seventh and ninth grades, respectively)—on the outcomes of poor, rural junior high students in China. Our results demonstrate that neither of the ECFA programs has a substantive effect. We find that the ninth-grade program had at most only a small (and likely negligible) effect on matriculation to high school. The seventh-grade program had no effect on either dropout rates during junior high school or on educational performance as measured by a standardized math test. The seventh-grade program did increase the plans of students to attend high school by 15%. In examining why ECFA was not able to motivate significant behavioral changes for ninth graders, we argue that the competitiveness of the education system successfully screened out poorer performing students and promoted better performing students. Thus by the ninth grade, the remaining students were already committed to going to high school regardless of ECFA support. In regards to the results of the seventh grade program, we show how seventh graders appear to be engaged in wishful thinking (they appear to change plans without reference to whether their plans are realistic).

Private school effects in urban and rural India: Panel estimates at primary and secondary school ages

- Journal of Development Economics---2015---Abhijeet Singh

I present the first value-added models of learning production in private and government schools in India using unique panel data from Andhra Pradesh state. I examine the heterogeneity in private school value-added across different subjects, urban and rural areas, medium of instruction, and across age groups. Further, I also estimate private school effects on children's self-efficacy and agency. In rural areas, I find a substantial positive effect (>0.5 SD) of private schools on English, no effect on Mathematics and heterogeneous effects on Telugu for 8–10-year old students; at 15years, there are modest effects (<0.2 SD) on Mathematics and Telugu receptive vocabulary. I find no evidence of a positive effect in urban areas or on psychosocial skills. Results on comparable test domains and age groups correspond closely with, and further extend, estimates from a parallel experimental evaluation.

Business training plus for female entrepreneurship? Short and medium-term experimental evidence from Peru

- Journal of Development Economics---2015---Martín Valdivia

With millions of women around the developing world thrown into self-employment but with low productivity, increasing the profitability of their businesses is highly relevant for poverty reduction and gender equity. This study evaluates the impacts of a BDS program serving female microentrepreneurs in Lima using an experimental design, that included two treatment groups: One received only general training (GT), albeit more time-intense than previous studies, and delivered by experts, while the other received in addition technical assistance (TA). Results show the existence of room for efficiency gains and growth, as all treated showed increased sales revenues and self-reported adoption of recommended business practices. Those that received only GT showed positive but not significant effects early on, but the two treatment groups showed indistinguishable growth, above 15%, two years after the end of the treatment. Low take up of the training may suggest some space to improve recruitment and delivery of treatments.

Don't tell on me: Experimental evidence of asymmetric information in transnational households

- Journal of Development Economics---2015---Kate Ambler

Although most theoretical models of household decision making assume perfect information, empirical studies suggest that information asymmetries can have large impacts on resource allocation. I demonstrate the importance of these asymmetries in transnational households, where physical distance between family members can make information barriers especially acute. I implement an experiment among migrants in Washington, DC, and their families in El Salvador that examines how information asymmetries can have strategic and inadvertent impacts on remittance decisions. Migrants make an incentivized decision over how much of a cash windfall to remit, and recipients decide how they will spend a remittance. Migrants strategically send home less when their choice is not revealed to recipients. Recipients make spending choices closer to migrants' preferences when the migrants' preferences are shared, regardless of whether or not the spending choices are revealed to the migrants, suggesting that recipients' choices are inadvertently affected by imperfect information.

Learning during a crisis: The SARS epidemic in Taiwan

- Journal of Development Economics---2015---Daniel Bennett,Chun-Fang Chiang,Anup Malani

SARS struck Taiwan in 2003, causing a national crisis. Many people feared that SARS would spread through the health care system, and outpatient visits fell by more than 30% in the course of a few weeks. We examine how both public information and the behavior and opinions of peers contributed to this reaction. We identify a peer effect through a difference-in-difference comparison of longtime residents and recent arrivals, who are less socially connected. Although several forms of social interaction may contribute to this pattern, social learning is a plausible explanation for our finding.

We find that people respond to both public information and to their peers. In a dynamic simulation based on the regressions, social interactions substantially magnify the response to SARS.

Climate and the slave trade

- Journal of Development Economics---2015---James Fenske,Namrata Kala

African societies exported more slaves in colder years. Lower temperatures reduced mortality and raised agricultural yields, lowering slave supply costs. Our results help explain African participation in the slave trade, which predicts adverse outcomes today. We use an annual panel of African temperatures and port-level slave exports to show that exports declined when local temperatures were warmer than normal. This result is strongest where African ecosystems are least resilient to climate change. Cold weather shocks at the peak of the slave trade predict lower economic activity today. We support our interpretation using the histories of Whydah, Benguela, and Mozambique.

The role of the informal sector in the early careers of less-educated workers

- Journal of Development Economics---2015---Javier Cano-Urbina

Does work experience gained in the informal sector affect the career prospects of less-educated workers? This paper examines two roles that informal sector jobs play in the early stages of a worker's career: informal jobs may (i) provide the opportunity to accumulate skills, and (ii) act as a screening device that enables employers to learn a worker's ability. The paper develops a matching model of the informal and formal sectors that can accommodate both roles. Implied hazard rates from informal to formal sectors as a function of tenure are shown to differ depending on the role of informal sector jobs: human capital accumulation or screening. Using the ENOE, a longitudinal employment survey from Mexico, hazard functions are estimated for less-educated workers. The estimated hazard functions indicate that informal sector jobs play an important role by screening young less-educated workers.

Local intermediate inputs and the shared supplier spillovers of foreign direct investment

- Journal of Development Economics---2015---Hiau Looi Kee

Trade liberalizations have been shown to improve domestic firms' performance through the new varieties of imported intermediate inputs. This paper uses a unique, representative sample of Bangladeshi garment firms to highlight that local intermediate inputs may also enhance domestic firms' performance, through the shared supplier spillovers of foreign direct investment (FDI) firms. An exogenous EU trade policy shock is shown to cause some FDI firms in Bangladesh to expand, which led to better performance of the domestic firms that shared their suppliers. Overall, the shared supplier spillovers of FDI explain 1/4 of the product scope expansion and 1/3 of the productivity gains within domestic firms.

Water scarcity and birth outcomes in the Brazilian semiarid

- Journal of Development Economics---2015---Rudi Rocha,Rodrigo Soares

Roughly one-third of the rural population in developing countries lives in arid and semiarid regions, facing recurrent water scarcity. This is likely to become an even more common situation with climate change. This paper analyzes the impact of rainfall fluctuations during the gestational period on health at birth in the Brazilian semiarid, highlighting the role of water scarcity as a determinant of early life health. We find that negative rainfall shocks are robustly correlated with higher infant mortality, lower birth weight, and shorter gestation periods. Mortality effects are concentrated on intestinal infections and malnutrition, and are greatly minimized when the local public health infrastructure is sufficiently developed (municipality coverage of piped water and sanitation). We also find that effects are stronger during the fetal period (2nd trimester of gestation), for children born during the dry season, and for mortality immediately after birth. Our estimates suggest that expansions in public health infrastructure would be a cost-effective way of reducing the response of infant mortality to rainfall scarcity.

The effects of exporting on wages: An evaluation using the 1999 Brazilian exchange rate devaluation

- Journal of Development Economics---2014---Bruno César Araújo,Lourenco Paz

The impact of international trade on wages has received substantial attention in recent decades; but only recently the specific effects of exporting on wage inequality have been investigated in detail. This paper employs the unexpected 1999 Brazilian exchange rate devaluation to identify the effects of exporting on Brazilian manufacturing firm-level wages using employer–employee linked data. We find that this export shock increased the average wage gap between the high and low productivity firms. Most of this wage increase took the form of a larger wage premium, but increased sorting of workers also played a significant role. Further scrutiny at the occupation–firm level indicates that the wage increases of managerial white-collar occupations came solely from wage premium variations. Skilled blue-collar workers also exhibited wage gains, but these gains came in equal shares from increased wage premium and worker sorting; the remaining occupational categories saw no wage increase.

International trade, the gender wage gap and female labor force participation

- Journal of Development Economics---2014---Philip Sauré,Hosny Zoabi

Recent work in gender economics has identified trade as a potential determinant of female labor force participation (FLFP). It is usually suggested that FLFP rises whenever trade expands those sectors which use female labor intensively. This paper develops a theoretical model to argue that, quite surprisingly, the opposite effects can occur. Distinguishing between female intensive sectors (FIS) and male intensive sectors (MIS), we show that FLFP may actually fall if trade expands FIS. When FIS are capital intensive, trade integration of a capital-abundant economy expands FIS and contracts MIS. Consequently, male workers migrate from MIS to FIS, diluting the capital–labor ratio in the FIS. Under a high complementarity between capital and female labor, the marginal productivity of women drops more than that of men. Thus, the gender wage gap widens and FLFP falls. Employment patterns in the U.S. following NAFTA are broadly consistent with our theory.

Brothers, household financial markets and savings rate in China

- Journal of Development Economics---2014---Weina Zhou

This study analyzes the effect of the number of brothers an individual has on that individual's household savings rate under the current underdeveloped household financial market in urban China. I show that having an additional brother reduces an individual's household savings rate by at least 5 percentage points. Brothers help households (1) by sharing risks, providing a source of informal borrowing, and (2) by sharing the cost of supporting parents. Sisters play a minor role in affecting a household's savings rate, mainly because of cultural norms. The decline in the average number of brothers in households induced by population policies explained at least one-third of the increased aggregate household savings rate in urban China.

The economic consequences of AIDS mortality in South Africa

- Journal of Development Economics---2014---Cally Ardington,Till Bärnighausen,Anne Case,Alicia Menendez

We quantify the impact of adult deaths on household economic wellbeing, using a large longitudinal dataset spanning more than a decade. Verbal autopsies allow us to distinguish AIDS mortality from that due to other causes. The timing of the lower socioeconomic status observed for households with AIDS deaths suggests that the socioeconomic gradient in AIDS mortality is being driven primarily by poor households being at higher risk for AIDS, rather than AIDS impoverishing the households. Following a death, households that experienced an AIDS death are observed being poorer still. However, the additional socioeconomic loss following an AIDS death is very similar to the loss observed from sudden death. Funeral expenses can explain some of the impoverishing effects of death in the household. In contrast, the loss of an employed member cannot. To date, antiretroviral therapy has not changed the socioeconomic status gradient observed in AIDS deaths.

Measuring risk attitudes among Mozambican farmers

- Journal of Development Economics---2014---Alan de Brauw,Patrick Eozenou

Although farmers in developing countries are generally thought to be risk averse, little is known about the actual form of their risk preferences. In this paper, we use a relatively large lab-in-the-field experiment to explore risk preferences related to sweet potato production among a sample of farmers in northern Mozambique. A unique feature of this experiment is that it includes a large subsample of husband and wife pairs. After exploring correlations between husband and wife preferences, we explicitly test whether preferences follow the constant relative risk aversion (CRRA) utility function, and whether farmers follow expected utility theory or rank dependent utility theory in generating their preferences. We reject the null hypothesis that farmers' preferences follow the CRRA utility function, in favor of the more flexible power risk aversion preferences. If we make the common CRRA assumption in our sample, we poorly predict risk preferences among those who are less risk averse.

The impact of National Health Insurance on birth outcomes: A natural experiment in Taiwan

- Journal of Development Economics---2014---Shin-Yi Chou,Michael Grossman,Jin-Tan Liu

We estimate the impacts of the introduction of National Health Insurance in Taiwan in March 1995 on infant survival. Prior to NHI, government workers (the control group) possessed health insurance policies with comprehensive coverage for births and infant medical care services. Private sector industrial workers and farmers (the treatment groups) lacked this coverage. All households received coverage in 1995. Since stringent requirements for reporting births introduced in 1994 produced artificial upward trends in early infant deaths, we focus on postneonatal mortality. The introduction of NHI led to reductions in this rate for infants born in farm households but not for infants born in private sector households. For the former group, the rate fell by between 0.3 and 0.6 deaths per thousand survivors or by between 8 and 16%. A large decline of between 3.4 and 6.8 deaths occurred for pre-term infants—a drop of between 20 and 41%.

Naturally negative: The growth effects of natural disasters

- Journal of Development Economics---2014---Gabriel Felbermayr,Jasmin Gröschl,Jasmin Groeschl

Growth theory predicts that natural disasters should, on impact, lower GDP per capita. However, the empirical literature does not offer conclusive evidence. Most existing studies use disaster data drawn from damage records of insurance companies. We argue that this may lead to estimation bias as damage data and the selection into the database may correlate with GDP. We build a comprehensive database of disaster events and their intensities from primary geophysical and meteorological information. In contrast to insurance data, our GeoMet data reveal a substantial negative and robust average impact effect of disasters on growth. The worst 5% disaster years come with a growth damage of at least 0.46 percentage points. That average effect is driven mainly by very large earthquakes and some meteorological disasters. Poor countries are more strongly affected by geophysical disasters; rich more by meteorological events. International openness and democratic institutions reduce the adverse effect of disasters.

Government spending cyclicality: Evidence from transitory and persistent shocks in developing countries

- Journal of Development Economics---2014---Markus Brückner,Mark Gradstein

We revisit the debate of whether government spending is procyclical in developing countries. Our main contribution is to argue that, beyond exogeneity of the income shock, an empirical analysis of government spending cyclicality must be carefully tailored to the shock's persistence. We first illustrate this point in a simple intertemporal model. We then use instrumental variables estimation to characterize the response of government expenditures to exogenous shocks with different degrees of persistence. Our estimation strategy exploits that: (i) year-to-year variations in rainfall have a significant positive contemporaneous effect on sub-Saharan African countries' real GDP but this effect is transitory; (ii) year-to-year variations in the GDP of sub-Saharan African countries' OECD trading partners have a significant positive contemporaneous effect on sub-Saharan African countries' real GDP and this effect is persistent. Using rainfall as an instrument for sub-Saharan African countries' GDP yields a government consumption expenditures elasticity response of around 0.4 (standard error 0.3). When the instrument is the GDP of sub-Saharan African countries' OECD trading partners the estimated government consumption expenditures elasticity response is around 1.1 (standard error 0.2). The elasticity response of government consumption expenditures to persistent income shocks is thus significantly higher relative to transitory shocks.

Monetary policy and bank lending rates in low-income countries: Heterogeneous panel estimates

- Journal of Development Economics---2014---Prachi Mishra,Peter Montiel,Peter Pedroni,Antonio Spilimbergo

This paper studies the transmission of monetary shocks to lending rates in a large sample of advanced, emerging, and low-income countries. Transmission is measured by the impulse response of bank lending rates to monetary policy shocks. Long-run restrictions are used to identify such shocks. Using a heterogeneous structural panel VAR approach, we find that there is wide variation in the response of bank lending rates to a monetary policy innovation across countries. Monetary policy shocks are more likely to affect bank lending rates in the theoretically expected direction in countries that have better institutional frameworks, more developed financial structures, and less concentrated banking systems. Low-income countries score poorly along all of these dimensions, and we find that such countries indeed exhibit much weaker transmission of monetary policy shocks to bank lending rates than do advanced and emerging economies.

Can cultural norms reduce conflicts? Confucianism and peasant rebellions in Qing China

- Journal of Development Economics---2014---James Kung,Chicheng Ma

Can culture mitigate conflicts triggered by economic shocks? In light of the extraordinary emphasis that Confucianism places on subordination and pacifism, we examine its role in possibly attenuating peasant rebellion within the historical context of China (circa 1651–1910). Our analysis finds that, while crop failure triggers peasant rebellion, its effect is significantly smaller in counties characterized by stronger Confucian norms as proxied by Confucian temples and chaste women. This result remains robust after controlling for a long list of covariates and instrumenting Confucian norms using ancient Confucian sages (500B.C.–A.D.

550) to address concerns of measurement error and reverse causality.

Walk the line: Conflict, state capacity and the political dynamics of reform

- Journal of Development Economics---2014---Sanjay Jain,Sumon Majumdar,Sharun Mukand

This paper develops a dynamic framework to analyze the political sustainability of economic reforms in developing countries. First, we demonstrate that economic reforms that are proceeding successfully may run into a political impasse, with the reform's initial success having a negative impact on its political sustainability. Second, we demonstrate that greater state capacity, to make compensatory transfers to those adversely affected by reform, need not always help the political sustainability of reform, but can also hinder it. Finally, we argue that in ethnically divided societies, economic reform may be completed not despite ethnic conflict, but because of it.

Sequential lending with dynamic joint liability in micro-finance

- Journal of Development Economics---2014---Shyamal Chowdhury,Prabal Roy Chowdhury,Kunal Sengupta

This paper develops a theory of sequential lending in groups in micro-finance that centers on the notion of dynamic incentives, in particular the simple idea that default incentives should be relatively uniformly distributed across time. In a framework that allows project returns to accrue over time, as well as strategic default, we show that sequential lending can help resolve problems arising out of coordinated default, thus improving project efficiency vis-a-vis individual lending. Inter alia, we also provide a justification for the use of frequent repayment schemes, as well as demonstrate that, depending on how it is manifested, social capital has implications for project efficiency and borrower default. We next examine the optimal choices for the MFI and derive conditions for the optimality of the group lending arrangement. Our framework also provides for some plausible hypotheses as to why there has been a recent transition from group to individual lending.

Does parental absence reduce cognitive achievements? Evidence from rural China

- Journal of Development Economics---2014---Hongliang Zhang,Jere Behrman,C. Simon Fan,Xiangdong Wei,Junsen Zhang

Many children worldwide are left-behind by parents migrating for work — over 61 million in rural China alone, almost half of whom are left-behind by both parents. While previous literature considers impacts of one parent absent on educational inputs (e.g., study time, enrollment, schooling attainment), this study directly investigates impacts on children's learning (test scores) and distinguishes impacts of absence of one versus both parents. Dynamic panel methods that control for both unobserved individual heterogeneity and endogeneity in parental absence are used with data collected from rural China. The estimates indicate significant negative impacts of being left-behind by both parents on children's cognitive development, reducing their contemporary achievements by 5.4 percentile points for math and 5.1 percentile points for Chinese, but much smaller insignificant impacts of being left-behind by one parent. Cross-sectional evidence indicates that only absence of both parents is associated with substantially lower family inputs in after-school tutoring.

You get what you pay for: Schooling incentives and child labor

- Journal of Development Economics---2014---Eric Edmonds,Maheshwor Shrestha

Can schooling promotion deter child participation in hazardous forms of child labor? We examine two interventions intended to promote schooling and deter child labor for children associated with carpet factories in Kathmandu. The first intervention provides scholarships for school-related expenses. The second provides the scholarship and an in-kind stipend conditional on school attendance. Paying for schooling expenses promotes schooling but only at the beginning of the school year when most schooling expenses occur. The scholarship combined with the conditional stipend increases school attendance rates by 11%, decreases grade failure rates by 46%, and reduces carpet weaving by 48%. Financial support lasted one year. Effects on schooling and weaving do not persist past the year of support. “You get what you pay for” when schooling incentives are used to combat hazardous child labor.

Dowry deaths: Response to weather variability in India

- Journal of Development Economics---2014---Sheetal Sekhri,Adam Storeygard

We examine the effect of rainfall shocks on dowry deaths using data from 583 Indian districts for 2002–2007. We find that a one standard deviation decline in annual rainfall from the local mean increases reported dowry deaths by 7.8%. Wet shocks have no apparent effect. We examine patterns of other crimes to investigate whether an increase in general unrest during economic downturns explains the results but do not find supportive evidence. Women’s political representation in the national parliament has no apparent mitigating effect on dowry deaths.

When did the dollar overtake sterling as the leading international currency? Evidence from the bond markets

- Journal of Development Economics---2014---Livia Chitu,Barry Eichengreen,Arnaud Mehl

We offer new evidence on the emergence of the dollar as the leading international currency focusing on its role as currency of denomination in global bond markets. We show that the dollar overtook sterling much earlier than commonly supposed, as early as in 1929. Financial development appears to have been the main factor helping the dollar to overcome sterling’s head start. The finding that a shift from a unipolar to a multipolar international monetary and financial system has happened before suggests that it can happen again. That the shift occurred earlier than commonly believed suggests that the advantages of incumbency are not insurmountable. And that financial deepening was a key determinant of the dollar’s emergence points to the challenges facing currencies aspiring to international status.

Oil price stabilization and global welfare

- Journal of Development Economics---2014---Qing Liu,Kang Shi,Zhouheng Wu,Juanyi Xu

Oil price stabilization polices are adopted extensively in developing countries. Some argue that developed economies, especially the US, may gain from these policies through trade. This paper studies this issue in a two-country model with dollar currency pricing. We find that the optimal level of oil price stabilization chosen by developing countries and its implications for global welfare depend critically on whether monetary policy can effectively respond to oil shocks. In an environment without monetary shocks, when optimal monetary policies are considered, there is no role for oil price stabilization in developing countries. However, to make the oil price stabilization policy redundant, optimal monetary policy is not necessary. Some non-optimal endogenous monetary policies satisfying certain conditions can also make the developing countries choose zero oil price stabilization. The results change when there are monetary shocks. Even with optimal monetary policies, the developing countries will choose a positive level of oil price stabilization. However, due to dollar currency pricing, the US actually loses from the stabilization policy. Our results are well supported by the quantitative analysis in a full-fledged dynamic stochastic general equilibrium model.

Emerging economies, trade policy, and macroeconomic shocks

- Journal of Development Economics---2014---Chad Bown,Meredith Crowley

This paper estimates the impact of aggregate fluctuations on the time-varying trade policies of thirteen major emerging economies over 1989–2010; by 2010, these WTO member countries collectively accounted for 21% of world merchandise imports and 22% of world GDP. We examine determinants of carefully constructed, bilateral measures of new import restrictions on products arising through the temporary trade barrier (TTB) policies of antidumping, safeguards, and countervailing duties. We find evidence of a counter-cyclical relationship between macroeconomic shocks and new TTB import restrictions as well as an important role for fluctuations in bilateral real exchange rates. Furthermore, the trade policy responsiveness coinciding with WTO establishment in 1995 suggests a significant change relative to the pre-WTO period; i.e., new import restrictions became more counter-cyclical and sensitive to real exchange rate shocks over time. Finally, we also present results that explicitly address changes to the institutional environment facing these emerging economies as they joined the WTO and adopted disciplines to restrain their application of other trade policies such as applied import tariffs.

Acute morbidity and labor outcomes in Mexico: Testing the role of labor contracts as an income smoothing mechanism

- Journal of Development Economics---2014---Federico H. Gutierrez

Economic development is associated with an increase in the share of workers in salaried jobs. This process may be accompanied by a reduction in wage fluctuations if labor contracts are used as income smoothing mechanisms. This paper tests to what extent salaried jobs help reduce the volatility of wages by insuring workers against productivity shocks. Analysis of MxFLS data indicates that the average contractual arrangement in Mexico insures the worker against idiosyncratic productivity fluctuations associated with episodes of illness. The evidence is stronger for workers in formal jobs. To validate the methodology, the test is also implemented on a sample of self-employed workers. In this case, it correctly rejects the presence of insurance against productivity shocks.

Nudging to use: Achieving safe water behaviors in Kenya and Bangladesh

- Journal of Development Economics---2014---Jill Luoto,David Levine,Jeff Albert,Stephen Luby

Consistent adoption of preventive health behaviors could save many lives, but we do not understand how to create consistent adoption. For example, low-cost point-of-use (POU) water treatment technologies such as chlorine and filters can substantially reduce diarrheal disease, a leading cause of child mortality worldwide. Nonetheless, these products are not consistently used anywhere in the developing world, even when available and heavily subsidized. We ran complementary randomized field studies in rural western Kenya and urban Dhaka, Bangladesh in which households received free trials of POU products to test the role of marketing nudges on usage. Health-oriented marketing messages inspired by behavioral economics incrementally increase the use of all products in both countries. We discuss how our findings from these two studies complement and contradict each other, and what we can learn generally about the uptake of these (and potentially other) preventive health goods.

Entrepreneurship policy and globalization

- Journal of Development Economics---2014---Pehr-Johan Norbäck,Lars Persson,Robin Douhan

What explains the world-wide trend of pro-entrepreneurial policies? We study entrepreneurial policy in the form of entry costs in a lobbying model taking into account the conflict of interest between entrepreneurs and incumbents. It is shown that international market integration leads to more pro-entrepreneurial policies, since it is then (i) more difficult to protect domestic incumbents and (ii) pro-entrepreneurial policies make foreign entrepreneurs less aggressive. Using the World Bank Doing Business database, we find evidence that international openness is negatively correlated with the barriers to entry for new entrepreneurs, as predicted by the theory.

Addressing antibiotic abuse in China: An experimental audit study

- Journal of Development Economics---2014---Janet Currie,Wanchuan Lin,Juanjuan Meng

China has high rates of antibiotic abuse and antibiotic resistance but the causes are still a matter for debate. Strong physician financial incentives to prescribe are likely to be an important cause. However, patient demand (or physician beliefs about patient demand) is often cited and may also play a role. We use an audit study to examine the effect of removing financial incentives, and to try to separate out the effects of patient demand. We implement a number of different experimental treatments designed to try to rule out other possible explanations for our findings. Together, our results suggest that financial incentives are the main driver of antibiotic abuse in China, at least in the young and healthy population we draw on in our study.

Out-migration, wealth constraints, and the quality of local amenities

- Journal of Development Economics---2014---Christian Dustmann,Anna Okatenko

The relation between income and migration intentions can be monotonically decreasing, increasing, or inverse U-shaped, dependent on the level of migration cost relative to wealth and if individuals are credit constrained. Using unique individual level data, covering countries in three geographic regions – sub-Saharan Africa, Asia, and Latin America – we show that migration intentions respond to individual wealth, and that the pattern differs across the country groups studied in a manner compatible with the predictions of our simple model. We also show that contentment with various dimensions of local amenities, such as public services and security, are key determinants of migration intentions.

Civil war and U.S. foreign influence

- Journal of Development Economics---2014---Facundo Albornoz,Esther Hauk

We study how foreign interventions affect civil war around the world. In an infinitely repeated game we combine a gambling for resurrection mechanism for the influencing country with the canonical bargaining model of war in the influenced country to micro-found sudden shifts in power among the domestic bargaining partners, which are known to lead to war due to commitment problems. We test two of our model predictions that allow us to identify the influence of foreign intervention on civil war incidence: (i) civil wars around the world are more likely under Republican governments and (ii) the probability of civil wars decreases with the U.S. presidential approval rates. These results withstand several robustness checks and, overall, suggest that foreign influence is a sizable driver of domestic conflict.

From Beijing to Bentonville: Do multinational retailers link markets?

- Journal of Development Economics---2014---Keith Head,Ran Jing,Deborah Swenson

Four of the world's five largest retailers—Walmart, Carrefour, Tesco, and Metro—entered China after 1995, following new policies that allowed foreign retailers to participate more fully in the Chinese retail market. As each retailer added both stores and global procurement centers, they created unique footprints that caused Chinese cities to be differentially exposed to the activities of these global retailers. We exploit these differences to identify the effect of multinational retailer presence on city–country exports of retail goods. We find robust evidence that increased exposure to multinational retailers was followed by rising exports. Since the export expansions are not limited to the connections formed by the retailers' bilateral networks, our evidence suggests that the growing presence of global retailers operated, at least in part, by enhancing the general export capabilities of the affected cities.

Bank privatization, finance, and growth

- Journal of Development Economics---2014---Daniel Berkowitz,Mark Hoekstra,Koen Schoors

This paper examines whether privatizing state-owned banks improves finance and economic growth. To do so, we exploit regional banking variations in Russia induced by the idiosyncratic creation of “specialized banks” in the last years of the Soviet Union (1988–91) that were subsequently privatized. Starting in 1999 private banks including surviving spetsbanks emerged as an important source of external finance for private firms and households. We document that the regional concentration of spetsbanks in the early years of the Russian federation is orthogonal to economic fundamentals that are related to growth after the emergence of bank finance. Results indicate that while privatized banking increased lending significantly, it did not increase economic growth. However, privatization did increase growth when banks retained fewer political connections and when regional property rights were better protected, highlighting the importance of both factors.

Institutions and financial frictions: Estimating with structural restrictions on firm value and investment

- Journal of Development Economics---2014---Stijn Claessens,Kenichi Ueda,Yishay Yafeh

Using an enhanced version of the standard investment model, we estimate how institutions affect financial frictions at the firm (micro) level and, through the required rate of return, at the country (macro) level. Based on some 78,000 firm–year observations from 40 countries over the period 1990–2007, we show that good shareholder rights lower financial frictions, especially for firms with large external finance relative to their capital stock (e.g., small, growing or distressed firms). However, creditor rights generally do not affect financial frictions. It thus appears that in explaining cross-country differences in firm investment, frictions related to shareholder rights (e.g., shirking or “tunneling”) are more relevant than debt-related frictions (e.g., limited liability or collateral constraints).

Potatoes, milk, and the Old World population boom

- Journal of Development Economics---2014---Justin Cook

This paper explores the role of two foods, potatoes and milk, in explaining the increase in economic development experienced throughout the Old World in the 18th and 19th centuries. Nunn and Qian (2011) show the introduction of the potato from the New World has a significant explanatory role for within country population and urbanization growth over this period. I expand on this by considering the role of milk consumption, which is hypothesized to be a complement in diet to potatoes due to a differential composition of essential nutrients. Using a country-level measure for the suitability of milk consumption, the frequency of lactase persistence, I show that the marginal effect of potatoes on post-1700 population and urbanization growth is positively related to milk consumption. As the frequency of milk consumption approaches unity, the marginal effect of potatoes more than doubles in magnitude compared to the baseline estimate of Nunn and Qian.

Do giant oilfield discoveries fuel internal armed conflicts?

- Journal of Development Economics---2014---Yu-Hsiang Lei,Guy Michaels

We use new data to examine the effects of giant oilfield discoveries around the world since 1946. On average, these discoveries increase per capita oil production and oil exports by up to 50%. But these giant oilfield discoveries also have a dark side: they increase the incidence of internal armed conflict by about 5–8 percentage points. This increased incidence of conflict due to giant oilfield discoveries is especially high for countries that had already experienced armed conflicts or coups in the decade prior to discovery.

Cultural change, risk-taking behavior and implications for economic development

- Journal of Development Economics---2014---Mariko Klasing

This research studies the dynamic interplay between the evolution of risk attitudes and the process of economic development. This is achieved by integrating an endogenous growth model with a cultural transmission mechanism that captures how parents shape the risk attitudes of their children in response to economic incentives. The model predicts that in an economy in which the material benefits associated with risky entrepreneurial activity are high, agents will over time develop more risk tolerant attitudes, which in turn will speed up the rate of economic growth. It is shown that policy interventions aiming at supporting entrepreneurial activity can play an important role for overcoming the forces of risk aversion and promoting long-run economic growth. Furthermore, the paper highlights how by inducing cultural change, such policy interventions may quantitatively have larger effects than what would be predicted by more standard models of endogenous growth.

Evolution of land distribution in West Bengal 1967–2004: Role of land reform and demographic changes

- Journal of Development Economics---2014---Pranab Bardhan,Michael Luca,Dilip Mookherjee,Francisco Pino

This paper studies how land reform and population growth affect land inequality and landlessness, focusing particularly on indirect effects owing to their influence on household divisions and land market transactions. Theoretical predictions of a model of household division and land transactions are successfully tested using household panel data from West Bengal spanning 1967–2004. The tenancy reform lowered inequality through its effects on household divisions and land market transactions, but its effect was quantitatively dominated by inequality-raising effects of population growth. The land distribution program lowered landlessness but this was partly offset by targeting failures and induced increases in immigration.

Property rights, land liquidity, and internal migration

- Journal of Development Economics---2014---Eugenia Chernina,Paul Castañeda Dower,Andrei Markevich

In the early twentieth century, a large number of households resettled from the European to the Asian part of the Russian Empire. We propose that this dramatic migration was rooted in institutional changes initiated by the 1906 Stolypin land titling reform. One might expect better property rights to decrease the propensity to migrate by improving economic conditions in the reform area. However, this titling reform increased land liquidity and actually promoted migration by easing financial constraints and decreasing opportunity costs. Treating the reform as a quasi-natural experiment, we employ difference-in-differences analysis on a panel of province-level data that describe migration and economic conditions. We find that the reform had a sizeable effect on migration. To verify the land liquidity effect, we exploit variation in the number of households participating in the reform. This direct measure of the reform mechanism estimates that land liquidity explains approximately 18% of migration during this period.

Are land reforms granting complete property rights politically risky? Electoral outcomes of Mexico's certification program

- Journal of Development Economics---2014---Alain de Janvry,Marco Gonzalez-Navarro,Elisabeth Sadoulet

What is the impact on voting behavior of strengthening property rights over agricultural land? To answer this question, we use the 14-year nationwide rollout of Mexico's land certification program (Procede) and match affected communities (ejidos) before and after the change in property rights with voting outcomes in corresponding electoral sections across six federal election cycles. We find that, in accordance with the investor class theory, granting complete property rights induced a conservative shift toward the pro-market party equal to 6.8percent of its average share of votes over the period. This shift was strongest where vested interests created larger expected benefits from market-oriented policies as opposed to public-transfer policies. We also find that beneficiaries failed to reciprocate through votes for the benefactor party. We conclude that, in the Mexican experience, engaging in a land reform that strengthened individual property rights over agricultural land was politically advantageous for the right-wing party.

Trees, tenure and conflict: Rubber in colonial Benin

- Journal of Development Economics---2014---James Fenske

Tree crops have changed land tenure in Africa. Farmers have acquired permanent, alienable rights, but have also faced disputes with competing claimants and the state. Para rubber had many similar effects in the Benin region of colonial Nigeria. Farmers initially obtained land by traditional methods. Mature farms could be sold, let out, and used to raise credit. Disputes over rubber involved smallholders, communities of rival users, and migrants. The impact of tree crop commercialization in Benin differed from other cases due to local context, including pre-colonial institutions, the late spread of rubber, and the relative unimportance of migrant planters.

Contractual structure in agriculture with endogenous matching

- Journal of Development Economics---2014---Maitreesh Ghatak,Alexander Karaivanov

We analyze optimal contractual forms and equilibrium matching in a double-sided moral hazard model of sharecropping similar to Eswaran and Kotwal (1985). We show that, with endogenous matching, the presence of moral hazard can reverse the matching pattern relative to the first best, and that even if sharecropping is optimal for an exogenously given pair of agent types, it may not be observed in equilibrium with endogenous matching. The economy with endogenous matching features less sharecropping compared to an economy with agent types drawn at random from the same distribution. This suggests that studies of agency costs in sharecropping may underestimate their extent if focusing only on the intensive margin and ignoring the extensive margin.

Poverty and land redistribution

- Journal of Development Economics---2014---Malcolm Keswell,Michael Carter

Despite a theoretical literature that promises that land transfers will have large impacts on the well-being of poor households, well-identified empirical evidence on the efficacy of land redistribution is scarce. In an effort to fill this gap, this paper examines South Africa's Land Redistribution for Agricultural Development (LRAD) program. We exploit features of LRAD program implementation to extract exogenous variation in whether, and for how long, applicant households enjoyed land transfers. Binary treatment estimates, which compare treated with untreated households, show that beneficiary households on average experienced a 25% increase in per-capita consumption. Our preferred continuous treatment estimates, which analyze only the subset of treated households, identify the impact time path of land transfers on consumption. These estimates show that living standards initially drop and then, after 3–4years, rise to 150% of their pre-transfer level. These results are statistically significant and robust to a statistically more conservative identification strategy.

Environmental and gender impacts of land tenure regularization in Africa: Pilot evidence from Rwanda

- Journal of Development Economics---2014---Daniel Ayalew Ali,Klaus Deininger,Markus Goldstein

We evaluate the short-term impact of a pilot land regularization program in Rwanda using a geographic discontinuity design with spatial fixed effects. Three key findings emerge from the analysis. First, the program seems to have improved land access for legally married women (about 76% of married couples) and prompted better recording of inheritance rights without gender bias. Second, we find that the program was associated with a very large impact on investment and maintenance of soil conservation measures. This effect was particularly pronounced for female headed households, suggesting that this group had suffered from high levels of tenure insecurity which the program managed to reduce. Third, land market activity declined, allowing us to reject the hypothesis that the program caused a wave of distress sales or widespread landlessness by vulnerable people. Implications for program design and policy are discussed.

Land property rights and international migration: Evidence from Mexico

- Journal of Development Economics---2014---Michele Valsecchi

In this paper, I ask whether there is a relationship between land property rights and international migration. In order to identify the impact of property rights, I consider a country-wide land certification program that took place in Mexico in the 1990s. My identification strategy exploits the staggered implementation and the households' eligibility for the program. I find that the program increased the eligible households' likelihood of having one or more members abroad by 12%. In terms of the number of migrants, my coefficient estimates explain 26% of the 1994–1997 increase in migrants from ejido areas and 13–15% of the increase from all of Mexico. Consistent with our theoretical model, the impact is strongest for households without a land will. This implies that land inheritance issues drive at least part of the effect.

Political connections and land-related investment in rural Vietnam

- Journal of Development Economics---2014---Thomas Markussen,Finn Tarp

This paper uses household panel data from rural Vietnam to explore the effects of having a relative in a position of political or bureaucratic power. Our results suggest that households increase their investment in land improvements due to such ties. Likely explanations are that connections to office holders strengthen de facto land property rights and access to both credit and transfers. Results also indicate that officials prefer to use informal rather than formal channels of redistribution to relatives.

Land acquisition for industrialization and compensation of displaced farmers

- Journal of Development Economics---2014---Maitreesh Ghatak,Dilip Mookherjee

This paper addresses the question of how farmers displaced by acquisition of agricultural land for the purpose of industrialization ought to be compensated. Prior to acquisition, the farmers are leasing in land from a private owner or local government with a legally mandated sharecropping contract. Compensation rules affect the decision of the landlord to sell the land ex post to an industrial developer, and ex ante incentives of tenants and landlord to make specific investments in agricultural productivity. Efficiency considerations are shown to require farmers be over-compensated in the event of conversion.

Disease control, demographic change and institutional development in Africa

- Journal of Development Economics---2014---Harounan Kazianga,William Masters,Margaret McMillan

This paper addresses the role of tropical disease in rural demography and land use rights, using data from Onchocerciasis (river blindness) control in Burkina Faso. We combine a new survey of village elders with historical census data for 1975–2006 and geocoded maps of treatment under the regional Onchocerciasis Control Program (OCP). The OCP ran from 1975 to 2002, first spraying rivers to stop transmission and then distributing medicine to help those already infected. Controlling for time and village fixed effects, we find that villages in treated areas acquired larger populations and also had more cropland transactions, fewer permits required for cropland transactions, and more regulation of common property pasture and forest. These effects are robust to numerous controls and tests for heterogeneity across the sample, including time-varying region fixed effects. Descriptive statistics suggest that treated villages also acquired closer access to electricity and telephone service, markets, wells and primary schools, with no difference in several other variables. These results are consistent with both changes in productivity and effects of population size on public institutions.

Intergenerational mobility and interpersonal inequality in an African economy

- Journal of Development Economics---2014---Sylvie Lambert,Martin Ravallion,Dominique van de Walle

How much economic mobility is there across generations in a poor, primarily rural, economy? How much do intergenerational linkages contribute to current inequality? We address these questions using original survey data on Senegal that include a sub-household measure of consumption for cells within the household. While intergenerational linkages are evident, we find a relatively high degree of mobility across generations, associated with the shift from farm to non-farm sectors and greater economic activity of women. Male-dominated bequests of land and housing bring little gain to consumption and play little role in explaining inequality, though they have important effects on sector of activity. Inheritance of non-land assets and the education and occupation of parents (especially the mother) and their choices about children's schooling are more important to adult welfare than property inheritance. Significant gender inequality in consumption is evident, though it is almost entirely explicable in terms of factors such as education and (non-land) inheritance. There are a number of other pronounced gender differences, with intergenerational linkages appearing through the mother rather than the father.

Assessing individuals' deprivation in a multidimensional framework

- Journal of Development Economics---2014---Iñaki Permanyer

In the context of multidimensional poverty measurement, it seems plausible to assume that when individuals are deprived in some dimensions and non-deprived in the remaining ones, the latter can be allowed to play a non-trivial role in the assessment of those individuals' poverty levels. Yet, this simple and attractive property is violated by virtually all multidimensional poverty indices proposed in the literature so far because they stick to the so-called 'Strong Focus' axiom. This paper characterizes a class of multidimensional poverty indices that allows for certain trade-offs between deprived and non-deprived attributes when measuring individuals' deprivation. The empirical results based on 'Demographic and Health Surveys' from 54 countries suggest that our assessments of multidimensional poverty can differ dramatically when the overly restrictive Strong Focus is abandoned in favor of weaker versions of the axiom.

From tradition to modernity: Economic growth in a small world

- Journal of Development Economics---2014---Ines Lindner,Holger Strulik

This paper introduces the Small World model into the theory of economic growth and investigates how increasing economic integration affects firm size and efficiency, norm enforcement, and aggregate economic performance. When economic integration is low and local connectivity is high, informal norms control entrepreneurial behavior and more integration mainly improves search for investment opportunities. At a higher level of economic integration neighborhood enforcement deteriorates and formal institutions are needed to keep entrepreneurs in check. A gradual take-off to perpetual growth is explained by a feedback effect from investment to the formation of long-distance links and the diffusion of knowledge. If formal institutions are weak, however, the economy does not take off but stagnates at an intermediate income level. Structurally, the equilibrium of stagnation differs from balanced growth by the presence of many small firms with low productivity.

Endogenous coresidence and program incidence: South Africa's Old Age Pension

- Journal of Development Economics---2014---Amar Hamoudi,Duncan Thomas

We investigate whether living arrangements respond to an arguably exogenous shift in the distribution of power in family economic decision-making. In the early 1990s, the South African Old Age Pension was expanded to cover most black South Africans above a sex-specific age cut-off resulting in a substantial increase in the income of older South Africans and potentially their say in the economic decisions of their families. Beneficiaries of the program are more likely to coreside with adults who have less human capital as measured by height and education. Since height and education are fixed for adults, this cannot be an effect of the pension income but reflects selective changes in living arrangements resulting from the pension. The findings highlight the endogeneity of living arrangements and illustrate the potential value of moving beyond theory and data that are confined to a spatially determined definition of the household.

Who you train matters: Identifying combined effects of financial education on migrant households

- Journal of Development Economics---2014---Yoko Doi,David McKenzie,Bilal Zia

There has long been a concern among policymakers that too much of remittances are consumed and too little saved, limiting the development impact of migration. Financial literacy programs have become an increasingly popular way to try and address this issue, but to date there is no evidence that they are effective in inducing savings among remittance-receiving households, nor is it clear whether such programs are best targeted at the migrant, the remittance receiver, or both. We conducted a randomized experiment in Indonesia which allocated female migrants and their families to a control group, a migrant-only training group, a family member-only training group, and a training group in which both the migrant and a family member were trained. Three rounds of follow-up surveys are then used to measure impacts on the financial knowledge, behaviors, and remittance and savings outcomes of the remaining household. We find that training both the migrant and family member together has large and significant impacts on knowledge, behaviors, and savings. Training the family member alone has some positive, but smaller effects, while training only the migrant leads to no impacts on the remaining family members. The results show that financial education can have large effects when provided at a teachable moment, but that this impact varies greatly with who receives training.

Mass media and public education: The effects of access to community radio in Benin

- Journal of Development Economics---2014---Philip Keefer,Stuti Khemani

Prior research on mass media and government accountability has not examined the effects of citizen media access on broad public services, such as education. At the same time, research has abstracted from the potentially influential role of mass media on parental investments in children's education. We address both issues using a “natural experiment” in radio access in Benin and find that school children's literacy rates are higher in villages exposed to a larger number of community radio stations. There is no evidence that this effect operates through greater government responsiveness. Instead, households with greater media access make larger private investments in their children's education.

The determinants of bargaining power in an empirical model of transfers between adult children, parents, and in-laws for South Korea

- Journal of Development Economics---2014---John Ham,Heonjae Song

We derive a bargaining model of transfers between adult children and their parents, and then estimate the model using data from South Korea. Our analysis extends the literature on family bargaining by i) arguing that transfers from the couple represent semiprivate consumption (e.g. it is plausible that the wife cares more about her parents than about the husband's parents, and vice-versa) and ii) using results from laboratory experiments to help identify the model.

Non-homothetic preferences: Explaining unidirectional movements in wage differentials

- Journal of Development Economics---2014---Sattwik Santra

This paper explores the impact of trade on the relative returns to skill in the presence of non-homothetic preferences. In a general equilibrium model of trade in differentiated products, it is shown that, if consumers react to a rise in real income by increasing their demands of the relatively skill intensive commodity/ies, then real income gains associated with trade, increase the skilled–unskilled wage ratio. This result generalizes to trade driven by comparative advantages and to technological progress.

Have business cycles changed over the last two decades? An empirical investigation

- Journal of Development Economics---2014---Cesar Calderon,Rodrigo Fuentes

We document the properties of business cycles of 71 countries (23 industrial countries and 48 emerging market economies, or EMEs), from 1970q1 to 2012q4 using the Harding and Pagan dating algorithm. First, recessions are deeper, steeper and costlier among EMEs (especially in East Asia and Latin America). Second, recoveries are swifter and stronger among EMEs, partly due to stronger rebound effects. Third, recessions became less costly during the globalization period (1985–2007) for industrial countries and EMEs, thus reflecting institutional changes made during the "Great Moderation." Fourth, the dynamic behavior of macroeconomic indicators around peaks in real GDP is more volatile in downturns associated with crisis compared to other downturns. Fifth, peaks in financial cycles (credit and asset prices) tend to precede peaks in real output cycles. Finally, although both industrial and emerging markets have experienced deep recessions during the recent global financial crisis, the emerging markets have recovered faster.

Resistance, redistribution and investor-friendliness

- Journal of Development Economics---2014---Sourav Bhattacharya,Tapas Kundu

Poor communities sometimes resist private investment and destroy economic surplus even if the government has the willingness and ability to redistribute. We interpret such acts of resistance as demands for redistribution: Destruction contains credible information about how the affected group values surplus, and such information is used by the government in implementing the optimal redistribution policy. The extent of destruction is increasing in the extent of political marginalization of the affected group. Resistance not only destroys economic surplus: It also mutes the investor's incentives to create surplus. The government uses a tax/subsidy on the investor to maximize weighted social surplus, and we show that the possibility of destruction may force the government to be too soft in its negotiations with the investor. We discuss several policy instruments that have the potential to improve welfare: These include compensation floor for the affected group, legal or financial protection for the investor and licensing fees for the investor.

Cause of death and development in the US

- Journal of Development Economics---2014---Casper Hansen

Exploiting cross-state variation in infectious causes of death, along with time variation arising from medical innovations toward the middle of the twentieth century, this study examines the consequences of a positive health shock in the US. It establishes that states with higher levels of mortality from infectious causes prior to the onset of the era of big medicine experienced greater increases in life expectancy, population, and total GDP after its onset, whereas per capita GDP remained largely unchanged. Together the evidence suggests that the rise in life expectancy had no significant effect on living standards in the US during the time period 1940–1980. These results are robust to controlling for initial health and initial economic conditions.

Solow residuals without capital stocks

- Journal of Development Economics---2014---Michael Burda,Battista Severgnini

We use synthetic data generated by a prototypical stochastic growth model to assess the accuracy of the Solow residual (Solow, 1957) as a measure of total factor productivity (TFP) growth when the capital stock in use is measured with error. We propose two alternative measurements based on current investment expenditures: one eliminates the capital stock by direct substitution, while the other employs generalized differences of detrended data and the Malmquist index. In short samples, these measures can exhibit consistently lower root mean squared errors than the Solow–Törnqvist counterpart. Capital measurement problems are particularly severe for economies still far from their steady state. This drawback of the Solow residual is thus most acute in applications in which its accuracy is most highly valued. As an application, we compute and compare TFP growth measures for developing countries in the Heston–Summers dataset.

Strategic sourcing and wage bargaining

- Journal of Development Economics---2014---Nicholas Sly,Anson Soderbery

We examine how multinational firms strategically source production to mitigate the consequences of wage bargaining with workers. When wage bargaining pressure differs across countries, firms allocate production of goods with high markups toward countries with relatively competitive labor markets, limiting the rents available to workers with strong bargaining power. We use product-level data from the universe of automotive production facilities in North America at a monthly frequency between 1988 and 2009 to structurally estimate variable price elasticities of demand for different vehicles. From the theory we derive an empirical strategy that allows us to distinguish the impact of wage bargaining pressure from other sourcing motives. We find robust evidence that multinational firms strategically source their products across countries in response to differences in wage bargaining pressure.

Public goods, hidden income, and tax evasion: Some nonstandard results from the warm-glow model

- Journal of Development Economics---2014---Daniel Hungerman

A large literature explores crowd out in situations where public goods are jointly provided; work in this area typically depicts a tax system where individuals take taxes as given. But in some settings, such as those in developing economies, efforts to evade or avoid taxes may be widespread. Using the canonical warm-glow model, this paper considers joint public-good provision in a setting where individuals can evade taxes by hiding their income. The model's implications change significantly in this setting: with hidden income, stronger warm glow will lead to greater crowd out, not less. Using research on crowd out and inter-family transfers, I present suggestive evidence that the model's results may help to reconcile divergent estimates of crowd out in the literature.

Education choices and returns to schooling: Mothers' and youths' subjective expectations and their role by gender

- Journal of Development Economics---2014---Orazio Attanasio,Katja Kaufmann

In this paper we investigate the role of expected returns to schooling and of perceived risks (of unemployment and earnings) as determinants of schooling decisions. Moreover, our data also allow us to analyze whether youths' and/or mothers' expectations predict schooling decisions, and whether this depends on the age and gender of the youth. In particular, we use Mexican data that contain labor market expectations of mothers and youths. We find that expected returns and risk perceptions are important determinants of schooling decisions, the latter in particular from the perspective of the mother. Boys' expectations predict the decision to enter college, but not to enter high school. While girls' own expectations do not predict either of the two educational decisions, mothers' expectations are particularly strong predictors of their daughters' decisions.

Compulsory licensing, price controls, and access to patented foreign products

- Journal of Development Economics---2014---Eric Bond,Kamal Saggi

We analyze how a price control and the threat of compulsory licensing (CL) affect consumer access in a developing country (South) to a patented foreign product. In the model, the Southern government sets the level of the price control on a Northern patent-holder who chooses between entry and voluntary licensing (VL). While entry incurs a higher fixed cost, licensed production is of lower quality. If the patent-holder does not work its patent locally, the South is free to use CL. The threat of CL: ensures that consumers have access to (a lower quality version of) the patented good when the patent-holder chooses not to work its patent locally; improves the terms at which VL occurs; can cause the patent-holder to switch from VL to entry; and can delay consumer access when CL replaces VL or entry. We also show that a price control and CL are mutually reinforcing instruments.

Non-homothetic preferences and IPRs protection

- Journal of Development Economics---2014---Kim-Sau Chung,Chia-Hui Lu

There are two opposite views regarding whether stronger protection of intellectual property rights (IPRs) will benefit or hurt the South. We provide a unification using a model of directed innovations with identical but non-homothetic preferences. For the South, a major benefit of protecting IPRs is incentivizing innovations that better address its needs (the directed-innovation benefit), and a major cost is yielding monopoly rents to innovators (the monopoly-rent cost). When preferences are non-homothetic, the directed-innovation benefit decreases in South's income, because consumption baskets of the South become more similar to those of the North; while the monopoly-rent cost increases in the South's income, because higher income admits greater monopoly markups. The combined effect implies that the costs of IPRs protection tend to outweigh the benefits for mid-income countries, while the opposite is true for low-income ones. We discuss the policy implications of this observation.

Trade liberalization and labor's slice of the pie: Evidence from Indian firms

- Journal of Development Economics---2014---Reshad Ahsan,Devashish Mitra

We examine the impact of trade reforms initiated in 1991 on labor's share in revenue among a sample of Indian firms. Theoretically, trade reforms will affect this share by reducing firm-level price–cost markups as well as the bargaining power of workers. A simple model suggests that these changes can have ambiguous effects on firm-level labor share and that the net effect of trade reforms will depend on the labor intensity of production. Using firm-level data from India, our empirical results suggest that trade liberalization led to an increase in labor's share in revenue for small, labor-intensive firms but a reduction in this share in the case of larger, less labor-intensive firms. These results are robust to controlling for alternative sources of heterogeneity and to the use of long-lagged tariffs as instruments. We also find that trade liberalization, on average, led to a decline in the bargaining power of workers.

Offshoring and intellectual property rights reform

- Journal of Development Economics---2014---Claudia Canals,Fuat Şener

This paper empirically assesses the responsiveness of

US offshoring to intellectual property rights (IPR) reforms in 16 countries. We construct a measure of US offshoring at the industry level based on trade in intermediate goods, covering 23 industries for the period 1973–2006. For each industry, we differentiate between broad offshoring and intra-industry offshoring activities. We conduct a difference-in-difference analysis using the IPR reform years proposed in Branstetter et al. (2006, Quarterly Journal of Economics). We find that following IPR reform, neither broad nor intra-industry offshoring intensities change for the typical US industry at conventional levels of significance. However, high-tech (patent-sensitive) industries substantially expand their intra-industry offshoring activities, whereas low-tech (patent-insensitive) industries do not change their intra-industry offshoring activities in a statistically significant way. In addition, high-tech industries increase their broad offshoring relative to low-tech industries, but the effects are smaller and less robust than those estimated for intra-industry offshoring.

Labor coercion and the accumulation of human capital

- Journal of Development Economics---2014---Gustavo Bobonis,Peter Morrow

This paper examines the effect of labor coercion on human capital accumulation. We use micro data from Puerto Rico, where unskilled laborers were forced to work for landowners during 1849–1874. Using variation in municipality-level suitability for coffee cultivation and international coffee prices, we estimate the response of schooling to exogenous increases in relative demand for unskilled labor in regimes with and without forced labor. During the coercive regime, increased coffee prices had no effect on individuals' literacy rates in coffee growing regions. Following the abolition of forced labor in 1874, similar changes in coffee prices reduced literacy rates by 12%, consistent with a diminished skill premium in the free labor market regime relative to the coercive period.

Do high-income or low-income immigrants leave faster?

- Journal of Development Economics---2014---Govert Bijwaard,Jackline Wahba

We estimate the impact of the income earned in the host country on return migration of labor migrants from developing countries. We use a three-state correlated competing risks model to account for the strong dependence of labor market status and the income earned. Our analysis is based on administrative panel data of recent labor immigrants from developing countries to The Netherlands. The empirical results show that intensities of return migration are U-shaped with respect to migrants' income, implying a higher intensity in low- and high- income groups. Indeed, the lowest-income group has the highest probability of return. We also find that ignoring the interdependence of labor market status and the income earned leads to an overestimating the income effect on departure.

Minding small change among small firms in Kenya

- Journal of Development Economics---2014---Lori Beaman,Jeremy Magruder,Jonathan Robinson

Many micro-enterprises in Kenya have low productivity. We focus on one particular business decision which may indicate low productivity: keeping enough change on hand to break larger bills. This is a surprisingly large problem. Our estimates suggest that the average firm loses approximately 5–8% of total profits because they do not have enough change. We conducted two experiments to shed light on why this happens: surveying firms weekly about lost sales, thereby increasing the salience of change, and explicitly informing firms about lost sales. We find that both interventions significantly altered change management and reduced lost sales. This largely rules out many potential explanations such as the risk of theft or the costs of holding change being too high. One explanation consistent with firms' response to the survey and information on their lost sales is that firms were not perfectly attentive to change management prior to the interventions.

Population, technology and fragmentation: The European miracle revisited

- Journal of Development Economics---2014---Nils-Petter Lagerlof

The effects of political fragmentation on long-run development seem to have changed over the course of human history. Technological leaders used to be empires, but the Industrial Revolution started in the fragmented Europe. This paper sets up a model to help us think about this puzzle. There are two sets of mechanisms at play: a standard scale effect, which benefits unified regions, since technology is a non-rivalrous good; and several competition effects, both negative (like wasteful armies) and positive (incentives to invest in new technologies). We apply the model to analyze the preindustrial divergence between China and Europe.

The efficiency of human capital allocations in developing countries

- Journal of Development Economics---2014---Dietrich Vollrath

For a set of 14 developing countries I evaluate whether differences in wage gaps between sectors – estimated from individual-level wage data – have meaningful effects on aggregate productivity. Under the most generous assumptions regarding the homogeneity of human capital, my analysis shows that eliminating wedges between wages in different sectors leads to gains in output of less than 5% for most countries. These estimated gains of reallocation represent an upper bound as some of the observed differences in wages are due to unmeasured human capital. Under reasonable assumptions on the amount of unmeasured human capital the gains from reallocation fall well below 3%. Compared to similar estimates made using data from the U.S., developing countries would gain more from a reallocation of human capital, but the differences are too small to account for a meaningful portion of the gap in income per capita with the United States.

Motivating migrants: A field experiment on financial decision-making in transnational households

- Journal of Development Economics---2014---Ganesh Seshan,Dean Yang

We randomly assigned male migrant workers in Qatar invitations to a motivational workshop aimed at improving financial habits and encouraging joint decision-making with spouses back home in India. 13–17months later, we surveyed migrants and wives to estimate intent-to-treat impacts in their transnational households. Wives of treated migrants changed their financial practices and became more likely to seek out financial education themselves. Treated migrants and their wives became more likely to make joint decisions on money matters. Treatment effects on financial outcomes show potential heterogeneity, with those with lower prior savings saving differentially more than those with higher prior savings.

Aid and agency in Africa: Explaining food disbursements across Ethiopian households, 1994–2004

- Journal of Development Economics---2014---Nzinga Broussard,Stefan Dercon,Rohini Somanathan

We use a principal–agent framework and data from the Ethiopian Rural Household Survey between 1994 and 2004 to understand biases in the distribution of food aid in Ethiopia. We show that even when aid is systematically misallocated, aid recipients may match official classifications of needy households if agents deviate from allocation rules in ways that are difficult to monitor. Agent behavior is therefore best understood by comparing aid along dimensions of need that are visible to the principal with those that are difficult to observe outside the village. We do this by using data on a panel of 943 households observed over six rounds of the Ethiopian Rural Household Survey. In support of our model, we find that while the demographics of aid recipients do match official criteria, disbursements are increasing in pre-aid consumption, self-reported power and involvement in village-level organizations. We conclude that the extent to which food aid insulates some of the world's poorest families from agricultural shocks depends on a nuanced interaction of policy constraints and informal structures of local power.

Political reservations and women's entrepreneurship in India

- Journal of Development Economics---2014---Ejaz Ghani,William Kerr,Stephen O'Connell

We quantify the link between the timing of state-level implementations of political reservations for women in India with the role of women in India's manufacturing sector. While overall employment of women in manufacturing does not increase after the reforms, we find significant evidence that more women-owned establishments were created in the unorganized/informal sector. These new establishments were concentrated in industries where women entrepreneurs have been traditionally active and the entry was mainly found among household-based establishments. We measure and discuss the extent to which this heightened entrepreneurship is due to channels like greater finance access or heightened inspiration for women entrepreneurs.

Transitory shocks and birth weights: Evidence from a blackout in Zanzibar

- Journal of Development Economics---2014---Alfredo Burlando

Do transitory economic shocks affect neonatal outcomes? I show that an unexpected, month-long blackout in Tanzania caused a sharp but temporary drop in work hours and earnings for workers in electricity-dependent jobs. Using records from a maternity ward, I document a reduction in birth weights for children exposed in utero to the blackout, and an increase in the probability of low birth weight. The reduction is correlated with measures of maternal exposure to the blackout. The blackout also increased fertility for teenage and first-time mothers, but selection into pregnancy cannot fully explain the drop in weights.

Prospective analysis of a wage subsidy for Cape Town youth

- Journal of Development Economics---2014---James Levinsohn,Todd Pugatch

Persistently high youth unemployment is one of the most pressing problems in South Africa. We prospectively analyze an employer wage subsidy targeted at youth, a policy recently enacted by the South African government to address the issue. Recognizing that a credible estimate of the policy's impact requires a model of the labor market that itself generates high unemployment in equilibrium, we estimate a structural search model that incorporates both observed heterogeneity and measurement error in wages. Using the model to simulate the policy, we find that a R1000/month wage subsidy paid to employers leads to an increase of R596 in mean accepted wages and a decrease of 12 percentage points in the share of youth experiencing long-term unemployment.

The minimal impact of a large-scale financial education program in Mexico City

- Journal of Development Economics---2014---Miriam Bruhn,Gabriel Lara Ibarra,David McKenzie

We conduct randomized experiments around a large-scale financial literacy course in Mexico City to understand the reasons for low take-up among a general population, and to measure the impact of this financial education course. Our results suggest that reputational, logistical, and specific forms of behavioral constraints are not the main reasons for limited participation, and that people do respond to higher benefits from attending in the form of monetary incentives. Attending training results in a 9 percentage point increase in financial knowledge, and a 9 percentage point increase in some self-reported measures of saving, but in no impact on borrowing behavior. Administrative data suggests that any savings impact may be short-lived. Our findings indicate that this course which has served over 300,000 people and has expanded throughout Latin America has minimal impact on marginal participants, and that people are likely making optimal choices not to attend this financial education course.

Incentives to teach badly: After-school tutoring in developing countries

- Journal of Development Economics---2014---Seema Jayachandran

Schools in developing countries frequently offer for-profit tutoring to their own students. This potentially gives teachers a perverse incentive to teach less during school to increase demand for their tutoring. Through this mechanism, the market for tutoring can adversely affect student learning, especially for students who do not participate in tutoring. I model and present empirical evidence on these effects, using survey and test score data from Nepal. The evidence suggests that when schools offer for-profit tutoring, teachers teach less during the regular school day. As a consequence, performance on the national secondary-school exam appears to suffer among students with a low propensity to enroll in tutoring. An implication is that discouraging teachers from tutoring their own students or reducing entry barriers for third-party tutors could increase student achievement.

Ethnicity and the spread of civil war

- Journal of Development Economics---2014---Maarten Bosker,Joppe de Ree

Civil wars tend to cluster in particular areas of the world. We provide empirical evidence that cross-border conflict spillovers are an important factor in explaining this pattern. Moreover, we show that ethnicity plays a key role in conditioning the spread of civil wars. Only ethnic wars tend to spill over, and ethnic wars are more likely to spill over along ethnic lines. The latter result is robust to the inclusion of a host of (other) cross-border characteristics, such as geographical factors and trade intensity. We estimate that a neighboring ethnic civil war increases the risk of an outbreak of ethnic civil war on the home territory by 4–6% points.

Environmental regulation and foreign direct investment: Evidence from South Korea

- Journal of Development Economics---2014---Sunghoon Chung

This paper studies how environmental regulation shapes the pattern of foreign direct investment (FDI), and thereby assesses the pollution haven hypothesis. Conflicting results exist in the case studies examining the most advanced countries, partly due to the deterrent effect of clean technology adoptions on industry migration. To minimize the clean technology effect, we examine the pattern of South Korean FDI over 2000–2007, the period that Korean firms relied on old production technologies despite facing rapidly strengthened environmental standards. A difference-in-differences type identification strategy circumvents other potential confounders. We find strong evidence that polluting industries tend to invest more in countries with laxer environmental regulations in terms of both the amount of investment (intensive margin) and the number of new foreign affiliates (extensive margin). A similar finding is obtained when imports are analyzed.

Armed conflict, household victimization, and child health in Côte d'Ivoire

- Journal of Development Economics---2014---Camelia Minoiu,Olga N. Shemyakina

We examine the causal impact of the 2002–2007 civil conflict in Côte d'Ivoire on children's health using household surveys collected before, during, and after the conflict, and information on the exact location and date of conflict events. Our identification strategy relies on exploiting both temporal and spatial variation across birth cohorts to measure children's exposure to the conflict. We find that children from regions more affected by the conflict suffered significant health setbacks compared with children from less affected regions. We further examine possible war impact mechanisms using rich survey data on households' experience of war. Our results suggest that conflict-related household victimization, and in particular economic losses, is an important channel through which armed conflict negatively impacts child health.

Bureaucracy intermediaries, corruption and red tape

- Journal of Development Economics---2014---Anders Fredriksson

Intermediaries that assist individuals and firms with the government bureaucracy are common in developing countries. Although such bureaucracy intermediaries are, anecdotally, linked with corruption and welfare losses, few formal analyses exist.

Borders, ethnicity and trade

- Journal of Development Economics---2014---Jenny C. Aker,Michael Klein,Stephen O'Connell,Muzhe Yang

This paper uses unique high-frequency data on prices of two agricultural goods to examine the additional costs incurred in cross-border trade between Niger and Nigeria, as well as trade between ethnically distinct markets within Niger. We find a sharp and significant conditional price change of about 20 to 25% between markets immediately across the national border. This price change is significantly lower when markets on either side of the border share a common ethnicity. Within Niger, trade between ethnically distinct regions exhibits an ethnic border effect that is comparable, in its magnitude, to the national border effect between Niger and Nigeria. Our results suggest that having a common ethnicity may reduce the transaction costs associated with agricultural trade, especially the costs associated with communicating and providing credit.

Do elected leaders in a limited democracy have real power? Evidence from rural China

- Journal of Development Economics---2014---Ren Mu,Xiaobo Zhang

Do elected leaders in an authoritarian regime have any real power? Does grassroots democracy in a one-party state entail parochial problems? Making use of primary survey data covering two election cycles in a mountainous area of China, where an administrative village consists of several natural villages (NVs), we find that elected village heads favor their home NVs in resource allocations, especially when these NVs have a large population. In contrast, the home NVs of appointed Communist Party secretaries do not receive disproportionately more resources, on average. This pattern of resource allocation is compatible with the interest of village heads and suggests that as elected leaders, village heads have some true power in resource distribution.

Shared accountability and partial decentralization in local public good provision

- Journal of Development Economics---2014---Marcelin Joanis

Recent decentralization reforms in developing countries have often lead to the coexistence of multiple tiers of government in given policy areas, triggering new accountability issues. This paper provides a novel theoretical treatment of the efficiency consequences of such 'partial expenditure decentralization.' It develops a political agency model in which two levels of government are involved in the provision of a local public good, with voters imperfectly informed about each government's contribution to the public good. A central result of the model is that partial decentralization is desirable only if the benefits of vertical complementarity in public good provision outweigh the costs of reduced accountability, which result from detrimental vertical strategic interactions operating through the electoral process. Through variants of the model, the interplay between decentralization and democratization is analyzed. From a positive point of view, the model predicts a relationship between electoral incentives and equilibrium decentralization.

Productivity, transport costs and subsistence agriculture

- Journal of Development Economics---2014---Douglas Gollin,Richard Rogerson

A defining feature of many poor economies is the large fraction of workers engaged in subsistence agriculture. We develop a multi-sector multi-region model of a poor economy in which it is costly to transport goods across regions in order to study this outcome. A key finding is that higher transport costs drive up the size of the agricultural workforce and the fraction in subsistence. In a calibrated version of our model we show that the effect of transport productivity is quantitatively important in terms of both allocations and welfare.

Seasonal effects of water quality: The hidden costs of the Green Revolution to infant and child health in India

- Journal of Development Economics---2014---Elizabeth Brainerd,Nidhiya Menon

This paper examines the impact of fertilizer agrichemicals in water on infant and child health using water quality data combined with data on child health outcomes from the Demographic and Health Surveys of India. Because fertilizers are applied at specific times in the growing season, the concentrations of agrichemicals in water vary seasonally and by cropped area as some Indian states plant predominantly summer crops while others plant winter crops. Our identification strategy exploits the differing timing of the planting seasons across states and differing seasonal prenatal exposure to agrichemicals to identify the impact of agrichemical contamination on various measures of child health. The results indicate that children exposed to higher concentrations of agrichemicals during their first month experience worse health outcomes on a variety of measures; these effects are largest among the most vulnerable groups, particularly the children of uneducated poor women living in rural India.

Group versus individual liability: Short and long term evidence from Philippine microcredit lending groups

- Journal of Development Economics---2014---Xavier Gine,Dean Karlan

Group liability in microcredit purports to improve repayment rates through peer screening, monitoring, and enforcement. However, it may create excessive pressure, and discourage reliable clients from borrowing. Two randomized trials tested the overall effect, as well as specific mechanisms. The first removed group liability from pre-existing groups and the second randomly assigned villages to either group or individual liability loans. In both, groups still held weekly meetings. We find no increase in short-run or long-run default and larger groups after three years in pre-existing areas, and no change in default but fewer groups created after two years in the expansion areas.

Height, skills, and labor market outcomes in Mexico

- Journal of Development Economics---2014---Tom S. Vogl

Taller workers are paid higher wages. A prominent explanation for this pattern is that physical growth and cognitive development share childhood inputs, inducing a correlation between adult height and two productive skills: strength and intelligence. This paper explores the relative roles of strength and intelligence in explaining the labor market height premium among Mexican men. While cognitive test scores account for a limited share of the height premium, roughly half of the premium can be attributed to the educational and occupational choices of taller workers. Taller workers obtain more education and sort into occupations with greater intelligence requirements and lower strength requirements, suggesting a possible role for cognitive skill.

Commitment savings in informal banking markets

- Journal of Development Economics---2014---Karna Basu

I study the provision of commitment savings by informal banks to sophisticated hyperbolic discounters. Since a consumer is subject to temptation in the period that he signs a contract, banks might exploit his desire for instant gratification even as they help him to commit for the future. Without banking, savings decisions and welfare are not monotonic in the degree of time-inconsistency. Consequently, commitment savings will lower welfare for moderately time-inconsistent agents. If loan contracts are enforceable, pure commitment savings will disappear. This will further lower welfare if the lender is a profit-maximizing bank, but raise welfare if the lender is a welfare-maximizing NGO. Finally, I consider the coexistence of a bank and NGO. There will be zero takeup of NGO-provided commitment savings if there is competition from a moneylender. But the NGO's offer will raise the agent's reservation utility, thus reducing the surplus that can be extracted by the moneylender.

Using repeated cross-sections to explore movements into and out of poverty

- Journal of Development Economics---2014---Hai-Anh Dang,Peter Lanjouw,Jill Luoto,David McKenzie

Movements in and out of poverty are of core interest to both policymakers and economists. Yet the panel data needed to analyze such movements are rare. In this paper we build on the methodology used to construct poverty maps to show how repeated cross-sections of household survey data can allow inferences to be made about movements in and out of poverty. We illustrate that the method permits the estimation of bounds on mobility, and provide non-parametric and parametric approaches to obtaining these bounds. We test how well the method works on data sets for Vietnam and Indonesia where we are able to compare our method to true panel estimates. Our results are sufficiently encouraging to offer the prospect of some insights into mobility and poverty duration in settings where historically it was judged that the data necessary for such analysis were unavailable.

The long-run macroeconomic impacts of fuel subsidies

- Journal of Development Economics---2014---Michael Plante

Many developing and emerging market countries have subsidies on fuel products. Using a small open economy model with a non-traded sector, I show how these subsidies impact the steady state levels of macroeconomic aggregates such as consumption, labor supply, and aggregate welfare. These subsidies can lead to crowding out of non-oil consumption, inefficient intersectoral allocations of labor, and other distortions in macroeconomic variables. Across steady states, aggregate welfare is reduced by these subsidies. This result holds for a country with no oil production and for a net exporter of oil. The distortions in relative prices introduced by the subsidy create most of the welfare losses. How the subsidy is financed is of secondary importance. Aggregate welfare is significantly higher if the subsidies are replaced by lump-sum transfers of equal value.

Cash, food, or vouchers? Evidence from a randomized experiment in northern Ecuador

- Journal of Development Economics---2014---Melissa Hidrobo,John Hoddinott,Amber Peterman,Amy Margolies,Vanessa Moreira

The debate over whether to provide food-assistance and the form that this assistance should take has a long history in economics. Despite the ongoing debate, little rigorous evidence exists that compares food-assistance in the form of cash versus in-kind. This paper uses a randomized evaluation to assess the impacts and cost-effectiveness of cash, food vouchers, and food transfers. We find that all three modalities significantly improve the quantity and quality of food consumed. However, differences emerge in the types of food consumed with food transfers leading to significantly larger increases in calories consumed and vouchers leading to significantly larger increases in dietary-diversity.

Informal finance: A theory of moneylenders

- Journal of Development Economics---2014---Andreas Madestam

I present a model that analyzes the coexistence of formal and informal finance in underdeveloped credit markets. Formal banks have access to unlimited funds but are unable to control the use of credit. Informal lenders can prevent non-diligent behavior but often lack the needed capital. The theory implies that formal and informal credit can be either complements or substitutes. The model also explains why weak legal institutions increase the prevalence of informal finance in some markets and reduce it in others, why financial market segmentation persists, and why informal interest rates can be highly variable within the same sub-economy.

A structural econometric analysis of the informal sector heterogeneity

- Journal of Development Economics---2014---Pierre Nguimkeu

Understanding the informal sector – that represents about 60–90% of urban employment in developing countries – has a significant importance for any strategy and policy interventions aiming to alleviate poverty and improve welfare. I formulate and estimate a model of entrepreneurial choice to address the heterogeneity in occupations and earnings observed within the informal sector. I test the implications of the model with reduced form and nonparametric techniques, and use a structural econometric approach to empirically identify occupational patterns and earnings using data from the Cameroon informal sector. The empirical validity of the structural estimates is tested and the estimated model is used in counterfactual policy simulations to show how microfinance and business training programs can strengthen the efficiency of the informal sector and substantially improve its earning potential.

Property rights and intra-household bargaining

- Journal of Development Economics---2014---Shing-Yi Wang

This paper examines whether an individual-level transfer of property rights increases the individual's bargaining power within the household. The question is analyzed in the context of a housing reform that occurred in China that gave existing tenants the opportunity to purchase the homes that they had been renting from their state employers. The rights to each housing unit were granted to a particular employee, so property rights were defined at the individual level rather than the household level. The results indicate that transferring ownership rights to men increased household consumption of some male-favored goods and women's time spent on chores. Transferring ownership rights to women decreased household consumption of some male-favored goods.

Credit constraints, equity market liberalization, and growth rate asymmetry

- Journal of Development Economics---2014---Alexander Popov

This paper provides evidence that financial openness is an important determinant of growth rate asymmetry in emerging markets. I exploit exogenous shocks to financial flows and examine the impact of equity market liberalization on the skewness of output growth for 93 countries during the 1973–2009 period. I show that opening the economy to foreign portfolio investment results in a substantially higher negative skewness of output growth. This result obtains with equal strength in the aggregate data and in the sectoral data, and it is disproportionately stronger in sectors that require more external finance. The skewness effect of financial openness is stronger in countries which experienced a banking crisis after liberalization.

Cross-country differences in the quality of schooling

- Journal of Development Economics---2014---Nicolai Kaarsen

This paper constructs a cross-country measure of the quality of education using a novel approach based on international test scores data. The first main finding is that there are large differences in education quality – one year of schooling in the U.S. is equivalent to three or more years of schooling in a number of low-income countries. I incorporate the estimated series for schooling quality in an accounting framework calibrated using evidence on Mincerian returns. This leads to the second important finding, which is that the fraction of income differences explained by the model rises substantially when one includes education quality; the increase is around 22percentage points.

Access to abortion, investments in neonatal health, and sex-selection: Evidence from Nepal

- Journal of Development Economics---2014---Christine Valente

I combine fertility histories from the 2006 Nepal Demographic and Health Survey with a census of newly introduced legal abortion centers to estimate the impact of reducing the cost of abortion on pregnancy outcomes, gender, and neonatal health. Contrary to previous studies, I identify the within-mother, behavioral response to improved access to abortion by comparing siblings conceived before and after the opening of an abortion center nearby. Closeness to a legal abortion center decreases the probability of a birth but has no discernible effect on observable investments in neonatal health and does not lead to more sex-selection.

Mark my words: Information and the fear of declaring an exchange rate regime

- Journal of Development Economics---2014---Pierre-Guillaume Méon,Geoffrey Minne

This paper investigates the role of a free press and the circulation of information on the capacity of a country to declare an exchange regime that differs from the regime it implements de facto. We report consistent evidence that greater press freedom and easier access to information result in a lower probability of untruthfully reporting the de facto regime. These findings withstand a large set of robustness checks, including controlling for democracy and for the institutional and political environment, controlling for endogeneity, and using various estimation methods. The results are particularly strong for developing countries.

Intrahousehold distribution and poverty: Evidence from Côte d'Ivoire

- Journal of Development Economics---2014---Olivier Bargain,Olivier Donni,Prudence Kwenda

Poverty measures often ignore the distribution of resources within families and the gains from joint consumption. In this paper, we estimate the allocation process and adult economies of scale in households from Côte d'Ivoire using a collective model of household consumption. Identification relies on the observation of adult-specific goods, as in the Rothbarth method, and a joint estimation on couples and singles. Our results show that men and women's shares of total expenditure are of the same order of magnitude and children's shares are small. Scale economies are large and affect poverty measures.

Automatic grade promotion and student performance: Evidence from Brazil

- Journal of Development Economics---2014---Martin Foureaux Koppensteiner

This paper examines the effect of automatic grade promotion on academic achievement in 1993 public primary schools in Brazil. A difference-in-differences approach that exploits variation over time and across schools in the grade promotion regime allows the identification of the treatment effect of automatic promotion. I find a negative and significant effect of about 7% of a standard deviation on math test scores. I provide evidence in support of the interpretation of the estimates as a disincentive effect of automatic promotion. The findings contribute to the understanding of retention policies by focussing on the ex-ante effect of repetition and are important for more complete cost–benefit considerations of grade retention.

Do nonreciprocal preferential trade agreements increase beneficiaries' exports?

- Journal of Development Economics---2014---Salvador Gil-Pareja,Rafael Llorca-Vivero,José Antonio Martínez-Serrano

This paper investigates whether and to what extent nonreciprocal preferential trade agreements (NRPTAs) have increased developing countries' exports to richer countries. Using recent developments in the econometric analysis of the gravity equation over the period 1960–2008, we find robust evidence that, on the whole, NRPTAs and the Generalized System of Preferences have had an economically significant effect on exports from developing countries. However, the estimation of catch-all dummies masks heterogeneous results for the individual programs.

Who benefits from free healthcare? Evidence from a randomized experiment in Ghana

- Journal of Development Economics---2014---Timothy Powell-Jackson,Kara Hanson,Christopher J.M. Whitty,Evelyn K. Ansah

We examine the impact of removing user fees for healthcare in rural Ghana using data from a randomized experiment that includes rich information on objective measures of child health status. We find that free care increased use of formal healthcare shifting care seeking away from informal providers, with particularly strong effects for children who were anaemic at baseline. There was no health effect on the intervention population taken overall. However, consistent with the utilization findings, there were health improvements amongst those with anaemia initially. Further benefits included a large reduction in health spending, with the effect greater at higher levels of the medical spending distribution. Free care was found to have no influence on a range of malaria prevention behaviours or on the incidence of self-reported illness, suggesting that exante moral hazard is unlikely to be a concern in this particular setting.

Relying on the private sector: The income distribution and public investments in the poor

- Journal of Development Economics---2014---Katrina Kosec

What drives governments with similar revenues to provide very different amounts of goods with private sector substitutes? Education is a prime example. I use exogenous shocks to Brazilian municipalities' revenue during 1995–2008 generated by non-linearities in federal transfer laws to demonstrate two things. First, municipalities with higher income inequality or higher median income allocate less of a revenue shock to education and are less likely to expand public school enrollment. They are more likely to invest in public infrastructure that is broadly enjoyed, like parks and roads, or to save the shock. Second, I find no evidence that the quality of public education suffers as a result. If anything, unequal and high-income areas are more likely to improve public school inputs and test scores following a revenue shock, given their heavy use of private education. I further provide evidence that an increase in public sector revenue lowers private school enrollment.

The welfare implications of services liberalization in a developing country

- Journal of Development Economics---2014---Nizar Jouini,Nooman Rebei

We propose an integrated method based on a two-sector small open economy dynamic and stochastic general equilibrium model to estimate non-tariff barriers and quantify the impact of services liberalization. The major component of trade barriers is explicitly modeled through the introduction of entry-sunk costs. Hence, liberalization is treated assuming a government's policy decision aimed at reducing those costs. Then, we estimate the model using Bayesian techniques for Tunisia and the Euro Area. The paper presents a precise quantitative evaluation of services trade barriers as the difference between entry-sunk costs in Tunisia versus the Euro Area. We find significant welfare benefits in addition to aggregate and sectoral growth gains the Tunisian economy could attain following services liberalization. Surprisingly, the good sector is the one that benefits the most from services liberalization in the short- and long-term horizons.

School feeding programs, intrahousehold allocation and the nutrition of siblings: Evidence from a randomized trial in rural Burkina Faso

- Journal of Development Economics---2014---Harounan Kazianga,Damien de Walque,Harold Alderman

We evaluate the impact of two school feeding schemes on health outcomes of pre-school age children in Burkina Faso: school meals which provide students with lunch each school day, and take home rations which provide girls with 10kg of cereal flour each month, conditional on 90% attendance rate. We investigated the pass through to younger siblings of the beneficiaries and found that take home rations have increased weight-for-age of boys and girls under age 5 by 0.4 standard deviations compared to a control group. In the same age range, school meals did not have any significant effect on weights of siblings. We provide suggestive evidence indicating that most of the gains are realized through intra-household food reallocation.

Spatial inequality and development — Is there an inverted-U relationship?

- Journal of Development Economics---2014---Christian Lessmann

This paper studies the hypothesis of an inverted-U-shaped relationship between spatial inequality and economic development. The theory of Kuznets (1955) and Williamson (1965) suggests that (spatial) inequality first increases in the process of development, and then decreases. To test this hypothesis I have used a unique panel data set of spatial inequalities in 56 countries at different stages of economic development, covering the period 1980–2009. Parametric and semiparametric regressions are carried out using cross-section and (unbalanced) panel data. The results provide strong support for the existence of an inverted-U. I also find some evidence that spatial inequalities increase again at very high levels of economic development.

How accurate are recall data? Evidence from coastal India

- Journal of Development Economics---2014---Francesca de Nicola,Xavier Gine

This paper investigates the accuracy of recall data by comparing administrative records with retrospective, self-reported survey responses to income and asset questions for a sample of self-employed households from coastal India. It finds that the magnitude of the recall error increases over time, in part because respondents resort to inference rather than memory. Monthly earnings that are higher than the median are also better recalled. These results have implications for the accuracy of the moments of the self-reported earnings distribution. It also finds that income earners are more accurate than their wives. In addition, the use of time cues can worsen accuracy if they are not relevant to the respondent, and the position of the recall questions in the two-hour long survey does not affect accuracy.

Financial development, international capital flows, and aggregate output

- Journal of Development Economics---2014---Juergen von Hagen,Haiping Zhang

We develop a tractable two-country overlapping-generations model and show that cross-country differences in financial development can explain three recent empirical patterns of international capital flows: Financial capital flows from relatively poor to relatively rich countries, while foreign direct investment flows in the opposite direction; net capital flows go from poor to rich countries; despite its negative net international investment positions, the United States receives a positive net investment income.

Is sex like driving? HIV prevention and risk compensation

- Journal of Development Economics---2014---Nicholas Wilson,Wentao Xiong,Christine L. Mattson

Risk compensation has been called the "Achilles' heel" of HIV prevention policies (Cassell et al., 2006). This paper examines the behavioral response to male circumcision, a major HIV prevention policy currently being implemented throughout much of Sub-Saharan Africa. Contrary to the presumption of risk compensation, we find that the response due to the perceived reduction in HIV transmission appears to have been a reduction in risky sexual behavior. We suggest a mechanism for this finding: circumcision may reduce fatalism about acquiring HIV/AIDS and increase the salience of the tradeoff between engaging in additional risky behavior and avoiding acquiring HIV. We also find what appears to be a competing effect that does not operate through the circumcision recipient's belief about the reduction in the risk of acquiring HIV.

Was this time different?: Fiscal policy in commodity republics

- Journal of Development Economics---2014---Luis Cespedes,Andrés Velasco

We revisit the issue of fiscal procyclicality in commodity-rich nations–commodity republics in the nomenclature of this paper. Since commodity prices are plausibly a main driver of fiscal policy outcomes in these countries, we focus on the behavior of fiscal variables across the commodity cycle, in contrast to behavior across the output cycle, which has been the main focus of earlier research on fiscal procyclicality. We present evidence of reduced fiscal policy procyclicality in a number of countries. Our empirical results suggest that improvements in institutional quality have led to a more countercyclical fiscal policy stance in a number of countries. The presence of fiscal rules also seems to have made a difference: countries that use them displayed a larger shift toward fiscal counter-cyclicality between the two episodes.

Household allocations and endogenous information: The case of split migrants in Kenya

- Journal of Development Economics---2014---Joost de Laat

One of the main elements separating different models of intrahousehold allocations is the household information set. This paper tests for the endogeneity of the household information set in a context where household members cannot observe each other easily: spousal information in the context of split urban migration in Kenya. Based on unique data, it finds that split migrant couples in the Nairobi slums invest considerable resources into information acquisition substituting visits, monitoring by siblings, and budget submissions before remitting. Comparisons of pre-marital search characteristics between current split and joint migrants are consistent with the hypothesis that those anticipating split migration change their marital search behavior to mitigate the consequences of pending imperfect information.

Making up people—The effect of identity on performance in a modernizing society

- Journal of Development Economics---2014---Karla Hoff,Priyanka Pandey

It is typically assumed that being hard-working or clever is a trait of the person, in the sense that it is always there, in a fixed manner. However, in an experiment with 288 high-caste and 294 low-caste students in India, cues to one's place in the caste system turned out to starkly influence the expression of these traits. The experiment allows us to discriminate between two classes of models that give different answers to the question of how someone's identity affects his behavior. Models of the fixed self assume that identity is a set of preferences. Models of the frame-dependent self assume that identity entails a set of mental models that are situationally evoked and that mediate information processing. Our findings suggest that the effect of identity on intellectual performance depends sensitively on the social setting. This perspective opens up new policy options for enhancing human capital formation and development.

Offering rainfall insurance to informal insurance groups: Evidence from a field experiment in Ethiopia

- Journal of Development Economics---2014---Stefan Dercon,Ruth Hill,Daniel Clarke,Ingo Outes-Leon,Alemayehu Taffesse

We show theoretically that the presence of basis risk in index insurance makes it a complement to informal risk sharing, implying that index insurance crowds-in risk sharing and leading to a prediction that demand will be higher among groups of individuals that can share risk. We report results from Ethiopia from a first attempt to market weather insurance to informal risk-sharing groups. The groups were offered training on risk management and insurance. We randomized the content of training provided to group leaders, with some sessions focusing on the benefits of informally sharing idiosyncratic basis risk. Consistent with learning informed by the theoretical results, we found that members of groups whose leaders had received training that emphasized risk-sharing had considerably higher uptake. We find that this effect can be explained either by a more careful selection of training participants by leaders or a direct impact of the treatment on insurance demand.

Excessive public employment and rent-seeking traps

- Journal of Development Economics---2014---Esteban Jaimovich,Juan Pablo Rud

We propose a model where the size of the public sector and aggregate output are interrelated through the occupational choice of agents who differ in their skill level and degree of public-mindedness. When the public sector attracts bureaucrats with low degree of public service motivation, they will use their position to rent seek by employing an excessive number of unskilled workers. This leads to an equilibrium with relatively high unskilled wages, which lowers profits and deters entrepreneurship. Conversely, an equilibrium with a lean public sector and greater private economic activity arises when public service motivated agents populate the state bureaucracy. These agents exert high effort and employ a limited number of unskilled workers. Our model also shows that a bloated public sector with high wages may be supported by the unskilled agents.

Insurance coverage and agency problems in doctor prescriptions: Evidence from a field experiment in China

- Journal of Development Economics---2014---Fangwen Lu

This study examines doctors' prescribing decisions using controlled hospital visits with randomized patient insurance and doctor incentive status. The results suggest that, when they expect to obtain a proportion of patients' drug expenditures, doctors write 43% more expensive prescriptions to insured patients than to uninsured patients. These differences are largely explained by an agency hypothesis that doctors act out of self-interest by prescribing unnecessary or excessively expensive drugs to insured patients, rather than by a considerate doctor hypothesis that doctors take account of the tradeoff between drug efficacy and patients' ability to pay.

Growing their own: Unobservable quality and the value of self-provisioning

- Journal of Development Economics---2014---Vivian Hoffmann,Ken Mwithirwa Gatobu

Many important food quality and safety attributes are unobservable at the point of sale, particularly in informal markets with weak reputation effects. Through a framed field experiment conducted in western Kenya, we show that farmers place a large premium on maize they have grown themselves, relative to that available for purchase. Providing information on the origin of maize, and on its taste and safety, reduces this gap. We conclude that information which is unavailable during typical market transactions is important to how consumers value maize, and that imperfect information may contribute to the prevalence of agricultural production for subsistence needs in developing countries.

Men, women, and machines: How trade impacts gender inequality

- Journal of Development Economics---2014---Chinhui Juhn,Gergely Ujhelyi,Carolina Villegas-Sanchez

This paper studies the effect of trade liberalization on an under-explored aspect of wage inequality — gender inequality. We consider a model where firms differ in their productivity and workers are differentiated by skill as well as gender. A reduction in tariffs induces more productive firms to modernize their technology and enter the export market. New technologies involve computerized production processes and lower the need for physically demanding skills. As a result, the relative wage and employment of women improves in blue-collar tasks, but not in white-collar tasks. We test our model using a panel of establishment level data from Mexico exploiting tariff reductions associated with the North American Free Trade Agreement (NAFTA). Consistent with our theory we find that tariff reductions caused new firms to enter the export market, update their technology and replace male blue-collar workers with female blue-collar workers.

Political foundations of the resource curse: A simplification and a comment

- Journal of Development Economics---2014---James Robinson,Ragnar Torvik,Thierry Verdier

In this note we show how a considerably simpler model than the one in our original JDE 2006 paper generates all the same results. We also acknowledge an error in the specification of a utility function in our previous paper.

Business training and female enterprise start-up, growth, and dynamics: Experimental evidence from Sri Lanka

- Journal of Development Economics---2014---Suresh de Mel,David McKenzie,Christopher Woodruff

We conduct a randomized experiment among women in urban Sri Lanka to measure the impact of the most commonly used business training course in developing countries, the Start-and-Improve Your Business (SIYB) program. We study two groups of women: a random sample operating subsistence enterprises and a random sample out of the labor force but interested in starting a business. We track impacts of two treatments – training only and training plus a cash grant – over two years. For women in business, training changes business practices but has no impact on business profits, sales or capital stock. The grant plus training combination increases business profitability in the first eight months, but this impact dissipates in the second year. Among potential startups, business training hastens entry – without changing longer-term ownership rates – and increases profitability. We conclude that training may be more effective for new owners.

Microenterprise growth and the flypaper effect: Evidence from a randomized experiment in Ghana

- Journal of Development Economics---2014---Marcel Fafchamps,David McKenzie,Simon Quinn,Christopher Woodruff

Standard models of investment predict that credit-constrained firms should grow rapidly when given additional capital, and that how this capital is provided should not affect decisions to invest in the business or consume the capital. We randomly gave cash and in-kind grants to male- and female-owned microenterprises in urban Ghana. For women running subsistence enterprises we find no gain in profits from either treatment. For women with larger businesses we strongly reject equality of the cash and in-kind grants; only in-kind grants cause growth in profits, suggesting a flypaper effect whereby capital coming directly into the business sticks there, but cash does not. The results for men also suggest a lower impact of cash, but differences between cash and in-kind grants are less robust. There is suggestive evidence that the difference in the effects of cash and in-kind grants is associated more with lack of self-control than with external pressure.

The demand for insurance against common shocks

- Journal of Development Economics---2014---Alain de Janvry,Vianney Dequiedt,Elisabeth Sadoulet

In recent years, index-based insurance has been offered to smallholder farmers in the developing world to protect against common shocks such as weather shocks. Despite their attractive properties, these products have met with low demand. We consider the frequent situation where farmers are members of groups with common interests. We show that this creates strategic interactions among group members in deciding to insure that reduce the demand for insurance for two reasons. One is free riding due to positive externalities on other group members when a member chooses to insure. The other is potential coordination failure because it may not be profitable for a risk-averse member to insure if the other members do not. As a consequence, we argue that the demand for insurance against common shocks could increase if the insurance policy were sold to groups rather than to individuals.

Stage-dependent intellectual property rights

- Journal of Development Economics---2014---Angus Chu,Guido Cozzi,Silvia Galli

Inspired by the Chinese experience, we develop a Schumpeterian growth model of distance to frontier in which economic growth in the developing country is driven by domestic innovation as well as imitation and transfer of foreign technologies through foreign direct investment. We show that optimal intellectual property rights (IPR) protection is stage-dependent. At an early stage of development, the country implements weak IPR protection to facilitate imitation. At a later stage of development, the country implements strong IPR protection to encourage domestic innovation. Therefore, the growth-maximizing and welfare-maximizing levels of patent strength increase as the country evolves towards the world technology frontier, and this dynamic pattern is consistent with the actual evolution of patent strength in China.

Elite capture through information distortion: A theoretical essay

- Journal of Development Economics---2014---Jean-Philippe Platteau,Vincent Somville,Zaki Wahhaj

We investigate donor–beneficiary relationships in participatory development programmes, where (i) communities are heterogeneous and dominated by the local elite, (ii) the elite strategically proposes a project to the donor, knowing that the latter has imperfect knowledge of the needs of the target population.

Institutions and the long-run impact of early development

- Journal of Development Economics---2013---James Ang

We study the role of institutional development as a causal mechanism of history affecting current economic performance. Several indicators capturing different dimensions of early development in 1500AD are used to remove the endogenous component of the variations in institutions. These indicators are adjusted with large-scale movements of people across international borders using the global migration matrix of Putterman and Weil (2010) to account for the fact that the ancestors of a population have facilitated the diffusion of knowledge when they migrate. The exogenous component of institutions due to historical development is found to be a significant determinant of current output. By demonstrating that the relationship between early development and current economic performance works through the channel of institutions and that better institutions can be traced back to historical factors, the results of this paper shed some light on how history has played a role in shaping long-run comparative development.

Export emergence of differentiated goods from developing countries: Export pioneers and business practices in Argentina

- Journal of Development Economics---2013---Alejandro Artopoulos,Daniel Friel,Juan Hallak

This study explores the underlying factors that enable firms from developing countries to successfully export differentiated goods to developed countries. The article describes four case studies of export emergence in differentiated-good sectors in Argentina, namely wine, television programs, motorboats, and wooden furniture. The case studies rely primarily on an extensive set of interviews. We find that consistent exporters to developed countries adopt a new set of business practices that differ starkly from those that prevail in their domestic market. In three of the sectors, an export pioneer led the adoption of these new practices. Export pioneers possessed tacit knowledge about foreign markets, achieved through their previous embeddedness in the business community of those markets. Export emergence occurs as business practices diffuse throughout the sector. These findings point to the importance of foreign market knowledge, relative to production knowledge, as the key constraint to achieve consistent export to developed countries.

Respect, responsibility, and development

- Journal of Development Economics---2013---Janice Breuer,John McDermott

We develop a theory that explains how two core values – Respect for others and Responsibility – affect productivity, the accumulation of capital, and output per worker. Using data from the World Values Survey, we empirically test the model using a panel dataset that includes 82 countries over six distinct years. We find that these two core values are important to production and that their impact is substantial. We also show that Respect and Responsibility reduce the influence of trust and mitigate the negative macroeconomic effects associated with fractionalized societies. Our results are robust to various treatments for endogeneity and under alternative samples.

Pre-marital confinement of women: A signaling and matching approach

- Journal of Development Economics---2013---Birendra Rai,Kunal Sengupta

Parents in several cultures ‘discipline’ their daughters to inculcate the supposedly feminine virtues and improve their prospects in the marriage market. This process invariably involves imposing restrictions on their behavior, movement, and social relations. We refer to such practices as pre-marital confinement and provide a unified game-theoretic framework which encompasses the different arguments that have been advanced by social scientists to explain pre-marital confinement. The proposed framework views confinement by parents as an intrinsically valueless or valuable signal of some unobservable characteristic of their daughters which is valued by men in the marriage market. We focus on identifying the conditions that lead to a societal norm of confinement. We also show that, behind a veil of ignorance where gender is unknown, agents will choose to prohibit rather than permit confinement if it is intrinsically valueless and the parameters characterizing the society are such that the ex-post equilibrium would involve pooling.

Preference based vs. market based discrimination: Implications for gender differentials in child labor and schooling

- Journal of Development Economics---2013---Alok Kumar

This paper studies the effects of son-preference by parents and earnings function bias on child labor and schooling in a model in which parents are altruistic. It finds that son-preference leads to gender differential in child labor with female children working more than male children. But it does not lead to gender differential in schooling, except when the bequest constraints are binding. On the other hand, the earnings function bias results in gender differential in both child labor and schooling. Dowry and marriage expenses can lead to inefficiently low level of schooling and high level of child labor. Son-preference magnifies gender differential in child labor and schooling in the presence of dowry and marriage expenses.

Too many mothers-in-law?

- Journal of Development Economics---2013---Yuk-Shing Cheng,Kim-Sau Chung

Developing countries with low tax capacity may rely on predation to finance government functions. Government predation, in turn, is often accused of imposing a choking effect on state-owned enterprises (SOEs), contributing to the latter's poor performance. We formalize this choking effect as a problem of inefficient predation that arises from time inconsistency, and show that having multiple government bodies supervising the same SOE may mitigate this problem. Our theory provides an efficiency rationale for the Chinese style of decentralization before 1978, and challenges the wisdom of China's recent enterprise reform that attempted to consolidate supervisory power.

The dual policy in the dual economy—The political economy of urban bias in dictatorial regimes

- Journal of Development Economics---2013---Abdulaziz Shifa

In many developing countries, public resource allocation is often biased against the rural population. Since a vast majority of the poor live in rural areas, the bias is highlighted as one of the most important institutional factors contributing to poverty. This paper develops a political economy model of urban bias in a dictatorial regime. A novel result of the model is that urban bias can emerge in predominantly agrarian economies even if there is no bias in political power toward urban residents. The empirical evidence from a recently compiled country-level panel dataset on agricultural taxes/subsidies is consistent with the prediction of the model.

Micro-finance competition: Motivated micro-lenders, double-dipping and default

- Journal of Development Economics---2013---Brishti Guha,Prabal Roy Chowdhury

We develop a tractable model of competition among socially motivated MFIs, so that the objective functions of the MFIs put some weight on their own clients' utility. We find that the equilibrium involves double-dipping, i.e. borrowers taking multiple loans from different MFIs, whenever the MFIs are relatively profit-oriented. Further, double-dipping necessarily leads to default and inefficiency, and moreover, borrowers who face relatively higher transactions costs optimally decide to double-dip. Interestingly, an increase in MFI competition can increase the extent of double-dipping and default. Further, the interest rates may go either way, with the interest rate likely to increase with more competition if the MFIs are very socially motivated.

Decentralization, political competition and corruption

- Journal of Development Economics---2013---Facundo Albornoz,Antonio Cabrales

We study the effect of decentralization on corruption in a political agency model from the perspective of a region. In a model where corruption opportunities are lower under centralization at each period of time, decentralization makes it easier for citizens to detect corrupt incumbents. As a consequence, the relationship between fiscal decentralization and corruption is conditional on political competition: decentralization is associated with lower (higher) levels of corruption for sufficiently high (low) levels of political competition. We test this prediction and find that it is empirically supported. Also, we show how the preferences of voters and politicians about fiscal decentralization can diverge in situations where political competition is weak.

U.S. and them: The Geography of Academic Research

- Journal of Development Economics---2013---Jishnu Das,Quy-Toan Do,Karen Shaines,Sowmya Srikant

Using a database of 76,046 empirical economics papers published between 1985 and 2005, we report two associations. First, research output on a given country increases with the country's population and wealth, yielding a strong correlation between per-capita research output and per-capita GDP. Regressions controlling for data quality, governance and the use of English give an estimated research–wealth elasticity of 0.32; surprisingly, the U.S. is not an outlier. Second, papers written about the U.S. are 2.5 percentage-points more likely to be published in the top five economics journals after accounting for authors' institutional affiliations and the field of study. This is a large effect because only 1.5% of all papers written about countries other than the U.S. are published in first-tier journals. No similar premium for research on the U.S. is detected in second-tier general interest journals, where papers from the UK and Europe command a substantial premium instead.

Repayment incentives and the distribution of gains from group lending

- Journal of Development Economics---2013---Jean-Marie Baland,Rohini Somanathan,Zaki Wahhaj

Group loans with joint liability are a distinguishing feature of many microfinance programs. While such lending benefits millions of borrowers, major lending institutions acknowledge its limited impact among the very poor and have shifted towards individual loans. This paper attempts to explain this trend by exploring the relationship between borrower wealth and the benefits from group lending when access to credit is limited by strategic default. In our model, individuals of heterogeneous wealth face a given investment opportunity so poor investors demand larger loans. We show that the largest loan offered as an individual contract cannot be supported as a group loan. Joint liability cannot therefore extend credit outreach in the absence of additional social sanctions within groups. We also find that the benefits from group loans are increasing in borrower wealth and that optimal group size depends on project characteristics. By allowing for multi-person groups and wealth heterogeneity in the population, the paper extends the standard framework to analyze joint liability and contributes to an understanding of the conditions under which microcredit can reduce poverty.

Should developing countries undervalue their currencies?

- Journal of Development Economics---2013---Marcel Schröder

The Washington Consensus emphasizes the economic costs of real exchange rate distortions. However, a sizable recent empirical literature finds that undervalued real exchange rates help countries to achieve faster economic growth. This paper shows that recent findings are driven by inappropriate homogeneity assumptions on cross-country long-run real exchange rate behavior and/or growth regression misspecification. When these problems are redressed, the empirical results for a sample of 63 developing countries suggest that deviations of the real exchange rate in either direction from the value that is consistent with external and internal equilibriums reduce economic growth. Deviations from Balassa–Samuelson adjusted purchasing power parity on the other hand do not seem to matter for growth performance. The real exchange rate should thus be consistent with external and internal balances irrespective of implied purchasing power parity benchmarks.

The rise and fall of (Chinese) African apparel exports

- Journal of Development Economics---2013---Lorenzo Rotunno,Pierre-Louis Vézina,Zheng Wang

During the final years of the Multifiber Agreement (2001–2005) the US imposed quotas on Chinese apparel while it gave African apparel duty- and quota-free access. We argue that the combination of these policies led to a rapid but ephemeral rise of African exports that can be explained in part by ethnic-Chinese firms using Africa as a quota-hopping export platform. We first provide a large body of anecdotal evidence on the ethnic-Chinese apparel wave in Africa. Second, we show that Chinese exports to Africa predict US imports from the same countries and in the same apparel categories but only where transhipment incentives are present, i.e. for products facing US quotas and in countries with preferential access to the US unconstrained by rules of origin. Our estimates indicate that direct transhipment may account for around 22% of Africa's apparel exports during 2001–2008.

Income uncertainty and household savings in China

- Journal of Development Economics---2013---Marcos Chamon,Kai Liu,Eswar Prasad

China's urban household saving rate has increased markedly since the mid-1990s and the age-savings profile has become U-shaped. To understand these patterns, we analyze a panel of urban Chinese households over the period 1989–2009. We document a sharp increase in income uncertainty, largely due to an increase in the variance in household income attributed to transitory idiosyncratic shocks. We then calibrate a buffer-stock savings model to obtain quantitative estimates of the impact of rising household-specific income uncertainty as well as another shock to household income—the pension reforms that were instituted in the late 1990s. Our calibrations suggest that rising income uncertainty and pension reforms lead younger and older households, respectively, to raise their saving rates significantly. These two factors account for two-thirds of the increase in China's urban household saving rate and the U-shaped age-savings profile.

Trade and thy neighbor's war

- Journal of Development Economics---2013---Mahvash Qureshi

This paper is the first to examine the spillover effects of regional conflicts, defined as internal or external armed conflicts in contiguous states, on international trade. Our empirical findings—based on different measures of regional conflict constructed using alternate definitions of contiguity and types of conflict for 145 countries over 1948–2006—reveal a significant negative effect of both intrastate and international conflicts on the bilateral trade of neighboring countries that may not be directly involved in any conflict. The impact increases with conflict duration, and is persistent—on average, it takes bilateral trade 3–5years to recover after the end of a regional conflict.

Keeping the doctor away: Experimental evidence on investment in preventative health products

- Journal of Development Economics---2013---Jennifer Meredith,Jonathan Robinson,Sarah Walker,Bruce Wydick

Household investment in preventative health products is low in developing countries even though benefits from these products are very high. What interventions most effectively stimulate demand? In this paper, we experimentally estimate demand curves for health products in Kenya, Guatemala, India, and Uganda and test whether (1) information about health risk, (2) cash liquidity, (3) peer effects, and (4) intra-household differences in preferences affect demand. We find households to be highly sensitive to price and that both liquidity and targeting women increase demand. We find no effect of providing information, although genuine learning occurred, and we find no evidence of peer effects, although subjects discussed the product purchase decision extensively.

The political economy of project preparation: An empirical analysis of World Bank projects

- Journal of Development Economics---2013---Christopher Kilby

Using a novel application of stochastic frontier analysis to overcome data limitations, this paper finds substantially shorter project preparation periods for World Bank loans to countries that are geopolitically important (especially to the U.S.). Accelerated preparation is one explanation for how the World Bank might increase the number of loans to a recipient member country within a fixed time frame, for example in response to that country siding with powerful donor countries on important UN votes or while that country occupies an elected seat on the UN Security Council or the World Bank Executive Board. This channel of donor influence has important implications for institutional reform and provides a new angle to examine the cost of favoritism and the impact of project preparation.

Living longer: The effect of the Mexican conditional cash transfer program on elderly mortality

- Journal of Development Economics---2013---Tania Barham,Jacob Rowberry

With both an aging population and a transition from communicable to chronic diseases, the health of the elderly is a growing issue in many developing countries. Conditional cash transfer programs are usually thought to benefit young people, but may also benefit other age groups since some programs require that all household members have regular preventive health check-ups. This paper exploits the phasing-in of the Mexican conditional cash transfer program, Progresa, between 1997 and 2000, and shows a 4% decline in average, municipality-level mortality for people aged 65 and older. The program not only reduced deaths due to more traditional infectious diseases, but also diabetes related deaths. Given that diabetes deaths are a leading cause of death in Mexico, and in the top 10 causes of death in many high- and middle-income countries, this is an important finding.

Income shocks and gender gaps in education: Evidence from Uganda

- Journal of Development Economics---2013---Martina Björkman-Nyqvist

This paper uses exogenous variation in rainfall across districts in Uganda to estimate the causal effects of household income shocks on children's enrollment and academic performance conditional on gender. I find negative deviations in rainfall from the long-term mean to have negative and highly significant effects on female enrollment in primary schools and the effect grows stronger for older girls. I find no effect of rainfall variation on the enrollment of boys and young girls. Moreover, I find that when schooling is free of charge and both marginal boys and girls are enrolled, a negative income shock has an adverse effect on the test scores of female students while boys are not affected. The results imply that households respond to income shocks by varying the amount of schooling and resources provided to girls while boys are to a large extent sheltered — a finding consistent with a model where parents' values of child labor differ across sexes.

Exogenous volatility and the size of government in developing countries

- Journal of Development Economics---2013---Markus Brückner,Mark Gradstein

This paper presents instrumental variables estimates of the effects of GDP per capita volatility on the size of government. We show that for a panel of 157 countries spanning more than half a century, rainfall volatility has a significant positive effect on GDP per capita volatility in countries with above median temperatures. In these countries rainfall volatility has also a significant positive reduced-form effect on the GDP share of government. There is no significant reduced-form effect in the sample of countries with below median temperatures where rainfall volatility has no significant effect on GDP per capita volatility. Using rainfall volatility as an instrumental variable in the sample of countries with above median temperatures yields that greater GDP per capita volatility leads to a significantly higher GDP share of government.

International competition and industrial evolution: Evidence from the impact of Chinese competition on Mexican maquiladoras

- Journal of Development Economics---2013---Hale Utar,Luis B. Torres Ruiz

Effects of the competition between two South locations (Mexico and China) in a Northern market (US) are analyzed. By employing a plant-level data set that covers the universe of Mexican export processing plants (maquiladoras) from 1990 to 2006 and relying on an instrumental variable strategy that exploits exogenous intensification of Chinese imports in the world in conjunction with the WTO accession of China, the empirical analysis reveals a substantial effect of intensified

Chinese competition on maquiladoras. In particular, competition from China has a negative and significant impact on employment and plant growth, both through the intensive and the extensive margin. As the negative impact is stronger on the most unskilled labor intensive sectors, it triggers significant sectoral reallocation. Suggestive evidence on industrial upgrading among maquiladoras in response to competition with China is also provided. Overall the results provide additional insight into the way low-wage competition shapes the evolution of industries.

Good countries or good projects? Macro and micro correlates of World Bank project performance

- Journal of Development Economics---2013---Cevdet Denizer,Daniel Kaufmann,Aart Kraay

This paper investigates macro and micro correlates of aid-financed development project outcomes, using data from over 6000 World Bank projects evaluated between 1983 and 2011. Country-level “macro” measures of the quality of policies and institutions are strongly correlated with project outcomes, consistent with the view that country-level performance matters for aid effectiveness. However, a striking feature of the data is that the success of individual development projects varies much more within countries than it does between countries. A large set of project-level “micro” variables, including project size, project length, the effort devoted to project preparation and supervision, and early-warning indicators that flag problematic projects during the implementation stage, accounts for some of this within-country variation in project outcomes. Measures of World Bank project manager quality also matter significantly for the ultimate project outcomes. We discuss the implications of these findings for donor policies aimed at aid effectiveness.

Mass education or a minority well educated elite in the process of growth: The case of India

- Journal of Development Economics---2013---Amparo Castello-Climent,Abhiroop Mukhopadhyay

This paper analyzes whether mass education is more growth enhancing in developing countries than having a minority well educated elite. Using Indian Census data as a benchmark and enrollment rates at different levels of education, we compute annual attainment levels for a panel of 16 Indian states from 1961 to 2001. Results indicate that if the reduction in illiteracy stops at the primary level of education, it is not worthwhile for growth. Instead, the findings reveal a strong and significant effect on growth of a greater share of population completing tertiary education. The economic impact is also found to be large: a one percent change in tertiary education has the same effect on growth as a 13% decrease in illiteracy rates. A sensitivity analysis shows the results are unlikely to be driven by omitted variables, structural breaks, reverse causation or atypical observations.

Interactive dynamics between natural and man-made assets: The impact of external shocks

- Journal of Development Economics---2013---Ramon Lopez,Maurice Schiff

This paper studies a two-sector economy in which one of the sectors (the “commodity sector”) depends in part on the exploitation of a renewable natural resource and examines the issue in an economy-wide context where both natural resources and a man-made asset change endogenously over time. We show that under an open access resource regime: i) a resource-rich, capital-poor economy may experience a “natural resource curse” phase and under certain conditions, may even follow a non-sustainable path leading to complete natural resource depletion; ii) a labor inflow results in a higher steady-state per capita income, with unchanged natural resources, though it makes the economy more prone to reach a path that converges to resource collapse; iii) the introduction of a small import tariff or export tax results in larger steady-state natural resources and commodity output and renders the economy less vulnerable to resource collapse. We also contrast the open access case with the other polar case of perfect property rights, showing that in this case the economy experiences neither a resource curse nor a resource collapse.

Stated social behavior and revealed actions: Evidence from six Latin American countries

- Journal of Development Economics---2013---Juan-Camilo Cardenas,Alberto Chong,Hugo Ñopo

Do attitudinal surveys and incentivized experiments predict actual behavior? We answer this question using data on trust and pro-sociality from experiments and surveys conducted on six Latin American cities. Individuals in agreement with a set of pro-social statements who also either are willing to trust others more or are interested in risk-pooling, end up investing more in maintaining their social capital in the form of social organizations such as charities, religion, politics, sports and culture. Both, experiments and surveys carry useful information to understand motivations and intentions in pro-social behavior and social capital formation.

Revealed objective functions of Microfinance Institutions: Evidence from Bangladesh

- Journal of Development Economics---2013---Mir M. Salim

This paper discerns between two alternative objective functions for not-for-profit Microfinance Institutions (MFIs): profit maximization and poverty targeting. I use the strategic branch location choices of the two largest MFIs in a mature, concentrated market to reveal their objectives. I consider location decisions to be the pure-strategy Nash equilibrium outcome of a one-shot game where the MFIs simultaneously choose markets in which to locate as well as how many branches to open in each. Applying the duality principle, I nest fully a pure profit-maximization objective within a poverty targeting motive. I test the model using comprehensive data from Bangladesh in 2003. Structurally estimating profit and impact functions, my MSM estimates suggest that pure profit maximization cannot explain the branch placement pattern for Grameen Bank or BRAC: they both deviate towards poverty alleviation. Targeting one higher standard deviation of poverty headcount costs Grameen 35.2% of its potential profits and BRAC 51.4%.

The effects of financial development in the short and long run: Theory and evidence from India

- Journal of Development Economics---2013---Scott Fulford

Although many view financial access as a means of reducing poverty or increasing growth, empirical studies have produced contradictory results. One problem is that most studies cover only a short time frame and do not consider dynamic effects. I show that introducing credit in a general model of intertemporal consumption creates a boom in consumption and reduces poverty initially, but eventually reduces mean consumption because credit substitutes for precautionary wealth. Using new consistent consumption data that cover a much longer time period than most studies, my empirical findings show that increased access to bank branches in rural India increased consumption initially and reduced poverty, but consumption later fell and poverty rose. The long-term effect is still positive, however, suggesting that credit may have a beneficial role beyond consumption smoothing.

The local electoral impacts of conditional cash transfers

- Journal of Development Economics---2013---Julien Labonne

I assess the impacts of targeted government transfers on a local incumbent's electoral performance. I use the randomized roll-out of a CCT program in the Philippines. Although the program was usually implemented in all villages in a municipality, a subset of beneficiary municipalities were randomly selected to receive the program in a randomly selected subset of villages. A number of municipalities are tightly controlled by political dynasties and, thus, I can test whether the effects are dependent upon the political environment. In a competitive political environment, incumbent vote share is 26 percentage-points higher in municipalities where the program was implemented in all villages than in municipalities where the program was implemented in half of them. The program had no impact in municipalities with low levels of political competition. Further, there is evidence consistent with the argument that incumbents compensated households in control villages by redistributing their own budget there.

Inflation dynamics and food prices in Ethiopia

- Journal of Development Economics---2013---Dick Durevall,Josef Loening,Yohannes Ayalew Birru

During the global food crisis, Ethiopia experienced an unprecedented increase in inflation, among the highest in Africa. Using monthly data over the past decade, we estimate models of inflation to identify the importance of the factors contributing to CPI inflation and three of its major components: cereal prices, food prices, and non-food prices. Our main finding is that movements in international food and goods prices, measured in domestic currency, determined the long-run evolution of domestic prices. In the short run, agricultural supply shocks affected food inflation, causing large deviations from long-run price trends. Monetary policy seems to have accommodated price shocks, but money supply growth affected short-run non-food price inflation. Our results suggest that when analyzing inflation in developing economies with a large food share in consumer prices, world food prices and domestic agricultural production should be considered. Omitting these factors can lead to biased results and misguided policy decisions.

Inequality of opportunity and growth

- Journal of Development Economics---2013---Gustavo Marrero,Juan Rodríguez

Theoretical and empirical studies exploring the effects of income inequality upon growth reach a disappointing inconclusive result. This paper postulates that one reason for this ambiguity is that income inequality is actually a composite measure of inequality of opportunity and inequality of effort. They may affect growth through opposite channels, thus the relationship between inequality and growth depends on which component is larger. Using the PSID database for the U.S. in 1970, 1980 and 1990 we find robust support for a negative relationship between inequality of opportunity and growth, and a positive relationship between inequality of effort and growth.

Do IT service centers promote school enrollment? Evidence from India

- Journal of Development Economics---2013---Emily Oster,Bryce Steinberg

Globalization has changed job opportunities in much of the developing world. In India, outsourcing has created a new class of high-skill jobs which have increased overall returns to schooling. Existing evidence suggests education may broadly respond to this change. We use microdata to evaluate the impact of these jobs on local school enrollment in areas outside of major IT centers. We merge panel data on school enrollment from a comprehensive school-level administrative dataset with detailed data on Information Technology Enabled Services (ITES) center location and founding dates. Using school fixed effects, we find that introducing a new ITES center causes a 5% increase in the number of children enrolled in primary school; this effect is localized to within a few kilometers. We show the effect is driven by English-language schools, consistent with the claim that the impacts are due to changes in returns to schooling, and is not driven by changes in population or income resulting from the ITES center. Supplementary survey evidence suggests that the localization of the effects is driven by limited information diffusion.

Welfare consequences of food prices increases: Evidence from rural Mexico

- Journal of Development Economics---2013---Orazio Attanasio,Vincenzo Di Maro,Valérie Lechene,David Phillips

This paper presents an analysis of the welfare consequences of recent increases in food prices in Mexico using micro-level data. We estimate a QUAIDS model of demand for food, using data collected to evaluate the conditional cash transfer program Oportunidades. We show how the poor have been affected by the recent increases and changes in relative prices of foods. We also show how a conditional cash transfer program provides a means of alleviating the problem of increasing staple prices, and simulate the impact of such a policy on household welfare and consumer demand. We contrast this policy with alternative policy responses, such as price subsidies, which distort relative prices and are less well-targeted.

Tax avoidance through re-imports: The case of redundant trade

- Journal of Development Economics---2013---Xuepeng Liu

Many countries have participated in re-imports, a type of round-trip trade originating from a country and back to the same country. China, as the largest re-importer, has imported more from itself than from the U.S. since 2005. As the first empirical study on re-imports, this paper shows that China's re-imports are at least partially driven by the imperfection of the value-added tax (VAT) rebate policy for processing trade. In principle, firms should be able to claim input VAT credits after selling their finished products in China, or receive input VAT rebates after exporting their products. Some processing firms, however, are not qualified for the credits or rebates when selling in China; hence, they may export their products to obtain rebates. Some downstream processing firms can benefit from re-importing these products duty-free as inputs because they cannot obtain the rebates when buying inputs in China even after exporting their final goods.

Agricultural productivity, structural change, and economic growth in post-reform China

- Journal of Development Economics---2013---Kang Hua Cao,Javier Birchenall

We examine the role of agricultural productivity as a determinant of China's post-reform economic growth and sectoral reallocation. Using microeconomic farm-level data, and treating labor as a highly differentiated input, we find that the labor input in agriculture decreased by 5% annually and agricultural TFP grew by 6.5%. Using a calibrated two-sector general equilibrium model, we find that agricultural TFP growth: (i) accounts for the majority of output and employment reallocation toward non-agriculture; (ii) contributes (at least) as much to aggregate and sectoral economic growth as non-agricultural TFP growth; and (iii) influences economic growth primarily by reallocating workers to the non-agricultural sector, where rapid physical and human capital accumulation are currently taking place.

A new data set of educational attainment in the world, 1950–2010

- Journal of Development Economics---2013---Robert Barro,Jong-Wha Lee

Our panel data set on educational attainment has been updated for 146 countries from 1950 to 2010. The data are disaggregated by sex and by 5-year age intervals. We have improved the accuracy of estimation by using information from consistent census data, disaggregated by age group, along with new estimates of mortality rates and completion rates by age and education level. We compare the estimates with our previous ones (Barro and Lee, 2001) and alternative measures (Cohen and Soto, 2007). Our estimates of educational attainment provide a reasonable proxy for the stock of human capital for a broad group of countries and should be useful for a variety of empirical work.

The contribution of schooling in development accounting: Results from a nonparametric upper bound

- Journal of Development Economics---2013---Francesco Caselli,Antonio Ciccone

How much would output increase if underdeveloped economies were to increase their levels of schooling? We contribute to the development accounting literature by describing a nonparametric upper bound on the increase in output that can be generated by more schooling. The advantage of our approach is that the upper bound is valid for any number of schooling levels with arbitrary patterns of substitution/complementarity. Another advantage is that the upper bound is robust to certain forms of endogenous technology response to changes in schooling. We also quantify the upper bound for all economies with the necessary data, compare our results with the standard development accounting approach, and provide an update on the results using the standard approach for a large sample of countries.

Does school autonomy make sense everywhere? Panel estimates from PISA

- Journal of Development Economics---2013---Eric Hanushek,Susanne Link,Ludger Woessmann

Decentralization of decision-making is among the most intriguing recent school reforms, in part because countries went in opposite directions over the past decade and because prior evidence is inconclusive. We suggest that autonomy may be conducive to student achievement in well-developed systems but detrimental in low-performing systems. We construct a panel dataset from the four waves of international PISA tests spanning 2000–2009, comprising over one million students in 42 countries. Relying on panel estimation with country fixed effects, we estimate the effect of school autonomy from within-country changes in the average share of schools with autonomy over key elements of school operations. Our results suggest that autonomy affects student achievement negatively in developing and low-performing countries, but positively in developed and high-performing countries. These estimates are unaffected by a wide variety of robustness and specification tests, providing confidence in the need for nuanced application of reform ideas.

The political economy of educational content and development: Lessons from history

- Journal of Development Economics---2013---Davide Cantoni,Noam Yuchtman

Beyond years of schooling, educational content can play an important role in the process of economic development. Individuals' choices of educational content are often shaped by the political economy of government policies that determine the incentives to acquire various skills. We first present a model in which differences in human capital investments emerge as an equilibrium outcome of private decisions and government policy choices. We then illustrate these dynamics in two historical circumstances. In medieval Europe, states and the Church found individuals trained in Roman law valuable, and eventually supported productive investments in this new form of human capital. In late 19th-century China, elites were threatened by the introduction of Western science and engineering and continued to select civil servants—who enjoyed substantial rents—based on their knowledge of the Confucian classics; as a result, investments in productive, modern human capital were not made.

Economic growth, comparative advantage, and gender differences in schooling outcomes: Evidence from the birthweight differences of Chinese twins

- Journal of Development Economics---2013---Mark Rosenzweig,Junsen Zhang

Data from two surveys of twins in China are used to contribute to an improved understanding of the role of economic development in affecting gender differences in the trends in, levels of, and returns to schooling observed in China and in many developing countries in recent decades. In particular, we explore the hypothesis that these phenomena reflect differences in comparative advantage with respect to skill and brawn between men and women in the context of changes in incomes, returns to skill, and/or nutritional improvements that are the result of economic development and growth.

A race to the bottom in labor standards? An empirical investigation

- Journal of Development Economics---2013---Ronald Davies,Krishna Chaitanya Vadlamannati

One of the concerns over globalization is that as nations compete for investment, they relax labor standards to attract firms. Using spatial estimation on panel data for 135 countries over 17years, we find that the labor standards in one country are positively correlated with those elsewhere (i.e. a cut in labor standards in other countries reduces labor standards in the country in question). This interdependence is more evident in labor practices (i.e. enforcement) than in labor laws. Further, while we find evidence of competition in both developed and developing countries, it is strongest among developing countries with weak standards.

Local financial development and firm performance: Evidence from Morocco

- Journal of Development Economics---2013---Marcel Fafchamps,Matthias Schündeln

Combining data from the Moroccan census of manufacturing enterprises with information from a commune survey, we test whether firm expansion is affected by local financial development. Our findings are consistent with this hypothesis: local bank availability is robustly associated with faster growth for small and medium-size firms in sectors with growth opportunities, with a lower likelihood of firm exit and a higher likelihood of investment. Regarding the channel, the evidence suggests that, over the study period, access to credit was used by pre-existing Moroccan firms to mobilize investment funds, with some evidence that they were partly used towards reducing labor costs.

Trend shocks and economic development

- Journal of Development Economics---2013---Claude Francis Naoussi,Fabien Tripier

This article explores the role of trend shocks in explaining the specificities of business cycles in developing countries using the methodology introduced by Aguiar and Gopinath (2007). We specify a small open economy model with transitory and trend shocks on productivity to replicate the differences in the business cycle behavior observed between developed, emerging, and Sub-Saharan Africa countries. Our results suggest a strong relationship between the weight of trend shocks in the source of fluctuations and the level of economic development. The weight of trend shocks is (i) higher in Sub-Saharan Africa countries than in emerging and developed countries, (ii) negatively correlated with the level of income, the quality of institutions, and the size of the credit market, and (iii) uncorrelated with the volatility of aid received by countries, the inflation rate, and the trend in trade-openness.

Can provision of free school uniforms harm attendance? Evidence from Ecuador

- Journal of Development Economics---2013---Diana Hidalgo,Mercedes Onofa,Hessel Oosterbeek,Juan Ponce

To raise school participation, many programs in developing countries eliminate or reduce private contributions to education. Using data from a randomized experiment in Ecuador, we ironically find that announcing a free school uniform program had a negative impact on attendance. The school uniforms were distributed in only 63% of the schools that were told that they would get them, thus this negative impact could have been generated by creating false expectations of free distribution, or also by a sunk cost effect on those who did actually receive the uniforms.

Risk attitudes and economic well-being in Latin America

- Journal of Development Economics---2013---Juan-Camilo Cardenas,Jeffrey Carpenter

A common conjecture in both the theoretical and policy literatures on development is that people remain poor because they are too impatient and risk averse to accumulate the resources needed to improve their well-being. The empirical literature, however, suggests that this conjecture is far from proven. We sample more than 3000 participants drawn representatively from six Latin American cities and find little correlation between baseline risk aversion and well-being, measured as an index of eight outcomes. We do, however, find that measures of ambiguity aversion, loss aversion and the willingness to take advantage of a risk pooling scheme all correlate with well-being. Participants who are ambiguity averse, loss averse, and who react conservatively in the risk pooling condition all have significantly lower scores on our well-being index. These results are robust to the inclusion of a variety of important controls like human capital accumulation and access to credit.

Missing public funds and targeting performance: Evidence from an anti-poverty transfer program in Indonesia

- Journal of Development Economics---2013---Daniel Suryadarma,Chikako Yamauchi

This paper investigates how failing to consider missing funds in public resource delivery can lead to misleading conclusions on the nature and correlates of targeting performance. Combining administrative data on disbursement and household survey data on receipt under Indonesia's anti-poverty program, Inpres Desa Tertinggal (IDT), we find that only 69% of disbursements were actually received by the intended beneficiaries. When these missing funds are ignored, the distribution of IDT benefits is pro-poor, and better targeting is found in districts with higher per capita expenditure. However, when the missing funds are taken into account, the distribution of IDT benefits in fact becomes less pro-poor than universal, equal distribution, and better targeting is correlated with a higher proportion of female village heads and a higher level of villagers' human capital. These results underscore the importance of considering the size and allocation of missing funds in the analysis of targeting in public resource delivery.

Economic shocks and civil conflict: Evidence from foreign interest rate movements

- Journal of Development Economics---2013---Peter Hull,Masami Imai

We exploit annual variation in influential foreign interest rates to identify externally-driven components of short-run income shocks in small open economies from 1971 to 2004 and explore the statistical nature of the income–civil conflict nexus. Our results show that movements in foreign interest rates have important effects on civil conflict risk through domestic economic channels. More importantly, the income–conflict relationship is found to be nonlinear – the conflict risk of ethnolinguistically fragmented countries is found to be much more sensitive to shifts in economic conditions than that of homogeneous countries. These results suggest an important mechanism by which short-term economic shocks affect the trajectory of the political and economic performance of ethnically divided states.

How big are the gains from international financial integration?

- Journal of Development Economics---2013---Indrit Hoxha,Sebnem Kalemli-Ozcan,Dietrich Vollrath

The literature has shown that the implied welfare gains from financial integration are very small. We revisit these findings and document that welfare gains are substantial if capital goods are not perfect substitutes. We use a model of optimal savings where the elasticity of substitution between capital varieties is less than infinity, but more than the value that would generate endogenous growth. This production structure is consistent with empirical estimates of the actual elasticity of substitution between capital types, as well as with the relatively slow speed of convergence documented in the literature. Calibrating the model, welfare gains from financial integration are equivalent to a 9% increase in consumption for the median country, and 14% for the most capital-scarce. This rises substantially if capital's share in output increases even modestly above 0.3, and remains large if inflows of foreign capital are limited to a fraction of the existing capital stock.

Social distance and trust: Experimental evidence from a slum in Cairo

- Journal of Development Economics---2013---Christine Binzel,Dietmar Fehr

While strong social ties help individuals cope with missing institutions, trade is essentially limited to those who are part of the social network. We examine what makes the decision to trust a stranger different from the decision to trust a member of a given social network (a friend), by comparing the determinants of these two decisions for the same individual. We implement a binary trust game with hidden action in a lab-in-the-field experiment with residents of an informal housing area in Cairo. Our results show that trust is higher among friends than among strangers and that higher trust among friends is related to the principal's belief of trustworthiness. However, on average a principal underestimates her friend's trustworthiness leading to inefficient outcomes. Our findings suggest that even within a social network, trade may often be limited to exchanges with few information asymmetries.

Fiscal decentralization, endogenous policies, and foreign direct investment: Theory and evidence from China and India

- Journal of Development Economics---2013---Yong Wang

A political-economy model is developed to explain why fiscal decentralization may have a non-monotonic effect on FDI inflows through endogenous policies. Too much fiscal decentralization hurts central government incentives, whereas too little fiscal decentralization renders the local governments vulnerable to capture by the protectionist special interest groups. Moreover, the local government's preference for FDI can be endogenously polarized; therefore, a small change in fiscal decentralization across certain threshold values may lead to a dramatic difference in equilibrium FDI inflows. Empirical investigations support the idea that the difference in fiscal decentralization is an important reason for the nine-fold difference in FDI per capita between China and India. Cross-country regression results also support the inverted-U relationship.

Contracting institutions and ownership structure in international joint ventures

- Journal of Development Economics---2013---Ari Van Assche,Galina A. Schwartz

This paper examines the role of contracting institutions on a multinational firm's optimal ownership strategy. We develop a model in which both a multinational firm and its local joint venture partner can ex post engage in costly rent-seeking actions to increase their ex ante agreed upon revenue share. We show that the host country's level of contract enforcement and level of judicial favoritism affect the parties' incentives to contribute to the international joint venture. The model allows us to identify testable hypotheses relating these institutional features with the performance and optimal ownership structure of international joint ventures.

Geography, non-homotheticity, and industrialization: A quantitative analysis

- Journal of Development Economics---2013---Holger Breinlich,Alejandro Cunat

We propose a quantitative framework for the analysis of industrialization in which specialization in manufacturing or agriculture is driven by comparative advantage and non-homothetic preferences. Countries are integrated through trade but trade is not costless and geographic position matters. We use a number of analytical examples and a multi-country calibration to explain two important empirical regularities: (i) there is a strong positive correlation between proximity to large markets and levels of manufacturing activity; (ii) there is a positive correlation between the ratio of agricultural to manufacturing productivity and shares of manufacturing in GDP. Our calibrated model replicates these facts and also provides a better fit to cross-sectional data on manufacturing shares than frameworks which ignore the role of trade costs or non-homotheticity. We use the calibrated model to quantitatively analyze the effect of increases in agricultural productivity and a further lowering of trade barriers.

Corruption and product market competition: An empirical investigation

- Journal of Development Economics---2013---Michael Alexeev,Yunah Song

We analyze the relationship between product market competition and corruption. The existing literature typically views corruption as extortion of "pre-existing" rents. This perspective suggests that competition usually reduces corruption, although generally the sign of this relationship is ambiguous. Shleifer and Vishny (1993), however, show that cost-reducing corruption is promoted by product market competition. That is, the effect of competition on corruption depends of the nature of corruption. Unlike the existing empirical studies that employ cross-country data and general measures of corruption, we test the competition–corruption relationship using firm-level information. Our approach overcomes significant estimation difficulties that result from relying on cross-country data; for instance, we include country fixed effects, and we deal with potential endogeneities by instrumenting competition with US capital–labor ratios for the appropriate industries. Contrary to the existing empirical work, we show that stronger product market competition is associated mostly with greater corruption of the cost-reducing variety.

The political economy of rural property rights and the persistence of the dual economy

- Journal of Development Economics---2013---Leopoldo Fergusson

Rural areas often have more than one regime of property rights and production. Large, private-property farms owned by powerful landowners coexist with subsistence peasants who farm small plots with limited property rights. At the same time, there is broad consensus that individual, well-specified and secure property rights over land improve economic outcomes. If property rights in land are so beneficial, why are they not adopted more widely? I put forward a theory according to which politically powerful landowners choose weak property rights to impoverish peasants and force them to work for low wages. Moreover, because weak property rights force peasants to stay in the rural sector protecting their property, the incentives to establish poor property rights are especially salient when peasants can migrate to an alternative sector, such as when urban wages increase with industrialization.

Understanding different migrant selection patterns in rural and urban Mexico

- Journal of Development Economics---2013---Jesús Fernández-Huertas Moraga

The productive characteristics of migrating individuals, emigrant selection, affect welfare. The empirical estimation of the degree of selection suffers from a lack of complete and nationally representative data. This paper uses a dataset that addresses both issues: the ENET (Mexican Labor Survey), which identifies emigrants right before they leave and allows a direct comparison to non-migrants. This dataset presents a relevant dichotomy: it shows negative selection for urban Mexican emigrants to the United States for the period 2000–2004 together with positive selection in Mexican emigration out of rural Mexico to the United States in the same period. Three theories that could explain this dichotomy are tested. Whereas higher skill prices in Mexico than in the US are enough to explain half of the negative selection result in urban Mexico, its combination with network effects and wealth constraints fully accounts for positive selection in rural Mexico.

Risk preferences and pesticide use by cotton farmers in China

- Journal of Development Economics---2013---Elaine Liu,Jikun Huang

Despite that insect-resistant Bt cotton has been lauded for its ability to reduce the use of pesticides, studies have shown that Chinese Bt cotton farmers continue to use excessive amounts of pesticides. Using results from a survey and an artefactual field experiment, we find that farmers who are more risk averse use greater quantities of pesticides. We also find that farmers who are more loss averse use lesser quantities of pesticides. This result is consistent with our conceptual framework and suggestive evidence where farmers behave in a loss averse manner in the health domain and place more weight on the importance of health over money in the loss domain.

Does a legal ban on sex-selective abortions improve child sex ratios? Evidence from a policy change in India

- Journal of Development Economics---2013---Arindam Nandi,Anil Deolalikar

Despite strong recent economic growth, gender inequality remains a major concern for India. This paper examines the effectiveness of a public policy geared towards the reduction of gender inequality. The national Pre-Conception and Pre-Natal Diagnostics Techniques (PNDT) Act of 1994, implemented in 1996, banned sex-selective abortions in India. Although demographers frequently mention the futility of the Act, we are among the first to evaluate the law using a treatment-effect analysis framework. Using village and town level longitudinal data from the 1991 and 2001 censuses, we find a significantly positive impact of the PNDT Act on female-to-male child sex ratio. Given the almost ubiquitous decline in the observed child sex ratio during this period, we argue that the law was successful in preventing any further worsening of the gender imbalance. We find that a possible absence of the law would have led to at least 106,000 fewer female children.

Absorbing a windfall of foreign exchange: Dutch disease dynamics

- Journal of Development Economics---2013---Frederick (Rick) van der Ploeg,Anthony Venables

The permanent income rule is seldom the optimal response to a windfall of foreign exchange, such as that from a resource discovery. Absorptive capacity constraints require domestic investment, and investment in structures requires non-traded inputs the supply of which is constrained by the initial capital stock. This, particularly when combined with intra-sectoral capital immobility, delays adjustment and creates short run 'Dutch disease' symptoms as the real exchange rate sharply appreciates and overshoots its long run value. Optimal revenue management requires investing in the domestic non-traded goods sector and a slow build up of consumption. Accumulation of foreign assets adjusts to accommodate the time-paths of domestic consumption and investment.

Language, ethnicity and intrafirm trade

- Journal of Development Economics---2013---Peter Debaere,Hongshik Lee,Joonhyung Lee

We study the significant variation in intrafirm versus arm's-length trade with micro data. Exploiting the fact that Korean is an uncommon second language and that Korean culture is relatively homogenous, we show how intrafirm sourcing by South Korean affiliates abroad increases with their share of South Korean employees. This positive association is pervasive and nontrivial. Parsing the data more carefully, we find that South Korean employees are primarily high skilled, and that their presence matters for internal trade, not for trade with South Korea per se. The share of South Koreans is also higher in affiliates from nonroutine sectors in host countries that are culturally distant from South Korea. Our empirical evidence thus supports especially Bergrstrand and Egger (2011)'s view of multinational in-house production for nonroutine activities that require adaptation and internal communication.

Fact or artifact: The impact of measurement errors on the farm size–productivity relationship

- Journal of Development Economics---2013---Calogero Carletto,Sara Savastano,Alberto Zezza

This paper revisits the role of land measurement error in the inverse farm size and productivity relationship (IR). By making use of data from a nationally representative household survey from Uganda, in which self-reported land size information is complemented by plot measurements collected using Global Position System (GPS) devices we reject the hypothesis that IR may just be a statistical artifact linked to problems with land measurement error. In particular, we explore: (i) what are the determinants of the bias in land measurement, (ii) how this bias varies systematically with plot size and landholding, and (iii) the extent to which land measurement error affects the relative advantage of smallholders implied by the IR. Our findings indicate that using an improved measure of land size strengthens the evidence in support of the existence of the IR.

Providing quality infrastructure in rural villages: The case of rural roads in China

- Journal of Development Economics---2013---Ho Lun Wong,Renfu Luo,Linxiu Zhang,Scott Rozelle

When seeking to build high quality and cost-effective infrastructure in rural villages, a fundamental question is: Who is better at doing so? Should the village leadership or a government agency above the village finance and/or manage the construction of the infrastructure project? To answer this question, we surveyed all rural road projects in 101 villages in rural China between 2003 and 2007 and measured the quality and per kilometer cost of each road. According to our analysis, road quality was higher when more of the project funds came from the government agency above. Moreover, projects had lower cost per kilometer when the village leaders managed the road construction. Overall, our findings suggest that to build high quality and cost-effective rural roads village leaders and government agencies should collaborate and each specialize in a specific project role.

A tale of two species: Revisiting the effect of registration reform on informal business owners in Mexico

- Journal of Development Economics---2013---Miriam Bruhn

Some argue that informal business owners are viable entrepreneurs who do not register due to complex regulation. Others claim that they are making a living while searching for a job. This paper suggests that a mix of both views is correct. I separate informal business owners into those who have characteristics similar to wage workers and to formal business owners and study the impact of a business registration reform in Mexico on these two species. Informal business owners from the wage worker species are less likely to register due to the reform, but more likely to become wage workers since the reform created jobs. Informal business owners from the formal business owner species are more likely to register, but only in municipalities with high pre-reform constraints to formal entrepreneurship. These results explain why Bruhn (2008, 2011) finds no effect of the reform for all informal business owners taken together.

Keep your friends close: The effect of local social networks on child human capital outcomes

- Journal of Development Economics---2013---Sarah Adelman

Social networks can affect demand for human capital investments by relaxing household time or budget constraints or by defining and reinforcing human capital preferences. However, empirically identifying the effect of social networks on human capital investment is usually problematic because households self-select their networks in ways that may be correlated with their abilities to make these investments. In Northern Ugandan Internally Displaced Persons Camps, networks were not entirely self-selected. Rebel activity, which forced households into camps in 2002, disrupted pre-existing social networks in ways that were exogenous to household human capital preferences. This paper uses the exogenous variation in network disruption to identify a positive impact of networks on children's long-term nutritional outcomes.

Ethnic cleansing or resource struggle in Darfur? An empirical analysis

- Journal of Development Economics---2013---Ola Olsson,Eyerusalem Siba

The conflict in Darfur has been described both as an ethnic cleansing campaign, carried out by the Sudanese government and its allied militias, and as a local struggle over dwindling natural resources between African farmers and Arab herders. In this paper, we use a previously unexploited data set to analyze the determinants of Janjaweed attacks on 530 civilian villages in

Southwestern Darfur during the campaign that started in 2003. Our results clearly indicate that attacks have been targeted at villages dominated by the major rebel tribes, resulting in a massive displacement of those populations. Resource variables, capturing access to water and land quality, also appear to have played an important role. These patterns suggest that attacks in the area were motivated by both ethnic cleansing and resource capture, although the ethnic variables consistently have a larger impact.

School markets: The impact of information approximating schools' effectiveness

- Journal of Development Economics---2013---Alejandra Mizala,Miguel Urquiola

The impact of competition on school performance is likely to depend on whether parents are informed about schools' effectiveness or value added (which may or may not be correlated with absolute measures of their quality), and on whether this information influences their school choices, thereby affecting schools' market outcomes. This paper explores this by considering Chile's SNED program, which seeks to identify effective schools, selecting them from "homogeneous groups" of comparable institutions. Its results are widely disseminated, and the information it generates is different from that conveyed by a simple test-based ranking of schools (which turns out to approximate a ranking based on socioeconomic status). We use a sharp regression discontinuity to estimate the effect that being identified as a SNED winner has on schools' enrollment, tuition levels, and socioeconomic composition. Through five applications of the program, we find no consistent evidence that winning a SNED award affects these outcomes.

Optimal fiscal policy and different degrees of access to international capital markets

- Journal of Development Economics---2013---Karlygash Kuralbayeva

Empirically, the cyclical pattern of fiscal policy differs between developed and developing countries, with in particular much greater pro-cyclicality and volatility of public investment in developing countries. In this paper I provide a theoretical explanation for the observed differences by analyzing optimal fiscal policy under different degrees of access to world capital markets. If the supply of foreign capital is elastic, as in a developed country, then it is optimal to adjust to an adverse external shock by borrowing from abroad to finance public expenditure and cutting taxes to smooth private consumption. If the supply of foreign capital is inelastic, however, as in a developing country, the optimal adjustment policy is to reduce public investment (by much more than public consumption) and to raise consumption taxes.

Test-Mex: Estimating the effects of school year length on student performance in Mexico

- Journal of Development Economics---2013---Jorge Agüero,Trinidad Beleche

Estimating the impact of changing school inputs on student performance is often difficult because these inputs are endogenously determined. We investigate a quasi-experiment that altered the number of instructional days prior to a nationwide test in Mexico. Our exogenous source of variation comes from across states and over time changes in the date when the school year started and the date when the test was administered. We find that having more days of instruction prior to examination slightly improves student performance but exhibits diminishing marginal returns. The effects vary along the distribution of resources as determined by a poverty index, with lower improvements in poorer schools. These findings imply a weaker net benefit of policies expanding the length of the school year as they could widen the achievement gap by socioeconomic status.

Have the poor always been less likely to migrate? Evidence from inheritance practices during the age of mass migration

- Journal of Development Economics---2013---Ran Abramitzky,Leah Boustan,Katherine Eriksson

Using novel data on 50,000 Norwegian men, we study the effect of wealth on the probability of internal or international migration during the Age of Mass Migration (1850–1913), a time when the US maintained an open border to European immigrants. We do so by exploiting variation in parental wealth and in expected inheritance by birth order, gender composition of siblings, and region. We find that wealth discouraged migration in this era, suggesting that the poor could be more likely to move if migration restrictions were lifted today. We discuss the implications of these historical findings to developing countries.

Brain drain and development traps

- Journal of Development Economics---2013---Jean-Pascal Bénassy,Elise Brezis

This paper links the two fields of "development traps" and "brain drain". We construct a model which integrates endogenous international migration into a simple growth model. As a result the dynamics of the economy can feature some underdevelopment traps: an economy starting with a low level of human capital can be caught in a vicious circle where low level of human capital leads to low wages, and low wages leads to emigration of valuable human capital. We also show that our model displays a rich array of different dynamic regimes, including the above traps, but other regimes as well, and we link explicitly the nature of the regimes to technology and policy parameters.

The Making of Modern America: Migratory Flows in the Age of Mass Migration

- Journal of Development Economics---2013---Oriana Bandiera,Imran Rasul,Martina Viarengo

We provide new estimates of migrant flows into and out of America during the Age of Mass Migration at the turn of the twentieth century. Our analysis is based on a novel data set of administrative records covering the universe of 24 million migrants who entered Ellis Island, New York between 1892 and 1924. We use these records to measure inflows into New York, and then scale-up these figures to estimate migrant inflows into America as a whole. Combining these flow estimates with census data on the stock of foreign-born in America in 1900, 1910 and 1920, we conduct a demographic accounting exercise to estimate out-migration rates in aggregate and for each nationality-age-gender cohort. This exercise overturns common wisdom on two fronts. First, we estimate flows into the US to be 20% and 170% higher than stated in official statistics for the 1900-10 and 1910-20 decades, respectively. Second, once mortality is accounted for, we estimate out-migration rates from the US to be around .6 for the 1900-10 decade and around .75 for the 1910-20. These figures are over twice as high as official estimates for each decade. That migration was effectively a two-way flow between the US and the sending countries has major implications for understanding the potential selection of immigrants that chose to permanently reside in the US, their impact on Americans in labor markets, and institutional change in America and sending countries.

Media exposure and internal migration — Evidence from Indonesia

- Journal of Development Economics---2013---Lídia Farré,Francesco Fasani

This paper investigates the impact of television on internal migration in Indonesia. We exploit the differential introduction of private television throughout the country and the variation in signal reception due to topography to estimate the causal effect of media exposure. Our estimates reveal important long and short run effects. An increase of one standard deviation in the number of private TV channels received in the area of residence as an adolescent reduces future inter-provincial migration by 1.7–2.7 percentage points, and all migration (inter and intra-provincial) by 3.9–6.8 percentage points. Short run effects are similar in magnitude. We also show that respondents less exposed to private television are more likely to consider themselves among the poorest groups in society. As we discuss in a stylized model of migration choice under imperfect information, these findings are consistent with Indonesian citizens over-estimating the net gains from internal migration when access to television is limited.

International migration, imperfect information, and brain drain

- Journal of Development Economics---2013---Vianney Dequiedt,Yves Zenou

We consider a model of international migration where skills of workers are imperfectly observed by firms in the host country and where information asymmetries are more severe for immigrants than for natives. Because of imperfect information, firms statistically dicriminate highly-skilled migrants by paying them at their expected productivity. The decision of whether to migrate or not depends on the proportion of highly-skilled workers among the migrants. The migration game exhibits strategic complementarities, which, because of standard coordination problems, lead to multiple equilibria. We characterize them and examine how international migration affects the income of individuals in sending and receiving countries, and of migrants themselves. We also analyze under which conditions there is positive or negative self-selection of migrants.

Multilateral resistance to migration

- Journal of Development Economics---2013---Simone Bertoli,Jesús Fernández-Huertas Moraga

The rate of migration observed between two countries does not depend solely on their relative attractiveness, but also on the one of alternative destinations. Following the trade literature, we term the influence exerted by other destinations on bilateral flows as Multilateral Resistance to Migration, and we show how it can be accounted for when estimating the determinants of migration rates in the context of a general individual random utility maximization model. We propose the use of the Common Correlated Effects estimator (Pesaran, 2006) and apply it to high-frequency data on the Spanish immigration boom between 1997 and 2009. Compared to more restrictive estimation strategies developed in the literature, the bias goes in the expected direction: we find a smaller effect of GDP per capita and a larger effect of migration policies on bilateral rates.

Wages and health worker retention: Evidence from public sector wage reforms in Ghana

- Journal of Development Economics---2013---James Antwi,David Phillips

Can governments in developing countries retain skilled health workers by raising public sector wages? We investigate this question using sudden, policy-induced wage variation in which the Government of Ghana restructured the pay scale for health workers employed by the government. We find that a 10% increase in wages decreases annual attrition from the public payroll by 1.0 percentage point (from a mean of 8 percentage points) among 20–35year-old workers from professions that tend to migrate. As a result, the ten-year survival probability for these health workers increases from 0.43 to 0.49. The effects are concentrated among these young workers, and we do not detect effects for older workers or among categories of workers that do not tend to migrate. Given that Ghana was a major source of skilled health professional migrants during this period and that our attrition measure correlates strongly with aggregate migration, we interpret these results as evidence that wage increases in Ghana improved retention mainly through reducing international migration.

A land of milk and honey with streets paved with gold: Do emigrants have over-optimistic expectations about incomes abroad?

- Journal of Development Economics---2013---David McKenzie,John Gibson,Steven Stillman

Millions of people emigrate every year in search of better opportunities. Anecdotes of emigrants with over-optimistic expectations about the incomes they can earn abroad suggest excessive migration pressure. Yet there is almost no statistical evidence on how accurately emigrants predict the incomes that they will earn working abroad. In this paper, we combine a natural emigration experiment with unique survey data on would-be emigrants' probabilistic expectations about employment and incomes in the migration destination. Our procedure enables us to obtain moments and quantiles of the subjective distribution of expected earnings in the destination country. We find significant under-estimation of both unconditional and conditional labor earnings at all points in the distribution for males, but reasonably accurate expectations for females. This under-estimation appears driven in part by inaccurate information flows from extended family, by basing expectations on older cohorts, and by differences in the gender wage premium between source and origin countries.

Monetary and exchange rate policy under remittance fluctuations

- Journal of Development Economics---2013---Federico Mandelman

Using data for the Philippines, I develop and estimate a heterogeneous agent model to analyze the role of monetary policy in a small open economy subject to sizable remittance fluctuations. I include "rule-of-thumb" households with no access to financial markets and test whether remittances are countercyclical and serve as an insurance mechanism against macroeconomic shocks. When evaluating the welfare implications of alternative monetary rules, I consider both an anticipated large secular increase in the trend growth of remittances and random cyclical fluctuations around this trend. In a purely deterministic framework, a nominal fixed exchange rate regime avoids a rapid real appreciation and performs better for recipient households facing an increasing trend for remittances. A flexible floating regime is preferred when unanticipated shocks driving the business cycle are also part of the picture.

Migration networks as a response to financial constraints: Onset, and endogenous dynamics

- Journal of Development Economics---2013---Oded Stark,Marcin Jakubek

A migration network is modeled as a mutually beneficial cooperative agreement between financially-constrained individuals who seek to finance and expedite their migration. The cooperation agreement creates a network: "established" migrants contract to support the subsequent migration of others in exchange for receiving support themselves. When the model is expanded to study cooperation between more than two migrants, it emerges that there is a finite optimal size of the migration network. Consequently, would-be migrants in the sending country will form a multitude of networks, rather than a single grand network.

Funding microfinance under asymmetric information

- Journal of Development Economics---2013---Suman Ghosh,Eric Van Tassel

We consider a model where poverty minimizing donors fund microfinance lenders that are heterogeneous in cost. Under asymmetric information the donors face a choice whether to issue grants or to charge the lenders for funds. While charging for funds leads to higher interest rates, a higher rate can induce separation by squeezing the higher cost lenders. Whether separation is good for aggregate poverty reduction or not depends on the quantity of supply of funds. When the supply is small grants are best, but when the supply is large enough it is better that lenders pay for external funding.

Primary commodity prices: Co-movements, common factors and fundamentals

- Journal of Development Economics---2013---Joseph Byrne,Giorgio Fazio,Norbert Fiess

The behavior of commodities is critical for developing and developed countries alike. This paper contributes to the empirical evidence on the co-movement and determinants of commodity prices. Using nonstationary panel methods, we document a statistically significant degree of co-movement due to a common factor. Within a Factor Augmented VAR approach, real interest rate and uncertainty, as postulated by a simple asset pricing model, are both found to be negatively related to this common factor. This evidence is robust to the inclusion of demand and supply shocks, which both positively impact on the co-movement of commodity prices.

Political violence and social networks: Experimental evidence from a Nigerian election

- Journal of Development Economics---2013---Marcel Fafchamps,Pedro Vicente

Voter education campaigns often aim to increase political participation and accountability. We followed a randomized campaign against electoral violence sponsored by an international NGO during the 2007 Nigerian elections. This paper investigates whether the effects of the campaign were transmitted indirectly through kinship, chatting, and geographical proximity. For individuals personally targeted by campaigners, we estimate the reinforcement effect of proximity to other targeted individuals. For individuals who self-report to be untargeted by campaigners, we estimate the diffusion of the campaign depending on proximity to targeted individuals. We find evidence for both effects, particularly on perceptions of violence. Effects are large in magnitude — often similar to the average effect of the campaign. Kinship is the strongest channel of reinforcement and diffusion. We also find that geographical proximity transmits simple effects on perceptions, and that chatting conveys more complex effects on behavior.

The one-child policy: A macroeconomic analysis

- Journal of Development Economics---2013---Pei-Ju Liao

This paper studies the effects of China's one-child policy. Using a calibrated general-equilibrium model, a benchmark with a fertility constraint in place is compared to a counterfactual experiment without the fertility constraint. The results indicate that the implementation of the one-child policy promotes the accumulation of human capital and increases per capita output. In addition, the policy leads to different welfare effects across generations and skill groups. The initial generation would benefit from relaxing the one-child policy, but the following generations would be hurt. A redistribution effect between skilled and unskilled workers is also observed. These findings demonstrate that focusing solely on GDP per capita as a measure of economic well-being paints an incomplete picture of the welfare consequences of population policies.

Development (paradigm) failures

- Journal of Development Economics---2013---Roland Hodler,Axel Dreher

Over time, the international development community has advocated various development paradigms, but countries following these paradigms have often performed poorly. We provide an explanation for this poor performance. In our model, the political leader of a developing country chooses a policy and whether to implement it in an honest or corrupt manner. These choices affect domestic production and aid inflows. Production is high when productive capacity is high, and when the policy is appropriate in the country-specific circumstances and implemented honestly. Aid inflows are high when the policy is close to the paradigm. In equilibrium, countries with low productive capacity and high corruption resulting from weak political institutions follow the paradigm more closely. Hence, our model suggests that development paradigms have a tendency to fail because they are primarily followed by countries that would fail anyway. We provide empirical evidence in support of the main assumptions and results.

Crossing the border: Self-selection, earnings and individual migration decisions

- Journal of Development Economics---2013---Simone Bertoli,Jesús Fernández-Huertas Moraga,Francesc Ortega

We analyze an international migration episode for which we are able to gather individual-level data covering all relevant countries, namely the exodus of Ecuadorians to Spain and the US in the aftermath of the economic collapse of 1999. Specifically, we produce selection-corrected predictions of counterfactual individual earnings and use them to estimate a discrete-choice migration equation that allows for correlated errors across destinations and a rich structure of migration costs. We find that earnings significantly shape individual migration decisions, even in an episode in which Ecuadorians mostly chose Spain where earnings were lower than in the US, and they contribute to explaining the observed composition of migration flows. Moreover, our estimates show that changes in earnings at a particular destination have a larger effect on destination choice conditional on migration than on the scale of migration.

Effective labor regulation and microeconomic flexibility

- Journal of Development Economics---2013---Ricardo Caballero,Kevin Cowan,Eduardo Engel,Alejandro Micco

Microeconomic flexibility is at the core of economic growth in modern market economies because it facilitates the process of creative-destruction. The main reason why this process is not infinitely fast, is the presence of adjustment costs, some of them technological, others institutional. Chief among the latter is labor market regulation. While few economists object to the hypothesis that labor market regulation hinders the process of creative-destruction, its empirical support is limited. In this paper we revisit this hypothesis, using a new sectoral panel for 60 countries and a methodology suitable for such a panel. We find that job security regulation clearly hampers the creative-destruction process, especially in countries where regulations are likely to be enforced. Moving from the 20th to the 80th percentile in job security, in countries with strong rule of law, cuts the annual speed of adjustment to shocks by a third while shaving off about 1% from annual productivity growth. The same movement has negligible effects in countries with weak rule of law.

Macro-hedging for commodity exporters

- Journal of Development Economics---2013---Eduardo Borensztein,Olivier Jeanne,Damiano Sandri

This paper uses a dynamic optimization model to quantify the potential welfare gains of hedging against commodity price risk for commodity-exporting countries. We show that hedging enhances domestic welfare through two channels: first, by reducing export income volatility; and second, by reducing the country's need to hold precautionary reserves and improving the country's ability to borrow against future export income. Under plausible calibrations of the model, the second channel may lead to much larger welfare gains, amounting to several percentage points of annual consumption.

International migration, imperfect information, and brain drain

- Journal of Development Economics---2013---Vianney Dequiedt,Yves Zenou

2013

The economic impact of Special Economic Zones: Evidence from Chinese municipalities

- Journal of Development Economics---2013---Jin Wang

The paper exploits a unique Chinese municipal dataset to assess the impact of Special Economic Zones on the local economy. Comparing the changes between the municipalities that created a SEZ in earlier rounds and those in later waves, I find that the SEZ program increases foreign direct investment not merely through firm relocation, and does not crowd out domestic investment. With dense investment in the targeted municipality the SEZ achieves agglomeration economies and generates wage increases for workers more than the increase in the local cost of living. The effects are heterogeneous: for zones created later the benefits are smaller while the distortions in firm location behavior are larger than those for the early zones. Municipalities with multiple SEZs experience larger effects than those with only one SEZ.

Education's role in China's structural transformation

- Journal of Development Economics---2013---Soohyung Lee,Benjamin Malin

We explore education's role in improving the allocation of labor between China's agricultural and nonagricultural sectors and measure the portion of China's recent growth attributable to this channel. Using detailed micro-level data and an empirical model that allows for the endogenous selection of education and sector of employment, we estimate the relationship between an individual's educational attainment, sector, and income. We find that about 11% of aggregate growth in output per worker from 1978 to 2004 is accounted for by increased education, with 9% coming through the labor-reallocation channel and 2% attributable to increased within-sector human capital.

Financial development and the underground economy

- Journal of Development Economics---2013---Salvatore Capasso,Tullio Jappelli

We provide a theoretical and empirical study of the relation between financial development and the size of the underground economy. In our theoretical framework agents allocate investment between a low-return technology which can be operated with internal funds, and a high-return technology which requires external finance. Firms can reduce the cost of funding by disclosing part or all of their assets and pledging them as collateral. The disclosure decision, however, also involves higher tax payments and reduces tax evasion. We show that financial development (a reduction in the cost of external finance) can reduce tax evasion and the size of the underground economy. We test the main implications of the model using Italian microeconomic data that allow us to construct a micro-based index of the underground economy. In line with the model's predictions, we find that local financial development is associated with a smaller size of the underground economy, controlling for the potential endogeneity of financial development and other determinants of the underground economy.

Limits of floating exchange rates: The role of foreign currency debt and import structure

- Journal of Development Economics---2013---Pascal Towbin,Sebastian Weber

A traditional argument in favor of flexible exchange rates is that they insulate output better from real shocks, because the exchange rate can adjust and stabilize demand for domestic goods through expenditure switching. This argument is weakened in models with high foreign currency debt and low exchange rate pass-through to import prices. The present study evaluates the empirical relevance of these two factors. We analyze the transmission of real external shocks to the domestic economy under fixed and flexible exchange rate regimes for a broad sample of countries in a Panel VAR and let the responses vary with foreign currency debt and import structure. We find that flexible exchange rates do not insulate output better from external shocks if the country imports mainly low pass-through goods and foreign indebtedness is high.

Are poor people credit-constrained or myopic? Evidence from a South African panel

- Journal of Development Economics---2013---Erlend Berg

Credit constraints are an almost ubiquitous assumption in development economics. Yet direct evidence for credit constraints is limited, and many observations consistent with credit constraints are equally compatible with myopic (non-forward-looking) consumption or precautionary saving. Using household panel data and a source of widely anticipated income in South Africa, this paper tests and rejects the standard consumption model with perfect capital markets. Then, myopic consumption and precautionary saving are tested as alternative explanations for the observed jumps in expenditure. The standard model with credit constraints cannot be rejected in favour of myopic consumption or precautionary saving.

Oligarchic land ownership, entrepreneurship, and economic development

- Journal of Development Economics---2013---Josef Falkinger,Volker Grossmann

This paper develops a theory in which oligarchic ownership of land or other natural resources may impede entrepreneurship in the manufacturing sector and may thereby retard structural change and economic development. We show that, due to oligopsony power of owners in the agricultural labor market, higher ownership concentration depresses entrepreneurial investments by landless, credit-constrained households, whose investment possibilities depend on the income earned in the primary sector. We discuss historical evidence from Latin America, India, Taiwan and South Korea which supports our theory.

Growth networks

- Journal of Development Economics---2013---Raja Kali,Javier Reyes,Joshua McGee,Stuart Shirrell

We map the relationship between products in global trade and the products a country exports as a network to devise a measure of the density of links between the products in a country's export basket and a measure of network proximity from a country's export basket to products that a country does not export. The density measure is a proxy for synergies between the products in a country's export basket. The network proximity measure is an indicator of how difficult it is likely to be for a given country to move from its current product specialization to new products. We find that density and network proximity are together of importance for a poor country to move to higher income products and experience higher growth rates. Higher network proximity is associated with a greater likelihood of experiencing growth acceleration, but the positive effect of density tapers off at higher values.

Tribal heterogeneity and the allocation of publicly provided goods: Evidence from Yemen

- Journal of Development Economics---2013---Daniel Egel

This paper examines how tribes, the dominant political structure in rural areas of many developing countries, can affect the allocation of publicly provided goods. I create a dataset containing more than 4000 unique Yemeni local tribes and study their relationship with the public provision of educational goods. I demonstrate that areas with greater tribal heterogeneity receive larger allocations of publicly provided teachers and classrooms; I find evidence that this result reflects tribes' roles in influencing both political patronage from the state and targeted development transfers from development donors. This result, while different from most previous studies, reflects the nature of the publicly provided good being studied which is locally excludable precisely along the local tribal lines used for calculating heterogeneity. These results may offer generalizable insight into a variety of other developing country contexts where access to publicly provided goods is controlled or influenced by local groups.

Fear of appreciation

- Journal of Development Economics---2013---Eduardo Levy-Yeyati,Federico Sturzenegger,Pablo Gluzmann,Eduardo Levy Yeyati

In recent years, the term "fear of floating" has been used to describe exchange rate regimes that, while officially flexible, in practice intervene heavily to avoid sudden or large depreciations. However, the data reveals that in most cases (and increasingly so in the 2000s) intervention has been aimed at limiting appreciations rather than depreciations, often motivated by the neo-mercantilist view of a depreciated real exchange rate as protection for domestic industries. As a first step to address the broader question of whether this view delivers on its promise, we examine whether this "fear of appreciation" has a positive impact on growth performance in developing economies. We show that depreciated exchange rates indeed lead to higher growth, but that the effect, rather than through import substitution or export booms as argued by the mercantilist view, works largely through the deepening of domestic savings and capital accumulation.

The Dutch disease and the technological gap

- Journal of Development Economics---2013---Reda Cherif

I present a theory explaining why less technologically advanced countries could be more vulnerable to the Dutch disease. In a bilateral trade model with monopolistic competition and increasing returns to scale, the extent of the crowding-out in the tradable sector depends positively on an interaction between the amount of revenues from natural resources' exports and the productivity gap vis-à-vis the trade partners. With learning-by-doing, the mechanism is self-reinforcing leading to a productivity divergence pattern. The predictions of the model are consistent with cross-country empirical evidence.

Boom–bust cycle, asymmetrical fiscal response and the Dutch disease

- Journal of Development Economics---2013---Rabah Arezki,Kareem Ismail

This paper investigates the changes in expenditure policy in oil-exporting countries during boom–bust in commodity price cycles, and their implications for real exchange rate movements. To do so, we introduce a Dutch disease model with downward rigidities in government spending to revenue shocks. This model leads to a decoupling between real exchange rate and commodity export price movement during busts. We test our model's theoretical predictions and underlying assumptions using panel data for 32 oil-exporting countries over the period 1992 to 2009. Results are threefold. First, we find that changes in current spending have a stronger impact on real exchange rate compared to capital spending. Second, we find that current spending is downwardly sticky, but increases in boom time, and conversely for capital spending. Third, we find limited evidence that fiscal rules have helped reduce the degree of responsiveness of current spending during booms. In contrast, we find evidence that fiscal rules are associated with a significant reduction in capital expenditure during busts while responsiveness to booms is more muted. This raises concerns on potential adverse consequences of this asymmetry on economic performance in oil-exporting countries.

Endogenous emergence of credit markets: Contracting in response to a new technology in Ghana

- Journal of Development Economics---2013---Rahul Deb,Tavneet Suri

Access to credit is important for the productivity and overall welfare of farmers in developing countries. We present a theoretical framework which shows that a change in the mode of shipping (from air to sea) in the Ghanaian pineapple industry made it profitable for pineapple exporters to provide myopic farmers with both in-kind loans (to improve productivity) and cash loans (for consumption smoothing) despite being unable to monitor farmers or enforce repayment. The innovative theoretical result is that providing farmers with additional cash loans can enforce greater input use without compromising repayment. We provide evidence in the form of a case study documenting the dramatic rise of informal credit (through contract farming) after the switch to sea-freight between 1996 and 2001. Using this anecdote, we argue that credit arrangements can arise spontaneously, absent non-market interventions to meet market needs even in the absence of proper legal protections for creditors.

Success and failure of African exporters

- Journal of Development Economics---2013---Olivier Cadot,Leonardo Iacovone,Martha Denisse Pierola,Ferdinand Rauch

Using a new dataset with transaction-level export data from four African countries (Malawi, Mali, Senegal and Tanzania), this paper explores the determinants of success upon entry into export markets, defined as survival beyond the first year at the firm-product-destination level. We find that the probability of success rises with the number of same-country firms exporting the same product to the same destination, suggesting the existence of cross-firm externalities. We explore several conjectures on the determinants of these externalities and provide evidence suggestive of information spillovers, possibly mediated through the banking system.

Spatial spillovers in the development of institutions

- Journal of Development Economics---2013---Harry H. Kelejian,Peter Murrell,Oleksandr Shepotylo

We examine spatial spillovers in institutional development. Dependent variables are institutional measures reflecting politics, law, and governmental administration. The explanatory variable of interest is the level of institutions in bordering countries—a spatial lag of the dependent variable. Our spatial model directly leads to the identification strategy for the endogenous spatial lag. We implement new results in spatial econometrics to counter missing-data problems usually rife in spatial empirics. Spatial institutional spillovers are statistically significant and economically important. A counter-factual exercise – the non-existence of the USSR – reveals large direct and indirect spillovers. Numerous robustness exercises bolster conclusions, including yearly cross-section regressions, fixed effects estimates, and adding many extra explanatory variables. Moreover, we provide a new theoretical result showing the robustness of estimates in the presence of omitted variables. We extend the core model, allowing different effects for better and worse neighbors, using inverse distance weights, estimating the spatial-Durbin model, and using Polity's institutional measure.

Aid and donor trust in recipient country systems

- Journal of Development Economics---2013---Stephen Knack

The 2005 Paris Declaration on Aid Effectiveness sets targets for increased use by donors of recipient country systems for managing aid. The target is premised on a view that country systems are strengthened when donors trust recipients to manage aid funds, but undermined when donors manage aid through their own separate parallel systems. This study provides an analytical framework for understanding donors' decisions to trust or bypass country systems. Empirical tests are conducted using data from three OECD-DAC surveys designed to monitor progress toward Paris Declaration goals. Tests show that use of recipient country systems is positively related to (1) the donor's reputational stake in the country's development, as proxied by the donor's share of aid provided to the recipient; (2) the trustworthiness or quality of those systems, as measured by cross-country corruption indicators; and (3) donors' risk tolerance, as proxied by public support for aid provision in donor countries. Findings are robust to corrections for potential sample selection, omitted variables or endogeneity bias.

Identifying non-cooperative behavior among spouses: Child outcomes in migrant-sending households

- Journal of Development Economics---2013---Joyce Chen

I propose a model of household decision-making under asymmetric information and show that resulting allocations may not be fully cooperative. The model yields a simple test for cooperative decision-making, which I apply to data from China. I find that, when the father migrates without his family, children spend more time in household production, while mothers spend less time in both household production and income-generating activities. This is not consistent with standard cooperative models of the household: simply reallocating time to compensate for the father's absence would cause an increase in household labor for both children and mothers and, if migration occurs in response to a negative shock, we should observe an increase in mothers' time in income-generating activities rather than a reduction. The results also do not appear to be driven by an increase in mothers' bargaining power, as children's human capital is not affected by migration, controlling for income.

The pollution terms of trade and its five components

- Journal of Development Economics---2013---Jean-Marie Grether,Nicole Mathys

Based on two extensions, this paper proposes a reappraisal of the concept of the pollution terms of trade (PTT) introduced by Antweiler (1996). First, detailed data allows capturing the effect of differences in emission intensities across countries and over time. Second, relying on Johnson and Noguera (2012), the revised PTT index controls for trade in intermediate goods and is based on value-added rather than gross output figures. Applied to a database for SO2 emission intensities for 62 developed and developing countries over the 1990–2000 period, it turns out that the first extension has a larger empirical importance than the second one. The global pattern is one in which the major rich economies exhibit a PTT index below one (higher pollution intensity in imports than in exports). Trade imbalances tend to exacerbate this asymmetry, allowing rich economies to further offshore their pollution through trade.

On graduation from fiscal procyclicality

- Journal of Development Economics---2013---Jeffrey Frankel,Carlos Vegh,Guillermo Vuletin

In the past, industrial countries have tended to pursue countercyclical or, at worst, acyclical fiscal policy. In sharp contrast, emerging and developing countries have followed procyclical fiscal policy, thus exacerbating the underlying business cycle. We show that, over the last decade, about a third of the developing world has been able to escape the procyclicality trap and actually become countercyclical. We then focus on the role played by the quality of institutions, which appears to be a key determinant of a country's ability to graduate. We show that, even after controlling for the endogeneity of institutions and other determinants of fiscal procyclicality, there is a causal link running from stronger institutions to less procyclical or more countercyclical fiscal policy.

Can minimum wages cause a big push? Evidence from Indonesia

- Journal of Development Economics---2013---Jeremy Magruder

Big Push models suggest that local product demand can create multiple labor market equilibria: one featuring high wages, formalization, and high demand and one with low wages, informality, and low demand. I demonstrate that minimum wages may coordinate development at the high wage equilibrium. Using data from 1990s Indonesia, where minimum wages increased in a varied way, I develop a difference in spatial differences estimator which weakens the common trend assumption of difference in differences. Estimation reveals strong trends in support of a big push: formal employment increases and informal employment decreases in response to the minimum wage. Local product demand also increases, and this formalization occurs only in the non-tradable, industrializable industries suggested by the model (while employment in tradable and non-industrializable industries also conforms to model predictions).

Conspicuous consumption and "race": Evidence from South Africa

- Journal of Development Economics---2013---Wolfhard Kaus

A century ago, Thorstein Veblen introduced socially contingent consumption into the economic literature. This paper complements the scarce empirical literature by testing his conjecture on South African household data and finds that Black and Coloured households spend relatively more on visible consumption than comparable White households. Following the approach of Charles et al. (2009), this paper explores whether the differences in visible expenditures can be explained with a signaling model of status seeking. Moreover, it is assessed to which extent positional concerns motivate conspicuous consumption. Although the socially contingent share in visible consumption increases with income, different incentives to consume conspicuously seem to explain that, at every level of income, Black households spend relatively more on visible consumption than comparable White households. In contrast to the findings of Charles et al. (2009) where differential spending on conspicuous consumption can be found also within each group separately, the model's core hypothesis fails to hold within the group of White South Africans.

Growth under exchange rate volatility: Does access to foreign or domestic equity markets matter?

- Journal of Development Economics---2013---Firat Demir

Employing a firm-level dataset, this paper explores the effects of exchange rate volatility on the growth performances of domestic versus foreign, and publicly traded versus non-traded private manufacturing firms in a major developing country, Turkey. The empirical results using dynamic panel data estimation techniques and comprehensive robustness tests suggest that exchange rate volatility has a significant growth reducing effect on manufacturing firms. However, having access to foreign, and to a lesser degree, domestic equity markets is found to reduce these negative effects at significant levels. These findings continue to hold after controlling for firm heterogeneity due to differences in export orientation, external indebtedness, profitability, productivity, size, industrial characteristics, and time-variant institutional changes.

Oil and political survival

- Journal of Development Economics---2013---Jørgen Andersen,Silje Aslaksen

Political economy theories on the "natural resource curse" predict that natural resource wealth is a determining factor for the length of time political leaderships remain in office. Whether resource wealth leads to longer or shorter durations in political office depends on the political incentives created by the natural resources, which in turn depend on the types of institutions and natural resource. Exploiting a sample of more than 600 political leadership durations in up to 152 countries, we find that both institutions and resource types matter for the effect that natural resource wealth has on political survival: (i) wealth derived from natural resources affects political survival in intermediate and autocratic, but not in democratic, polities; and (ii) while oil and non-lootable diamonds are associated with positive effects on the duration in political office, minerals are associated with negative duration effects.

The effect of the Israeli–Palestinian conflict on child labor and school attendance in the West Bank

- Journal of Development Economics---2013---Michele Di Maio,Tushar Nandi

In this paper we analyze the impact of the Israeli–Palestinian conflict on child labor and school attendance of Palestinian children in the West Bank between the beginning of the Al-Aqsa Intifada (September 2000) and the end of 2006. In particular, we investigate the effects, on children' s status, of number of days Israel closed its border with Palestinian Territories. We find that an increase in the number of closure days increases child labor while it (weakly) reduces school attendance in the West Bank. We provide evidence on different mechanisms that possibly account for these results.

Committing to transparency to resist corruption

- Journal of Development Economics---2013---Frederic Koessler,Ariane Lambert-Mogiliansky

This paper studies firms' incentives to commit to transparent behavior in a competitive procedure modeled as an asymmetric information beauty contest managed by a corrupt agent. In his evaluation of firms' offers for a public contract the agent has some discretion to favor a firm in exchange for a bribe. While unilateral commitment to transparency is never incentive compatible, under some circumstances a voluntary but conditional commitment mechanism can eliminate corruption. A low quality firm may prefer not to commit only when the agent's discretion is strong and the market's profitability is small. In that situation, the high quality firms commit when commitment decisions are kept secret, but some conditions on firms' beliefs are required when commitment decisions are publicly announced. A mechanism combining both conditionality and a reward (a transparent selection advantage that needs not be large) allows complete elimination of corruption.

Troubling tradeoffs in the Human Development Index

- Journal of Development Economics---2012---Martin Ravallion

The 20th Human Development Report introduced a new version of its famous Human Development Index (HDI), which aggregates country-level attainments in life expectancy, schooling and income. The main change was to relax the past assumption of perfect substitutability between its components. Most users will not, however, realize that the new HDI has also greatly reduced its implicit weight on longevity in poor countries, relative to rich ones. By contrast, the new HDI's valuations of extra schooling are now very high —many times the economic returns. An alternative index is proposed that embodies less troubling tradeoffs while still allowing imperfect substitution.

Beyond baseline and follow-up: The case for more T in experiments

- Journal of Development Economics---2012---David McKenzie

The vast majority of randomized experiments in economics rely on a single baseline and single follow-up survey. While such a design is suitable for study of highly autocorrelated and relatively precisely measured outcomes in the health and education domains, it is unlikely to be optimal for measuring noisy and relatively less autocorrelated outcomes such as business profits, and household incomes and expenditures. Taking multiple measurements of such outcomes at relatively short intervals allows one to average out noise, increasing power. When the outcomes have low autocorrelation and budget is limited, it can make sense to do no baseline at all. Moreover, I show how for such outcomes, more power can be achieved with multiple follow-ups than allocating the same total sample size over a single follow-up and baseline. I also highlight the large gains in power from ANCOVA analysis rather than difference-in-differences analysis when autocorrelations are low.

State-led or market-led green revolution? Role of private irrigation investment vis-a-vis local government programs in West Bengal's farm productivity growth

- Journal of Development Economics---2012---Pranab Bardhan,Dilip Mookherjee,Neha Kumar

We estimate the role of private investments in irrigation in farm productivity growth in West Bengal, India between 1982 and 95. Using a state-wide farm panel, we find that falling groundwater costs generated significant growth in value added per acre for farms. These resulted from investments in minor irrigation which was stimulated by tenancy registration programs implemented by local governments. This helps account for substantial spillover effects of the tenancy reform on non-tenant farms noted in an earlier study. Hence the West Bengal Green Revolution of the 1980s benefited from complementarity between private investment incentives and state-led institutional reforms.

Going digital: Credit effects of land registry computerization in India

- Journal of Development Economics---2012---Klaus Deininger,Aparajita Goyal

By improving access, without altering the underlying information, computerization of land registration provides a unique case to test for credit supply effects of improved land administration that have often been elusive in the literature. We exploit the variation in the timing of the shift from manual to digital operation of Andhra Pradesh's 387 subregistry offices during the state-wide rollout of this intervention between 1999 and 2005. Administrative data on credit disbursed and registered land transactions from 1995 to 2007 point to significant, though quantitatively modest, increases in credit access in urban but not rural areas. Institutional factors allow us to explain these results.

Implications of military stabilization efforts on economic development and security: The case of Iraq

- Journal of Development Economics---2012---Jomana Amara

The United States used a combination of economic, political, and military means to effect change in Iraq. Most notably, the United States used a buildup of security forces, the “surge”, as an intervention to stabilize Iraq. This article uses structural change tests to determine the effect of the intervention on security and economic metrics of success. There appears to be compelling evidence that several events may have had a direct influence on security variables with the surge being one of the events. There is little to suggest that the surge was the primary intervention that enhanced economic development and political order.

Consumption versus asset smoothing: testing the implications of poverty trap theory in Burkina Faso

- Journal of Development Economics---2012---Michael Carter,Travis Lybbert

Despite solid theoretical foundations for the notion that poor, borrowing-constrained households will intertemporally manage assets to smooth consumption, the consumption-smoothing hypothesis has not always withstood empirical scrutiny. This paper reassesses the intertemporal asset management problem with a poverty trap model and shows that we would expect to see asset smoothing, not consumption smoothing, in the neighborhood of critical asset levels at which optimal accumulation behavior bifurcates. We then employ threshold estimation techniques to empirically confirm the co-existence of consumption and asset smoothing regimes using a household panel data set from West Africa. Households above the estimated threshold almost completely insulate their consumption from weather shocks, whereas those below the threshold do not. These results not only indirectly provide evidence of the existence of poverty traps but also speak to the level and incidence of the costs of uninsured risk.

Tariff pass-through and the distributional effects of trade liberalization

- Journal of Development Economics---2012---Beyza Ural Marchand

This paper estimates the distribution of welfare gains due to the trade reforms in India by simultaneously considering the effect on prices of tradable goods and wages. The cost of consumption for each household is affected by the domestic price changes, while wage incomes adjust to these price changes in equilibrium. Three rounds of the Indian Employment and Consumption Surveys are used for the analysis. The price transmission mechanisms are estimated for both rural and urban areas to understand the extent to which the trade reforms are able to affect the domestic prices. In order to assess the distributional effects, a series of nonparametric local linear regressions are estimated. The findings show that households at all per capita expenditure levels had experienced gains as a result of the trade liberalization, while the average effect was generally pro-poor and varied significantly across the per capita expenditure spectrum.

Mutual supervision in preshipment inspection programs

- Journal of Development Economics---2012---Vianney Dequiedt,A.-M. Geourjon,G. Rota-Graziosi,Grégoire ROTA GRAZIOSI

Preshipment inspection (PSI) programmes are implemented in many developing countries to assist governments in the collection of revenue at their borders. These programs consist of the delegation of the inspection of imports to a private firm. To study these PSI programmes, we develop a hierarchical agency model in which the government authority can rely on two supervisors, namely the private inspection firm and the customs administration, to control importers’ declarations. The government’s optimal contract is fully characterized. We devote some attention to the inspection policy and its comparative statics properties. In particular, we identify the situations in which PSI programmes are revenue enhancing. We also discuss the reconciliation policy, i.e. what to do in case of conflicting inspection reports by the inspection firm and the customs administration. In the optimal mechanism, mutual supervision between the inspection firm and the customs administration is used to provide adequate incentives to all parties.

Long-term impact of investments in early schooling — Empirical evidence from rural Ethiopia

- Journal of Development Economics---2012---Subha Mani,John Hoddinott,John Strauss

We examine the cumulative impact of early schooling investments on later schooling outcomes using enrollment status and relative grade attainment as short-run and long-run measures of schooling. Using a child-level longitudinal data set from rural Ethiopia, we estimate a dynamic conditional schooling demand function where the coefficient estimate on the lagged dependent variable captures the impact of all previous period schooling inputs and resources. We find that a child who is enrolled in the prior period is 33 percentage points more likely to be enrolled currently. These lagged effects are stronger for girls and for children from higher income households.

HIV testing, subjective beliefs and economic behavior

- Journal of Development Economics---2012---Rebecca Thornton

This paper examines the effects of learning HIV status on economic behavior among rural Malawians. According to economic life-cycle models, if learning HIV results is informative about additional years of life, being diagnosed HIV-positive or negative should predict changes in consumption, investment and savings behavior with important micro and macro-economic implications. Using an experiment that randomly assigned incentives to learn HIV results, I find that while learning HIV results had short term effects on subjective belief of HIV infection, these differences did not persist after two years. Consistent with this, there were relatively few differences two years later in savings, income, expenditures, and employment between those who learned and did not learn their status.

The (hidden) costs of political instability: Evidence from Kenya's 2007 election crisis

- Journal of Development Economics---2012---Pascaline Dupas,Jonathan Robinson

This paper studies the microeconomic impacts of the political crisis and civil conflict that immediately followed the December 2007 presidential election in Kenya. Income, expenditures, and consumption dramatically declined for a broad segment of the rural population for the duration of the conflict. To make up for the income shortfall, women who supply transactional sex engaged in higher risk sex both during and after the crisis. While this particular crisis was likely too short for these behavioral responses to seriously increase the risk of HIV or other STIs for these women, such responses could have long-term repercussions for health in countries with longer or more frequent crises. Overall, our results suggest that social unrest can be an important channel through which political instability can affect long-term outcomes such as health.

Wars and child health: Evidence from the Eritrean–Ethiopian conflict

- Journal of Development Economics---2012---Richard Akresh,Leonardo Lucchetti,Harsha Thirumurthy

Conflict between and within countries can have lasting health and economic consequences, but identifying such effects can be empirically challenging. This paper uses household survey data from Eritrea to estimate the effect of exposure to the 1998–2000 Eritrea–Ethiopia war on children's health. The identification strategy exploits exogenous variation in the conflict's geographic extent and timing and the exposure of different birth cohorts to the fighting. The unique survey data include details on each household's migration history, which allows us to measure a child's geographic location during the war and without which war exposure would be incorrectly classified. War-exposed children have lower height-for-age Z-scores, with similar effects for children born before or during the war. Both boys and girls who are born during the war experience negative impacts due to conflict. Effects are robust to including region-specific time trends, alternative conflict exposure measures, and mother fixed effects.

A new measure of financial development: Theory leads measurement

- Journal of Development Economics---2012---John H. Boyd,Abu M. Jalal

This study presents a new measure of financial development that is directly derived from theory. Our measure, the Marginal Utilization of Debt (hereafter, MUD) comes from the seminal work of Myers (1984), Myers and Majluf (1984) and Shyam-Sunder and Myers (1999). Further, it is directly related to the development facts of Gurley and Shaw (1955). MUD is a global measure that reflects conditions in both debt and equity markets. It varies enormously across nations; from 0.23 in Australia at one extreme to 0.96 in Turkey at the other. Cross-country variations in MUD are not random; they are related to special-purpose measures of debt and equity market advancement from the financial development literature. Richer, more advanced nations have smaller average MUDs. We argue that the MUD may be useful for a variety of purposes and provide three example applications.

Currency substitution, inflation, and welfare

- Journal of Development Economics---2012---Hüseyin Özbilgin

Currency substitution affects the mapping between social welfare and inflation by altering the underlying money demand function and influencing interest rates. In order to explore the essence of this effect, I build a model with working capital under which foreign currency is substituted with the less liquid components of domestic money. The framework closely mimics the actual pattern of currency substitution across varying rates of inflation and enables the study of an additional channel that works through the impact of currency substitution on interest rates. It is found that there is a threshold inflation rate, which turns out to be 44% under baseline calibration, below which currency substitution decreases welfare and vice versa. A practical implication is that, at inflation rates lower (greater) than the threshold, the potential welfare gains from disinflation to a near-zero inflation rate are higher (lower) if there is currency substitution than otherwise.

Endogeneity and sample selection in a model for remittances

- Journal of Development Economics---2012---Giulia Bettin,Riccardo (Jack) Lucchetti,Alberto Zazzaro

We estimate a remittance model in which we address endogeneity and reverse causality relationships between immigrants' remittances, pre-transfer income and consumption. In order to take into account the fact that a large share of individuals do not remit, instrumental variable variants of the double-hurdle and Heckit selection models are proposed and estimated by Limited Information ML; semiparametric extensions are considered as robustness checks. Our results for a sample of recent immigrants to Australia show that endogeneity is substantial and that estimates obtained by the methods previously employed in the literature may be misleading if given a behavioral interpretation.

North–South technology transfer in unionised multinationals

- Journal of Development Economics---2012---Kjell Lommerud,Frode Meland,Odd Rune Straume

We study how incentives for North–South technology transfers in multinational enterprises are affected by labour market institutions. If workers are collectively organised, incentives for technology transfers are partly governed by firms' desire to curb trade union power. Higher union bargaining power in the North leads to more technology transfer along two different dimensions – skill upgrading of Southern workers and quality upgrading of products produced in the South

– possibly to the extent that the utility of Northern workers decline. Policies to raise the wage levels of Southern workers might spur technology transfer if wages are initially very low, but have a dampening effect on North–South technology transfer once the Southern wage level has surpassed a certain threshold level. These conclusions are reached in a setting where a unionised multinational multiproduct firm produces vertically differentiated products in Northern and Southern subsidiaries.

Determinants of vertical integration in export processing: Theory and evidence from China

- Journal of Development Economics---2012---Ana P. Fernandes,Heiwai Tang

This paper examines the determinants of vertical integration versus outsourcing in export processing, by exploiting the coexistence of two export processing regimes in China, which designate by law who owns and controls the imported components. Based on a variant of the Antràs-Helpman (2004) model, we show theoretically that control over imported components for assembly can affect firm integration decisions. Our empirical results show that when Chinese plants control the use of components, the export share of foreign-owned plants is positively correlated with the intensity of inputs provided by the headquarter (capital, skill, and R&D). These results are consistent with the property-rights theory of intra-firm trade. However, when foreign firms own and control the components, there is no evidence of a positive relationship between the intensity of headquarters' inputs and the prevalence of vertical integration. The results are consistent with our model that considers control over imported components as an alternative to asset ownership to alleviate hold-up by export-processing plants.

International differences in emissions intensity and emissions content of global trade

- Journal of Development Economics---2012---Stratford Douglas,Shuichiro Nishioka

Understanding international differences in the emissions intensity of trade and production is essential to understanding the effects of greenhouse gas limitation policies. We develop data on emissions from 41 industrial sectors in 39 countries and estimate the CO2 emissions intensity of production and trade. We find no evidence that developing countries specialize in emissions-intensive sectors; instead, our evidence suggests that emissions intensities differ systematically across countries because of differences in production techniques. Our results confirm that international differences in emissions intensity are substantial, but suggest that they do not play a significant factor in determining patterns of trade.

Who has voice in a deliberative democracy? Evidence from transcripts of village parliaments in south India

- Journal of Development Economics---2012---Radu Ban,Saumitra Jha,Vijayendra Rao

The role of deliberation among citizens to determine and forge agreement on policy is often seen as a crucial feature of democratic government. This paper provides the first large-N empirical evidence on the credibility of voice in a deliberative democracy in an non-laboratory setting, using a unique dataset collected from transcripts of deliberation that occurred between January and September 2003 in 127 functioning village parliaments (gram sabhas) in Southern India. We exploit a natural experiment in the arrangement of India's state borders across ethnolinguistic lines that led exogenously to increased caste fragmentation and a reduced degree of consensus on public goods priorities. We then examine the patterns of deliberation. We reject the presence of pure cheap talk in both heterogeneous and homogeneous villages. Instead, we show that in caste-fragmented South Indian villages, where there is less village-wide agreement on the relative importance of different public goods, the probability of an individual's highest priority being discussed increases as the household becomes more credible: its preferences approach the pivotal agent in a pure representative democracy, the median household. These effects are lower in ethnically homogeneous villages where there is greater consensus on the prioritization of public goods. Taken together, our results suggest that India's village parliaments, rather than being mere talking shops or being entirely captured by elites, seem instead to be both democratically representative and to be assigning roles to credible agents in their deliberative processes.

The extension of social security coverage in developing countries

- Journal of Development Economics---2012---Juergen Jung,Chung Tran

We study the dynamic general equilibrium effects of introducing a social pension program to elderly informal sector workers in developing countries who lack formal risk sharing mechanisms against income and longevity risks. To this end, we formulate a stochastic dynamic general equilibrium model that incorporates defining features of developing countries: a large informal sector, private transfers as an informal safety net, and a non-universal social security system. We find that the extension of retirement benefits to informal sector workers results in efficiency losses due to adverse effects on capital accumulation and the allocation of resources across formal and informal sectors. Despite these losses recipients of social pensions experience welfare gains as the positive insurance effects attributed to the extension of a social insurance system dominate. The welfare gains crucially depend on the skill distribution, private intra-family transfers and the specific tax used to finance the expansion.

Does an intra-household flypaper effect exist? Evidence from the educational fee reduction reform in rural China

- Journal of Development Economics---2012---Xinzheng Shi

We test for evidence of an intra-household flypaper effect by evaluating the impact of an educational fee reduction reform in rural China on different categories of household expenditure, including spending on individual children. Using pre- and post-reform data, this study exploits cohort comparisons, variation in the extent of school fee reductions across different villages, and variation in the subsidies received by children enrolled in different grades within the same family to identify the impact of the reform. The results show that educational fee reductions are matched by increased voluntary educational spending on the same children who receive the fee reductions, providing strong evidence of an intra-household flypaper effect.

The better you are the stronger it makes you: Evidence on the asymmetric impact of liberalization

- Journal of Development Economics---2012---Leonardo Iacovone

This paper shows how trade liberalization can have an asymmetric effect on heterogeneous firms. It develops a neo-Schumpeterian growth model predicting that the impact of liberalization on economic performance is positive "on average", but more advanced firms benefit more. These predictions are tested using Mexican plant-level data confirming that, under NAFTA, the liberalization spurred productivity growth on average. However, the empirical analysis goes beyond estimating the average effect of liberalization and shows that more advanced firms benefited disproportionately more from the liberalization. Focusing on the mechanisms explaining these results, the paper shows that the results are not just driven by an increase in input usage and investments, but rather by innovative and managerial efforts as they are significantly stronger in those sectors where the scope for innovative activities is larger.

The impact of teacher subject knowledge on student achievement: Evidence from within-teacher within-student variation

- Journal of Development Economics---2012---Johannes Metzler,Ludger Woessmann

Teachers differ greatly in how much they teach their students, but little is known about which teacher attributes account for this. We estimate the causal effect of teacher subject knowledge on student achievement using within-teacher within-student variation, exploiting a unique Peruvian 6th-grade dataset that tested both students and their teachers in two subjects. Observing teachers teaching both subjects in one-classroom-per-grade schools, we circumvent omitted-variable and selection biases using a correlated random effects model that identifies from differences between the two subjects. After measurement-error correction, one standard deviation in subject-specific teacher achievement increases student achievement by about 9% of a standard deviation in math. Effects in reading are significantly smaller and mostly not significantly different from zero. Effects also depend on the teacher-student match in ability and gender.

Schooling, educational achievement, and the Latin American growth puzzle

- Journal of Development Economics---2012---Eric Hanushek,Ludger Woessmann

Latin American economic development has been perceived as a puzzle. The region has trailed most other world regions over the past half century despite relatively high initial development and school attainment levels. This puzzle, however, can be resolved by considering educational achievement, a direct measure of human capital. We introduce a new, more inclusive achievement measure that comes from splicing regional achievement tests into worldwide tests. In growth regressions, the positive growth effect of educational achievement fully accounts for the poor growth performance of Latin American countries. These results are confirmed in a number of instrumental-variable specifications that exploit plausibly exogenous achievement variation stemming from historical and institutional determinants of educational achievement. Finally, a development accounting analysis finds that, once educational achievement is included, human capital can account for between half and two thirds of the income differences between Latin America and the rest of the world.

Does having a cadre parent pay? Evidence from the first job offers of Chinese college graduates

- Journal of Development Economics---2012---Hongbin Li,Lingsheng Meng,Xinzheng Shi,Binzhen Wu

We estimate the wage premium associated with having a cadre parent in China using a recent survey of college graduates carried out by the authors. The wage premium of having a cadre parent is 15%, and this premium cannot be explained by other observables such as college entrance exam scores, quality of colleges and majors, a full set of college human capital attributes, and job characteristics. These results suggest that the remaining premium could be the true wage premium of having a cadre parent.

Microfinance and gender empowerment

- Journal of Development Economics---2012---Thi Minh Ngo,Zaki Wahhaj

In this paper, we develop a theoretical model of household production, bargaining and credit to analyse how access to microcredit affects intra-household decision-making and welfare, and identify conditions under which female household members are most likely to benefit. We show that, consistent with ethnographic accounts of the impact of microcredit programmes on poor households, access to loans can lead to a variety of outcomes for intra-household decision-making and welfare depending on initial conditions and that, in some instances, women borrowers may experience a decline in welfare. We identify two instances in which a woman is most likely to benefit: when there is scope for investing the loan profitably in a joint activity, and when a large share of the household budget is devoted to household public goods.

Motives for sharing in social networks

- Journal of Development Economics---2012---Ethan Ligon,Laura Schechter

What motivates people in rural villages to share? We first elicit a baseline level of sharing using a standard, anonymous dictator game. Then using variants of the dictator game that allow for either revealing the dictator's identity or allowing the dictator to choose the recipient, we attribute variation in sharing to three different motives. The first of these, directed altruism, is related to preferences, while the remaining two are incentive-related (sanctions and reciprocity). We observe high average levels of sharing in our baseline treatment, while variation across individuals depends importantly on the incentive-related motives. Finally, variation in measured reciprocity within the experiment predicts observed ‘real-world’ gift-giving, while other motives measured in the experiment do not predict behavior outside the experiment.

Evidence on the impact of minimum wage laws in an informal sector: Domestic workers in South Africa

- Journal of Development Economics---2012---Taryn Dinkelman,Vimal Ranchhod

What happens when a previously uncovered labor market is regulated? We exploit the introduction of a minimum wage in South Africa and variation in the intensity of this law to identify increases in wages for domestic workers and no statistically significant effects on employment on the intensive or extensive margins. These large, partial responses to the law are somewhat surprising, given the lack of monitoring and enforcement in this informal sector. We interpret these changes as evidence that strong external sanctions are not necessary for new labor legislation to have a significant impact on informal sectors of developing countries, at least in the short-run.

The impact of improved highways on Indian firms

- Journal of Development Economics---2012---Saugato Datta

India's Golden Quadrilateral Program, a major highway project, aimed at improving the quality and width of existing highways connecting the four largest cities in India. It affected the quality of highways available to firms in cities that lay along the routes of the four upgraded highways, while leaving the quality of highways available to firms in other cities unaffected. This feature of the project allows for a difference-in-difference estimation strategy, where status on and off the improved highways, and distance from them, are used as treatment variables. This strategy is implemented using data from the 2002 and 2005 rounds of the World Bank Enterprise Surveys for India. Firms in cities affected by the Golden Quadrilateral highway project reduced their average stock of input inventories by between 6 and 12days’ worth of production. Firms in cities where road quality did not improve showed no significant changes. The reduction in stocks of input inventories also varied inversely with the distance between the city in which a firm was located and the nearest city on an improved highway. Firms on the Golden Quadrilateral were also more likely to have switched the supplier who provided them with their primary input, suggesting that they saw reason to re-optimize their choice of supplier after the arrival of better highways. Consistent with these findings, firms on the improved highways reported decreased transportation obstacles to production, while firms in control cities reported no such change.

The “V-factor”: Distribution, timing and correlates of the great Indian growth turnaround

- Journal of Development Economics---2012---Chetan Ghate,Stephen Wright

We analyze a panel of output series for India, disaggregated by 15 states and 14 broad industry groups. Using principal components (Bai, 2004; Bai and Ng, 2004) we find that a single common “V-factor” captures well the significant shift in the cross-sectional distribution of state-sectoral output growth rates since the 2nd half of the 1980s. The timing of the turnaround implied by the V-factor is more closely related to the pattern of policy reforms than has been found in previous research. Regression-based analysis also provides some insights into the uneven distribution of the turnaround across Indian states.

Empowering parents to improve education: Evidence from rural Mexico

- Journal of Development Economics---2012---Paul Gertler,Harry Patrinos,Marta Rubio-Codina

We examine a very inexpensive program in Mexico that involves parents directly in the management of schools located in disadvantaged rural communities. The program, known as AGE, finances parent associations and motivates parental participation by involving them in the management of primary school grants. We find that AGE reduced grade failure by 7.4% and grade repetition by 5.5% in grades 1 through 3. However, while AGE was effective in poor communities, it had no effect in extremely poor communities.

Resource constraints and educational attainment in developing countries: Colombia 1945–2005

- Journal of Development Economics---2012---Juan Esteban Saavedra

In this paper, I investigate the extent to which secondary and higher education supply constraints affected aggregate educational attainment in Colombia for cohorts born between 1945 and 1981. As was the case in many other countries after World War II, in Colombia, industrialization, urbanization and rapid population growth increased the demand for education and the return to schooling. Although educational expenditures from the central government and the states increased after the 1950s, secondary and tertiary schools' per-pupil inputs declined. Using variation in cohort size within states and over time to proxy for changes in education demand, I find that for cohorts born after 1945, a 10% increase in cohort size reduced high school completion rate by 3%, the college completion rate by 4% and average years of schooling by 1%. Compared to women's educational attainment rates, changes in cohort size had greater negative effects on men's rates.

Investor protection and income inequality: Risk sharing vs risk taking

- Journal of Development Economics---2012---Alessandra Bonfiglioli

This paper studies the relationship between investor protection and income inequality. In the presence of market frictions, better protection makes investors more willing to take on entrepreneurial risk when lending to firms, thereby improving the degree of risk sharing between financiers and entrepreneurs. On the other hand, by increasing risk sharing, investor protection also induces more risk taking. By increasing entrepreneurial risk taking, it raises income dispersion. By reducing the risk faced by entrepreneurs, it reduces income volatility. As a result, the relationship between investor protection and income inequality is non monotonic, since the risk-taking effect dominates at low levels of investor protection, while risk sharing becomes stronger when more risk is taken. Empirical evidence from up to sixty-seven countries spanning the period 1976–2004 supports the predictions of the model.

Coming out of the shadows? Estimating the impact of bureaucracy simplification and tax cut on formality in Brazilian microenterprises

- Journal of Development Economics---2012---Joana C.M. Monteiro,Juliano J. Assunção

This paper evaluates the impact of a program of bureaucracy simplification and tax reduction on formality among Brazilian microenterprises — the SIMPLES program. We document an increase of 13 percentage points in formal licensing among retail firms created after the program when compared to firms in ineligible sectors. The impact on retailers is robust to a series of tests. We find no impact on construction, transportation, services and manufacturing sectors.

Infrastructure regulation and reallocations within industry: Theory and evidence from Indian firms

- Journal of Development Economics---2012---Juan Pablo Rud

Many firms in developing countries adopt captive power generators to deal with expensive and unreliable supply of electricity. I present a model that combines upstream regulation with downstream heterogeneous firms in a monopolistic competition framework, where firms can pay a fixed cost to adopt this marginal cost-reducing device. The presence of captive power affects the market equilibrium by increasing the level of idiosyncratic productivity a firm needs to survive in the market and by re-allocating sales and profits towards the more productive, adopting firms. Additionally, the rate of adoption is shown to increase with the price of electricity, industries' electricity–intensity and with higher barriers to firm entry. The mechanisms I propose are present for a cross-section of Indian firms.

Grain inflation: Identifying agent discretion in response to a conditional school nutrition program

- Journal of Development Economics---2012---Leigh Linden,Gauri Shastry

Many incentive programs rely on local agents with significant discretion to allocate benefits. We estimate the degree of discretion exercised by teachers within a conditional transfer program designed to improve nutrition and encourage student attendance in Mumbai, India. The program allocates grain to students every month their attendance exceeds 80%, creating an incentive for teachers to inflate attendance to benefit certain students. We find that teachers manipulate students' records, altering the incentives to attend school. The teachers' response also varies across students. Teachers inflate more for girls, better students, and students from lower castes, but less for Muslim students.

Heterogeneous technology and panel data: The case of the agricultural production function

- Journal of Development Economics---2012---Yair Mundlak,Rita Butzer,Donald Larson

Economic growth involves reallocating resources from traditional to new techniques of production, creating new relationships between particular resources and productivity. The paper analyzes the implications of this process on the estimation of agricultural production functions using a panel of countries. The data includes a measure of capital in agriculture absent from most studies. We employ a heterogeneous technology framework where implemented technology is chosen jointly with inputs to interpret information obtained in the empirical analysis of panel data. In this framework, estimates depend upon the economic environment, which is represented by state variables. It turns out that the old problem of identifying the production function cannot be resolved through the use of instrumental variables, but can be resolved using the allocation error. The paper discusses the scope for replacing country and time effects by observed state variables. The empirical results differ from those reported in the literature for cross-country studies, largely in augmenting the elasticities of capital and land and reducing those of fertilizer and labor. The evaluation of the marginal value productivity accounts for the flow of capital and fertilizer to agriculture and the flow of labor to other sectors, thereby contributing to overall economic growth.

Breaking the norm: An empirical investigation into the unraveling of good behavior

- Journal of Development Economics---2012---Ruth Hill,Eduardo Maruyama,Angelino Viceisza

We present results from an artefactual field experiment conducted in rural Peru that considers whether observing non-reciprocal behavior influences an individual's decision to reciprocate. Specifically, we consider the behavior of second movers in a trust game, assessing whether their decision to reciprocate is influenced by the observed reciprocity of others. In documenting the impact of an external shock to observed reciprocity, this paper shows that small increases in non-reciprocal behavior result in an unraveling of the norm of reciprocity. Survey data is used to explore mechanisms by which this occurred. Results are not consistent with learning effects, suggesting that preferences may be changed by observing others deviating from a norm of reciprocity. These results suggest that investing in encouraging trustworthy behavior can have large benefits in situations where individuals are observing each other's behavior, such as may be the case in a new market institution.

Can total factor productivity explain value added growth in services?

- Journal of Development Economics---2012---Rubina Verma

This paper examines the factors responsible for generating the services led growth witnessed in the Indian economy during 1980–2005. A sectoral growth accounting exercise shows that total factor productivity (TFP) growth was the fastest for services; moreover this TFP increase was significant in accounting for service sector value added growth. A growth model with agriculture, industry and services as three principal sectors is calibrated to Indian data using sectoral TFP growth rates. The baseline model performs well in accounting for the evolution of value added shares and their growth rates, but is unable to capture sectoral employment share trends. The performance of the model with respect to value added shares improves when the post 1991 increase in service sector TFP growth following the inception of market-based liberalization reforms is accounted for. A modified version of the model with public capital can better track trends in sectoral employment shares.

Estimating domestic content in exports when processing trade is pervasive

- Journal of Development Economics---2012---Robert Koopman,Zhi Wang,Shang-Jin Wei

For many questions, it is crucial to know the extent of domestic value added (DVA) in a country's exports, but the computation is more complicated when processing trade is pervasive. We propose a method for computing domestic and foreign contents that allows for processing trade. By applying our framework to Chinese data, we estimate that the share of domestic content in its manufactured exports was about 50% before China's WTO membership, and has risen to nearly 60% since then. There are also interesting variations across sectors. Those sectors that are likely labeled as relatively sophisticated such as electronic devices have particularly low domestic content (about 30% or less).

Armed conflict and birth weight: Evidence from the al-Aqsa Intifada

- Journal of Development Economics---2012---Hani Mansour,Daniel Rees

No previous study has estimated the effect of intrauterine exposure to armed conflict on pregnancy outcomes. Drawing on data from the 2004 Palestinian Demographic and Health Survey, which was conducted approximately 4years after the start of the al-Aqsa Intifada, we find that an additional conflict-related fatality 9–6months before birth is associated with a modest increase in the probability of having a child who weighed less than 2500g. There is also evidence, albeit less consistent, of a positive relationship between fatalities in late pregnancy and low birth weight.

What makes growth sustained?

- Journal of Development Economics---2012---Andrew Berg,Jonathan Ostry,Jeromin Zettelmeyer

We identify structural breaks in economic growth in 140 countries and use these to define "growth spells:" periods of high growth preceded by an upbreak and ending either with a downbreak or with the end of the sample. Growth spells tend to be shorter in African and Latin American countries than elsewhere. We find evidence that growth duration is positively related to: the degree of equality of the income distribution; democratic institutions; export orientation (with higher propensities to export manufactures, greater openness to FDI, and avoidance of exchange rate overvaluation favorable for duration); and macroeconomic stability.

Growth miracles and failures in a Markov switching classification model of growth

- Journal of Development Economics---2012---Monika Kerekes

In this paper economic growth is interpreted as a sequence of transitions between distinct growth regimes that countries visit with different frequencies. Countries featuring similar growth dynamics are endogenously grouped into three different clusters. The first cluster comprises successful countries that are characterized by lengthy periods of high or very high growth. Moderately successful countries in the second cluster experience both periods of reasonable growth and periods of stagnation, whereas failing countries in the third cluster suffer from highly volatile growth rates with frequent episodes of crisis. Successful countries are characterized by better initial conditions, policies and institutions compared to the other countries. Neither initial conditions nor institutions distinguish moderately successful from failing countries; what makes them different is policy in the form of investments into infrastructure and human capital, trade liberalization and limited policy volatility.

Is inflation targeting a good remedy to control inflation?

- Journal of Development Economics---2012---Helder de Mendonça,Gustavo de Guimarães e Souza

Since the 1990s inflation targeting (IT) has been adopted by several central banks as a strategy for monetary policy. It is expected that the adoption of this monetary regime can reduce inflation and inflation volatility. This article is concerned with these issues and makes use of the Propensity Score Matching methodology on a sample of 180 countries for the period from 1990 to 2007. For analysis, the sample is split into two sets of countries (advanced and developing). The findings suggest that the adoption of IT is an ideal monetary regime for developing economies and, in addition to reducing inflation volatility, can drive inflation down to internationally acceptable levels. Regarding advanced economies, the adoption of IT does not appear to represent an advantageous strategy. In brief, the empirical results indicate that the adoption of IT is useful for countries that must enhance their credibility for the management of monetary policy.

Risk taking under heterogenous revenue sharing

- Journal of Development Economics---2012---Mohamed Belhaj,Frédéric Deroïan

We examine the impact of informal risk sharing on risk taking incentives when transfers are organized through a social network. A bilateral partial sharing rule satisfies that neighbors share equally a part of their revenue. In such a society, correlated technologies generate interdependent risk levels. We obtain three findings. First, there is a unique and interior Nash-equilibrium risk profile, and it is in general differentiated and related to the Bonacich measure of the risk sharing network. Second, more revenue sharing enhances risk taking on average, although some agents may lower their risk level. Last, we find that under investment might often be observed.

Matching in community-based organizations

- Journal of Development Economics---2012---Jean-Louis Arcand,Marcel Fafchamps

Using a rich dataset from West Africa, we examine the household characteristics associated with membership in community-based organizations (CBOs). We find that on average it is the more fortunate members of rural society who belong in CBOs. In Senegal, the dominant criterion is land ownership. In Burkina Faso it is age and family ties with village authorities. Ethnicity plays a role as well: CBO membership is less likely for ethnic groups that traditionally emphasize livestock raising. Next we look for evidence of assortative matching along multiple dimensions, using an original methodology based on dyadic regressions. We find robust evidence of positive assorting by physical and ethnic proximity as well as by wealth and household size. Along certain dimensions, donor-sponsored CBOs are less elitist and more inclusive. But the reverse is true for other dimensions, particularly in Burkina Faso.

An instrumental variables approach to estimating tax revenue elasticities: Evidence from Sub-Saharan Africa

- Journal of Development Economics---2012---Markus Brückner

This paper exploits the significant response of real GDP growth of Sub-Saharan African countries to exogenous international commodity price and rainfall shocks to construct instrumental variables estimates of the tax revenue elasticity IV estimates yield that a 1% increase in GDP increases tax revenues by up to 2.5%.

Social contracts, markets and efficiency: Groundwater irrigation in North India

- Journal of Development Economics---2012---A. Banerji,J.V. Meenakshi,Gauri Khanna

This paper uses primary data to analyze the institutions and informal markets that govern groundwater allocation in a sugarcane-cultivating village in North India. We find that, in contrast to earlier literature, the observed water trades result in efficient water allocation across farms. We interpret this and other stylized facts in terms of a social contract using a simple bargaining model with limited inter-player transfers. Poor functioning of the power sector leads to reduced pumping and a water supply constraint. Simulations show that power supply reform can significantly increase farm yields, and be financed out of increased farm profits.

An aspect of variable population poverty comparisons

- Journal of Development Economics---2012---Nicole Hassoun,S. Subramanian

This paper demonstrates that the property of Replication Invariance, generally considered to be an innocuous requirement for the extension of fixed-population poverty comparisons to variable-population contexts, is incompatible with other plausible variable- and fixed-population axioms. This fact raises questions about what constitutes an appropriate headcount assessment of poverty, in terms of whether one should focus on the proportion, or the absolute numbers, of the population in poverty. This observation, in turn, has important implications for tracking poverty and setting targets for its reduction or elimination.

Supply and quality choices in private child care markets: Evidence from São Paulo

- Journal of Development Economics---2012---Paulo Bastos,Julian Cristia

Many developing countries have adopted the market approach for expanding the supply of child care, but little is known about the economic behavior of independent providers. Drawing on uniquely rich census data on child care providers from São Paulo, we document three main facts: (1) the stock of private suppliers is considerably larger in high-income city districts; (2) the quality of private provision – as measured by teachers' schooling, group size and equipment – is highly heterogeneous across space and increases systematically with local household income; and (3) a considerable share of centers operates below recommended (but not regulated) quality standards, especially in low-income districts. These findings are consistent with a model of endogenous entry and quality choices by heterogeneous providers. Market-driven heterogeneity in the quality of provision across space is an important consideration for the design of regulations in child care markets.

AIDS mortality and its effect on the labor market: Evidence from South Africa

- Journal of Development Economics---2012---Luke Chicoine

This paper investigates how HIV/AIDS has impacted the labor market in South Africa, focusing on its effect on wages and employment. This is done by matching individual level data with group specific cumulative AIDS mortality rates. Exploiting the panel nature of the data, I remove individuals whose productivity is most likely impacted by HIV/AIDS, and find evidence that cumulative AIDS mortality has led to reductions in wages of between 3 and 6% for the African population group (Black South Africans). Furthermore, I also find evidence that the epidemic has lowered employment in South Africa. This result is concentrated among those with the lowest levels of education and employment. Although not large in magnitude, these effects are widespread across a significant portion of the population, contributing to a substantial loss of income throughout the South African economy.

Job creation and job destruction in the presence of informal markets

- Journal of Development Economics---2012---Mariano Bosch,Julen Esteban-Pretel

In developing economies, the fraction of informal workers can be as high as 70% of total employment. For economies with significant informal sectors, business cycle fluctuations and labor market policy interventions can have important effects not only on the unemployment rate, but also on the allocation of workers across regulated and unregulated jobs. In this paper, using worker flows data from Brazil, we build, calibrate, and simulate a two-sector search and matching labor market model, in which firms have the choice of hiring workers formally or informally. We show that our model can explain well the main cyclical patterns that lead to those cyclical reallocations. We also show how the effect of government interventions in the labor market depend on the magnitude of the reallocation of labor across regulated and unregulated sectors. For our calibration, policies that decrease the cost of formal jobs, or increase the cost of informality, raise the share of formal employment while reducing unemployment.

Methods of household consumption measurement through surveys: Experimental results from Tanzania

- Journal of Development Economics---2012---Kathleen Beegle,Joachim De Weerdt,Jed Friedman,John Gibson

Surveys of consumption expenditure vary widely across many dimensions, including the level of reporting, the length of the reference period, and the degree of commodity detail. These variations occur both across countries and also over time within countries, with little current understanding of the implications of such changes for spatially and temporally consistent measurement of household consumption and poverty. A field experiment in Tanzania tests eight alternative methods of measuring household consumption, finding significant differences between consumption reported by the benchmark personal diary and other diary and recall formats. Under-reporting is particularly apparent for illiterate households and for urban respondents completing household diaries; recall modules measure lower consumption than a personal diary, with larger gaps among poorer households and for households with more adult members. Variations in reporting accuracy by household characteristics are also discussed and differences in measured poverty as a result of survey design are explored.

Improving consumption measurement and other survey data through CAPI: Evidence from a randomized experiment

- Journal of Development Economics---2012---Bet Caeyers,Neil Chalmers,Joachim De Weerdt

This paper reports on a randomized survey experiment among 1840 households, designed to compare pen-and-paper interviewing (PAPI) to computer-assisted personal interviewing (CAPI). We find that PAPI data contain a large number of errors, which can be avoided in CAPI. Error counts are not randomly distributed across the sample, but are correlated with household characteristics, potentially introducing sample bias if dubious observations need to be dropped. We demonstrate a tendency for the spread of total measured consumption to be higher on paper compared to CAPI, translating into significantly higher measured inequality. Investigating further the nature of PAPI's measurement error for consumption, we fail to reject the hypothesis that it is classical: it attenuates the coefficient on consumption when used as explanatory variable and we find no evidence of bias when consumption is used as dependent variable. Finally, CAPI and PAPI are compared in terms of interview length, costs and respondents' perceptions.

Reliability of recall in agricultural data

- Journal of Development Economics---2012---Kathleen Beegle,Calogero Carletto,Kristen Himelein

Despite the importance of agriculture to economic development, and a vast accompanying literature on the subject, little research has been done on data quality. Due to survey logistics, agricultural data are usually collected by asking respondents to recall the details of events occurring during past agricultural seasons, potentially leading to recall bias. The problem is further complicated when interviews are conducted over the course of several months, thus leading to recall of variable length. To test for recall bias, the length of time between harvest and interview is examined for three African countries with respect to several common agricultural input and harvest measures. The analysis shows little evidence of large recall bias impacting data quality. There is some indication that more salient events are less subject to recall decay. Overall, the results allay some concerns about the quality of some types of agricultural data collected through recall over lengthy periods.

Can diaries help in improving agricultural production statistics? Evidence from Uganda

- Journal of Development Economics---2012---Klaus Deininger,Calogero Carletto,Sara Savastano,James Muwonge

Although good and timely information on agricultural production is critical for policy-decisions, the quality of underlying data is often low and improving data quality could have high payoff. We use data from a production diary, administered concurrently with a standard household survey in Uganda to analyze the nature and incidence of responses, the magnitude of differences in reported outcomes, and factors that systematically affect these. Despite limited central supervision, diaries elicited a strong response, complemented standard surveys in a number of respects and were less affected by problems of respondent fatigue than expected. The diary-based estimates of output value consistently exceed that from the recall-based production survey, in line with reported disposition. Implications for policy and practical administration of surveys are drawn out.

Using PDA consistency checks to increase the precision of profits and sales measurement in panels

- Journal of Development Economics---2012---Marcel Fafchamps,David McKenzie,Simon Quinn,Christopher Woodruff

Personalized Digital Assistants (PDAs) and other forms of hardware needed to collect survey data electronically have become more affordable and powerful in recent years, leading to their use in a number of surveys in developing countries. Simple use of these devices can offer the prospect of more timely data entry and greater accuracy in guiding respondents through skip patterns. Further benefits are possible through the use of more complex consistency checks. We use PDAs to measure sales and profits for microenterprises, which are notoriously noisy. Consistency checks in the cross-section compare sales and profits, while those in the panel query responses which result in large changes from one period to the next. Cross-sectional checks also served as a second prompt in the case of missing profits. These checks do succeed in reducing the standard deviation and in increasing the correlation of the observations for which corrections are made. However, we find that the vast majority of large changes in enterprise sales and profits are confirmed by firm owners as genuine, highlighting the volatility of income in this sector. As a result, the overall impact of these consistency checks on the full sample is rather limited, suggesting that while such checks are useful if computerized forms of data collection are being used, the consistency checks per se are not a strong reason for using computerized data collection in collecting firm profits and sales.

Measuring the return on household enterprise: What matters most for whom?

- Journal of Development Economics---2012---Krislert Samphantharak,Robert Townsend

Return on assets (ROA) of household enterprise is crucial for understanding the productivity of households in developing economies. Yet the definition and measurement of household enterprise ROA remain inconsistent or unclear. We illustrate potential measurement problems with examples from various surveys. We take advantage of a detailed household survey and analyze what matters and for whom. The three issues that matter most for measurement of household enterprise ROA are the choice of accrual versus cash income, the treatment of household labor in enterprise income, and the treatment of non-factor income. This sensitivity matters most for a poorer region dominated by cultivation relative to a richer region with non-farm enterprises. Though the choice between accrued and cash income matters less when the frequency of the data declines, there remains high sensitivity in annualized data. We provide recommendations on how to improve the survey questionnaires for more accurate measurement in field research.

List randomization for sensitive behavior: An application for measuring use of loan proceeds

- Journal of Development Economics---2012---Dean Karlan,Jonathan Zinman

Policymakers and microfinance institutions (MFIs) often claim to target poor entrepreneurs who then invest loan proceeds in their businesses. Typically in non-research settings these claims are assessed using readily available but unverified self-reports from client loan applications. Alternatively, independent surveyors could directly elicit how borrowers spent their loan proceeds. That too, however, could suffer from deliberate misreporting. We use data from the Peru and the Philippines in which independent surveyors elicited loan use both directly (i.e., by asking how individuals spent their loan proceeds) and indirectly (i.e., through a list-randomization technique that allows individuals to hide their answer from the surveyor). We find that direct elicitation under-reports the non-enterprise uses of loan proceeds.

The impact of recall periods on reported morbidity and health seeking behavior

- Journal of Development Economics---2012---Jishnu Das,Jeffrey Hammer,Carolina Sánchez-Paramo

Between 2000 and 2002, we followed 1621 individuals in Delhi, India using a combination of weekly and monthly-recall health questionnaires. In 2008, we augmented these data with another 8weeks of surveys during which households were experimentally allocated to surveys with different recall periods in the second half of the survey. We show that the length of the recall period had a large impact on reported morbidity, doctor visits; time spent sick; whether at least one day of work/school was lost due to sickness and; the reported use of self-medication. The effects are more pronounced among the poor than the rich. In one example, differential recall effects across income groups reverse the sign of the gradient between doctor visits and per-capita expenditures such that the poor use health care providers more than the rich in the weekly recall surveys but less in monthly recall surveys. We hypothesize that illnesses – especially among the poor – are no longer perceived as "extraordinary events" but have become part of "normal" life. We discuss the implications of these results for health survey methodology, and the economic interpretation of sickness in poor populations.

Examining the reliability of self-reported data on school participation

- Journal of Development Economics---2012---Sarah Baird,Berk Özler

Many studies evaluate the impacts of Conditional Cash Transfer (CCT) programs on schooling using self-reports on enrollment and attendance even though there are reasons to doubt the reliability of these data. In this paper, we examine the extent to which school-age girls overstate their school participation. Using administrative data from a cash transfer experiment in Malawi and school attendance ledgers collected as part of the impact evaluation, we find that while all study participants overstate their enrollment and attendance rates, the extent to which this happens is significantly higher in the control group than the CCT arm. This finding implies that exclusive reliance on self-reported school participation data can lead to a serious underestimation of actual program impacts. We recommend that self-reports be supplemented using alternative sources of data on school participation that are appropriate to the experiment at hand — even if such efforts are likely to increase evaluation costs.

A comparison of EPI sampling, probability sampling, and compact segment sampling methods for micro and small enterprises

- Journal of Development Economics---2012---Li-Wei Chao,Helena Szrek,Karl Peltzer,Shandir Ramlagan,Peter Fleming,Rui Leite,Jesswill Magerman,Godfrey B. Ngwenya,Nuno Sousa Pereira,Jere Behrman

Finding an efficient method for sampling micro- and small-enterprises (MSEs) for research and statistical reporting purposes is a challenge in developing countries, where registries of MSEs are often nonexistent or outdated. This lack of a sampling frame creates an obstacle in finding a representative sample of MSEs. This study uses computer simulations to draw samples from a census of businesses and non-businesses in the Tshwane Municipality of South Africa, using three different sampling methods: the traditional probability sampling method, the compact segment sampling method, and the World Health Organization's Expanded Programme on Immunization (EPI) sampling method. Three mechanisms by which the methods could differ are tested, the proximity selection of respondents, the at-home selection of respondents, and the use of inaccurate probability weights. The results highlight the importance of revisits and accurate probability weights, and the lesser effect of proximity selection on the samples' statistical properties.

Cutting the costs of attrition: Results from the Indonesia Family Life Survey

- Journal of Development Economics---2012---Duncan Thomas,Firman Witoelar,Elizabeth Frankenberg,Bondan Sikoki,John Strauss,Cecep Sumantri,Wayan Suriastini

Attrition is the Achilles heel of longitudinal surveys. Drawing on our experience in the Indonesia Family Life Survey (IFLS), we describe survey design and field strategies that contributed to minimizing attrition over four waves of the survey. The data are used to illustrate the selectivity of respondents who attrit from the survey and, also the selectivity of respondents who move from the place they were interviewed at baseline and are subsequently interviewed in a new location. The results provide insights into the nature of selection that will arise in studies that fail to track and interview movers. Attrition, and types of attrition, are related in complex ways to a broad array of characteristics measured at baseline. In addition, the evidence suggests attrition may be related to characteristics that are not observed in our baseline. Integrating IFLS with data from a Survey of Surveyors, we describe characteristics of both the interviewers and the interview that predict attrition in later waves. These characteristics point to possible strategies that may reduce levels of attrition and may also reduce the impact of attrition on the interpretation of behavioral models estimated with longitudinal data.

Do household definitions matter in survey design? Results from a randomized survey experiment in Mali

- Journal of Development Economics---2012---Lori Beaman,Andrew Dillon

Household definitions used in multi-topic household surveys vary between surveys but have potentially significant implications for household composition, production, and poverty statistics. Standard definitions of the household usually include some intersection of keywords relating to residency requirements, common food consumption, and intermingling of income or production decisions. Despite best practices intending to standardize the definition of the household, it is unclear which types of definitions or which intersections of keywords in a definition result in different household compositions. This paper conducts a randomized survey experiment of four different household definitions in Mali to examine the implications for household-level statistics. This approach permits analysis of the trade-offs between alternative definition types. We find that additional keywords in definitions increase rather than decrease household size and significantly alters household composition. Definitions emphasizing common consumption or joint production increase estimates of the levels of household assets and consumption statistics, but not on per adult equivalency asset and consumption statistics, relative to open-ended definitions of the household. In contrast, definition type did not affect production statistics in levels, though we observe significant differences in per adult equivalency terms. Our findings suggest that variations in household definition have implications for measuring household welfare and production.

Explaining variation in child labor statistics

- Journal of Development Economics---2012---Andrew Dillon,Elena Bardasi,Kathleen Beegle,Pieter Serneels

Child labor statistics are critical for assessing the extent and nature of child labor activities in developing countries. In practice, widespread variation exists in how child labor is measured. Questionnaire modules vary across countries and within countries over time along several dimensions, including respondent type and the structure of the questionnaire. Little is known about the effect of these differences on child labor statistics. This paper presents the results from a randomized survey experiment in Tanzania focusing on two survey design choices: different questionnaire design to classify children work and proxy response versus self-reporting. Use of a short module compared with a more detailed questionnaire has a statistically significant effect, especially on child labor force participation rates, and, to a lesser extent, on working hours. Proxy reports do not differ significantly from a child's self-report. Further analysis demonstrates that survey design choices affect the coefficient estimates of some determinants of child labor in a child labor supply equation. The results suggest that low-cost changes to questionnaire design will potentially clarify the concept of work for respondents.

Do voters demand responsive governments? Evidence from Indian disaster relief

- Journal of Development Economics---2012---Shawn Cole,Andrew Healy,Eric Werker

Using rainfall, public relief, and election data from India, we examine how governments respond to adverse shocks and how voters react to these responses. The data show that voters punish the incumbent party for weather events beyond its control. However, fewer voters punish the ruling party when its government responds vigorously to the crisis, indicating that voters reward the government for responding to disasters. We also find evidence suggesting that voters only respond to rainfall and government relief efforts during the year immediately preceding the election. In accordance with these electoral incentives, governments appear to be more generous with disaster relief in election years. These results describe how failures in electoral accountability can lead to suboptimal policy outcomes.

Using the law to change the custom

- Journal of Development Economics---2012---Gani Aldashev,Imane Chaara,Jean-Philippe Platteau,Zaki Wahhaj

The custom often acts as a powerful hindrance to equity-increasing changes. In this paper, we present a simple model of legal dualism in which a progressive legal reform can, under certain conditions, shift the conflicting custom in the direction intended by the legislator. Formal law then acts as an outside anchor that exerts a 'magnet effect' on the custom. We also characterize the conditions under which a moderate reform performs better than a radical one in improving the welfare of the disadvantaged sections of the population. We illustrate our insights using examples on inheritance, marriage, and divorce in Sub-Saharan Africa and India.

Financial constraints and occupational choice in Thai villages

- Journal of Development Economics---2012---Alexander Karaivanov

Financial constraints and entrepreneurship are key factors affecting economic performance in developing countries. I formulate and solve a model of occupational choice with moral hazard under three alternative financial market environments: savings only, borrowing and lending with default and moral hazard constrained insurance. I use computationally efficient techniques based on mechanism design, genetic algorithms and maximum likelihood to estimate and statistically test these models of financial constraints. Using occupational choice data from Thai villages I find evidence that the saving only regime is rejected in favor of regimes allowing for borrowing and/or insurance, especially in higher-wealth data stratifications. A direct test between the borrowing and insurance regimes reveals that neither can be rejected in favor of the other. Allowing ex-ante lotteries over wealth improves the explanatory power of the model. I also find evidence for differences in the best fitting regimes by region, wealth, and access to formal credit.

Economic reform, voting, and local political intervention: Evidence from India

- Journal of Development Economics---2012---Sharad Tandon

This paper uses the Indian tariff reforms of the early nineties to estimate how voters hurt by economic reforms respond. Regions more hurt by the tariff reform increased their support for both the party that initiated their suffering and parties with similar preferences in favor of poverty-centric policies. This response is surprisingly sophisticated, where voters did not simply punish incumbents for negative income shocks and correctly discounted initial anti-reform stances by opposition parties that later turned out to be false. Furthermore, the strength of this voting response varied with both geography and local political incentives, suggesting that the economic effects of reforms might vary substantially in large and decentralized democracies.

Health shocks and consumption smoothing in rural households: Does microcredit have a role to play?

- Journal of Development Economics---2012---Asadul Islam,Pushkar Maitra

This paper estimates, using a large panel data set from rural Bangladesh, the effects of health shocks on household consumption and how access to microcredit affects households' response to such shocks. Households appear to be fairly well insured against health shocks. Our results suggest that households sell livestock in response to health shocks and short term insurance is therefore attained at a significant long term cost. However microcredit has a significant mitigating effect. Households that have access to microcredit do not need to sell livestock in order to insure consumption. Microcredit organizations and microcredit therefore have an insurance role to play, an aspect that has not been analyzed previously.

Seasonality of income and poverty in Bangladesh

- Journal of Development Economics---2012---Shahidur Khandker

Seasonal food deprivation in Bangladesh, locally known as Monga, sometimes rises to the level of famine during the pre-harvest period of aman rice. An analysis of household income and expenditure survey data shows that income and consumption are lower during Monga than in other seasons, and that seasonal income greatly influences seasonal consumption. Econometric estimates reject the hypothesis of perfect consumption smoothing. In the northwestern region of greater Rangpur, rural households suffer disproportionately from Monga. Seasonal differences in poverty across regions are due mainly to differences in household-specific seasonality of income and consumption. Income diversification explains the lower incidence of income seasonality observed in non-Rangpur regions. To contain seasonal hunger in greater Rangpur, public policies should promote rural income diversification together with seasonal migration. A flexible microfinance scheme that provides both production and consumption loans on flexible repayment terms could help diversify income and reduce seasonality of income and poverty.

Sudden stops, financial frictions, and labor market flows: Evidence from Latin America

- Journal of Development Economics---2012---Francisco Gallego,José Tessada

While the aggregate effects of sudden stops and international financial crises are well known, the disaggregated channels through which they work are not well explored yet. In this paper, using job flows from a sectoral panel dataset for four Latin American countries, we find that sudden stops are characterized as periods of lower job creation and increased job destruction. Moreover, these effects are heterogeneous across sectors: we find that when a sudden stop occurs, sectors with higher dependence on external financing experience lower job creation. In turn, sectors with higher liquidity needs experience significantly larger job destruction. This evidence is consistent with the idea that dependence on external financing affects mainly the creation margin and that exposure to liquidity conditions affects mainly the destruction margin. Overall, our results provide evidence of financial frictions being an important transmission channel of sudden stops and in the restructuring process in general.

Trade liberalization and unemployment: Theory and evidence from India

- Journal of Development Economics---2012---Rana Hasan,Devashish Mitra,Priya Ranjan,Reshad Ahsan

A widely held view among the public is that trade liberalization increases unemployment. Using state and industry-level unemployment and trade protection data from India, we find no evidence of any unemployment increasing effect of trade reforms. In fact, our state-level analysis reveals that urban unemployment declines with trade liberalization in states with flexible labor markets and larger employment shares in net exporter industries. Moreover, our industry-level analysis indicates that workers in industries experiencing greater reductions in trade protection were less likely to become unemployed, especially in net export industries. Our results can be explained within a theoretical framework incorporating trade and search-generated unemployment and some institutional features of the Indian economy.

Export sophistication and economic growth: Evidence from China

- Journal of Development Economics---2012---Joachim Jarreau,Sandra Poncet

We consider the effect of export sophistication on economic performance by appealing to regional variation within one single country (China) over the 1997–2009 period. We find evidence in support of Hausmann, Hwang and Rodrik (2007), in that regions specializing in more sophisticated goods subsequently grow faster. We find substantial variation in export sophistication at the province and prefecture level, controlling for the level of development, and that this sophistication in turn drives growth. Our results suggest that these gains are limited to the ordinary export activities undertaken by domestic firms: no direct gains result from either processing trade activities or foreign firms, even though these are the main contributors to the global upgrading of China's exports. As such, the extent of assembly trade and foreign entities should be distinguished in order to measure the true movement in a country's technology and the contribution of exports to economic growth.

How product innovation in the North may immiserize the South

- Journal of Development Economics---2012---Lilas Demmou

The paper proposes a theoretical model investigating the welfare consequences of technological shocks in a Ricardian framework (a la Dornbush, Fisher and Samuelson, 1977). Contrary to the existing literature, the model incorporates a nonhomothetic demand function whose price and income elasticities are endogenously determined by technology. Nonhomothetic preferences are modeled as the result of the hierarchical consumption of luxury and necessity goods. The nature of technical progress determines the consumption pattern and notably the magnitude of the substitution effect between necessities and luxuries. The model is applied to the case of trade between two economies with different development levels. It is shown in particular that the developing country can suffer a fall in utility as a result of technical progress in the developed country biased towards luxury goods. This configuration depends on the size of the development gap and reflects the fact that Southern goods are less attractive, the higher the range of goods consumed. This result suggests that there is an optimal level of development gap to avoid LDCs being harmed by technical progress in the North.

Foreign direct investment in services and manufacturing productivity: Evidence for Chile

- Journal of Development Economics---2012---Ana Fernandes,Caroline Paunov

This paper examines the impact of substantial foreign direct investment (FDI) inflows in producer service sectors on the total factor productivity (TFP) of Chilean manufacturing firms. Positive effects are obtained in firm fixed effects instrumental variables regressions and show that forward linkages from FDI in services explain 7% of the observed increase in Chile's manufacturing users' TFP. Our findings also suggest that service FDI fosters innovation activities in manufacturing. Moreover, we show that service FDI offers opportunities for laggard firms to catch up with industry leaders.

The political economy of linguistic cleavages

- Journal of Development Economics---2012---Klaus Desmet,Ignacio Ortuño-Ortín,Romain Wacziarg

This paper uses a linguistic tree, describing the genealogical relationship between all 6912 world languages, to compute measures of diversity at different levels of linguistic aggregation. By doing so, we let the data inform us on which linguistic cleavages are most relevant for a range of political economy outcomes, rather than making ad hoc choices. We find that deep cleavages, originating thousands of years ago, lead to better predictors of civil conflict and redistribution. The opposite pattern emerges when it comes to the impact of linguistic diversity on growth and public goods provision, where finer distinctions between languages matter.

Creative accounting or creative destruction? Firm-level productivity growth in Chinese manufacturing

- Journal of Development Economics---2012---Loren Brandt,Johannes Van Biesebroeck,Yifan Zhang

We present the first comprehensive set of firm-level total factor productivity (TFP) estimates for China's manufacturing sector that spans China's entry into the WTO. For our preferred estimate, which adjusts for a number of potential sources of measurement error and bias, the weighted average annual productivity growth for incumbents is 2.85% for a gross output production function and 7.96% for a value added production function over the period 1998–2007. This is among the highest compared to other countries. Productivity growth at the industry level is even higher, reflecting the dynamic force of creative destruction. Over the entire period, net entry accounts for over two thirds of total TFP growth. In contrast to earlier studies looking at total non-agriculture including services, we find that TFP growth dominates input accumulation as a source of output growth.

Electricity provision and industrial development: Evidence from India

- Journal of Development Economics---2012---Juan Pablo Rud

I investigate the effect of electricity provision on industrialization using a panel of Indian states for 1965–1984. To address the endogeneity of investment in electrification, I use the introduction of a new agricultural technology intensive in irrigation (the Green Revolution) as a natural experiment. As electric pumpsets are used to provide farmers with cheap irrigation water, I use the uneven availability of groundwater at the start of the Green Revolution to predict divergence in the expansion of the electricity network and, ultimately, to quantify the effect of electrification on industrial outcomes. I present a series of tests to show that the electrification channel remains the most important one among alternative explanations that could link groundwater availability to industrialization directly or indirectly. Results show that an increase in one standard deviation in the measure of electrification is associated with an increase of around 14% in manufacturing output for a state at the mean of the distribution.

The myth of post-reform income stagnation: Evidence from Brazil and Mexico

- Journal of Development Economics---2012---Irineu de Carvalho Filho,Marcos Chamon

Economic policies are often judged by a handful of statistics, some of which may be biased during periods of change. We estimate the income growth implied by the evolution of food demand and durable good ownership in post-reform Brazil and Mexico, and find that changes in consumption patterns are inconsistent with official estimates of near stagnant incomes. That is attributed to biases in the price deflator. The estimated unmeasured income gains are higher for poorer households, implying marked reductions in "real" inequality. These findings challenge the conventional wisdom that post-reform income growth was low and did not benefit the poor.

Export surges

- Journal of Development Economics---2012---Caroline Freund,Martha Denisse Pierola

How can developing countries stimulate and sustain strong export growth? To answer this question, we examine 92 episodes of export surges, defined as significant increases in manufacturing export growth that are sustained for at least 7years. We find that export surges in developing countries tend to be preceded by a large real depreciation, which leaves the exchange rate significantly undervalued. In contrast, in developed countries, the role of the exchange rate is less pronounced. We examine why the exchange rate is important in developing countries and find that the depreciation is associated with a significant reallocation of resources in the export sector. In particular, depreciation stimulates entry into new export products and new markets. These new exports are important, accounting for over 40% of export growth on average during the surge in developing countries. We argue that a large real depreciation induces firms to expand the product and market space for exports.

Poverty, voracity, and growth

- Journal of Development Economics---2012---Holger Strulik

This article investigates economic performance when enforceable property rights are missing and basic needs matter for consumption. It suggests a new view of the so-called voracity effect according to which windfall gains in productivity induce behavior that leads to lower economic growth. Taking into account that the rate of intertemporal substitution in consumption depends on the level of consumption, it is shown that "voracious behavior" is situation-specific. It occurs when an economy is in decline and sufficiently close to stagnation.

Repayment performance in group lending: Evidence from Jordan

- Journal of Development Economics---2012---Al-Azzam, Moh'd,R. Carter Hill,Sudipta Sarangi

Using data from a survey of 160 urban borrowing groups of the Microfund for Women in Jordan, we investigate the effect of screening, peer monitoring, group pressure, and social ties on borrowing groups' repayment behavior as an indirect test of different theoretical models. The dependent variable used captures the intensity of default measured by the total number of days of late repayment after each due date, allowing us to use count data models with cluster standard errors. As theory predicts, our empirical analysis suggests that peer monitoring, group pressure, and social ties reduce delinquency. The paper uncovers interesting evidence about the role of social ties and religion. Most notably, in an area where religion contributes to attitudes and beliefs of individuals, we find that religiosity improves repayment performance.

Risk and intertemporal substitution: Livestock portfolios and off-take among Kenyan pastoralists

- Journal of Development Economics---2012---Travis Lybbert,John McPeak

Most decisions involve variability in two dimensions: uncertainty across states of nature and fluctuations over time. The stakes involved in tradeoffs between these variability dimensions are especially high for the poor who have difficulty managing and recovering from shocks. We assume Epstein and Zin recursive preferences and estimate risk aversion and intertemporal substitution as distinct preferences using data from Kenyan herders. Results suggest that the assumption implicit in additive expected utility models that relative risk aversion (RRA) is the inverse of the elasticity of intertemporal substitution (EIS) is flawed. Specifically, our RRA and EIS estimates are consistent with a preference for the early resolution of uncertainty, which we believe is driven importantly by the instrumental value of early uncertainty resolution. This same preference pattern is consistent with asset smoothing in response to a dynamic asset threshold.

Contagious development: Neighbor interactions in deforestation

- Journal of Development Economics---2012---Juan Robalino,Alexander Pfaff

We estimate neighbor interactions in deforestation in Costa Rica. To address simultaneity and the presence of spatially correlated unobservables, we measure for neighbors' deforestation using the slopes of neighbors' and neighbors' neighbors' parcels. We find that neighboring deforestation significantly raises the probability of deforestation. Policies for agricultural development or forest conservation in one area will affect deforestation rates in non-targeted neighboring areas. Correct estimation of the interaction reverses the naive estimate's prediction of multiple equilibria.

Do interest rates matter? Credit demand in the Dhaka slums

- Journal of Development Economics---2012---Rajeev Dehejia,Heather Montgomery,Jonathan Morduch

"Best practice" in microfinance holds that interest rates should be set at profit-making levels, based on the belief that even poor customers favor access to finance over low fees. Despite this core belief, little direct evidence exists on the price elasticity of credit demand in poor communities. We examine increases in the interest rate on microfinance loans in the slums of Dhaka, Bangladesh. Using unanticipated between-branch variation in prices, we estimate interest elasticities from 0.73 to 1.04, with our preferred estimate being at the upper end of this range. Interest income earned from most borrowers fell, but interest income earned from the largest increased, generating overall profitability at the branch level.

Bank competition, financial reform, and institutions: The importance of being developed

- Journal of Development Economics---2012---Manthos Delis

In this paper, I estimate the degree of market power at the bank-level for 84 banking systems worldwide. Subsequently, I analyze the sources of bank competition, placing emphasis on the impact of financial reform and the quality of institutions. I find that financial liberalization policies reduce the market power of banks in developed countries with advanced institutions. In contrast, banking competition does not improve at the same pace in countries with weaker institutions and a lower level of institutional development. The results hold across a wide array of identification tests and estimation methods. The main policy implication to be drawn is that a certain level of institutional development is a precondition for the success of reforms aimed at enhancing the competition and efficiency of banking markets.

The impact of financial crises and tolerance for uncertainty

- Journal of Development Economics---2012---Robert Inklaar,Jing Yang

Financial crises can have severe negative effects on investment. One reason for this is that financial crises increase uncertainty, increasing the real option value of delaying investment. In this paper, we show that the negative effect of crises on investment differs significantly across countries: in countries with low tolerance for uncertainty, the negative effect is strong. The negative effect is absent in countries that are more tolerant of uncertainty. These findings are similar across different types of financial crisis; they vary as predicted across type of investor, asset and industry; and they are not driven by uncertainty-averse countries adopting more rigid institutions.

Input-trade liberalization and firm export decisions: Evidence from Argentina

- Journal of Development Economics---2012---Maria Bas

Trade openness contributes to the diffusion of the modern technologies embodied in imported intermediate goods, which play a central role in the economic growth of developing countries. This paper investigates the micro-economic effects of input-trade liberalization. Previous work has found positive effects of access to foreign inputs on firm performance. If the availability of imported intermediate goods yields firm productivity gains, we would also expect a positive effect of input-trade liberalization on firm export decisions. This paper contributes to this literature by looking at the relationship between changes in input tariffs and within-firm changes in export status. Using detailed firm-level data from Argentina, I demonstrate that the probability of entering the export market is higher for firms producing in industries that have experienced greater input tariff reductions. These empirical findings are robust to alternative specifications that control for other trade-policy reforms, and industry and firm characteristics.

Estimating returns to education using twins in urban China

- Journal of Development Economics---2012---Hongbin Li,Pak Wai Liu,Junsen Zhang

This paper empirically estimates the return to education using twins data that the authors collected from urban China. Our ordinary least-squares estimate shows that one year of schooling increases an individual's earnings by 8.4%. If we use a within-twin fixed effects model, the return is reduced to 2.7%, but rises to 3.8% after the correction of measurement error. These results suggest that a large portion of the estimated returns to education is due to omitted ability or the family effect. We further investigate why the true return is low and the omitted ability bias high, and find evidence showing that it may be a consequence of China's education system, which is highly selective and exam oriented. More specifically, we find that high school education may mainly serve as a mechanism to select college students, but as a human capital investment per se it has low returns in terms of earnings. In contrast, both vocational school education and college education have a large return that is comparable to that found in the United States.

The impact of the Bolsa Escola/Familia conditional cash transfer program on enrollment, dropout rates and grade promotion in Brazil

- Journal of Development Economics---2012---Paul Glewwe,Ana Lucia Kassouf

We examine the impact of Brazil's Bolsa Escola/Familia program on Brazilian children's education outcomes. Bolsa provides cash payments to poor households if their children (ages 6 to 15) are enrolled in school. Using school census data to compare changes in enrollment, dropping out and grade promotion across schools that adopted Bolsa at different times, we estimate that the program has: increased enrollment by about 5.5% (6.5%) in grades 1–4 (grades 5–8); lowered dropout rates by 0.5 (0.4) percentage points in grades 1–4 (grades 5–8); and raised grade promotion rates by 0.9 (0.3) percentage points in grades 1–4 (grades 5–8). About one third of Brazil's children participate in Bolsa, so assuming no spillover effects onto non-participants implies that Bolsa's impacts are three times higher than these estimates. However, simple calculations using enrollment impacts suggest that Bolsa's benefits in terms of increased wages may not exceed its costs.

The tyranny of international index rankings

- Journal of Development Economics---2012---Bjørn Høyland,Karl Ove Moene,Fredrik Willumsen

International index rankings are popular, but perhaps too persuasive. They emphasize country differences where similarity is the dominant feature. Rankings based on Doing Business, the Human Development Index and Freedom House can be misleading, not because of wrong indicators, but because the estimation of the scores ignores inherent uncertainty. Re-estimated with a method that captures this uncertainty, it becomes clear that ranking every adjacent country is a rather courageous activity.

Culture, caution, and trust

- Journal of Development Economics---2012---Janice Breuer,John McDermott

Trust is an important determinant of economic development. Understanding its origins is therefore critical. We develop a principal-agent model with heterogeneous players to determine the aggregate amount of trustworthiness and trust in a society. People are distributed according to their preference toward caution, which we model as loss aversion. The first two moments of the distribution across principals and agents—along with institutional quality—are critical to the process by which trustworthiness and trust are formed. A direct effect suggests that more caution leads to less societal trust. An indirect effect of greater caution, working through trustworthiness, leads to more trust. Paradoxically, the net effect is almost always positive. The results are similar when we use expected utility theory. Different distributional assumptions can influence the results.

Natural resource extraction and civil conflict

- Journal of Development Economics---2012---Thorsten Janus

Based on evidence linking natural resources to civil conflict, this paper studies two armed groups fighting to control a resource and possibly a second prize. Labor is used in the agricultural, resource extraction and conflict sectors, and the groups also buy a capital input to conflict subject to the constraint that capital spending cannot exceed resource earnings. I find that exogenous shocks can have different effects on conflict intensity depending on whether the credit constraint binds. In particular, international policies to ban natural resource exports from conflict zones (e.g. 'blood diamonds'), raise agricultural productivity or limit the import of weapons will limit conflict intensity if the credit constraint binds. However, if the credit constraint does not bind, then the first two policies promote conflict, and so could even the third policy. The results therefore suggest some caution in international policymaking.

Testing the 'brain gain' hypothesis: Micro evidence from Cape Verde

- Journal of Development Economics---2012---Catia Batista,Aitor Lacuesta,Pedro Vicente

Does emigration really drain human capital accumulation in origin countries? This paper explores a unique household survey designed and conducted to answer this research question. We analyze the case of Cape

Verde, a country with allegedly the highest 'brain drain' in Africa, despite a marked record of income and human capital growth in recent decades. We propose the first explicit test of 'brain drain' arguments, according to which the prospects of own future migration can positively impact educational attainment. Our most conservative estimates using individual specific variation in economic conditions at the destination indicate that a 10 pp increase in the probability of own future migration improves the probability of completing intermediate secondary schooling by nearly 4 pp for individuals who do not migrate before age 16. These findings are robust to the choice of instruments and econometric specification. Counterfactual simulations point to significant human capital gains from lowering migration barriers.

Environmental regulation and trade openness in the presence of private mitigation

- Journal of Development Economics---2012---Louis Hotte,Stanley Winer

Acknowledging the differential ability of individuals to privately mitigate the consequences of domestic pollution for their health is essential for an understanding of their demands for regulation of the environment and of trade in dirty goods, and for analysis of the implications of these demands for equilibrium policy choices. In a small open economy with exogenous policy, we first explain how private mitigation at a cost results in an unequal distribution of the health consequences of pollution in a manner consistent with epidemiologic studies, and consequently how the benefits and costs of trade in dirty goods interact with choices concerning private mitigation to further polarize the interests of citizens concerning environmental stringency. The economy is then embedded in a broader political economy setting, and simulated to investigate the role of private mitigation in shaping political equilibria. We show that when citizens can choose between mitigating the health consequences of domestic pollution privately and reducing pollution through public policy, the same polarization of interests underlies equilibrium policy choices in both democratic and autocratic regimes.

The marginal cost of public funds and tax reform in Africa

- Journal of Development Economics---2012---Emmanuelle Auriol,Michael Warlters

In this paper we propose estimates of the marginal cost of public funds (MCF) in 38 African countries. We develop a simple general equilibrium model that can handle taxes on five major tax classes, and can be calibrated with little more than national accounts data. A key feature of our model is the explicit recognition of the informal economy. Our base case estimate of the average MCF from marginal increases in all five tax instruments is 1.2. Focusing on the lowest cost tax instruments in each country, commonly the VAT but not always, the average MCF is 1.1. Finally extending the tax base to include sections of the informal economy by removing some tax exemptions offers the potential for a low MCF source of public funds, and a lowering of MCFs on other tax instruments.

The OECD Anti-Bribery Convention: Changing the currents of trade

- Journal of Development Economics---2012---Anna D'Souza

This paper examines how criminalizing the act of bribing a foreign public official affects international trade flows using a watershed global anti-corruption initiative — the 1997 OECD Anti-Bribery Convention. I exploit variation in the timing of implementation by exporting countries and in the level of corruption of importing countries to quantify the Convention's effects on bilateral exports. I use a large panel of country pairs to control for confounding global and national trends and shocks. I find that, on average, the Convention caused a reduction in exports from signatory countries to high corruption importers relative to low corruption importers. In particular, we observe a 5.7% relative decline in bilateral exports to importers that lie one standard deviation lower on the Worldwide Governance Indicators corruption index. This suggests that by creating large penalties for foreign bribery, the Convention indirectly increased transaction costs between signatory countries and high corruption importers. The Convention may have induced OECD firms to divert their exports to less corrupt countries; while non-OECD firms not bound by the Convention may have increased their exports to corrupt countries. I also find evidence that the Convention's effects differed across product categories.

Informal employment in developing countries

- Journal of Development Economics---2012---Isabel Günther,Andrey Launov

There is an ongoing debate among researchers and policy makers, whether informal sector employment is a result of competitive market forces or labor market segmentation. More recently it has been argued that none of the two theories sufficiently explains informal employment, but that the informal sector shows a heterogenous structure. For some workers the informal sector is an attractive employment opportunity, whereas for others – rationed out of the formal sector – the informal sector is a strategy of last resort. To test the empirical relevance of this hypothesis we formulate an econometric model which allows for several unobserved segments within the informal sector and apply it to the urban labor market in Côte d'Ivoire.

Stunting and selection effects of famine: A case study of the Great Chinese Famine

- Journal of Development Economics---2012---Tue Gorgens,Xin Meng,Rhema Vaithianathan

Many developing countries experience famine. If survival is related to height, the increasingly common practice of using height as a measure of well-being may be misleading. We devise a novel method for disentangling the stunting from the selection effects of famine. Using data from the 1959–1961 Great Chinese Famine, we find that taller children were more likely to survive the famine. Controlling for selection, we estimate that children under the age of five who survived the famine grew up to be 1 to 2cm shorter. Our results suggest that if a country experiences a shock such as famine, average height is potentially a biased measure of economic conditions during childhood.

The determinants of income in a Malthusian equilibrium

- Journal of Development Economics---2012---Paul Sharp,Holger Strulik,Jacob Weisdorf

This study constructs a simple, two-sector Malthusian model with agriculture and industry, and uses it to identify the determinants of income in a Malthusian equilibrium. We make standard assumptions about preferences and technologies, but in contrast to existing studies we assume that children and other consumption goods are gross substitutes. Consistent with the conventional Malthusian model, the present theory shows that productivity growth in agriculture has no effect on equilibrium income. More importantly, we also show that equilibrium income varies, not just with the death rate as has recently been demonstrated in the literature, but also with the level of productivity in the industrial sector. An empirical analysis using data for pre-industrial England lends support to both hypotheses.

Peer effects in learning HIV results

- Journal of Development Economics---2012---Susan Godlonton,Rebecca Thornton

How do neighbors positively or negatively influence individuals living in rural Malawi to learn their HIV results? Using data of location of homes and distance to neighbors, we measure the social network effects of neighbors' learning their HIV results on individuals own learning. Using the fact that neighbors were randomly offered monetary incentives of varying amounts to learn their HIV results, we find positive effects of neighbors attending clinics on others living nearby: a 10 percentage point increase of the percentage of neighbors (approximately 2.4 individuals) learning their HIV results increases the probability of learning HIV results by 1.1 percentage points. The strongest network effects are among closest neighbors; we find no effect among religious social networks. We also find a negative interaction between direct cash incentives and peers: the effect of peers doubles among those who were not offered any individual financial incentive to learn their HIV results.

The economic growth impact of natural disasters in developing countries: Evidence from hurricane strikes in the Central American and Caribbean regions

- Journal of Development Economics---2012---Eric Strobl

In this paper we investigate the macroeconomic impact of natural disasters in developing countries by examining hurricane strikes in the Central American and Caribbean regions. Our innovation in this regard is to employ a wind field model on hurricane track data to arrive at a more scientifically based index of potential local destruction. This index allows us to identify damages at a detailed geographical level, compare hurricanes' destructiveness, as well as identify the countries that are most affected, without having to rely on potentially questionable monetary loss estimates. Combining our destruction index with macroeconomic data we show that the average hurricane strike caused output to fall by at least 0.83 percentage points in the region, although this depends on controlling for local economic characteristics of the country affected and what time of the year the storm strikes.

Resource abundance, growth and welfare: A Schumpeterian perspective

- Journal of Development Economics---2012---Pietro Peretto

This paper takes a new look at the long-run implications of resource abundance. It develops a Schumpeterian model of endogenous growth that incorporates an upstream resource-intensive sector and yields an analytical solution for the transition path. It then derives conditions under which, as the economy's endowment of a natural resource rises, (i) growth accelerates and welfare rises, (ii) growth decelerates but welfare rises nevertheless, and (iii) growth decelerates and welfare falls. Which of these scenarios prevails depends on the response of the natural resource price to an increase in the resource endowment. The price response determines the change in income earned by the owners of the resource (the households) and thereby the change in their expenditure on manufacturing goods. Since manufacturing is the economy's innovative sector, this income-to-expenditure effect links resource abundance to the size of the market for manufacturing goods and drives how re-source abundance affects incentives to undertake innovative activity.

Remittances, schooling, and child labor in Mexico

- Journal of Development Economics---2012---Carlo Alcaraz Pribaz,Daniel Chiquiar,Alejandrina Salcedo

This paper studies the effects of remittances from the U.S. on child labor and school attendance in recipient Mexican households. We identify these effects using the impact of the 2008–2009 U.S. recession on remittance receipts. The methodology employed is a differences-in-differences strategy that compares households that were remittance recipients before the crisis with never-recipient households. To avoid possible selection problems, we instrument for membership in the remittance recipient group. We find that the negative shock on remittance receipts caused a significant increase in child labor and a significant reduction of school attendance.

Consumption risk, technology adoption and poverty traps: Evidence from Ethiopia

- Journal of Development Economics---2011---Stefan Dercon,Luc Christiaensen

Much has been written on the determinants of technology adoption in agriculture, with issues such as input availability, knowledge and education, risk preferences, profitability, and credit constraints receiving much attention. This paper focuses on a factor that has been less well documented: the differential ability of households to take on risky production technologies for fear of the welfare consequences if shocks result in poor harvests. Building on an explicit model, this is explored in panel data from Ethiopia. Historical rainfall distributions are used to identify consumption risk. Controlling for unobserved household and time-varying village characteristics, it emerges that not just ex ante credit constraints, but also the possibly low consumption outcomes when harvests fail, discourage the application of fertilizer. The lack of insurance or alternative means of keeping consumption smooth leaves some trapped in low return, lower risk agriculture, one of the mechanisms through which poverty perpetuates itself in agrarian settings.

Search, migration, and urban land use: The case of transportation policies

- Journal of Development Economics---2011---Yves Zenou

We develop a search-matching model with rural-urban migration and an explicit land market. Wages, job creation, urban housing prices are endogenous and we characterize the steady-state equilibrium. We then consider three different policies: a transportation policy that improves the public transport system in the city, an entry-cost policy that encourages investment in the city and a restricting-migration policy that imposes some costs on migrants. We show that all these policies can increase urban employment but the transportation policy has much more drastic effects. This is because a decrease in commuting costs has both a direct positive effect on land rents, which discourages migrants to move to the city, and a direct negative effect on urban wages, which reduces job creation and thus migration. When these two effects are combined with search frictions, the interactions between the land and the labor markets have amplifying positive effects on urban employment. Thus, improving the transport infrastructure in cities can increase urban employment despite the induced migration from rural areas.

Reputation, group structure and social tensions

- Journal of Development Economics---2011---Dominic Rohner

Social tensions impede social cohesion and public goods provision, and can be a driving force for more serious conflicts such as civil wars. Surprisingly, the emergence of social tensions has been studied only rarely in the literature. In the present contribution a game-theoretic model highlights how reputation concerns and the structure of group cleavages matter for the emergence of social tensions. In particular, the respective effects of ethnic fractionalization, polarization and segregation are analyzed. The differences between ethnicity and class, and the role of social mobility are also studied. The predictions of the model can account for recent empirical evidence.

The intergenerational effects of paternal migration on schooling and work: What can we learn from children’s time allocations?

- Journal of Development Economics---2011---Francisca Antman

This paper explores the short-run effects of a father’s U.S. migration on his children’s schooling and work outcomes in Mexico. To get around the endogeneity of paternal migration, I use individual fixed effects and instrumental variables estimation (FEIV) where the instrumental variables are based on U.S. city-level employment statistics in two industries popular with Mexican immigrants. Overall, the estimates suggest that in the short-run, children reduce study hours and increase work hours in response to a father’s U.S. migration. Decomposing the sample into sex- and age-specific groups suggests that this is mainly driven by the effects of paternal migration on 12-15Â year-old boys. These results are consistent with a story in which the immediate aftermath of a father’s migration is one of financial hardship that is borne in part by relatively young children.

The Neolithic Revolution from a price-theoretic perspective

- Journal of Development Economics---2011---Ricardo Andrés Guzmán,Jacob Weisdorf

The adoption of agriculture during the Neolithic period triggered the first demographic explosion in history. When fertility returned to its original level, agriculturalists were more numerous, more poorly nourished, and worked longer hours than their hunter-gatherer ancestors. We develop a dynamic price-theoretic model that rationalizes these events. In the short run, people are lured into agriculture by the increased labor productivity of both adults and children. In the long run, the growth in population overrides the productivity gains, and the later generations of agriculturalists end up being worse-off than the hunter-gatherers. Counter-intuitively, the increase in the labor productivity of children causes the long-run reduction in welfare. In the long run, the increase in adult labor productivity only contributes to population growth.

The unbalanced growth hypothesis and the role of the state: The case of China's state-owned enterprises

- Journal of Development Economics---2011---Carsten Holz

Albert Hirschman's unbalanced growth hypothesis suggests that a developing economy can promote economic growth by initially investing in industries with high backward and forward linkages. In the case of Chinese economic policy today, one application would be the continued presence of the state in high-linkage sectors and the strategic withdrawal of the state from low-linkage sectors. The evidence shows that while the degree of linkage plays an important role in generating economic growth in China, province-specific withdrawal strategies for the state sector have no effect on economic growth.

The (evolving) role of agriculture in poverty reduction--An empirical perspective

- Journal of Development Economics---2011---Luc Christiaensen,Lionel Demery,Jesper Kuhl

The role of agriculture in development remains much debated. This paper takes an empirical perspective and focuses on poverty, as opposed to growth alone. The contribution of a sector to poverty reduction is shown to depend on its own growth performance, its indirect impact on growth in other sectors, the extent to which poor people participate in the sector, and the size of the sector in the overall economy. Bringing together these different effects using cross-country econometric evidence indicates that agriculture is significantly more effective in reducing poverty among the poorest of the poor (as reflected in the $1-day squared poverty gap). It is also up to 3.2 times better at reducing $1-day headcount poverty in low-income and resource rich countries (including those in Sub-Saharan Africa), at least when societies are not fundamentally unequal. However, when it comes to the better off poor (reflected in the $2-day measure), non-agriculture has the edge. These results are driven by the much larger participation of poorer households in growth from agriculture and the lower poverty reducing effect of non-agriculture in the presence of extractive industries.

Do remittances promote financial development?

- Journal of Development Economics---2011---Reena Aggarwal,Asli Demirguc-Kunt,Maria Soledad Martínez Pería

Workers' remittances to developing countries have become the second largest type of flows after foreign direct investment. This paper uses data on remittance flows to 109 developing countries during 1975-2007 to study the link between remittances and financial sector development. In particular, we examine the association between remittances and the aggregate level of deposits and credit intermediated by the local banking sector. This is an important question considering the extensive literature that has documented the growth-enhancing and poverty-reducing effects of financial development. We provide evidence of a positive, significant, and robust link between remittances and financial development in developing countries.

The redistributive effects of political reservation for minorities: Evidence from India

- Journal of Development Economics---2011---Aimee Chin,Nishith Prakash

We examine the impact of political reservation for disadvantaged minority groups on poverty. To address the concern that political reservation is endogenous, we take advantage of the state-time variation in reservation in state legislative assemblies in India generated by national policies that cause reservations to be revised and the time lags with which revised reservations are implemented. Using data on sixteen major Indian states for the period 1960-2000, we find that increasing the share of seats reserved for Scheduled Tribes significantly reduces poverty while increasing the share of seats reserved for Scheduled Castes has no impact on poverty. Political reservation for Scheduled Tribes has a greater effect on rural poverty than urban poverty, and appears to benefit people near the poverty line as well as those far below it.

Measuring the incentives to learn in Colombia using new quantile regression approaches

- Journal of Development Economics---2011---Carlos Lamarche

This paper employs newly developed quantile regression techniques to investigate a policy that could differentially affect students' performance. The Colombian vouchers were assigned using lotteries, and were renewable as long as the students maintained satisfactory academic progress. This second aspect of the program may provide incentives for low attainment students to work harder. The evidence supports the hypothesis that incentives could account for the impact of the vouchers, including lower repetition rate. The effect of the vouchers is largest in the lower tail of the educational attainment distribution, a possibility that was conjectured by others, but has not yet been confirmed empirically. The evidence suggests that the incentive effect of the program increases weak students' test scores by at least 0.1 standard deviations, roughly the score gain associated to a half year of school learning.

Growth, income distribution, and fiscal policy volatility

- Journal of Development Economics---2011---Jaejoon Woo

The relationship between income distribution and economic growth has long been an important economic research subject. Despite substantial evidence on the negative impact on long-term growth of inequality in the literature, however, there is not much consensus on the specific channels through which inequality affects growth. The empirical validity of two most prominent political economy channels - redistributive fiscal spending and taxes, and sociopolitical instability - has recently been challenged. We advance a new political economy channel for the negative link between inequality and growth, a fiscal policy volatility channel, and present strong supporting econometric evidence in a large sample of countries over the period of 1960-2000. Our finding also sheds light on another commonly observed negative relation between macroeconomic volatility and growth. We carefully address the robustness of the results in terms of data, estimation methods, outlier problem, and endogeneity problem that often plague the standard OLS (ordinary least squares) regression.

Industrial de-licensing, trade liberalization, and skill upgrading in India

- Journal of Development Economics---2011---Rubiana Chamarbagwala,Gunjan Sharma

We investigate the relationship between industrial de-licensing, trade liberalization, and skill upgrading during the 1980s and 1990s among manufacturing plants in India. We use a unique dataset on India's industrial licensing regime to test whether industrial de-licensing during the 1980s and 1990s played a role in skill upgrading, as measured by the employment and wagebill shares of white-collar workers. In addition, we assess the relative contribution of industrial de-licensing and trade liberalization to skill upgrading. We identify two main channels through which industrial de-licensing affects skill upgrading: capital- and output-skill complementarities. Using both difference-in-differences as well as regression discontinuity techniques, we find two important results. First, after controlling for the size-based exemption rule that determined whether or not a plant faced licensing restrictions, industrial de-licensing during the 1980s appears to have increased the relative demand for skilled workers via capital- and output-skill complementarities. Capital- and output-skill complementarities exist for plants in both licensed and de-licensed industries but were stronger in de-licensed industries during the 1980s, prior to India's massive trade liberalization reforms in 1991. Second, regardless of de-licensing, capital- and output-skill complementarities are generally weaker after trade was liberalized during the early 1990s. Together, capital- and output-skill complementarities contributed 75% (57%) and 31% (29%), respectively, of the growth in the employment and wagebill shares of white-collar workers in de-licensed (licensed) industries before trade was liberalized. After trade liberalization, these contributions were smaller. This suggests that trade liberalization may not have played a major role in raising the relative demand for skilled labor during the early 1990s.

Persistent poverty and informal credit

- Journal of Development Economics---2011---Paulo Santos,Christopher Barrett

This paper explores the consequences of nonlinear wealth dynamics for the formation of bilateral credit arrangements to help manage idiosyncratic risk. Using original data on expected wealth dynamics, social networks and informal loans among southern Ethiopian pastoralist households, we find that the threshold at which expected wealth dynamics bifurcate serves as a focal point at which lending is concentrated. Informal lending responds to recipients' losses but only so long as the recipients are not "too poor". Our results suggest that when shocks can have long term effects, loans are best understood as providing a safety net rather than a scale-neutral insurance mechanism. Furthermore, the persistently poor are excluded from social networks that are necessary to obtain loans given in response to shocks.

Do community-driven development projects enhance social capital? Evidence from the Philippines

- Journal of Development Economics---2011---Julien Labonne,Robert S. Chase

We explore the social capital impacts of a community-driven development project in the Philippines in which communities competed for block grants for infrastructure investment. The analysis uses a unique panel data set of about 2100 households, aggregated at the village-level, collected in 66 treatment and 69 comparison communities. We provide both difference-in-differences and propensity score matching estimates. We find that the project increased participation in village assemblies and the frequency with which local officials meet with residents and had a negative impact on collective action. There is also more limited evidence of a positive impact of the project on bridging (i.e., generalized) trust and of a negative impact on group membership.

Must conditional cash transfer programs be conditioned to be effective? The impact of conditioning transfers on school enrollment in Mexico

- Journal of Development Economics---2011---Alan de Brauw,John Hoddinott

A growing body of evidence suggests that conditional cash transfer (CCT) programs can have strong, positive effects on a range of welfare indicators for poor households in developing countries. However, there is little evidence about how important each component of these programs is towards achieving these outcomes. This paper tests the importance of conditionality on one specific outcome related to human capital formation, school enrollment, using data collected during the evaluation of Mexico's PROGRESA program. We exploit the fact that some beneficiaries who received transfers did not receive the forms needed to monitor the attendance of their children at school. We use a variety of techniques, including nearest neighbor matching and household fixed effects regressions, to show that the absence of these forms reduced the likelihood that children attended school with this effect most pronounced when children are transitioning to lower secondary school. We provide substantial evidence that these findings are not driven by unobservable characteristics of households or localities.

The role of extensive and intensive margins and export growth

- Journal of Development Economics---2011---Tibor Besedes,Thomas Prusa

We investigate and compare countries' export growth based on their performance at the extensive and intensive export margins. Our empirical approach is motivated by an extension to the Melitz (2003) model of heterogeneous firms in which exporters are subject to a one-time sunk cost and also a per-period fixed cost. With imperfect information a firm may enter export markets but shortly exit when it learns its per-period fixed costs. We apply this insight to disaggregated export data and confirm that indeed most export relationships are very short lived. We then show that the survival issue is a significant factor in explaining differences in long run export performance. We find that developing countries would experience significantly higher export growth if they were able to improve their performance with respect to the two key components of the intensive margin: survival and deepening.

Do formula-based intergovernmental transfer mechanisms eliminate politically motivated targeting? Evidence from Ghana

- Journal of Development Economics---2011---Afua Banful

Various countries have adopted formulas for determining intergovernmental transfers as a strategy to limit the role of political considerations in resource allocation. In this paper, we investigate a formula-based system of allocating resources from a central government to local governments to determine whether the political characteristics of recipient areas have any bearing on their allocation. Specifically, we study the sharing of resources of the District Assemblies Common Fund (DACF) in Ghana amongst the country's district governments over the period 1994 to 2005. We find evidence that the mechanism does not eliminate politically motivated targeting of the grants. Per capita DACF grants were higher in districts where vote margins in the previous presidential election were lower, suggesting that swing districts were targeted. We find evidence that DACF formula indicators and their weighting were chosen and amended to produce politically desired patterns of transfers.

Civil wars beyond their borders: The human capital and health consequences of hosting refugees

- Journal of Development Economics---2011---Javier Baez

In early 1994, Kagera - a region in northwestern Tanzania - was flooded by more than 500,000 refugees fleeing from the genocides of Burundi and Rwanda. I use this population shock and a series of topographic barriers that resulted in variation in refugee intensity to investigate the short- and long-run causal effects of hosting refugees on outcomes of local children. This strategy provides evidence of adverse impacts over one year after the shock: a worsening of children's anthropometrics (0.3 standard deviations), an increase in the incidence of infectious diseases (15-20 percentage points) and an increase in mortality for children under five (7 percentage points). I also find that intra- and inter-cohort variation in childhood exposure to the refugee crisis reduced height in early adulthood by 1.8Â cm (1.2%), schooling by 0.2Â years (7.1%) and literacy by 7 percentage points (8.6%). Designs using the distance to the border with Rwanda as an alternative identification strategy for refugee intensity support the findings. The estimates are robust across different samples, specifications and estimation methods and provide evidence of a previously undocumented indirect effect of civil wars on the well-being of children and subsequent economic growth in refugee-hosting communities.

Errors in self-reported earnings: The role of previous earnings volatility and individual characteristics

- Journal of Development Economics---2011---Randall Akee

I report the measurement error in self-reported earnings for a developing country using a novel data set. The data set consists of two cross-sections of the Federated States of Micronesia (FSM) wage and salary sectors; additionally, a subset of the two cross-sections may be linked to create a panel. Administrative data from FSM Social Security office are matched to the FSM Census data for the wage and salary sectors. I find that the error in annual self-reported earnings is centered on zero. Additionally, I find strong evidence for mean reversion in the data suggesting non-classical measurement error. I identify the impact of prior years' earnings variability on the current reporting of earnings using administrative data on earnings histories. Prior earnings volatility strongly affects measurement error in current period. However, the effect of prior shocks diminish significantly over time--suggesting that first-differencing and fixed-effects techniques will not improve accuracy.

Household inequality, social welfare, and trade

- Journal of Development Economics---2011---Joseph Francois,Hugo Rojas-Romagosa

Working with Sen social welfare functions (meaning explicit separability between mean income and income dispersion), we develop a generalized dual approach to tracking household inequality aspects of social welfare in general equilibrium. We highlight how household equity can be examined analytically alongside production efficiency in duality-based models, using our dual framework to explore potential trade-offs between efficiency and equity effects of trade policy. Our results complement the set of standard inequality results in trade theory focused on functional rather than household inequality. We also find that the relative distributional impact of tariffs on welfare is conditional on the initial level of inequality.

The distributional impact of large dams: Evidence from cropland productivity in Africa

- Journal of Development Economics---2011---Eric Strobl,Robert O. Strobl

We examine the distributional impact of large dams on cropland productivity in Africa. As our unit of analysis we use a hydrology based spatial breakdown of the continent that allows one to exactly define regions in terms of their upstream/downstream relationship at a highly disaggregated level. We then use satellite data to derive measures of cropland productivity within these areas. Our econometric analysis shows that while regions downstream benefit from large dams, no beneficial effects accrue to cropland within the vicinity. Moreover, we find that the productivity enhancing impact of upstream dams is dependent on the local climate. Overall our results suggest that upstream dams have quantitatively on average provided up to 12% of the minimum daily per capita amount of kilocalorie needs in downstream communities and increased agricultural production by 1%.

Law, trade, and development

- Journal of Development Economics---2011---Johannes Moenius,Daniel Berkowitz

This paper uses a Ricardian model to generate predictions about the influence of institutions on trade in differentiated (complex) and commoditized (simple) products and then uses a rich international trade data set for empirical tests. The model draws the distinction between the role of international transaction costs and domestic production costs in the trade of complex and simple products. The effects of institutions predicted by the model are identified with a three-step estimation procedure. We find that when countries have low quality institutions, institutional reform primarily influences production costs and has little influence on the volume of trade. Institutional reform, however, increases the diversity of exports in complex goods markets. Conversely, in countries with more developed institutions, institutional reform primarily influences transaction costs and is associated with gains in the volume and the diversity of complex exports.

Urban growth and uninsured rural risk: Booming towns in bust times

- Journal of Development Economics---2011---Steven Poelhekke

Rapid urbanization also happens when economic growth and urban job creation are absent, such as in Africa and Latin America during the eighties. Why do some countries urbanize faster while having worse economic growth? This paper finds that higher aggregate agricultural risk induces rural-urban migration, providing an additional channel to explain the urbanization trend. Uninsurable expected risk will lead to rural-urban migration as a form of ex-ante insurance if households are liquidity constrained and cannot overcome adverse shocks. The effect is robust to controlling for the traditional view of urbanization driven by industrialization, and to several alternative explanations such as government spending.

The long-run impact of bombing Vietnam

- Journal of Development Economics---2011---Edward Miguel,Gérard Roland

We investigate the impact of U.S. bombing on later economic development in Vietnam. The Vietnam War featured the most intense bombing campaign in military history and had massive humanitarian costs. We use a unique U.S. military dataset containing bombing intensity at the district level (NÂ =Â 584) to assess whether the war damage led to persistent local poverty traps. We compare the heavily bombed districts to other districts controlling for district demographic and geographic characteristics, and use an instrumental variable approach exploiting distance to the 17th parallel demilitarized zone. U.S. bombing does not have negative impacts on local poverty rates, consumption levels, infrastructure, literacy or population density through 2002. This finding indicates that even the most intense bombing in human history did not generate local poverty traps in Vietnam.

Access to capital in rural Thailand: An estimated model of formal vs. informal credit

- Journal of Development Economics---2011---Xavier Gine

This paper analyzes the mechanism underlying access to credit, focusing on two important aspects of rural credit markets. First, moneylenders and other informal lenders coexist with formal lending institutions such as government or commercial banks, and, more recently, micro-lending institutions. Second, potential borrowers presumably face sizable transaction costs in obtaining external credit. We develop and estimate a model based on limited enforcement and transaction costs that provides a unified view of these facts. Based on data from Thailand, the results show that the limited ability of banks to enforce contracts, more than transaction costs, is crucial in understanding the observed diversity of lenders.

Rent-seeking distortions and fiscal procyclicality

- Journal of Development Economics---2011---Ethan Ilzetzki

Recent research has demonstrated that while government expenditures are countercyclical in most industrialized countries, they tend to be procyclical in developing countries. We develop a dynamic political-economy model to explain this phenomenon. In the model, public expenditures provide insurance to uninsured households, and optimal fiscal policy is countercyclical. The introduction of a political friction, in which successive governments disagree on the desired distribution of public spending, can lead to procyclical fiscal policies. Numerical simulations of the model allow us to compare quantitatively the relative role of common explanations for fiscal procyclicality. We conclude that political distortions in the fiscal process can explain fiscal procyclicality better than other common explanations, such as borrowing constraints and macroeconomic volatility.

Sectoral differentiation, allocation of talent, and financial development

- Journal of Development Economics---2011---Esteban Jaimovich

I present a theory of development in which heterogeneously talented entrepreneurs require credit to start new projects and open new sectors. During development the variety of sectors expands, which allows better sorting of entrepreneurial talent. The paper shows that, in addition to increasing the average productivity of matches between agents and sectors, this process also mitigates informational frictions in the financial markets. Furthermore, the impact of sectoral variety on the operation of financial markets gives rise to an interesting feedback between financial development and R&D effort, which may lead to different types of dynamics. A successful economy exhibits a progressive increase in the variety of sectors, which in turn enhances the operation of financial markets. However, a poverty trap may also arise. This situation is characterised by a rudimentary productive structure with poor matching of skills to activities and severely inefficient credit to talented entrepreneurs.

HIV and fertility revisited

- Journal of Development Economics---2011---Sebnem Kalemli-Ozcan,Belgi Turan

Young (2005) argues that HIV related population declines reinforced by the fertility response to the epidemic will lead to higher capital-labor ratios and to higher per capita incomes in the affected countries of Africa. Using household level data on fertility from South Africa and relying on between cohort variations in country level HIV infection, he estimates a large negative effect of HIV prevalence on fertility. However, the studies that utilize the recent rounds of Demographic Health Surveys, where fertility outcomes are linked to HIV status based on testing, find no effect of the disease on the fertility behavior. This paper tries to bridge this gap by revisiting Young's findings. Young (2005) includes data before 1990, when no data are available on HIV prevalence rates. He assigns all the fertility observations before 1990 with HIV prevalence rates of zero, and this appears to drive the significant negative effect found in his study. When one restricts the sample to the period 1990-1998, where actual HIV data are available, the effect of HIV prevalence on fertility turns out to be positive for South Africa. Simulating Young's model utilizing these new estimates shows that the future generations of South Africa are worse off.

Land tenure differences and investment in land improvement measures: Theoretical and empirical analyses

- Journal of Development Economics---2011---Awudu Abdulai,Victor Owusu,Renan Goetz

This article develops a theoretical framework to examine the relationship between land tenure arrangements and households' investment in soil-improving and conservation measures. It then analyzes this relationship with a multivariate probit model based on detailed plot-level data from villages in the Brong Ahafo region of Ghana. A major hypothesis tested is that investment in productivity-enhancing and conservation techniques are influenced by land tenure arrangements. The theoretical analysis and empirical results generally reveal that land tenure differences significantly influence farmers' decisions to invest in land-improving and conservation measures. The findings also show that tenure security does affect farm productivity.

Internal finance and growth: Microeconometric evidence on Chinese firms

- Journal of Development Economics---2011---Alessandra Guariglia,Xiaoxuan Liu,Lina Song

Using a panel of 79,841 Chinese firms over the period

2000-2007, we examine the extent to which liquidity constraints affect firms' assets growth. We find that state owned enterprises are not affected, while the availability of internal finance represents a binding constraint for the growth of private firms, especially those operating in coastal regions, with negligible foreign ownership. Thanks to their high productivity, cash flow is, however, so abundant for these firms that they are able to grow at a very fast rate, despite being discriminated against by financial institutions. Hence, well developed external capital markets may not always be needed for fast economic growth.

The influence of the mother's power on her child's labor in Mexico

- Journal of Development Economics---2011---Iliana Reggio

In order to understand what motivates parents to send their children to work, I apply a collective household model introducing child labor explicitly. Using data from Mexico, I am able to estimate the mothers' bargaining power separately from the other parameters of the model. I find that an increase in a mother's bargaining power is associated with fewer hours of work for her daughters but not for her sons. This implies that policies that target the mother as the recipient of welfare benefits, if they manage to affect the distribution of power within the household, may affect her children's work with different impacts for boys and girls. This result also suggests that the distribution of bargaining power within the household is a relevant factor that should be considered when analyzing household's decisions.

Almost random: Evaluating a large-scale randomized nutrition program in the presence of crossover

- Journal of Development Economics---2011---Sebastian Linnemayr,Harold Alderman

Large-scale randomized interventions have the potential to uncover the causal effect of programs applying to a large population, thereby improving on the insights gained from currently dominant smaller randomized studies. However, the external validity gained through larger interventions typically risks deviation from the randomization protocol. This paper investigates the impact of the Nutrition Enhancement Program, which aims to improve child nutrition in Senegal. The analysis deals with deviation from the planned treatment and suggests approaches for combining ex-post adjustments such as propensity score matching with the randomized treatment plan. The authors do not detect a strong overall program impact on the outcome measure of weight-for-age based on planned treatment status, but do find an impact on the youngest children. Moreover, the project impact is clearer when the analysis considers treatment crossover using alternative estimators of two-stage least-squares and propensity score matching. The findings underscore the importance of addressing the shortcomings of large-scale randomization interventions in a systematic manner to guide further implementation of such projects, as well as to expose the true causal effect of such programs.

Trade liberalization, antidumping, and safeguards: Evidence from India's tariff reform

- Journal of Development Economics---2011---Chad Bown,Patricia Tovar

This paper is the first to use product-level data to examine empirically whether countries use antidumping and safeguard exceptions to unwind commitments to lower tariffs in the face of domestic political-economic pressure. We focus on the case of India, a country that underwent a major exogenous tariff reform program in the early 1990s and subsequently initiated substantial use of safeguard and antidumping import restrictions. We first estimate structural determinants of India's import protection using the Grossman and Helpman (1994) model and provide evidence from its pre-reform tariff data of 1990 that is consistent with the theory. We then re-estimate the model on the Indian tariff data after the trade liberalization is complete and find that the model no longer fits, a result consistent with theory and evidence provided in other settings that India's 1991-1992 IMF arrangement can be interpreted as resulting in an exogenous shock to India's tariff policy. However, when we re-estimate the model on data from 2000-2002 that more completely reflects India's cross-product variation in import protection by including both its post-reform tariffs and its additional non-tariff barriers of antidumping and safeguard import protection, the significance of the Grossman and Helpman model determinant estimates is restored. We interpret these combined results as evidence that India unwound its commitment to reduce tariffs through use of antidumping and safeguard protection in the face of political-economic pressure. The estimates are also economically important and provide one explanation for separate results in the literature that the magnitude of import reduction associated with India's use of antidumping is similar to the initial import expansion associated with its tariff reform. Finally, we interpret the implications of our results for the burgeoning research literature examining the effects of liberalization on India's micro-level development.

Does it matter where you come from? Vertical spillovers from foreign direct investment and the origin of investors

- Journal of Development Economics---2011---Beata Javorcik,Mariana Spatareanu

This study uses firm-level panel data from Romania to examine whether the origin of foreign investors affects the degree of vertical spillovers from FDI. Investors' origin may matter for spillovers to domestic producers supplying intermediate inputs in two ways. First, the share of intermediates sourced locally by multinationals is likely to increase with the distance between the host and the source economy. Second, the sourcing pattern is likely to be affected by preferential trade agreements. In this case, the Association Agreement between Romania and the European Union (EU) implies that inputs sourced from the EU are subject to a lower tariff than inputs sourced from the United States or Canada. This means that on average American investors may have a greater incentive than EU investors to source from Romania and hence present a greater potential for vertical spillovers. The empirical analysis produces evidence consistent with this hypothesis. The results show a positive association between the presence of American companies in downstream sectors and the productivity of Romanian firms in the supplying industries and no significant relationship in the case of European affiliates. The results also indicate that Romanian firms in sectors whose products are expensive to transport benefit more from downstream presence of American affiliates than Romanian firms in sectors with low shipping costs. No such pattern is found for European affiliates.

Positional spending and status seeking in rural China

- Journal of Development Economics---2011---Phil Brown,Erwin Bulte,Xiaobo Zhang

Focusing on a remote area in rural China, we use a panel census of households in 26 villages to show that socially observable spending has risen sharply in recent years. We demonstrate that such spending by households is highly sensitive to social spending by other villagers. This suggests that social spending is either positional in nature (i.e., motivated by status concerns) or subject to herding behavior. We also document systematic relations between social spending and changes in higher order terms of the income distribution. We find that the implications of status seeking for spending are not unidimensional--they vary across income groups and expenditure categories. In particular, and consistent with theories of rank-based status seeking, we find that the poor increase spending on funerals and gifts as competition for status intensifies. In addition, poor families of grooms expend more for wedding ceremonies as local income competition increases, while the families of brides do not. The welfare implications of spending in order to "keep up with the Joneses" are potentially large, particularly for poor households.

Does more cash in conditional cash transfer programs always lead to larger impacts on school attendance?

- Journal of Development Economics---2011---Deon Filmer,Norbert Schady

There is considerable evidence that conditional cash transfer (CCT) programs can have large impacts on school enrollment, including in very poor countries. However, little is known about what features of program design account for the observed outcomes. In this paper we analyze the impact of a program in Cambodia that made payments of varying magnitude to otherwise comparable households. The identification is based on a sharp regression discontinuity design. We find that a modest cash transfer, equivalent to approximately 2% of the consumption of the median recipient household, had a substantial impact on school attendance, approximately 25 percentage points. A somewhat larger transfer did not raise attendance rates above this level.

Where does microfinance flourish? Microfinance institution performance in macroeconomic context

- Journal of Development Economics---2011---Christian Ahlin,Jocelyn Lin,Michael Maio

We study whether and how the success of microfinance institutions ("MFI"s) depends on the country-level context, in particular macroeconomic and macro-institutional features. Understanding these linkages can make MFI evaluation more accurate and, further, can help to locate microfinance in the broader picture of economic development. We collect data on 373 MFIs and merge it with country-level economic and institutional data. Evidence arises for complementarity between MFI performance and the broader economy. For example, MFIs are more likely to cover costs when growth is stronger; and MFIs in financially deeper economies have lower default and operating costs, and charge lower interest rates. There is also evidence suggestive of substitutability or rivalry. For example, more manufacturing and higher workforce participation are associated with slower growth in MFI outreach. Overall, the country context appears to be an important determinant of MFI performance; MFI performance should be handicapped for the environment in which it was achieved.

Schooling as a lottery: Racial differences in school advancement in urban South Africa

- Journal of Development Economics---2011---David Lam,Cally Ardington,Murray Leibbrandt

This paper analyzes the large racial differences in progress through secondary school in South Africa. Using recently collected longitudinal data we find that grade advancement is strongly associated with scores on a baseline literacy and numeracy test. In grades 8-11 the effect of these scores on grade progression is much stronger for white and coloured students than for African students, while there is no racial difference in the impact of the scores on passing the nationally standardized grade 12 matriculation exam. We develop a stochastic model of grade repetition that generates predictions consistent with these results. The model predicts that a larger stochastic component in the link between learning and measured performance will generate higher enrollment, higher failure rates, and a weaker link between ability and grade progression. The results suggest that grade progression in African schools is poorly linked to actual ability and learning. The results point to the importance of considering the stochastic component of grade repetition in analyzing school systems with high failure rates.

Land tenure and investment incentives: Evidence from West Africa

- Journal of Development Economics---2011---James Fenske

The existing literature on the relationship between property rights in land and agricultural investment in Africa has given results that are often confusing and contradictory. I make two clarifying contributions to this literature. First, I pull together existing studies and investigate whether the results they find have been affected by research methods or local contexts. Studies with small sample sizes, those that use binary investment measures, and those that control for household fixed effects are less likely to find a statistically significant link between land tenure and investment. Self-reported tenure security has been a poor predictor of investment outcomes. Second, I test for a relationship between land tenure and agricultural investment in nine data sets from West Africa. While the link between tenure and investment is significant for fallow and tree planting, it is less robust for labor use and other inputs, such as manure or chemical fertilizer.

Price, unit value, and quality demanded

- Journal of Development Economics---2011---Christopher McKelvey

Given the paucity of quality price data, it is common to rely on "unit value" (average expenditure per unit) as a proxy for price, but this is an imperfect proxy if households respond to price increases by substituting to lower quality goods. This paper draws on survey data that contain both unit value and price to estimate the severity of quality substitution in Indonesia, finding that it is prevalent. The paper next calculates price elasticities that correct for quality substitution, evaluating and ultimately rejecting a commonly used method for calculating price elasticities using only unit value data. Finally, it demonstrates that quality substitution can result in biased price elasticities even when price is perfectly observed.

Can census data alone signal heterogeneity in the estimation of poverty maps?

- Journal of Development Economics---2011---Alessandro Tarozzi

Methodologies now commonly used for the construction of poverty maps assume a substantial degree of homogeneity within geographical areas in the relationship between income and its predictors. However, local labor and rental markets and other local environmental differences are likely to generate heterogeneity in such relationships, at least to some extent. The purpose of this paper is to argue that useful if only indirect and suggestive evidence on the extent of area heterogeneity is readily available in virtually any census. Such indirect evidence is provided by non-monetary indicators-such as literacy, asset ownership or access to sanitation-which are routinely included in censuses. These indicators can be used to perform validation exercises to gauge the extent of heterogeneity in their distribution conditional on predictors analogous to those commonly used in poverty mapping. We argue that the same factors which are likely to generate area heterogeneity in poverty mapping are also likely to generate heterogeneity in such kind of validation exercises. We construct a very simple model to illustrate this point formally. Finally, we evaluate empirically the argument using data from Mexico. In our empirical illustrations, the performance of imputation methodologies to construct maps of indicators typically feasible with census data alone is indeed informative about how effectively such methodologies can produce correct inference in poverty mapping.

The effect of armed conflict on accumulation of schooling: Results from Tajikistan

- Journal of Development Economics---2011---Olga Shemyakina

This paper uses differences in regional and temporal exposure to the 1992-1998 armed conflict in Tajikistan to study the effect of violent conflict on schooling outcomes. Data on the past damage to a household's residences from the 1999 Tajik Living Standards Survey is used as well as data on the events during the conflict within a conceptual framework that controls for important individual, household and community characteristics. Girls who were of school age during the conflict and lived in affected regions were less likely to complete their mandatory schooling than girls of the same age who lived in the regions relatively unaffected by conflict. The results also indicate that exposure to violent conflict had a large and statistically significant negative effect on the enrollment of girls. No effect of regional and household conflict exposure on education of boys was found. The results are robust to community and household fixed effects, selection into violence and migration.

Bankruptcy costs, liability dollarization, and vulnerability to sudden stops

- Journal of Development Economics---2011---Uluc Aysun,Adam Honig

Countries with intermediate levels of institutional quality suffer larger output contractions following sudden stops of capital inflows than less developed nations. However, countries with strong institutions seldom experience significant falls in output after capital flow reversals. We reconcile these two observations using a calibrated DSGE model that extends the financial accelerator framework developed in Bernanke, Gertler and Gilchrist (1999). The model captures financial market institutional quality with creditors' ability to recover assets from bankrupt firms. Bankruptcy costs affect vulnerability to sudden stops directly but also indirectly by affecting the degree of liability dollarization. Simulations reveal an inverted U-shaped relationship between bankruptcy costs and the output loss following sudden stops.

Common factors in Latin America's business cycles

- Journal of Development Economics---2011---Marco Aiolfi,Luis Catão,Allan Timmermann

We develop a common factor approach to reconstruct new business cycle indices for Argentina, Brazil, Chile, and Mexico ("LAC-4") from a new dataset spanning 135Â years. We establish the robustness of our indices through extensive testing and use them to explore business cycle properties in LAC-4 across outward- and inward-looking policy regimes. We find that output persistence in LAC-4 has been consistently high across regimes, whereas volatility has been markedly time-varying but without displaying a clear-cut relationship with openness. We also find a sizeable common regional factor driven by output and interest rates in advanced countries, including during inward-looking regimes.

Remittances and banking sector breadth and depth: Evidence from Mexico

- Journal of Development Economics---2011---Asli Demirguc-Kunt,Ernesto López Córdova,María Soledad Martínez Pería,Christopher Woodruff

Despite the importance of remittances to developing countries, their impact on banking sector breadth and depth in recipient countries has been largely unexplored. We examine this topic using municipality-level data on the fraction of households receiving remittances and on measures of banking breadth and depth for Mexico. We find that remittances are strongly associated with greater banking breadth and depth, increasing the number of branches and accounts per capita and the amount of deposits to GDP. These effects are significant both statistically and economically, and are robust to the potential endogeneity of remittances, inclusion of a wide range of controls and even municipal fixed effects specifications using an alternative panel data set from a sample of municipalities.

A reexamination of trends in primary commodity prices

- Journal of Development Economics---2011---Atanu Ghoshray

This paper conducts a reexamination of the Prebisch-Singer hypothesis by employing the unit root test proposed by Lee and Strazicich (2003) and Lee and Strazicich (2004) that allow for up to two structural breaks. Given the higher power of these tests compared to the Zivot and Andrews (1992) and Lumsdaine and Papell (1997) tests, rejection of the null can be considered as genuine evidence of stationarity. The main findings of this paper are that eleven out of twenty-four commodity prices are found to be difference stationary implying that shocks to these commodities tend to be permanent in nature. The remaining thirteen prices are found to exhibit trend stationary behavior with either one or two structural breaks. Most of the commodities that do not exhibit difference stationary behavior seem to contain no significant trends. There are fewer cases, in relation to past studies, of commodities that display negative trends thereby weakening the case for the Prebisch-Singer hypothesis.

The formation and evolution of childhood skill acquisition: Evidence from India

- Journal of Development Economics---2011---Christian Helmers,Manasa Patnam

Building on recent advances in the literature and using a rich data set for two cohorts of children aged between one and twelve for Andhra Pradesh, India, we investigate the determinants of children's cognitive as well as non-cognitive skills. We find evidence of self-productivity for cognitive skills and cross-productivity effects from cognitive on non-cognitive skills. Moreover, we demonstrate that parental investment has contemporaneously positive effects on skill levels for all age groups. Investigating other determinants of these skills, we find child health at age one to influence cognitive abilities at age five, whilst child health at age one is influenced by parental care already during pregnancy and earliest childhood. Understanding the determinants which account explicitly for the effect of a large number of child, caregiver and household characteristics provides insights with regard to possible policy interventions to improve the chances of children in poor environments of developing cognitive and non-cognitive skills crucial for success in many spheres of life.

Preface for Symposium on Globalization and the Brain Drain in the Journal of Development Economics, 2010

- Journal of Development Economics---2011---Jagdish Bhagwati

2011

The brain drain and the world distribution of income

- Journal of Development Economics---2011---Andrew Mountford,Hillel Rapoport

Skilled emigration (or brain drain) from developing to developed countries is becoming the dominant pattern of international migration today. Such migration is likely to affect the world distribution of income both directly, through the mobility of people, and indirectly, as the prospect of migration affects the rate of return to education in both the sending and receiving economies. This migration pattern will therefore affect human capital accumulation and fertility decisions in both the sending and receiving economies. This paper analyzes these effects in a dynamic two country model of the world economy where agents in both countries make optimal fertility and human capital decisions. The implications of the analysis for the world distribution of income are derived in the light of recent empirical findings of the brain drain literature. The analysis shows that the current trend towards predominantly skilled emigration from poor to rich countries may in the long run increase inequality in the world distribution of income as relatively poor countries grow large in terms of population. In the short run however, it is possible for world inequality to fall due to rises in GDP per capita in large developing economies with sufficiently low skilled emigration rates.

The microeconomic determinants of emigration and return migration of the best and brightest: Evidence from the Pacific

- Journal of Development Economics---2011---John Gibson,David McKenzie

A unique survey which tracks worldwide the best and brightest academic performers from three Pacific countries is used to assess the extent of emigration and return migration among the very highly skilled, and to analyze, at the microeconomic level, the determinants of these migration choices. Although we estimate that the income gains from migration are very large, not everyone migrates and many return. Within this group of highly skilled individuals the emigration decision is found to be most strongly associated with preference variables such as risk aversion and patience, and choice of subjects in secondary school, and not strongly linked to either liquidity constraints or to the gain in income to be had from migrating. Likewise, the decision to return is strongly linked to family and lifestyle reasons, rather than to the income opportunities in different countries. Overall the data suggest a relatively limited role for income maximization in distinguishing migration propensities among the very highly skilled, and a need to pay more attention to other components of the utility maximization decision.

Diasporas

- Journal of Development Economics---2011---Michel Beine,Frédéric Docquier,Çaglar Özden

Migration flows are shaped by a complex combination of self-selection and out-selection mechanisms, both of which are affected by the presence of a diaspora abroad. In this paper, we analyze how existing diasporas (the stock of people born in a country and living in another one) affect the size and human-capital structure of current bilateral migration flows. Our analysis exploits a bilateral data set on international migration by educational attainment from 195 countries to 30 OECD countries in 1990 and 2000. Based on simple micro-foundations and controlling for various determinants of migration, we found that diasporas increase migration flows and lower their average educational level. Interestingly, diasporas explain majority of the variability of migration flows and selection. This suggests that, without changing the generosity of family reunion programs, education-based selection rules are likely to have moderate impact. Our results are highly robust to the econometric techniques, accounting for the large proportion of zeros and endogeneity problems.

Income maximization and the selection and sorting of international migrants

- Journal of Development Economics---2011---Jeffrey Grogger,Gordon Hanson

Two prominent features of international labor movements are that the more educated are more likely to emigrate (positive selection) and more educated migrants are more likely to settle in destination countries with high rewards to skill (positive sorting). Using data on emigrant stocks by schooling level and source country in OECD destinations, we find that a simple model of income maximization can account for both phenomena. Results on selection show that migrants for a source-destination pair are more educated relative to non-migrants the larger is the absolute skill-related difference in earnings between the destination country and the source. Results on sorting indicate that the relative stock of more educated migrants in a destination is increasing in the absolute earnings difference between high and low-skilled workers. We use our framework to compare alternative specifications of international migration, estimate the magnitude of migration costs by source-destination pair, and assess the contribution of wage differences to how migrants sort themselves across destination countries.

Return migration, human capital accumulation and the brain drain

- Journal of Development Economics---2011---Christian Dustmann,Itzik Fadlon,Yoram Weiss

In this paper we present a model that explains migrations as decisions that respond to where human capital can be acquired more efficiently, and where the return to human capital is highest. The basic framework is a dynamic Roy model in which a worker possesses two distinct skills that can be augmented by learning by doing. There are different implicit prices, in different countries and different rates of skill accumulation. Our analysis contributes to the literature on the selection of immigrants and return migrants by offering a richer framework that may help to accommodate selection of emigrants and return migrants that are not immediately compatible with the one-dimensional skill model. Our analysis also has implications for the debate on brain drain and brain gain. In the two skills model presented here, return migration can lead to a mitigation of the brain drain, or even the creation of a "brain gain", where those who return bring the home country augmented local skills.

Brain-drain taxes for non-benevolent governments

- Journal of Development Economics---2011---John Douglas Wilson

This paper investigates the welfare effects of brain-drain taxes levied by non-benevolent governments, whereby a country collects a tax from skilled emigrants but potentially wastes a sizable portion of the revenue. Using a model in which taxes are chosen to maximize expected political rents, I show that the availability of a brain-drain tax increases a weighted sum of citizen utilities. However, the government's optimal brain-drain tax is found to be higher than the level that maximizes this weighted sum. In another model, a brain-drain tax is found to be desirable when governments use public good expenditures to compete for mobile residents.

Bidding for brains: Intellectual property rights and the international migration of knowledge workers

- Journal of Development Economics---2011---Carol McAusland,Peter Kuhn

We introduce international mobility of knowledge workers into a model of Nash equilibrium IPR policy choice among countries. We show that governments have incentives to use IPRs in a bidding war for global talent, resulting in Nash equilibrium IPRs that can be too high, rather than too low, from a global welfare perspective. These incentives become stronger as developing countries grow in size and wealth, thus allowing them to prevent the 'poaching' of their 'brains' by larger, wealthier markets.

Does international mobility of high-skilled workers aggravate between-country inequality?

- Journal of Development Economics---2011---Volker Grossmann,David Stadelmann

This paper analyzes the interaction of international migration of high-skilled labor and relative wage income between source and destination economies of expatriates. We develop an overlapping-generations model with increasing returns which suggests that international integration of the market for skilled labor aggravates between-country inequality by harming those which are source economies to begin with while benefiting host economies. The result is robust to allowing governments to optimally adjust productivity-enhancing investments which could potentially attenuate brain drain. Optimal public investment tends to decrease in response to higher emigration.

Developing science: Scientific performance and brain drains in the developing world

- Journal of Development Economics---2011---Bruce Weinberg

Establishing a strong scientific community is important as countries develop and requires both producing and retaining of important scientists. We show that developing countries produce a sizeable number of important scientists, but that they experience a tremendous brain drain. Education levels, population, and per capita GDP are positively related to the number of important scientists born in and staying in a country. Our analysis indicates that democracy and urbanization are associated with the production of more important scientists although democracy is associated with more out-migration.

Measuring subjective expectations in developing countries: A critical review and new evidence

- Journal of Development Economics---2011---Adeline Delavande,Xavier Gine,David McKenzie

The majority of economic decisions are forward-looking and thus involve expectations of future outcomes. Understanding the expectations that individuals have is thus of crucial importance to designing and evaluating policies in health, education, finance, migration, social protection, and many other areas. However, the majority of developing country surveys are static in nature and many do not elicit subjective expectations of individuals. Possible reasons given for not collecting this information include fears that poor, illiterate individuals do not understand probability concepts, that it takes far too much time to ask such questions, or that the answers add little value. This paper provides a critical review and new analysis of subjective expectations data from developing countries and refutes each of these concerns. We find that people in developing countries can generally understand and answer probabilistic questions, such questions are not prohibitive in time to ask, and the expectations are useful predictors of future behavior and economic decisions. The paper discusses the different methods used for eliciting such information, the key methodological issues involved, and the open research questions. The available evidence suggests that collecting expectations data is both feasible and valuable, suggesting that it should be incorporated into more developing country surveys.

Corruption and local democratization in Indonesia: The role of Islamic parties

- Journal of Development Economics---2011---J. Vernon Henderson,Ari Kuncoro

Indonesia has a tradition of corruption among local officials who harass and collect bribes from firms. This paper examines whether corruption is affected by local democratization and by the party composition of local assemblies. Democratization occurred in 1999 and decentralization in 2001. We have firm-level data for 2001 and 2004. The 2001 data benchmark corruption at the time of decentralization. We find that corruption declines between 2001 and 2004 overall, but much less so in districts with more secular party as opposed to Islamic party representatives in district assemblies. For a larger sample of districts, correspondingly, we find that corruption in 2004 is more in districts which voted more in favor of secular party representatives in the first elections in 1999. We argue that the effects seem to be causal, over above any effects of changing religiosity and economic circumstances across districts.

Aggregate infrastructure capital stock and long-run growth: Evidence from Finnish data

- Journal of Development Economics---2011---Jani Luoto

In this paper, Bayesian methods and the Finnish aggregate infrastructure capital series from 1860 to 2003 are used to explore how government infrastructure policy affects long-run output growth. We use Finnish data, since to the best of our knowledge the Finnish land and water construction investments series is the best available sufficiently long time series on aggregate infrastructure investments. The Finnish data provide strong and robust evidence indicating that permanent changes in government infrastructure policy have permanent effects on the growth rate of output.

Political regimes and foreign intervention

- Journal of Development Economics---2011---Toke Aidt,Facundo Albornoz

We present a theory of endogenous political regimes that emphasizes foreign direct investment as a motive for foreign governments to either induce regime transitions or promote regime consolidations. We characterize different forms of foreign intervention and identify the conditions under which they occur. We highlight new channels through which economic factors affect political regime choices. Foreign intervention is most likely to originate from countries where the government has a substantial pro-investor bias and to be directed at destinations where FDI is highly profitable and where income inequality is high. Foreign-sponsored coups d'état are more likely to be directed at democratic governments of poor countries. In destinations where FDI is highly profitable but the domestic elite is weak, foreign intervention tends to be aimed at stabilizing dictatorships. We relate the analysis to evidence on foreign intervention from around the world.

Illusory revenues: Import tariffs in resource-rich and aid-rich economies

- Journal of Development Economics---2011---Paul Collier,Anthony Venables

Where imports are financed predominantly by rents from resource extraction or aid the revenue generated by tariffs is illusory. Revenue earned by the tariff is offset by a reduction in the real value of aid and resource rents. Revenue is however moved between accounts in the government budget which, in the case of aid, may reduce the burden of donor conditionality. We demonstrate this proposition for a simple central case and show that the result is not overturned by generalisations around this case. We argue that trade policy formulation in such economies should recognize the illusory nature of tariff revenues.

The role of importers and exporters in the determination of the U.S. tariff preferences granted to Latin America

- Journal of Development Economics---2011---Peri Silva

This paper investigates the role played by domestic importers and foreign exporters in improving preferential access to the domestic market. To this end, the framework used in this paper extends the protection for sale analysis to explicitly model the role of domestic importers and foreign exporters in the determination of preferential trade treatment. The predictions of the model are tested using data on preferential trade between the United States and Latin American countries. The results suggest that Latin American exporters and US importers' lobbying efforts have a significant and important role in determining the extent of preferential access granted by the United States. More interestingly, these findings also show that U.S. importers capture a very substantial share of the rents generated by tariff preferences. These results therefore shed a pessimistic view on preferential trade schemes as a reliable source of gains for developing countries.

The impact of exchange rate volatility on plant-level investment: Evidence from Colombia

- Journal of Development Economics---2011---Ivan Kandilov,Asli Leblebicioglu

We estimate the impact of exchange rate volatility on firms' investment decisions in a developing country setting. Employing plant-level panel data from the Colombian Manufacturing Census, we estimate a dynamic investment equation using the system-GMM estimator developed by Arellano and Bover (1995) and Blundell and Bond (1998). We find a robust negative impact of exchange rate volatility, constructed either using a GARCH model or a simple standard deviation measure, on plant investment. Consistent with theory, we also document that the negative effect is mitigated for establishments with higher mark-up or exports, and exacerbated for lower mark-up plants with larger volume of imported intermediates.

Migrant networks and foreign direct investment

- Journal of Development Economics---2011---Beata Javorcik,Çaglar Özden,Mariana Spatareanu,Ileana Neagu Constantinescu

Although there exists a sizeable literature documenting the importance of ethnic networks for international trade, little attention has been devoted to studying the effects of migrants on foreign direct investment (FDI). The presence of migrants can stimulate FDI by promoting information flows across international borders and by serving as a contract enforcement mechanism. This paper investigates the link between the presence of migrants in the US and US FDI in the migrants' countries of origin, taking into account the potential endogeneity concerns. The results suggest that US FDI abroad is positively correlated with the presence of migrants from the host country. The data further indicate that the relationship between FDI and migration is stronger for migrants with tertiary education.

Income and bargaining effects on education and health in Brazil

- Journal of Development Economics---2011---Vladimir Ponczek

This study examines the impacts of the 1991 reform of Brazil's rural pension system on schooling and health indicators. We conclude that the reform had significant positive effects on schooling, especially on literacy for girls co-residing with a male pensioner. We were unable to find similar results for children living with a female pensioner. We further investigated whether these results were driven by bargaining power differences within households; our findings suggest that this explanation is plausible.

Pursuing efficiency while maintaining outreach: Bank privatization in Tanzania

- Journal of Development Economics---2011---Robert Cull,Connor P. Spreng

Profitability improvements after the privatization of a large state-owned bank might come at the expense of reduced access to financial services for some groups, especially the rural poor. The privatization of Tanzania's National Bank of Commerce provides a unique episode for studying this issue. The bank was split into the "new" National Bank of Commerce, a commercial bank that assumed most of the original bank's assets and liabilities, and the National Microfinance Bank, which assumed most of the branch network and the mandate to foster access to financial services. The new National Bank of Commerce's profitability and portfolio quality improved although credit growth was slow, in line with the privatization experiences in other developing countries. Finding a buyer for the National Microfinance Bank proved very difficult, although after years under contract management by private banking consultants, Rabobank of the Netherlands emerged as a purchaser. Profitability has since improved and lending has slowly grown, while the share of non-performing loans remains low.

Does formality improve micro-firm performance? Evidence from the Brazilian SIMPLES program

- Journal of Development Economics---2011---Pablo Fajnzylber,William Maloney,Gabriel V. Montes-Rojas,Gabriel Montes Rojas

This paper exploits an extensive Brazilian micro-enterprise survey and the 1996 introduction of a business tax reduction and simplification scheme (SIMPLES) to examine three questions. First, do high tax rates and complex tax regulations really constitute a barrier to the formalization of micro-firms? Second, does formalization improve firm performance measured along several dimensions, including revenues, employment and capital stock? Third, what are the channels through which this occurs? We find that SIMPLES led to a significant increase in formality in several dimensions. Moreover, newly created firms that opt for operating formally show higher levels of revenue and profits, employ more workers and are more capital intensive (only for those firms that have employees). The channel through which this occurs is not access to credit or contracts with larger firms. Rather, it appears that the lower cost of contracting labor leads to adopting production techniques that involve a permanent location and a larger paid labor force.

Does political competition lessen ethnic discrimination? Evidence from Sri Lanka

- Journal of Development Economics---2011---Iffath A. Sharif

The impact of political competition on ethnic discrimination remains largely unexplored. To address this gap, this paper explores the relationship between the level of political competition and the probability of receiving government transfers among ethnic minorities in Sri Lanka in the run up to the national elections of 2000. The paper shows that making politicians dependent on the votes of members of ethnic groups other their own can encourage moderation in discriminatory practices towards ethnic minorities. Specifically we find that political competition positively influenced the distribution of government food stamps among Sri Lankan Tamils, who otherwise are less likely to receive food stamps relative to the Sinhalese majority. The negative impact of political competition on discrimination is higher when minorities form part of swing constituencies than when they form part of the base support for political parties. Lessons learnt here suggest that having built-in incentives in the design of the electoral process for intergroup bargaining and cooperation in countries with ethnically heterogeneous societies can be an effective restraint on ethnic discrimination. This is consistent with other research that considers political institutions to be a key lever for making ethnically divided societies more inclusive.

Women as agents of change: Female income and mobility in India

- Journal of Development Economics---2011---Nancy Luke,Kaivan Munshi

Economic globalization will give many women in developing countries access to steady and relatively remunerative employment for the first time, potentially shifting bargaining power within their households and changing the choices that are made for their children. This paper exploits a unique setting -- a group of tea plantations in South India where women are employed in permanent wage labor and where incomes do not vary by caste -- to anticipate the impact of globalization on mobility across social groups in the future. The main result of the paper is that a relative increase in female income weakens the family's ties to the ancestral community and the traditional economy, but these mobility enhancing effects are obtained for certain historically disadvantaged castes alone. Although the paper provides a context-specific explanation for why the women from these castes emerge as agents of change, the first general implication of the analysis is that the incentive and the ability of women to use their earnings to influence household decisions depends importantly on their social background. The second implication is that historically disadvantaged groups may, in fact, be especially responsive to new opportunities precisely because they have fewer ties to the traditional economy to hold them back.

The impact of oil prices on an oil-importing developing economy

- Journal of Development Economics---2011---Stefan Schubert,Stephen J Turnovsky

This paper analyzes the impact of an increase in the price of oil on a small developing economy. We consider the extent to which the impacts of oil price shocks depend upon the economy's internal production structure and its access to the world financial market, and find that the long-run impact depends much more on the former than the latter. Two critical quantities summarizing the long-run effects are (i) the relative share of oil to labor in output and (ii) the elasticity of substitution in production. We supplement the formal analysis with numerical simulations, thereby enabling us to characterize the short-run dynamics. Overall, the simulations can replicate much of the empirical evidence used to characterize the effects of the recent oil price increases on the economy. They also highlight the sensitivity of the effect of the oil price to the elasticity of substitution.

Group insurance and lending with endogenous social collateral

- Journal of Development Economics---2011---Beatrix Paal,Thomas Wiseman

We construct a dynamic model of self-enforcing insurance provision and lending to a community of borrowers who are connected by risk-sharing arrangements that are themselves subject to enforcement problems, as in Kocherlakota (1996). We show that an outside lender offering constant-consumption contracts can earn a higher profit if he conditions his repeated interactions with each borrower on the history of his interactions with all the group members (a joint liability contract), rather than on his history with that borrower only (individual liability contracts). This result holds even in the absence of informational asymmetries. The observation driving it is that with individual liability contracts, a joint welfare-maximizing group may prefer to have one or more group members default on their contracts, so that the group can consume a mix of outside funds and the defaulters' stochastic income. One contribution of our work is to give precise economic content to the concept of "social collateral" as the per-agent surplus from group risk-sharing over autarky. The group can deter its members from defaulting on their contracts with the principal by threatening to reduce that surplus.

The human capital consequences of civil war: Evidence from Guatemala

- Journal of Development Economics---2011---Rubiana Chamarbagwala,Hilcías Morán

We combine data from the 2002 National Population Census and the distribution of the number of human rights violations and victims across 22 departments to examine how Guatemala's 36-year-long civil war affected human capital accumulation. The year of birth and the department of birth jointly determine an individual's exposure during school age to three different periods of the civil war, namely the initial period (1960-1978), the worst period (1979-1984), and the final period (1985-1996). We find a strong negative impact of the civil war on the education of the two most disadvantaged groups, namely rural Mayan males and females. Among rural Mayan males, those who were school age during the three periods of the civil war in departments where more human rights violations were committed completed 0.27, 0.71, and 1.09Â years less of schooling respectively whereas rural Mayan females exposed to the three periods of the war completed 0.12, 0.47, and 1.17Â years less of schooling respectively. Given an average of 4.66 and 3.83Â years of schooling for males and females, these represent declines of 6, 15, and 23% for males and 3, 12, and 30% for females. Our results are robust to the inclusion of indicators for department of residence, year of birth, and controls for different trends in education and human development in war-affected and peaceful departments of Guatemala and suggest that the country's civil war may have deepened gender, regional, sectoral, and ethnic disparities in schooling.

Fungibility and the impact of development assistance: Evidence from Vietnam's health sector

- Journal of Development Economics---2011---Adam Wagstaff

The apparent fungibility of aid is a challenge to the evaluation of donor-funded development projects, requiring a comparison of the observed outcomes with the outcomes that would have occurred if the project had not gone ahead. Where projects are targeted on specific geographic areas, counterfactual outcomes in each can differ from observed outcomes because the amount of government spending (gross of aid) differs, the productivity of government spending differs, or both. This paper estimates the benefits of two concurrent World Bank health projects in Vietnam targeted on specific provinces. Estimates are derived from a model linking outcomes (under-five mortality) to government spending before and after the project and in project and nonproject provinces, and are presented for different assumptions regarding fungibility of funds (zero and full fungibility) and the impacts of the project on the productivity of government spending (the project modifies productivity in both sectors equally and in neither sector). The estimated mortality reductions are highly insensitive to the assumed degree of fungibility, but highly sensitive to the assumed productivity effects (the estimates range from 1 to 25%). The wide range reflects the uncertainty due to the lack of a genuine control group of provinces.

A healthier start: The effect of conditional cash transfers on neonatal and infant mortality in rural Mexico

- Journal of Development Economics---2011---Tania Barham

Conditional cash transfer programs seek to break the intergenerational transmission of poverty by building the human capital of poor children. Despite their popularity throughout the developing world, relatively little is known about their effect on children's health outcomes. This paper evaluates the impact of the Mexican conditional cash transfer program, Progresa, on two important health outcomes: infant and neonatal mortality. It exploits the phasing-in of Progresa over time throughout rural Mexico to identify the impact of the program. The paper shows that Progresa led to a large 17% decline in rural infant mortality among the treated, but did not reduce neonatal mortality on average. The benefit-cost ratio is between 1.3 and 3.6. Tests for heterogeneity show larger declines for some groups including those municipalities whose pre-program levels of mortality were above the median, and those that prior to the program had higher illiteracy rates, and less access to electricity.

Economic transition, higher education and worker productivity in China

- Journal of Development Economics---2011---Belton Fleisher,Yifan Hu,Haizheng Li,Seonghoon Kim

We investigate the role of education on worker productivity and firms' total factor productivity using a panel of firm-level data from China. We estimate the returns to education by calculating the marginal productivity of workers of different education levels based on estimates of the firm-level production function. We also estimate how the education level of workers and CEO contributes to firms' total factor productivity. Estimated marginal products are much higher than wages, and the gap is larger for highly educated workers. Our estimate shows that an additional year of schooling raises marginal product by 30.1%, and that CEO's education increases TFP for foreign-invested firms. Estimates vary substantially across ownership classes, the effect of schooling on productivity being highest in foreign-invested firms. We infer that market mechanisms contribute to a more efficient use of human capital within firms.

The elusive costs of sovereign defaults

- Journal of Development Economics---2011---Eduardo Levy Yeyati,Ugo Panizza

The evidence supporting the presence of output losses associated with sovereign defaults is based on annual observations and suffers from measurement and identification problems. This paper examines the impact of default on growth using quarterly data and finds that output contractions precede defaults and that output starts growing after the quarter in which the default took place. This indicates that default episodes mark the beginning of the economic recovery and that the negative effects of a default on output are likely to be driven by the anticipation of default, independently of whether or not the country ultimately decides to validate it.

Aid, Dutch disease, and manufacturing growth

- Journal of Development Economics---2011---Raghuram Rajan,Arvind Subramanian

We examine the effects of aid on the growth of manufacturing, using a methodology that exploits the variation within countries and across manufacturing sectors, and corrects for possible reverse causality. We find that aid inflows have systematic adverse effects on a country's competitiveness, as reflected in the lower relative growth rate of exportable industries. We provide some evidence suggesting that the channel for these effects is the real exchange rate appreciation caused by aid inflows. We conjecture that this may explain, in part, why it is hard to find robust evidence that foreign aid helps countries grow.

Impacts of the Productive Safety Net Program in Ethiopia on livestock and tree holdings of rural households

- Journal of Development Economics---2011---Camilla Andersson,Alemu Mekonnen,Jesper Stage

We evaluated the impacts of the Ethiopian Productive Safety Net Program (PSNP) on rural households' holdings of livestock and forest assets/trees. We found no indication that participation in PSNP induces households to disinvest in livestock or trees. In fact, households that participated in the program increased the number of trees planted, but there was no increase in their livestock holdings. We found no strong evidence that the PSNP protects livestock in times of shock. Shocks appear to lead households to disinvest in livestock, but not in trees. Our results suggest that there is increased forestry activity as a result of PSNP, and that improved credit access encourages households to increase their livestock holdings.

BOT projects: Incentives and efficiency

- Journal of Development Economics---2011---Larry Qiu,Susheng Wang

In recent years, governments have been increasingly adopting Build-Operate-Transfer (BOT) contracts for large infrastructure projects. However, BOT contracts have received little attention from economists. The apparent agency problem in BOT projects has never been analyzed. In this paper, we develop a model to examine the incentives, efficiency and regulation in BOT contracts. We show that a BOT contract with a price regulation during the concession period and a license extension after the concession period is capable of achieving full efficiency. Both license extension and price control are observed in many real-world BOT projects. We also investigate the efficiency in such contracts by considering other factors, including time consistency, price ceiling, foreign ownership, and the lack of price regulation.

Asymmetric effects of financial development on South-South and South-North trade: Panel data evidence from emerging markets

- Journal of Development Economics---2011---Firat Demir,Omar S. Dahi

Using bilateral trade data in total and technology-and-skill-intensive manufactured goods for 28 developing countries that account for 82% of all developing country manufactures exports between 1978 and 2005, this paper explores the effects of financial development on the pattern of specialization in South-South and South-North trade. The empirical results using dynamic panel regressions and comprehensive sensitivity tests suggest that financial development in the South has an economically and statistically significant positive effect on the share of total and technology-and-skill-intensive manufactures exports in GDP, and total exports in South-South trade. In contrast, no such significant or robust effect of financial development is found in South-North trade. Overall, the positive effect of financial development is found to be asymmetric favoring South-South significantly more than South-North trade. In addition, financial development is found to be increasing technology-and-skill-intensive manufactured goods exports significantly more than total manufactured or merchandise goods exports.

Development through synergistic reforms

- Journal of Development Economics---2010---James Rauch

For many less developed countries production of high quality output is a precondition for firms to become exporters. Institutional deficiencies that raise costs of high quality production therefore limit the positive impact that trade facilitation can have on income. Consequently, institutional reforms that reduce costs of high quality production and trade reform have synergistic effects. In contrast, institutional reforms that reduce costs of low quality production (e.g., reforms that disproportionately benefit small businesses) interfere with the impact of trade reform. We obtain these results in a heterogeneous firm model that displays standard "industry rationalization" responses to reduced trade costs.

Vertical integration and investor protection in developing countries

- Journal of Development Economics---2010---Rocco Macchiavello

The industrial organization of developing countries is characterized by the pervasive use of subcontracting arrangements among small, financially constrained firms. This paper asks whether vertical integration relaxes those financial constraints. It shows that vertical integration trades off the benefits of joint liability against the costs of rendering the supply chain more opaque to external investors. In contrast to the commonly held view that pervasive input and capital market imperfections are conducive to vertical integration, the model predicts that the motives for vertical integration are not necessarily higher in developing countries. In particular, vertical integration is more likely to arise at intermediate levels of investor protection and better contract enforcement with suppliers reduces vertical integration only if financial markets are sufficiently developed. Evidence supporting both predictions is discussed.

The supply- and demand-side impacts of credit market information

- Journal of Development Economics---2010---Alain de Janvry,Craig McIntosh,Elisabeth Sadoulet

We utilize a unique pair of experiments to isolate the ways in which reductions in asymmetric information alter credit market outcomes. A Guatemalan microfinance lender gradually started using a credit bureau across its branches without letting borrowers know about it. One year later, we ran a large randomized credit information course that described the existence and workings of the bureau to the clients of this lender. This pairing of natural and randomized experiments allows us to separately identify how new information enters on the supply and the demand sides of the market. Our results indicate that the credit bureau generated large efficiency gains for the lender, and that these gains were augmented when borrowers understood the rules of the game. The credit bureau rewarded good borrowers but penalized weaker ones, increasing economic differentiation.

Maturity mismatch and financial crises: Evidence from emerging market corporations

- Journal of Development Economics---2010---Hoyt Bleakley,Kevin Cowan

Substantial attention has been paid in recent years to the risk of maturity mismatch in emerging markets. Although this risk is microeconomic in nature, the evidence advanced thus far has taken the form of macro correlations. We evaluate this mechanism empirically at the micro level by using a database of over 3000 publicly listed firms from fifteen emerging markets. We measure the risk of maturity mismatch by estimating, at the firm level, the effect on investment of the interaction of short-term exposure and aggregate capital flight. This effect is (statistically) zero, contrary to the prediction of the maturity-mismatch hypothesis. This conclusion is robust to using a variety of different estimators, alternative measures of capital flows, and controls for devaluation effects and access to international capital. We do find evidence that short-term-exposed firms pay higher financing costs, and have lower equity valuations, but not that this reduction in net worth translates into a drop in investment or sales.

Financial factors and the margins of trade: Evidence from cross-country firm-level data

- Journal of Development Economics---2010---Nicolas Berman,Jérôme Héricourt

Using a large cross-country, firm-level database containing 5000 firms in 9 developing and emerging economies, we study how financial factors affect both firms' export decisions and the amount exported by firms. First, our results highlight the importance of the impact of firms' access to finance on their entry decision into the export market. However, better financial health neither increases the probability of remaining an exporter once the firm has entered, nor the size of exports. Second, we find that financial constraints create a disconnection between firms' productivity and their export status: productivity is only a significant determinant of the export decision if the firm has a sufficient access to external finance. Finally, an increase in a country's financial development dampens this disconnection, thus acting both on the number of exporters and on the exporters' selection process. These results contribute to the literature documenting the role of fixed costs and of the extensive margin of trade in total trade adjustment, and provide micro-level evidence of the positive impact of financial development on trade found by previous literature.

Foreign direct investment and host country policies: A rationale for using ownership restrictions

- Journal of Development Economics---2010---Bilgehan Karabay

This paper examines host governments' motivation for restricting ownership shares of multinational firms (MNFs) in foreign direct investment (FDI) projects. An MNF with a productivity advantage is willing to invest in a host country. The host government wants to capture the MNF's surplus yet cannot observe it due to the MNF's private information about its firm-specific advantage. In contrast, a joint venture (JV) partner might observe this surplus depending on its ownership share. The host government can alleviate its informational constraints by using ownership restrictions to force a JV. This calls into question the wisdom of calls for 'liberalizing' FDI flows by the wholesale elimination of domestic JV requirements. We show that the optimal mechanism involves ownership restrictions that decrease as the size of the MNF's firm-specific advantage increases.

Using the Hawthorne effect to examine the gap between a doctor's best possible practice and actual performance

- Journal of Development Economics---2010---Kenneth Leonard,Melkiory C. Masatu

Many doctors in developing countries provide considerably lower quality care to their patients than they have been trained to provide. The gap between best possible practice and actual performance (often referred to as the know-do gap) is difficult to measure among doctors who differ in levels of training and experience and who face very different types of patients. We exploit the Hawthorne effect-in which doctors change their behavior when a researcher comes to observe their practices-to measure the gap between best and actual performance. We analyze this gap for a sample of doctors and also examine the impact of the organization for which doctors work on their performance. We find that some organizations succeed in motivating doctors to work at levels of performance that are close to their best possible practice. This paper adds to recent evidence that motivation can be as important to health care quality as training and knowledge.

Conflict displacement and labor market outcomes in post-war Bosnia and Herzegovina

- Journal of Development Economics---2010---Florence Kondylis

The war in Bosnia and Herzegovina of the early nineties displaced 1.3Â million people. This study uses longitudinal data to document the effects of this displacement on labor market outcomes. To account for endogeneity in displacement, I exploit the fact that the level of violence affected the decision to leave and that pre-war economic performance is orthogonal to local violence levels. I find that displaced Bosnians are less likely to be working relative to the people who stayed. Displaced men experience higher unemployment levels, and displaced women are more likely to drop out of the labor force.

A survey-based choice experiment on coca cultivation

- Journal of Development Economics---2010---Marcela Ibanez,Fredrik Carlsson

From 1997 to 2005, an astonishing 5200Â million USD was invested to reduce cocaine production in Colombia, the world's main cocaine producer. However, little is known about the effectiveness of policies targeting coca cultivation. This paper uses a survey-based experiment to evaluate the effects of the two main policies: eradication and alternative development programs. Our results support Becker's (1968) model of crime participation and in addition shed light on other non-monetary factors that affect the coca cultivation decision: religion, legitimacy, remoteness, and poverty are found to be important. We find that coca cultivation is inelastic to increases in perceived risk and relative profit so eradication and alternative development would have a rather small effect on coca cultivation. A simple simulation exercise predicts that investing additional hundred thousand dollars in eradication decreases coca cultivation in only 1.5%.

Decentralizing development: Allocating public goods via competition

- Journal of Development Economics---2010---Larry Chavis

Decentralizing the allocation of public goods by giving funds directly to communities takes advantage of local information concerning needs, but leaves funds open to misuse or capture by local elites. A large scale development project in Indonesia attempts to overcome this downside of decentralized allocation by having communities compete locally for block grants. Competition weeds out less efficient projects. Increasing the number of villages bidding by 10% leads to a 1.8% decline in road construction costs. Increased community participation in project planning also leads to better outcomes.

The determinants and impact of telecommunications reforms in developing countries

- Journal of Development Economics---2010---Farid Gasmi,Laura Recuero Virto

This paper has two related objectives. First, it seeks to identify the key determinants of some policies that have been at the heart of the reforms of the telecommunications industry in developing countries, namely, liberalization, privatization, and the (re)structuring of regulation. Second, it attempts to estimate the extent to which these policies have translated into actual deployment of telecommunications infrastructure. This simultaneous investigation is conducted by means of an econometric analysis of a 1985-1999 time-series-cross-sectional database on 86 developing countries. Sectoral as well as institutional and financial factors are found to be important determinants of the actual reforms implemented. We uncover a positive relationship between the decision to introduce competition in the digital cellular segment and the growth of the fixed-line segment, suggesting that these two segments have benefited from each other. We also find that countries facing increasing institutional risk and financial constraints are more likely to introduce competition in the digital cellular segment and to privatize the fixed-line incumbent, these policies being economically attractive to both investors and governments. In turn, these policies are those that enhance the deployment of fixed-line infrastructure. In contrast, competition in the analogue cellular segment and the creation of a separate regulator seem to be relatively less attractive policies as they are found to be less likely to be introduced in countries facing increasing institutional risk and budget constraints. Their impact on fixed network deployment is found to be negative or non significant.

Fiscal inertia, donor credibility, and the monetary management of aid surges

- Journal of Development Economics---2010---Edward F. Buffie,Stephen O'Connell,Christopher Adam

Donors cannot pre-commit to support scaled-up public spending programs on a continuing basis, nor can governments credibly commit to curtail expenditure rapidly in the event that aid revenues contract. An aid boom may therefore be accompanied by a credibility problem. When this is the case, the absorb-and-spend strategy recommended by the IMF leads to capital flight, higher inflation, and large current account surpluses inclusive of aid. The right policy package combines a critical minimum degree of fiscal restraint with reverse sterilization.

The optimal sequencing of carrots

- Journal of Development Economics---2010---Jennifer L. Steele

When aid organizations contract with local agents aid funds have the potential to be diverted to purposes other than the intended project. A multi-stage game is presented where the benefit from the project is cumulative, with the application of funds in each stage increasing both the agent's and the organization's benefit from the project. As the agent's utility of diversion increases, the allocation in each stage decreases and the project takes more stages to complete. When contracting with agents with high utilities of diversion the optimal contract involves bloated projects and a side payment to the agent upon completion. If the organization's commitment to the contract is not credible both the agent's and the organization's benefit is reduced.

Fatal fluctuations? Cyclicality in infant mortality in India

- Journal of Development Economics---2010---Sonia Bhalotra

This paper investigates the impact of aggregate income shocks on infant mortality in India and investigates likely mechanisms. A recent OECD-dominated literature reports the provocative finding that mortality at most ages is pro-cyclical. Similar analyses for poorer countries are scarce, and both income risk and mortality risk are greater in poor countries. This paper uses data and methods designed to avoid some of the specification problems in previous studies and it explores mechanisms and extensions that have not been previously considered. It uses individual data on infant mortality for about 150,000 children born in 1970-1997, merged by cohort and state of birth with a state panel containing information on aggregate income. Identification rests upon comparing the effects of annual deviations in income from trend on the mortality risks of children born at different times to the same mother, conditional upon a number of state-time varying covariates including rainshocks and state social expenditure. Rural infant mortality is counter-cyclical, the elasticity being about -Â 0.33. This is despite the finding that relatively high-risk women avert birth or suffer fetal loss in recessions. It seems in part related to recessions stimulating distress labor amongst mothers, in contrast to the case in richer countries, where they discourage labor market participation. Health-care seeking declines in recessions, and this appears to be related to the opportunity cost of maternal time. Disaggregation reveals that the average results are driven by rural households in which the mother is uneducated or had her first birth in teenage, and that it is only girls that are at risk; boys are protected from income shocks. Exposure to poor conditions in the fetal and neonatal period appears to have a larger effect on infant mortality than similar exposure in the postneonatal period.

Poverty reduction without economic growth?: Explaining Brazil's poverty dynamics, 1985-2004

- Journal of Development Economics---2010---Francisco Ferreira,Phillippe G. Leite,Martin Ravallion

Brazil's slow pace of poverty reduction between the mid-1980s and the mid-2000s reflects both low growth and a low growth elasticity of poverty reduction. Using GDP data disaggregated by state and sector for a twenty-year period, this paper finds considerable variation in the poverty-reducing effectiveness of growth--across sectors, across space, and over time. Growth in the services sector was substantially more poverty-reducing than was growth in either agriculture or industry. Growth in industry had different effects on poverty across different states and its impact varied with initial conditions related to human development and worker empowerment. But because there was so little of it, economic growth actually played a relatively small role in accounting for Brazil's poverty reduction between 1985 and 2004. The taming of hyperinflation (in 1994) and a substantial expansion in social security and social assistance transfers, in large part mandated by the 1988 Constitution, accounted for the bulk of the overall reduction in poverty.

The Indian growth miracle and endogenous growth

- Journal of Development Economics---2010---Jakob Madsen,Shishir Saxena,James Ang

Using over half a century of R&D data for India, this paper tests whether the second-generation endogenous growth theories are consistent with India's growth experience. Furthermore, the paper examines the extent to which growth in India can be explained by R&D activity, international R&D spillovers, catch-up to the technology frontier and policy reforms. The empirical results show that the growth in India over the past five decades has been driven by research intensity following the predictions of Schumpeterian growth theory.

Property rights protection and corporate R&D: Evidence from China

- Journal of Development Economics---2010---Chen Lin,Ping Lin,Frank Song

Following the recent literature on institutions and economic growth, we examine the effects of property rights protection on corporate R&D. Using a unique 2003 World Bank survey of over 2400 firms in 18 Chinese cities, we obtain the following findings: (1) property rights protection is positively and significantly related to corporate R&D activity (for both process and product R&D); (2) government services and helping hand are conducive to corporate R&D, while informal payments to government officials are not; and (3) government ownership of firms and direct appointment of CEOs are negatively associated with corporate R&D activities. We also find that corporate R&D is positively related to firm size, and access to finance, but negatively related to product market competition and firm age.

Entrepreneurial drain under moral hazard: A high-yield sector curse?

- Journal of Development Economics---2010---Carlo Perroni,Eugenio Proto

We describe a two-sector, general-equilibrium model of productive sorting under output risk and incomplete information. Risk-neutral (entrepreneurial) individuals can either produce alone, or - acting as employers/insurers - team up with risk-averse (non-entrepreneurial) individuals. Although the latter option has the potential to generate more surplus, when effort is unobservable and risk is high, the moral hazard problem in mixed matches may be too severe for mixing to be attractive to both risk-aversion types, leading to a segregated equilibrium in which risk-averse individuals select low-risk, low-yield activities. An increase in the profitability of the riskier sector can then trigger a switch from a mixed to a segregated equilibrium and cause aggregate output to fall. Evidence from a panel of non-OECD countries - showing that the presence of uninsured, small-scale mining firms has a negative impact on the relationship between natural resource exports and agrarian productivity - suggests that this 'high-yield sector curse' might be present in natural resource-rich, low-income countries.

Inheritance patterns in migration-prone communities of the Peruvian Highlands

- Journal of Development Economics---2010---Tatiana Goetghebuer,Jean-Philippe Platteau

On the basis of detailed information on inheritance practices collected in the course of an in-depth survey of three Andean communities of Peru, and unlike most empirical studies which rely on remittance functions, we have been able to estimate an inheritance function with a view to identifying the main factors associated with particular patterns of land bequests. A central result is that the positive relationship between caring and a favourable access to land bequest indeed exists, yet is only observed for migrant children (whether urban or rural, long-distance or short-distance migrants). Combined with other findings and observations, this result strengthens the case for an interpretation based on an active role of potential heirs in the determination of inheritance outcomes. It therefore calls into question the strategic bequest theory which presumes that parents are the ultimate decision-makers in this matter. In addition, our study shows that inheritance patterns are complex: besides migration and caring behavior, personal characteristics of potential heirs, such as gender, birth order, and family status (having children or not), do appear to influence division of parental land.

Competition and inter-firm credit: Theory and evidence from firm-level data in Indonesia

- Journal of Development Economics---2010---Kyle Hyndman,Giovanni Serio

Using firm-level data we investigate the relationship between trade credit and suppliers' market structure and find a [intersection]-shaped relationship between competition and trade credit, with a discontinuous increase in credit provision between monopoly and duopoly. This "big jump" arises because monopolists are more likely to not offer any trade credit than firms in competitive environments. Our model exploits the fundamentally different nature between cash and trade credit sales, arguing that firms are unable to commit ex ante to a trade credit price. We show that monopolists will often sell only on cash, while credit is always provided in competitive environments.

Do unemployment benefits promote or hinder job reallocation?

- Journal of Development Economics---2010---Tito Boeri,Mario Macis

According to recent and largely untested theories, unemployment benefits (UBs) could improve the extent and quality of job reallocation even at the cost of increasing unemployment. In this paper, we use a new set of yearly panel data from a large number of countries to evaluate empirically the relationship between unemployment benefits and job reallocation. Unlike previous work assessing the effects of UBs on labor market stocks, we focus on flows and rely on policy "experiments," notably the introduction from scratch of unemployment benefits in many countries. We exploit the longitudinal nature of our data to lessen the potentially important selection, endogeneity, and omitted variable problems. We find a positive, sizable, and significant effect of the introduction of UBs on job reallocation, arising mainly from the job destruction margin although this effect fades away over time. These findings appear to be robust to changes in the countries in the sample, control variables or estimation methods. We discuss to what extent our results are consistent with equilibrium matching models with or without endogenous sorting of workers into jobs providing entitlement to UBs and stochastic job matching.

Managerial ability and capital flows

- Journal of Development Economics---2010---Andre Silva

Capital flows with low intensity and flows to middle-income countries. Physical and human capital alone cannot explain this pattern. I present a model to show how managerial ability--the ability to run risky projects--can increase total factor productivity and explain the pattern of capital flows. The model implies that countries with more high-ability managers use more risky projects and have higher productivity. I define proxies for managerial ability with data on physical and human capital, schooling, and entrepreneurship. Consistent with the pattern of capital flows, the model predicts similar returns to capital across countries and higher returns in middle-income countries.

The composition of growth matters for poverty alleviation

- Journal of Development Economics---2010---Norman Loayza,Claudio Raddatz

This paper contributes to explain the cross-country heterogeneity of the poverty response to changes in economic growth. It does so by focusing on the structure of output growth itself. The paper presents a two-sector theoretical model that clarifies the mechanism through which the sectoral composition of growth and associated labor intensity can affect workers' wages and, thus, poverty alleviation. Then, it presents cross-country empirical evidence that analyzes, first, the differential poverty-reducing impact of sectoral growth at various levels of disaggregation, and, second, the role of unskilled labor intensity in such differential impact. The paper finds evidence that not only the size of economic growth but also its composition matters for poverty alleviation, with the largest contributions from unskilled labor-intensive sectors (agriculture, construction, and manufacturing). The results are robust to the influence of outliers, endogeneity concerns, alternative explanations, and various poverty measures.

North-South trade with increasing product variety

- Journal of Development Economics---2010---Peter Gustafsson,Paul Segerstrom

We present a model of one-way product cycles in international trade. Firms develop new product varieties in technologically advanced countries (the North), other firms copy these products in less developed countries (the South) and all shifts in production go from North to South. What distinguishes this paper from the earlier literature are the model's implications for economic growth and wage determination. Economic growth is characterized by weak scale effects, in contrast to the strong scale effects in the earlier literature. The model can also account for large North-South wage differences for plausible parameter values.

Competition in bureaucracy and corruption

- Journal of Development Economics---2010---Mikhail Drugov

This paper studies the consequences of introducing competition between bureaucrats. Firms are supposed to invest into eliminating negative externalities of production, while bureaucrats administer the process by issuing licences. Some bureaucrats are corrupt, that is, they issue a licence to any firm in exchange for a bribe. The competition regime is found to create more ex ante incentives for firms to invest, while the monopoly regime is better at implementing ex post allocation, that is, distributing the licences given the firms' investment decisions. Additional results on the effect of punishments and bureaucrats' rotation are provided.

Do elites benefit from democracy and foreign aid in developing countries?

- Journal of Development Economics---2010---Christian Bjørnskov

A popular argument for the absence of any beneficial effects of foreign aid is that it is skimmed by political elites in recipient countries. However, studies also suggest that aid may be more effective in relatively democratic developing countries. By exploring data on income quintiles derived from the World Income Inequality Database for 88 developing countries, a set of results indicate that foreign aid and democracy in conjunction are associated with a higher share of income held by the upper quintile. It thus appears that foreign aid, contrary to popular beliefs, leads to a more skewed income distribution in democratic developing countries while the effects are negligible in autocratic countries. The paper closes with a discussion of potential mechanisms generating this perverse effect.

Financial market participation and the developing country business cycle

- Journal of Development Economics---2010---Hüseyin Özbilgin

I explore the implications of limited participation in financial markets on a standard small open economy business cycle model. Despite its parsimony, the limited participation model developed in this paper improves over the standard model in terms of explaining two important features of business cycle facts of developing countries: high volatility of consumption, and high negative correlation between the trade balance and output. Limited participation model is then used to inspect the effects of financial development and integration on macroeconomic volatility. Under a standard calibration, limited participation model leads to the conclusion that financial development and integration are associated with higher investment and output volatility. Effect of more participation on consumption volatility is dependent on the specification of the risk premium function.

The value added tax: Its causes and consequences

- Journal of Development Economics---2010---Michael Keen,Ben Lockwood

This paper explores the causes and consequences of the remarkable rise of the value added tax (VAT), asking what has shaped its adoption and, in particular, whether it has proved an especially effective form of taxation. It is first shown that a tax innovation, such as the introduction of a VAT, reduces the marginal cost of public funds if and only if it also leads an optimizing government to increase the tax ratio. This leads to the estimation, on a panel of 143 countries for 25Â years, of a system describing both the probability of

VAT adoption and the revenue impact of the VAT. The results point to a rich set of determinants of VAT adoption, and to a significant but complex impact on the revenue ratio. The estimates suggest, very tentatively, that most countries which have adopted a VAT have thereby gained a more effective tax instrument, though this is less apparent in sub-Saharan Africa.

Child welfare programs and child nutrition: Evidence from a mandated school meal program in India

- Journal of Development Economics---2010---Farzana Afridi

Utilizing the data I collected on a nationally mandated school meal program in India, I examine the extent to which children benefit from the targeted public transfer. Relying upon built-in randomness in whether a child's 24-hour food consumption recall was for a school or non-school day, I find that the daily nutrient intake of program participants increased substantially by 49% to 100% of the transfers. The results are robust to the potential endogeneity of program placement and individual participation. The findings suggest that for as low a cost as 3Â cents per child per school day the scheme reduced the daily protein deficiency of a primary school student by 100%, the calorie deficiency by almost 30% and the daily iron deficiency by nearly 10%. At least in the short-run, therefore, the program had a substantial effect on reducing hunger at school and protein-energy malnutrition.

Elections, exchange rates and reform in Latin America

- Journal of Development Economics---2010---Rodolfo Cermeño,Robin Grier,Kevin Grier

In this paper, we study the link between real exchange rate (RER) depreciation and elections in Latin America. Our contribution is threefold. First, we employ a statistical model that takes into account the pervasive conditional heteroskedasticity found in financial data and includes a wide range of macroeconomic variables as regressors. Second, we test whether the wave of central bank reform that swept the region has had any effect on the existence or strength of the electoral cycle in exchange rates. Third, we test an additional hypothesis, namely, that financial liberalization may also be an important variable explaining changes in electoral effects on the real exchange rate. In a panel of 9 Latin American countries with available macroeconomic data and a history of exogenous election dates, we confirm the previous findings that real depreciation intensifies after elections even when modeling the significant conditional heteroskedasticity in these data. We also show, for the first time in the literature, that post-election exchange rates are significantly less predictable. We go on to test whether central bank reform has influenced the way in which elections affect the RER in Latin America. If reform has been effective at reducing political manipulation of the exchange rate, then any relationship we see between elections and the RER before central bank reform should be mitigated in the post-reform era. We find that the relationship disappears after reform and that post-reform real exchange rates are also significantly less volatile. Finally, we show that financial liberalization seems to have a stronger effect on the conditional variance of the RER than does central bank reform, but reform has a stronger impact on the conditional mean.

India shining and Bharat drowning: Comparing two Indian states to the worldwide distribution in mathematics achievement

- Journal of Development Economics---2010---Jishnu Das,Tristan Zajonc

Increasing evidence suggests that the level and distribution of cognitive skills is more important to economic development than absolute measures of schooling attainment, and that income and skill inequality are inextricably linked. Yet for most of the developing world no internationally comparable estimates of cognitive skills exist. This paper uses student answers to publicly released questions from an international testing agency together with statistical methods from Item Response Theory to place secondary students from two Indian states--Orissa and Rajasthan--on a worldwide distribution of mathematics achievement. These two states fall below 43 of the 51 countries for which data exist. The bottom 5% of children rank higher than the bottom 5% in only three countries--South Africa, Ghana and Saudi Arabia. But not all students test poorly. Inequality in the test-score distribution for both states is next only to South Africa. The combination of India's size and large variance in achievement give both the perceptions that India is shining even as Bharat, the vernacular for India, is drowning. How India's development unfolds will depend critically on how the skill distribution evolves and how low- and high-skilled workers interact in the labor market.

The impact of piped water provision on infant mortality in Brazil: A quantile panel data approach

- Journal of Development Economics---2010---Shanti Gamper-Rabindran,Shakeeb Khan,Christopher Timmins

We examine the impact of piped water on the under-1 infant mortality rate (IMR) in Brazil using a recently developed econometric procedure for the estimation of quantile treatment effects with panel data. The provision of piped water in Brazil is highly correlated with other observable and unobservable determinants of IMR -- the latter leading to an important source of bias. Instruments for piped water provision are not readily available, and fixed effects to control for time-invariant correlated unobservables are invalid in the simple quantile regression framework. Using the quantile panel data procedure in Chen and Khan [Chen, S., Khan, S., Semiparametric estimation of non-stationary censored panel model data models with time-varying factor. Econometric Theory 2007; forthcoming], our estimates indicate that the provision of piped water reduces infant mortality by significantly more at the higher conditional quantiles of the IMR distribution than at the lower conditional quantiles (except for cases of extreme underdevelopment). These results imply that targeting piped water intervention toward areas in the upper quantiles of the conditional IMR distribution, when accompanied by other basic public health inputs, can achieve significantly greater reductions in infant mortality.

Beyond the average effects: The distributional impacts of export promotion programs in developing countries

- Journal of Development Economics---2010---Christian Volpe Martincus,Jeronimo Carballo

Do all exporters benefit the same from export promotion programs? Surprisingly, no matter how obvious this question may a priori be when thinking of the effectiveness of these programs, there is virtually no empirical evidence on how they affect export performance in different parts of the distribution of export outcomes. This paper aims at filling this gap in the literature. We assess the distributional impacts of trade promotion activities performing efficient semiparametric quantile treatment effect estimation on assistance, total sales, and highly disaggregated export data for the whole population of Chilean exporters over the 2002-2006 period. We find that these activities have indeed heterogeneous effects over the distribution of export performance, along both the extensive and intensive margins. In particular, smaller firms as measured by their total exports seem to benefit more from export promotion actions.

Human capital, economic growth, and regional inequality in China

- Journal of Development Economics---2010---Belton Fleisher,Haizheng Li,Min Qiang (Kent) Zhao

We show how regional growth patterns in China depend on regional differences in physical, human, and infrastructure capital as well as on differences in foreign direct investment (FDI) flows. We also evaluate the impact of market reforms, especially the reforms that followed Deng Xiaoping's "South Trip" in 1992 those that resulted from serious hardening of budget constraints of state enterprises around 1997. We find that FDI had a much larger effect on TFP growth before 1994 than after, and we attribute this to the encouragement of and increasing success of private and quasi-private enterprises. We find that human capital positively affects output and productivity growth in our cross-provincial study. Moreover, we find both direct and indirect effects of human capital on TFP growth. These impacts of education are more consistent than those found in cross-national studies. The direct effect is hypothesized to come from domestic innovation activities, while the indirect impact is a spillover effect of human capital on TFP growth. We conduct cost-benefit analysis of hypothetical investments in human capital and infrastructure. We find that, while investment in infrastructure generates higher returns in the developed, eastern regions than in the interior, investing in human capital generates slightly higher or comparable returns in the interior regions. We conclude that human capital investment in less-developed areas is justified on efficiency grounds and because it contributes to a reduction in regional inequality.

A century of economic growth in Latin America

- Journal of Development Economics---2010---Pablo Astorga

This paper makes a contribution to the study of economic growth in developing countries by analyzing the six largest Latin American economies over 105Â years within a two-equation framework. Confirming previous findings, physical and human capital prove to be key determinants of GDP per head growth. However, a more controversial result is an overall negative conditional correlation between trade openness and GDP per head growth -- though openness has a positive link via investment. The evidence also shows that macroeconomic instability has been a drag on long-term growth in the region.

The welfare costs of unreliable water service

- Journal of Development Economics---2010---Brian Baisa,Lucas Davis,Stephen Salant,William Wilcox

Throughout the developing world, many water distribution systems are unreliable. As a result, it becomes necessary for each household to store its own water as a hedge against this uncertainty. Since arrivals of water are not synchronized across households, serious distributional inefficiencies arise. We develop a model describing the optimal intertemporal depletion of each household's private water storage if it is uncertain when water will next arrive to replenish supplies. The model is calibrated using survey data from Mexico City, a city where many households store water in sealed rooftop tanks known as tinacos. The calibrated model is used to evaluate the potential welfare gains that would occur if alternative modes of water provision were implemented. We estimate that most of the potential distributional inefficiencies can be eliminated simply by making the frequency of deliveries the same across households which now face haphazard deliveries. This would require neither costly investments in infrastructure nor price increases.

Intellectual property rights, multinational firms and economic growth

- Journal of Development Economics---2010---Elias Dinopoulos,Paul Segerstrom

This paper develops a model of North-South trade with multinational firms and economic growth in order to analyze formally the effects of stronger intellectual property rights (IPR) protection in developing countries. In the model, Northern firms invent new higher-quality products, multinational firms transfer manufacturing operations to the South and the Southern firms imitate products produced by multinational firms. It is shown that stronger IPR protection in the South (i.e., the adoption and implementation of the TRIPs agreement) leads to a permanent increase in the rate of technology transfer to the South within multinational firms, a permanent increase in R&D employment by Southern affiliates of Northern multinationals, a permanent decrease in the North-South wage gap, and a temporary increase in the Northern innovation rate.

Does oil corrupt? Evidence from a natural experiment in West Africa

- Journal of Development Economics---2010---Pedro Vicente

This paper explores the oil discovery announcements in Sao Tome and Principe (1997-1999) to assess the role of natural resources in determining corruption. For this purpose, we use a natural experiment framework which contrasts Sao Tome and Principe to Cape Verde, a control West African country sharing the same colonial past and important recent economic and political shocks. Our measurement is based on tailored household surveys we conducted in both island countries. The unique survey instrument was retrospective and used personal histories to elicit memories from the respondents. We analyze changes in perceived corruption across a wide range of public services and allocations. We find clearest increases on vote buying, education (namely in the allocation of scholarships) and customs, ranging from 31 to 40% of the subjective scale. We interpret these findings as symptoms of increased competition for core state resources.

Electoral manipulation via voter-friendly spending: Theory and evidence

- Journal of Development Economics---2010---Allan Drazen,Marcela Eslava

We present a model of the political budget cycle in which incumbents try to influence voters by changing the composition of government spending, rather than overall spending or revenues. Rational voters may support an incumbent who targets them with spending before the election even though such spending may be due to opportunistic manipulation, because it may also reflect sincere preference of the incumbent for types of spending voters favor. Classifying expenditures into those which are likely targeted to voters and those that are not, we provide evidence supporting our model in data on local public finances for all Colombian municipalities. Our findings indicate both a pre-electoral increase in targeted expenditures, combined with a contraction of other types of expenditure, and a voter response to targeting.

How responsive is body weight to transitory income changes? Evidence from rural Tanzania

- Journal of Development Economics---2010---Niklas Bengtsson

We use time-series of rainfall to estimate the response of body weight to transitory changes in household income in rural Tanzania. We find that the response of body weight to income changes is positive on average, but that the impact is highest for female children, and lower for adults. For female children, a ten-percent increase in household income implies an increase in body weight by about 0.4Â kg. In contrast, the body weight of adolescents and young adults is virtually invariant to income changes.

Remittances and temporary migration

- Journal of Development Economics---2010---Christian Dustmann,Josep Mestres

In this paper we study the remittance behavior of immigrants and how it relates to temporary versus permanent migration plans. We use a unique data source that provides unusual detail on remittances and return plans, and follows the same household over time. Our data allows us also to distinguish between different purposes of remittances. We analyze the association between individual and household characteristics and the geographic location of the family as well as return plans, and remittances. The panel nature of our data allows us to condition on household fixed effects. To address measurement error and reverse causality, we use an instrumental variable estimator. Our results show that changes in return plans are related to large changes in remittance flows.

Do external interventions work? The case of trade reform conditions in IMF supported programs

- Journal of Development Economics---2010---Shang-Jin Wei,Zhiwei Zhang

Trade reform conditions are common in IMF supported programs. Of the 99 countries that had IMF programs during 1993-2003, 77 had trade reform conditions in their programs. Since the WTO has not been found especially effective in promoting trade openness for most developing countries, it is of great interest to see if the IMF has been more effective as it combines carrots and sticks not available to the WTO. Yet, the effectiveness of these trade conditions has not been systematically studied. Using a unique dataset, this paper provides such an assessment. It finds that trade conditions are indeed associated with an increase in trade openness on average, but the effect comes mostly from countries that can be characterized by a high degree of "willingness to reform."

Causal effects of sex preference on sex-blind and sex-selective child avoidance and substitution across birth years: Evidence from the Japanese year of the fire horse

- Journal of Development Economics---2010---Chris Rohlfs,Alexander Reed,Hiroyuki Yamada

This paper examines the effect of a short-term change in preference for male offspring on couples' childbearing and child-avoidance behaviors. We exploit a natural experiment in Japan in which girls born in a specific astrological year are regarded as less desirable. We relate this superstition to an economic model of child avoidance. We measure the relative importance of sex-selective and sex-blind child avoidance responses nationwide and across geographic areas and the degree of substitutability of children across birth years in Japan in 1846, 1906, and 1966, and we examine how these responses interacted with the economic and social development of Japan over this period.

Changing aid regimes? U.S. foreign aid from the Cold War to the War on Terror

- Journal of Development Economics---2010---Robert Fleck,Christopher Kilby

This paper explores how U.S. bilateral economic aid has changed over time, focusing on how the recent era-in which the War on Terror has played a prominent role in the Bush administration's aid policy-differs from previous eras. In particular, has the renewed geopolitical role of aid coincided with a reduction of aid to the poorest countries or less weight on need in U.S. aid allocation decisions? We start with an analysis of annual U.S. aid budgets from 1955 to 2006. Controlling for domestic political and economic conditions, we find that the War on Terror's effect on the aid budget is significantly larger than is immediately apparent. To explore how the emphasis on need may have changed over time, we use country-level panel data on aid allocations to 119 countries across the same time period. This shows that U.S. aid flows-for the poorest as well as other developing countries-increased with the War on Terror. However, after rising for 35Â years, the emphasis placed on need has been falling steadily for core aid recipients during the War on Terror.

Inflation targeting in emerging economies: Panel evidence

- Journal of Development Economics---2010---Ricardo Brito,Brianne Bystedt

This paper shows there is no evidence that the inflation targeting regime (IT) improves economic performance as measured by the behavior of inflation and output growth in developing countries. The control of common time effects results in less negative and less significant IT impacts on inflation, inflation volatility and output growth volatility than previously found in the literature. Additionally, our analysis shows robust evidence of lower output growth during IT adoption. On balance, although lower long-run mean inflation signals that the central banks of emerging economies with inflation targeting are more inflation-averse, the costs of disinflation have not been lower than under other monetary regimes.

Informal self-employment and macroeconomic fluctuations

- Journal of Development Economics---2010---Norbert Fiess,Marco Fugazza,William Maloney

Informal self-employment is a major source of employment in developing countries. Its cyclical behavior is important to our understanding of the functioning of LDC labor markets, but turns out to be surprisingly complex. We develop a flexible model with two sectors: a formal salaried (tradable) sector that may be affected by wage rigidities, and an informal (non tradable) self-employment sector faced with liquidity constraints to entry. This labor market is then embedded in a standard small economy macro model. We show that different types of shocks interact with different institutional contexts to produce distinct patterns of comovement between key variables of the model: relative salaried/self-employed incomes, relative salaried/self-employed sector sizes and the real exchange rate. Model predictions are then tested empirically for Argentina, Brazil, Colombia and Mexico. We confirm episodes where the expansion of informal self-employment is consistent with the traditional segmentation views of informality. However, we also identify episodes where informal self-employment behaves "pro-cyclically"; here, informality is driven by relative demand or productivity shocks to the non tradable sector.

Sudden stops: Determinants and output effects in the first era of globalization, 1880-1913

- Journal of Development Economics---2010---Michael Bordo,Alberto Cavallo,Christopher Meissner

We study the determinants and output effects of sudden stops in capital inflows during an era of intensified globalization from 1880 to 1913. Higher levels of exposure to foreign currency debt and large current account deficits associated with reliance on foreign capital greatly increased the likelihood of experiencing a sudden stop. Trade openness and strong reserve positions had the opposite effect. Sudden stops accompanied by financial crises are associated with drops in output per capita below trend equal to three to four percent. Frictions in the international capital markets of the day are a likely candidate for these output losses. Sudden stops connected with crises do not seem to bring trend growth downwards. Sudden stops not connected with crises appear to be associated with significant declines in trend growth.

Does foreign direct investment promote growth? Exploring the role of financial markets on linkages

- Journal of Development Economics---2010---Laura Alfaro,Areendam Chanda,Sebnem Kalemli-Ozcan,Selin Sayek

Do multinational companies generate positive externalities for the host country? The evidence so far is mixed varying from beneficial to detrimental effects of foreign direct investment (FDI) on growth, with many studies that find no effect. In order to provide an explanation for this empirical ambiguity, we formalize a mechanism that emphasizes the role of local financial markets in enabling FDI to promote growth through backward linkages. Using realistic parameter values, we quantify the response of growth to FDI and show that an increase in the share of FDI leads to higher additional growth in financially developed economies relative to financially under-developed ones.

Export promotion agencies: Do they work?

- Journal of Development Economics---2010---Daniel Lederman,Marcelo Olarreaga,Lucy Payton

The number of national export promotion agencies (EPAs) has tripled over the last two decades. While more countries made them part of their export strategy, studies criticized their efficacy in developing countries. EPAs were retooled, partly in response to these critiques. This paper studies the impact of today's EPAs and their strategies, based on new survey data covering 103 developing and developed countries. Results suggest that on average they have a statistically significant effect on exports. Our identification strategies highlight the importance of EPA services for overcoming foreign trade barriers and solving asymmetric information problems associated with exports of heterogeneous goods. There are also strong diminishing returns, suggesting that as far as EPAs are concerned, small is beautiful.

Chronic and transient poverty: Measurement and estimation, with evidence from China

- Journal of Development Economics---2010---Jean-Yves Duclos,Abdelkrim Araar,John Giles

The paper contributes to the measurement of poverty and vulnerability in three ways. First, it proposes a new approach to separating poverty into chronic and transient components. Second, it provides corrections for the statistical biases introduced when using a small number of periods to estimate the importance of vulnerability and transient poverty. Third, it applies these tools to the measurement of chronic and transient poverty in China using a rich panel data set that extends over 17Â years. Alternative measurement techniques are found to yield significantly different estimates of the relative importance of chronic and transient poverty. The precision of the estimates is also considerably enhanced by simple statistical corrections.

Teacher unions, teacher pay and student performance in India: A pupil fixed effects approach

- Journal of Development Economics---2010---Geeta Kingdon,Francis Teal

This paper examines the relationship between teacher unionization, student achievement and teachers' pay using a cross-section of data from private schools in India. We use differences in student mark across subjects to identify within-pupil variation in achievement and find that union membership of the teacher is associated with reduced pupil achievement. We find no evidence this could be due to the unobservables not controlled for by this procedure. A school fixed effects equation of teacher pay shows that union membership raises pay and in this case too we find that remaining unobservables are unlikely to explain this outcome. We discuss the policy implications of the findings and show that the effectiveness of teacher credentials in improving teacher performance is linked to unionization.

Trade, democracy, and the gravity equation

- Journal of Development Economics---2010---Miaojie Yu

Does democracy affect trade? There are several channels by which democracy may affect trade, with differing implications. First, democratization in the exporting country can improve product quality and reduce trade costs, increasing bilateral trade. Second, democratization in the importing country may increase trade barriers and thus reduce imports. In this paper, I analyze the effect of democracy on trade by augmenting the gravity equation with democracy. Using a rich panel data set and controlling for the endogeneity of democracy, I find empirical evidence consistent with the hypothesis that democracy fosters trade. This finding is robust to various econometric methods and to the use of disaggregated specifications.

It matters where you go: Outward foreign direct investment and multinational employment growth at home

- Journal of Development Economics---2010---Peter Debaere,Hongshik Lee,Joonhyung Lee

How does outward foreign direct investment (FDI) affect employment growth of the multinational corporations (MNCs) in the home country? Does the impact of outward investment differ by the level of development of the destination country of the FDI? Using a difference-in-difference approach, we assess the impact of starting to invest in less-advanced countries compared with investing in more-advanced countries. To obtain suitable control groups in each case, we use the propensity score method to select national firms that ex post did not take the investment decisions that we study even though ex ante they would have been equally likely to. We find that moving to less-advanced countries decreases a company's employment growth rate especially in the short run. On the other hand, moving to more-advanced countries does not consistently affect employment growth in any significant way. Including investment decisions of established multinationals in the estimation somewhat weakens but does not overturn this conclusion.

Estimating the private benefits of vaccination against cholera in Beira, Mozambique: A travel cost approach

- Journal of Development Economics---2010---Marc Jeuland,Marcelino Lucas,John Clemens,Dale Whittington

This paper reports the results of the first study that estimates households' private demand for cholera vaccines using the travel cost method. We take advantage of an unusual natural experiment. In January 2004, more than 41,000 residents from various locations in Beira, Mozambique received two doses of oral cholera vaccine free of charge during the first vaccination trial to test its effectiveness in an endemic cholera zone of Africa. About 30,000 people participated from outside the target zone, resulting in long queues and an average waiting time of about 85Â min per dose. We estimated travel cost models of the revealed demand for cholera vaccines among households informed of the trial using information collected in in-person interviews conducted during the summer of 2005. To explore households' participation in the trial, we used standard and zero-inflated household count models for all household members and dichotomous choice models for the head of the household. Our analysis shows that the quantity of vaccines obtained by households and the likelihood of participation decreased as travel cost--in time and transport expenses--rose. Our best estimates of per capita willingness to pay for the two required doses of cholera vaccine are about 0.85Â USD. These estimates are sensitive to the assumed value of time spent acquiring vaccines.

Remittances to Latin America from migrants in the United States: Assessing the impact of amnesty programs

- Journal of Development Economics---2010---Catalina Amuedo-Dorantes,Francesca Mazzolari

The magnitude of remittance flows to Latin America exceeds the combined inflows of foreign direct investment and official development assistance to the region. Since the United States is the destination country of the vast majority of migrants from Mexico, as well as from other Latin American countries, U.S. immigration policy can have a significant impact on the volume of remittances to the Latin American region. This paper studies how a generalized amnesty -- a provision in the 1986 Immigration Reform and Control Act (IRCA) -- affected immigrants' remitting patterns. In models that control for immigrants' length of residence in the United States and for economic conditions in both the U.S. state of residence and the country of origin, we estimate substantial post-legalization drops in remittances sent home by Mexican-born migrants who legalized through IRCA. Given the potential positive impact of remittances on investment levels, entrepreneurship rates and the development of the financial sector, this finding underscores the importance of gaining a better understanding of the impact that immigration policies in immigrant-receiving countries may have on the stream of remittance flows to immigrant-sending communities in developing regions.

Sovereign defaulters: Do international capital markets punish them?

- Journal of Development Economics---2010---Miguel Fuentes,Diego Saravia

We empirically study whether countries that default on their debt experience a reduction in their capital inflows, as suggested by the literature. Our data contain information on (i) the defaulter countries and their creditors and (ii) bilateral foreign direct investment (FDI) flows. With these we can study how FDI flows are affected by sovereign default by distinguishing between those flows coming from defaulters' creditor countries and others. According to our estimations, this distinction is crucial since the decline of FDI in flows after default is markedly concentrated on those flows originating in defaulters' creditor countries. The decay in FDI flows is higher in the years closer to the default date and for countries that have defaulted more times. We do not find evidence that countries shut their doors to defaulters' investment abroad, which is also a cost of default suggested in the literature.

Group lending and individual lending with strategic default

- Journal of Development Economics---2010---Bharat Bhole,Sean Ogden

Papers that compare group lending and individual lending in the presence of strategic default suggest that unless group members can impose costly social sanctions on one another, or unless the bank uses cross-reporting mechanisms group lending may do worse than individual lending. In this paper, we show that if, (1) the amount that a successful borrower owes for his defaulting partner is optimally determined, and (2) the penalty is allowed to vary across group members, then even in the absence of any social sanctions or cross-reporting, (1) expected borrower welfare is strictly higher with group lending when both group lending and individual lending are feasible and (2) group lending is feasible for a greater range of opportunity cost of capital. These results are robust to collusion between borrowers.

Aid volatility and poverty traps

- Journal of Development Economics---2010---Pierre-Richard Agénor,Joshua Aizenman

This paper studies the impact of aid volatility in a two-period model where production may occur with either a traditional or a modern technology. Public spending is productive and "time to build" requires expenditure in both periods for the modern technology to be used. The possibility of a poverty trap induced by high aid volatility is first examined in a benchmark case where taxation is absent. The analysis is then extended to account for self insurance (taking the form of a first-period contingency fund) financed through taxation. An increase in aid volatility is shown to raise the optimal contingency fund. But if future aid also depends on the size of the contingency fund (as a result of a moral hazard effect on donors' behavior), the optimal policy may entail no self insurance.

Child labor and household wealth: Theory and empirical evidence of an inverted-U

- Journal of Development Economics---2010---Kaushik Basu,Sanghamitra Das,Bhaskar Dutta

Some studies on child labor have shown that, at the level of the household, greater land wealth leads to higher child labor, thereby casting doubt on the hypothesis that child labor is caused by poverty. This paper argues that the missing ingredient may be an explicit modeling of the labor market. We develop a simple model which suggests the possibility of an inverted-U relationship between land holdings and child labor. Using a unique data set that has child labor hours it is found that, controlling for child, household and village characteristics, the turning point beyond which more land leads to a decline in child labor occurs around 4Â ac of land per household.

Does it pay firms to register for taxes? The impact of formality on firm profitability

- Journal of Development Economics---2010---David McKenzie,Yaye Seynabou Sakho

This paper estimates the impact of registering for taxes on firm profits in Bolivia, the country with the highest levels of informality in Latin America. A new survey of micro and small firms enables us to control for a rich set of measures of owner ability and business motivations that can affect both profits and the decision to formalize. We identify the impact of tax registration on business profitability using the distance of a firm from the tax office where registration occurs, conditional on the distance to the city center, as an instrument for registration. Proximity to the tax office provides firms with more information about registration, but is argued to not directly affect profits. We find tax registration leads to significantly higher profits for the firms that the instrument affects. However, we also find some evidence of heterogeneous effects of tax formality on profits. Tax registration appears to increase profits for the mid-sized firms in our sample, but to lower profits for both the marginal smaller and larger firms, in contrast to the standard view that formality increases profits. We show that owners of large firms who have managed to stay informal are of higher entrepreneurial ability than formal firm owners, in contrast to the standard view (correct among smaller firms) that informal firm owners are low ability.

High growth and low consumption in East Asia: How to improve welfare while avoiding financial failures

- Journal of Development Economics---2010---Andrew Feltenstein,Céline Rochon,Maral Shamloo

This paper analyzes certain policies that are typical of a number of rapidly growing East Asian countries in which a fixed exchange rate, combined with a surplus labor market, has made domestic assets relatively inexpensive, generating high rates of FDI as well as domestic capital formation. This "investment hunger" can lead to unanticipated declines in the returns to investment, and resulting financial insolvencies. Private consumption remains low and there are concerns that high savings rates cannot be sustained. We construct a dynamic general equilibrium model and apply it to a stylized Asian economy, loosely based upon China. We calibrate a benchmark equilibrium, and carry out various counterfactual simulations to analyze alternative policies, in particular tax cuts and exchange rate revaluations, as instruments in increasing private consumption while avoiding bank failures.

The formal sector wage premium and firm size

- Journal of Development Economics---2010---Eliane El Badaoui,Eric Strobl,Frank Walsh

We show theoretically that when larger firms pay higher wages and are more likely to be caught defaulting on labor taxes, then large-high wage firms will be in the formal and small-low wage firms will be in the informal sector. The formal sector wage premium is thus just a firm size wage differential. Using data from Ecuador we illustrate that firm size is indeed the key variable determining whether a formal sector premium exists.

Goodwill bazaar: NGO competition and giving to development

- Journal of Development Economics---2010---Gani Aldashev,Thierry Verdier

This paper builds a model of competition through fundraising between horizontally differentiated NGOs. NGOs allocate their time resource between working on the project and fundraising, which attracts private donations. If the market size is fixed, the fundraising levels increase with the number of NGOs and the free-entry equilibrium number of NGOs can be larger or smaller than the socially optimal number, depending on the efficiency of the fundraising technology. If the market size is endogenous and NGOs cooperate in attracting new donors, fundraising levels decrease with the number of NGOs and the free-entry equilibrium number of NGOs is smaller than the one that maximizes the welfare of donors and beneficiaries. If NGOs can divert funds for private use, multiple equilibria (with high diversion and no diversion of funds) appear.

Wake up and smell the ginseng: International trade and the rise of incremental innovation in low-wage countries

- Journal of Development Economics---2010---Diego Puga,Daniel Trefler

Increasingly, a small number of low-wage countries such as China and India are involved in incremental innovation. That is, they are responsible for resolving production-line bugs and suggesting product improvements. We provide evidence of this new phenomenon and develop a model in which there is a transition from old-style product-cycle trade to trade involving incremental innovation in low-wage countries. The model explains why levels of involvement in incremental innovation vary across low-wage countries and across firms within each low-wage country. We draw out implications for sectoral earnings, living standards, the capital account and, foremost, international trade in goods.

Precautionary saving under liquidity constraints: Evidence from rural Pakistan

- Journal of Development Economics---2010---Mark Lee,Yasuyuki Sawada

This paper investigates precautionary saving under liquidity constraints in Pakistan using household panel data. In particular, while it estimates Kimball's [Kimball, M.S. Precautionary saving in the small and in the large. Econometrica 1990; 58; 53-73.] prudence parameter based on a framework that is similar to Dynan [Dynan, K.E. How prudent are consumers? Journal of Political Economy 1993; 101; 1104-1113.], this study deviates from the framework by explicitly considering liquidity constraints, as in Zeldes [Zeldes, S.P. Consumption and liquidity constraints: an empirical investigation. Journal of Political Economy 1989; 97; 305-346.]. By doing so, this paper attempts to differentiate the standard precautionary saving caused by uncertainty from that caused by liquidity constraints. Furthermore, endogenous liquidity constraints are used in order to resolve issues of selection biases. We find substantial evidence of the presence of precautionary saving in Pakistan. More specifically, the estimated prudence is significantly higher for liquidity-constrained households as compared with unconstrained ones. The finding suggests that the precautionary saving motives appear stronger when households see that their access to credit markets is limited.

Regulation of entry, labor market institutions and the informal sector

- Journal of Development Economics---2010---Gabriel Ulyssea

This paper develops a two-sector matching model that incorporates the main features of Latin American labor markets. It has an innovation in its matching structure that makes it more consistent with some key stylized facts of the informal sector in these countries. The model is numerically solved using Brazilian data and several policy simulations are performed. Reducing formal sector's entry cost significantly reduces the size of the informal sector and improves overall labor market performance. Increasing enforcement significantly reduces informality but has strong adverse effects on unemployment and welfare. Thus, the results indicate that the tradeoff between lower informal employment and higher unemployment rates is not present when one looks at policies that aim at reducing the costs of being formal, as opposed to policies that simply increase the costs of being informal.

Inter-provincial migration and inequality during Vietnam's transition

- Journal of Development Economics---2010---Diep Phan,Ian Coxhead

Vietnam's economic boom during the transition to a market economy has centered on very rapid growth in some sectors and provinces, yet poverty has diminished across the entire country. With capital investments highly concentrated by province and sector, geographic labor mobility may be critical in spreading the gains from growth. Conversely, rising income inequality may be attributable in part to impediments to migration. We first use census data to investigate migration patterns and determinants. We then examine the role of migration as an influence on income ratios between pairs of provinces. The former analysis robustly confirms economic motives for migration but also suggests the existence of poverty-related labor immobility at the provincial level. Examination of income ratios between pairs of provinces reveals that the impact of migration on inequality can be either negative or positive. A robust inequality-reducing impact of migration is found for migration flows into provinces where most of Vietnam's trade-oriented industrial investments are located.

Do all countries grow alike?

- Journal of Development Economics---2010---J. Bos,Claire Economidou,Michael Koetter,J.W. Kolari

This paper investigates the driving forces of output change in 77 countries during the period 1970-2000.

A flexible modeling strategy is adopted that accounts for (i) the inefficient use of resources, and (ii) different production technologies across countries. The proposed model can identify technical, efficiency, and input change for each of three endogenously determined regimes. Membership in these regimes is estimated, rather than determined ex ante. This framework enables explorations into the determinants of output growth and convergence issues in each regime.

Africa's education enigma? The Nigerian story

- Journal of Development Economics---2010---Ruth Uwaifo Oyelere

In the last two decades, the social and economic benefits of formal education in Sub-Saharan Africa have been debated. Anecdotal evidence points to low returns to education in Africa. Unfortunately, there is limited econometric evidence to support these claims at the micro level. In this study, I focus on Nigeria, a country that holds 1/5 of Africa's population. I use instruments based on the exogenous timing of the implementation and withdrawal of free primary education across regions in this country to consistently estimate the returns to education in the late 1990s. The results show the average returns to education are particularly low in the 90s, in contrast to conventional wisdom for developing countries (2.8% for every extra year of schooling between 1997 and 1999). Surprisingly, I find no significant differences between OLS and IV estimates of returns to education when necessary controls are included in the wage equation. The low returns to education results shed new light on both the changes in demand for education in Nigeria and the increased emigration rates from African countries that characterized the 90s.

From duty to right: The role of public education in the transition to aging societies

- Journal of Development Economics---2010---Yoshiaki Sugimoto,Masao Nakagawa

This paper argues that the introduction of compulsory schooling in early industrialization promoted the growth process that eventually led to a vicious cycle of population aging and negative pressure on education policy. In the early phases of industrialization, public education was undesirable for the young poor who relied on child labor. Compulsory schooling therefore discouraged childbirth, while the accompanying industrialization stimulated their demand for education. The subsequent rise in the share of the old population, however, limited government resources for education, placing heavier financial burdens on the young. This induced further fertility decline and population aging, and the resulting cycle may have delayed the growth of advanced economies in the last few decades.

Economic geography and wages in Brazil: Evidence from micro-data

- Journal of Development Economics---2010---Thibault Fally,Rodrigo Paillacar,Cristina Terra

This paper estimates the impact of market and supplier access on wage disparities across Brazilian states, incorporating the control for individual characteristics into the new economic geography methodology. We estimate market and supplier access disaggregated by industry, and we compute access to local, national and international markets separately. We find a strong correlation between market access and wage differentials, even after controlling for individual characteristics, market access level (international, national or local), and using instrumental variables.

Structural policies and growth: Time series evidence from a natural experiment

- Journal of Development Economics---2010---Theo Eicher,Till Schreiber

Documenting the long term impact of structural policies on economic performance has generated tremendous interest in the development literature. In contrast, contemporary effects of structural policies are difficult to establish. Structural policies seldom change sufficiently in the short run, and accepted instruments to control for endogeneity in cross sections are inappropriate for time series analysis. In this paper we utilize an eleven year panel of 26 transition countries to identify short term effects of structural policies that are large and significant. A ten percent change in the quality of structural policies (or the Rule of Law) towards OECD standards is shown to raise annual growth by about 2.5%. To control for endogeneity, we develop an instrument using the hierarchy of institutions hypothesis and find that it holds a robust explanatory power. We also document that early reformers reap the greatest benefits, but that it is never too late to begin structural policy reforms.

Taylor principle and inflation stability in emerging market countries

- Journal of Development Economics---2010---Vladimir Teles,Marta Zaidan

The goal of this paper is to evaluate the validity of the Taylor principle for inflation control in 12 developing countries that use inflation targeting regimes: Brazil, Chile, Colombia, Hungary, Israel, Mexico, Peru, Philippines, Poland, South Africa, Thailand and Turkey. The test is based on a state-space model to determine when each country has followed the principle; then a threshold unit root test is used to verify if the stationarity of the deviation of the expected inflation from its target depends on compliance with the Taylor principle. The results show that such compliance leads to the stationarity of the deviation of the expected inflation from its target in all cases. Furthermore, in most cases, non-compliance with the Taylor principle leads to nonstationary deviation of the expected inflation.