
Literature Report

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Abstract

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Political Economy of Redistribution in the United States in the Aftermath of World War II--Evidence and Theory

- American Economic Journal: Economic Policy---2016---Roel Beetsma,Alex Cukierman,Massimo Giuliadori

We present legislative, historical and statistical evidence of a substantial upward ratchet in transfers and taxes in the US due to World War II. This finding is explained within a political-economy framework with defense spending responding to a war threat and a median voter in the population who interacts with a (richer) agenda setter in Congress in setting redistribution. While the setter managed to cap redistribution before the War, the War itself raised the status quo tax burden and improved tax collection technology, strengthening the bargaining power of the median voter as defense spending receded. This permanently raised the level of redistribution.

Do Consumers Exploit Commitment Opportunities? Evidence from Natural Experiments Involving Liquor Consumption

- American Economic Journal: Economic Policy---2016---B. Douglas Bernheim,Jonathan Meer,Neva

This paper provides evidence concerning the extent to which consumers of liquor employ commitment devices. One widely recommended commitment strategy is to regulate alcohol consumption by deliberately manipulating availability. The paper assesses the prevalence of the "availability strategy" by evaluating the effects of policies that would influence its effectiveness--specifically, changes in allowable Sunday sales hours. It finds that consumers increase their liquor consumption in response to extended Sunday on-premises sales hours, but not in response to extended off-premises sales hours. The latter finding is inconsistent with widespread use of the availability strategy.

How Do Providers Respond to Changes in Public Health Insurance Coverage? Evidence from Adult Medicaid Dental Benefits

- American Economic Journal: Economic Policy---2016---Thomas Buchmueller,Sarah Miller,Marko Vujicic

This study evaluates how large changes in public health insurance coverage affect provider behavior and patient wait times by analyzing a common type of primary care: dental services. When states expand coverage of dental services to adult Medicaid beneficiaries, dentists'

participation in Medicaid increases and dentists see more publicly insured patients. Dentists supply more visits but only modestly increase the amount of time spent working. They achieve this in part by making greater use of dental hygienists. Wait times increase modestly, with the largest increases in wait times observed in states with restrictive scope of practice laws governing dental hygienists.

The Effects of Tobacco Control Policies on Tobacco Products, Tar, and Nicotine Purchases among Adults: Evidence from Household Panel Data

- American Economic Journal: Economic Policy---2016---Chad Cotti,Erik Nesson,Nathan Tefft

We analyze the Nielsen Household Consumer Panel to estimate the effects of tobacco policies on tobacco-related purchases using within-household variation. We also match purchases to cigarette contents from NHANES. Higher cigarette taxes reduce cigarette purchases and increase smoking cessation product purchases, while estimates of smoking ban effects are less precisely estimated. Smokeless tobacco (SLT) taxes lead to reductions in SLT use but also lead to substitution among SLT products. We find evidence that cigarette taxes induce purchases of cigarettes with higher tar, nicotine, and carbon monoxide contents, but this compensatory behavior is overwhelmed by the reduction in cigarettes purchased.

Workers' Spending Response to the 2011 Payroll Tax Cuts

- American Economic Journal: Economic Policy---2016---Grant Graziani,Wilbert van der Klaauw,Basit Zafar

This paper investigates workers' spending response to the 2011 payroll tax cuts. Respondents were surveyed at the beginning and end of 2011, which allows the comparison of ex ante and ex post reported use of the extra income. While workers on average intended to spend 14 percent of their tax cut income, they ex post reported spending 36 percent of the funds. This

pattern of higher spending ex post is shared across all demographic groups. Differences across workers in this shift to greater ex post spending are largely unexplained by differences in either present bias or unanticipated shocks, so in the end the upward revision in spending remains a puzzle.

Nonparametric Evidence on the Effects of Financial Incentives on Retirement Decisions

- American Economic Journal: Economic Policy---2016---Dayanand Manoli,Andrea Weber

This paper presents new evidence on the effects of retirement benefits on labor force participation decisions. The analysis is based on a mandated rule for employer-provided retirement benefits in Austria that creates discontinuities in the incentives for workers to delay retirement. The paper presents graphical evidence on labor supply responses and develops a conceptual framework that accounts for the dynamic incentive structure and for adjustment frictions. Using bunching methods, a semi-elasticity of participation is estimated, which ranges from 0.1 to 0.3 and is highest for incentives targeted at a delay in retirement by 6 to 9 months.

The Behavioralist Goes to School: Leveraging Behavioral Economics to Improve Educational Performance

- American Economic Journal: Economic Policy--2016---Steven Levitt,John List,Susanne Necker-mann,Sally Sadoff

We explore the power of behavioral economics to influence the level of effort exerted by students in a low stakes testing environment. We find a substantial impact on test scores from incentives when the rewards are delivered immediately. There is suggestive evidence that rewards framed as losses outperform those framed as gains. Nonfinancial incentives can be considerably more cost-effective than financial incentives for younger students, but are less effective with older students. All motivating power of incentives vanishes when rewards are handed out with a delay. Our results

suggest that the current set of incentives may lead to underinvestment.

Trade Costs, CO₂, and the Environment

- American Economic Journal: Economic Policy---2016---Joseph S. Shapiro

This paper quantifies how international trade affects CO₂ emissions and analyzes the welfare consequences of regulating the CO₂ emissions from shipping. To this end, the paper describes a model of trade and the environment, compiles new data on the CO₂ emissions from shipping, and estimates key parameters using panel data regressions. Results show that the benefits of international trade exceed trade's environmental costs due to CO₂ emissions by two orders of magnitude. While proposed regional carbon taxes on the CO₂ emissions from shipping would increase global welfare and increase the implementing region's GDP, they would also harm poor countries.

Do Health Care Providers Respond to Demand-Side Incentives? Evidence from Indonesia

- American Economic Journal: Economic Policy---2016---Margaret Triyana

This paper exploits the subdistrict randomization of Indonesia's household Conditional Cash Transfer (CCT) program to analyze how the program affects the local health care market. The CCT program is associated with increased use of midwives as the main delivery attendants. The program is also associated with a 10 percent increase in both the number of midwives and the delivery fees charged by midwives in treated communities. Program participants report receiving a higher quality of prenatal care. This is due, however, not to improvements in quality of care in the market, but to increased utilization among program participants.

Resource Constraints and the Criminal Justice System: Evidence from Judicial Vacancies

- American Economic Journal: Economic Policy---2016---Crystal S. Yang

Ten percent of federal judgeships are currently vacant, yet little is known on the impact of these vacancies on criminal justice outcomes. Using judge deaths and pension eligibility as instruments for vacancies, I find that prosecutors dismiss more cases during vacancies. Prosecuted defendants are more likely to plead guilty and less likely to be incarcerated during vacancies, with defendants who are detained pretrial more likely to be incarcerated. The current rate of vacancies has resulted in 1,000 fewer prison inmates annually compared to a fully-staffed court system, a 1.5 percent decrease.

Property Taxation, Zoning, and Efficiency in a Dynamic Tiebout Model

- American Economic Journal: Economic Policy---2016---Levon Barseghyan, Stephen Coate

This paper presents a dynamic Tiebout model and uses it to revisit a classic argument in public finance. The argument, due to Hamilton (1975), is that a system of governments financing services with property taxes will produce an efficient allocation of housing and services if governments can implement zoning ordinances. In the model, when governments choose zoning along with taxes and services, there does not exist an equilibrium that is both efficient and locally stable. Moreover, there exists an equilibrium in which governments over-zone and households over-consume housing. These findings challenge the Benefit View of the property tax.

Health Insurance Mandates, Mammography, and Breast Cancer Diagnoses

- American Economic Journal: Economic Policy---2016---Marianne Bitler, Christopher S. Carpenter

We examine the effects of state health insurance mandates requiring coverage of screening mammograms. We find evidence that mammography mandates significantly increased mammography screenings by 4.5-25

percent. Effects are larger for women with less than a high school degree in states that ban deductibles, a policy similar to a provision of federal health reform that eliminates cost-sharing for preventive care. We also find that mandates increased detection of early stage in-situ precancers. Finally, we find a substantial proportion of the increased screenings were attributable to mandates that are not consistent with 2014 recommendations of the American Cancer Society.

From Today's City to Tomorrow's City: An Empirical Investigation of Urban Land Assembly

- American Economic Journal: Economic Policy---2016---Leah Brooks, Byron Lutz

Because cities are constrained by the boundaries of land ownership, fundamental urban modifications require land delineation changes. We evaluate whether there is enough land assembly--the joining together of two or more parcels of land--to put land to its highest value use. We hypothesize that in the absence of market frictions such as holdouts, the price of land sold for assembly should not exceed the price of land sold for other uses. Empirically, we find that to-be-assembled land in Los Angeles trades at a 15 to 40 percent premium and conclude that significant frictions prevent assembly.

Adaptation to Climate Change: Evidence from US Agriculture

- American Economic Journal: Economic Policy---2016---Marshall Burke, Kyle Emerick

Understanding the potential impacts of climate change on economic outcomes requires knowing how agents might adapt to a changing climate. We exploit large variation in recent temperature and precipitation trends to identify adaptation to climate change in US agriculture, and use this information to generate new estimates of the potential impact of future climate change on agricultural outcomes. Longer run adaptations appear to have mitigated less than half--and more likely none--of the large negative short-run impacts of

extreme heat on productivity. Limited recent adaptation implies substantial losses under future climate change in the absence of countervailing investments.

Particulate Pollution and the Productivity of Pear Packers

- American Economic Journal: Economic Policy---2016---Tom Chang, Joshua Graff Zivin, Tal Gross, Matthew Neidell

We study the effect of outdoor air pollution on the productivity of indoor workers at a pear-packing factory. Increases in fine particulate matter (PM2.5), a pollutant that readily penetrates indoors, leads to significant decreases in productivity, with effects arising at levels below air quality standards. In contrast, pollutants that do not travel indoors, such as ozone, have little, if any, effect on productivity. This effect of outdoor pollution on indoor worker productivity suggests an overlooked consequence of pollution. Back-of-the-envelope calculations suggest the labor savings from nationwide reductions in PM2.5 generated a sizable fraction of total welfare benefits.

Transfer Pricing by Multinational Firms: New Evidence from Foreign Firm Ownerships

- American Economic Journal: Economic Policy---2016---Anca D. Cristea, Daniel Nguyen

Using a firm-level dataset of Danish exports between 1999-2006, we find robust evidence for profit shifting by multinational corporations. Our triple difference estimations exploit the response of export unit values to acquisitions of foreign affiliates and to changes in statutory corporate tax rates. This identification strategy corrects for a downward bias resulting from firms adjusting arm's length prices to obscure transfer price manipulations. We find that Danish multinationals reduce the unit values of their exports to low tax countries between 5.7 to 9.1 percent. This difference corresponds to a tax revenue loss of 3.24 percent of Danish multinationals' tax returns.

Extrinsic and Intrinsic Motivations for Tax Compliance: Evidence from a Field Experiment in Germany

- American Economic Journal: Economic Policy---2016---Nadja Dwenger, Henrik Kleven, Imran Rasul, Johannes Rincke

We study extrinsic and intrinsic motivations for tax compliance in the context of a local church tax in Germany. This tax system has historically relied on zero deterrence so that any compliance at baseline is intrinsically motivated. Starting from this zero deterrence baseline, we implement a field experiment that incentivized compliance through deterrence or rewards. Using administrative records of taxes paid and true tax liabilities, we use these treatments to document that intrinsically motivated compliance is substantial, that a significant fraction of it may be driven by duty-to-comply preferences, and that there is no crowd-out between extrinsic and intrinsic motivations.

Tax Reforms and Intertemporal Shifting of Wage Income: Evidence from Danish Monthly Payroll Records

- American Economic Journal: Economic Policy---2016---Claus Thustrup Kreiner, Søren Leth-Petersen, Peer Skov

This paper uses monthly payroll records for all Danish employees to identify widespread intertemporal shifting of labor income in response to a tax reform that significantly reduced the marginal tax rates for one-fourth of all employees. When ignoring shifting, the estimate of the overall elasticity of taxable income equals 0.1, and the elasticity is increasing with earnings. When removing the shifting component, the elasticity is close to zero at all earnings levels. The evidence also indicates that tax salience, liquidity constraints and firm willingness to cooperate in shifting are important factors in explaining shifting behavior.

Can Electronic Procurement Improve Infrastructure Provision? Evidence from Public Works in India and Indonesia

- American Economic Journal: Economic Policy---2016---Sean Lewis-Faupel, Yusuf Neggers, Benjamin A. Olken, Rohini Pande

This paper examines whether electronic procurement (e-procurement), which increases access to information and reduces personal interactions with potentially corrupt officials, improves procurement outcomes. We develop unique datasets from India and Indonesia and use variation in adoption of e-procurement within both countries. We find no evidence of reduced prices but do find that e-procurement leads to quality improvements. In India, where we observe quality directly, e-procurement improves road quality, and in Indonesia, e-procurement reduces delays. Regions with e-procurement are more likely to have winners come from outside the region. On net, the results suggest that e-procurement facilitates entry from higher quality contractors.

The Effects of the Massachusetts Health Reform on Household Financial Distress

- American Economic Journal: Economic Policy---2016---Bhashkar Mazumder, Sarah Miller

In this paper, we examine the effect of a major health care reform in Massachusetts on a broad set of financial outcomes using credit report data. We exploit variation in the impact of the reform across counties and age groups using pre-reform insurance coverage as a measure of the potential effect of the reform. We find that the reform reduced the amount of debt that was past due, improved credit scores, reduced personal bankruptcies and reduced third-party collections. Our results show that health care reform has implications that extend well beyond the health of those who gain insurance coverage.

Do Cash Transfers Improve Birth Outcomes? Evidence from Matched Vital Statistics, Program, and Social Security Data

- American Economic Journal: Economic Policy---2016---Veronica Amarante,Marco Manacorda,Edward Miguel,Andrea Vigorito

There is limited empirical evidence on whether cash transfers to poor pregnant women improve children's birth outcomes and potentially help weaken the cycle of intergenerational poverty. Using a unique array of program and social security administrative micro- data matched to longitudinal vital statistics in Uruguay, we estimate that participation in a generous social assistance program led to a sizable reduction in the incidence of low birthweight. The effect is due to faster intrauterine growth rather than longer gestational length. Our findings are consistent with improved maternal nutrition during pregnancy being a key driver of improved birthweight. (JEL I14, I32, I38, J13, J16, O15)

The Impact of Insurance Provision on Household Production and Financial Decisions

- American Economic Journal: Economic Policy---2016---Jing Cai

This paper uses a natural experiment to study the impact of an agricultural insurance program on household production, borrowing, and saving behavior. The empirical strategy includes difference-in-differences and triple difference estimations. The results show that insurance provision increases the insured crop production by 16 percent and raises borrowing by 29 percent. Interestingly, it does not affect total household savings; however, it does affect the relative proportion of flexible-term savings. Furthermore, effects on production and savings persist in the long run, while effects on borrowing are significant in only the medium run. Lastly, calibration results suggest that the policy is both welfare improving and cost-effective. (JEL D13, D14, G22, O16, P32, P36, Q12)

Why Is Infant Mortality Higher in the United States Than in Europe?

- American Economic Journal: Economic Policy---2016---Alice Chen,Emily Oster,Heidi Williams

The United States has higher infant mortality than peer countries. In this paper, we combine microdata from the United States with similar data from four European countries to investigate this US infant mortality disadvantage. The US disadvantage persists after adjusting for potential differential reporting of births near the threshold of viability. While the importance of birth weight varies across comparison countries, relative to all comparison countries the United States has similar neonatal (

Friendship at Work: Can Peer Effects Catalyze Female Entrepreneurship?

- American Economic Journal: Economic Policy---2016---Erica Field,Seema Jayachandran,Rohini Pande,Natalia Rigol

Does the lack of peers contribute to the observed gender gap in entrepreneurial success? A random sample of customers of India's largest women's bank was offered two days of business counseling, and a random subsample was invited to attend with a friend. The intervention significantly increased participants' business activity, but only if they were trained with a friend. Those trained with a friend were more likely to have taken out business loans, were less likely to be housewives, and reported increased business activity and higher household income, with stronger impacts among women subject to social norms that restrict female mobility. (JEL G21, J16, J24, L26, M53, O16, Z13)

Capacity and Utilization in Health Care: The Effect of Empty Beds on Neonatal Intensive Care Admission

- American Economic Journal: Economic Policy---2016---Seth Freedman

Because geographic variation in medical care utilization is jointly determined by both supply and demand, it is difficult to empirically estimate whether capacity itself has a causal impact on utilization in health care. In this paper, I exploit short-term variation in Neonatal Intensive Care Unit (NICU) capacity that is unlikely to be correlated with unobserved demand determinants. I find that available NICU beds have little to no effect on NICU utilization for the sickest infants, but do increase utilization for those in the range of birth weights where admission decisions are likely to be more discretionary. (JEL I11, I12, I18, J13)

General Equilibrium Impacts of a Federal Clean Energy Standard

- American Economic Journal: Economic Policy---2016---Lawrence H. Goulder, Marc A. C. Hafstead, Roberton Williams

Economists have tended to view emissions pricing (e.g., cap and trade or a carbon tax) as the most cost-effective approach to reducing greenhouse gas emissions. This paper offers a different view. Employing analytical and numerically solved general equilibrium models, it provides plausible conditions under which a more conventional form of regulation—namely, the use of a clean energy standard (CES)—is more cost-effective. The models reveal that the CES distorts factor markets less because it is a smaller implicit tax on factors of production. This advantage more than offsets the disadvantages of the CES when minor emissions reductions are involved. (JEL H23, Q42, Q48, Q54, Q58)

Controlling Health Care Costs through Limited Network Insurance Plans: Evidence from Massachusetts State Employees

- American Economic Journal: Economic Policy---2016---Jonathan Gruber, Robin McKnight

We investigate the impact of limited network insurance plans in the context of the Massachusetts Group Insurance Commission (GIC), the insurance plan for state employees. Our quasi-experimental analysis examines the introduction of a major financial incentive

to choose limited network plans that affected a subset of GIC enrollees. We find that enrollees are very price sensitive in their decision to enroll in limited network plans. Those who switched spent almost 40 percent less on medical care. This reflects reductions in the quantity of services and prices paid per service. The spending reductions came from specialist and hospital care, while spending on primary care rose. (JEL G22, H75, I11, I13, J45)

Does Tax-Collection Invariance Hold? Evasion and the Pass-Through of State Diesel Taxes

- American Economic Journal: Economic Policy---2016---Wojciech Kopczuk, Justin Marion, Erich Muehlegger, Joel Slemrod

In simple models, the incidence of a tax is independent of the identity of the remitting party. We illustrate that this prediction fails to hold if opportunities for evasion differ across economic agents. Second, we estimate how the incidence of state diesel taxes varies with the point of collection, where the remitting party varies across states and over time. Moving tax collection upstream from retailers substantially raises the pass-through of diesel taxes to consumers. Furthermore, tax revenues increase when collecting taxes from wholesalers rather than from retailers, suggesting that evasion is the likely explanation for the incidence result. (JEL H22, H25, H26, H71, L71)

Corruption in Procurement and the Political Cycle in Tunneling: Evidence from Financial Transactions Data

- American Economic Journal: Economic Policy---2016---Maxim Mironov, Ekaterina Zhuravskaya

We provide evidence of corruption in allocation of public procurement and assess its efficiency. Firms with procurement revenue increase tunneling around regional elections, whereas neither tunneling of firms without procurement revenue, nor legitimate business of firms with procurement exhibits a political cycle. Data are consistent with the corruption channel—cash is tunneled to politicians in exchange for procurement

contracts—and inconsistent with alternative channels. Using the strength of correlation between procurement revenue and tunneling around elections as a proxy for local corruption, we reject the "efficient grease" hypothesis: in more corrupt localities, procurement contracts go to unproductive firms. (JEL D22, D72, H57, K42, P26, P31, P37)

Assessing Financial Education: Evidence from Boot Camp

- American Economic Journal: Economic Policy---2016---William Skimmyhorn

This study estimates the effects of Personal Financial Management Course attendance and enrollment assistance using a natural experiment in the US Army. New enlistees' course attendance reduces the probability of having credit account balances, average balances, delinquencies, and adverse legal actions in the first year after the course, but it has no effects on accounts in the second year or credit scores in either year. The course and its enrollment assistance substantially increase retirement savings rates and average monthly contributions, with effects that persist through at least two years. The course has no significant effects on military labor market outcomes. (JEL D14, I21, J45)

The Vulnerability of Minority Homeowners in the Housing Boom and Bust

- American Economic Journal: Economic Policy--2016---Patrick Bayer,Fernando Ferreira,Stephen Ross

This paper examines mortgage outcomes for a large sample of individual home purchases and refinances linked to credit scores in seven major US markets. Among those with similar credit scores and loan attributes, black and Hispanic homeowners had much higher rates of delinquency and default in the downturn. These estimated differences are especially pronounced for loans originated near the peak of the housing boom. These findings suggest that black and Hispanic homeowners drawn into the market near the peak were especially vulnerable to adverse economic shocks and

raise concerns about homeownership as a mechanism for reducing racial disparities in wealth. (JEL D14, J15, R23, R31, R38)

The Strategic Value of Carbon Tariffs

- American Economic Journal: Economic Policy---2016---Christoph Böhringer,Jared Carbone,Thomas F. Rutherford

We ask whether the threat of carbon tariffs might lower the cost of reductions in world carbon emissions by inducing unregulated regions to adopt emission controls. We use a numerical model to generate payoffs of a game in which a coalition regulates emissions and chooses whether to employ carbon tariffs against unregulated regions. Unregulated regions respond by abating, retaliating, or ignoring the tariffs. In the Nash equilibrium, the use of tariffs is a credible and effective threat. It induces cooperation from noncoalition regions that lowers the cost of global abatement substantially relative to the case where the coalition acts alone. (JEL D58, F13, F18, H23, Q54, Q58)

Paying on the Margin for Medical Care: Evidence from Breast Cancer Treatments

- American Economic Journal: Economic Policy--2016---Liran Einav,Amy Finkelstein,Heidi Williams

We present a simple graphical framework to illustrate the potential welfare gains from a "top-up" health insurance policy requiring patients to pay the incremental price for more expensive treatment options. We apply this framework to breast cancer treatments, where lumpectomy with radiation therapy is more expensive than mastectomy but generates similar average health benefits. We estimate the relative demand for lumpectomy using variation in distance to the nearest radiation facility, and estimate that the "top-up" policy increases social welfare by \$700-2,500 per patient relative to two common alternatives. We briefly discuss additional tradeoffs that arise from an ex ante perspective. (JEL G22, I11, I13, I18)

Up in Smoke: The Influence of Household Behavior on the Long-Run Impact of Improved Cooking Stoves

- American Economic Journal: Economic Policy---2016---Rema Hanna, Esther Duflo, Michael Greenstone

Laboratory studies suggest that improved cooking stoves can reduce indoor air pollution, improve health, and decrease greenhouse gas emissions in developing countries. We provide evidence, from a large-scale randomized trial in India, on the benefits of a common, laboratory-validated stove with a four-year follow-up. While smoke inhalation initially falls, this effect disappears by year two. We find no changes across health outcomes or greenhouse gas emissions. Households used the stoves irregularly and inappropriately, failed to maintain them, and usage declined over time. This study underscores the need to test environmental technologies in real-world settings where behavior may undermine potential impacts. (JEL D12, O12, O13, Q53, Q54, Q55)

Physicians Treating Physicians: Information and Incentives in Childbirth

- American Economic Journal: Economic Policy---2016---Erin M. Johnson, M. Rehaavi

This paper provides new evidence on the interaction between patient information and physician financial incentives. Using rich microdata on childbirth, we compare the treatment of physicians when they are patients with that of comparable nonphysicians. We also exploit the presence of HMO-owned hospitals to determine how the treatment gap varies with providers' financial incentives. Consistent with induced demand, physicians are approximately 10 percent less likely to receive a C-section, with only a quarter of this effect attributable to differential sorting. While financial incentives affect the treatment of nonphysicians, physician-patients are largely unaffected. Physicians also have better health outcomes. (JEL D83, I11, J16, J44)

A Contribution to the Empirics of Reservation Wages

- American Economic Journal: Economic Policy---2016---Alan Krueger, Andreas Mueller

This paper provides evidence on the behavior of reservation wages over the spell of unemployment, using high-frequency longitudinal data on unemployed workers in New Jersey. In comparison to a calibrated job search model, the reservation wage starts out too high and declines too slowly, on average, suggesting that many workers persistently misjudge their prospects or anchor their reservation wage on their previous wage. The longitudinal nature of the data also allows for testing the relationship between job acceptance and the reservation wage, where the reservation wage is measured from a previous interview to avoid bias due to cognitive dissonance. (JEL J22, J31, J64)

Leaving Poverty Behind? The Effects of Generous Income Support Paired with Activation

- American Economic Journal: Economic Policy---2016---Simen Markussen, Knut Røed

We evaluate a comprehensive activation program in Norway targeted at hard-to-employ social assistance claimants with reduced work capacity. The program offers a combination of tailored rehabilitation, training, and job practice, and a generous, stable, and non-means-tested benefit. Its primary aims are to mitigate poverty and subsequently promote self-supporting employment. Our evaluation strategy exploits a geographically staggered program introduction, and the causal effects are identified on the basis of changes in employment prospects that coincide with local program implementation in a way that correlates with the predicted probability of becoming a participant. We find that the program raised employment prospects considerably. (JEL H55, I32, I38, J24)

Of Mice and Academics: Examining the Effect of Openness on Innovation

- American Economic Journal: Economic Policy---2016---Fiona Murray, Philippe Aghion, Mathias

This paper argues that openness, by lowering costs to access existing research, can enhance both early and late stage innovation through greater exploration of novel research directions. We examine a natural experiment in openness: late-1990s NIH agreements that reduced academics' access costs regarding certain genetically engineered mice. Implementing difference-in-differences estimators, we find that increased openness encourages entry by new researchers and exploration of more diverse research paths, and does not reduce the creation of new genetically engineered mice. Our findings highlight a neglected cost of strong intellectual property restrictions: lower levels of exploration leading to reduced diversity of research output. (JEL I23, O31, O33, O34)

Extended Unemployment Benefits and Early Retirement: Program Complementarity and Program Substitution

- American Economic Journal: Economic Policy--2016---Lukas Inderbitzin, Stefan Staubli, Josef Zweimüller

We explore how extended unemployment insurance (UI) benefits for older workers affect early retirement and welfare. We argue that extending UI benefits generates program complementarity (more labor market exits and disability benefit take-up in the future) and program substitution (less disability benefit take-up in the present). Exploiting a policy change in Austria, which extended UI benefits to 4 years, we find program complementarity effects for workers aged 50+ and program substitution effects for workers aged 55+. We apply the Baily-Chetty formula for optimal UI to account for complementarity and substitution, showing that UI benefits for older workers were too generous. (JEL J14, J22, J26, J65)

Only One Tree from Each Seed? Environmental Effectiveness and Poverty Alleviation in Mexico's Payments for Ecosystem Services Program

- American Economic Journal: Economic Policy--2015---Jennifer M. Alix-Garcia, Katharine R. E. Sims, Patricia Yañez-Pagans

Environmental conditional cash transfers are popular but their impacts are not well understood. We evaluate land cover and wealth impacts of a federal program that pays landowners for protecting forest. Panel data for program beneficiaries and rejected applicants allow us to control for fixed differences and time trends affecting both groups. We find the program reduces the expected land cover loss by 40-51 percent and generates small but positive poverty alleviation. Environmental gains are higher where poverty is low while household gains are higher where deforestation risk is low, illustrating the difficulty of meeting multiple policy goals with one tool. (JEL I32, I38, O13, O15, Q23, Q28, Q56)

The Effects of Medicare on Medical Expenditure Risk and Financial Strain

- American Economic Journal: Economic Policy---2015---Silvia Helena Barcellos, Mireille Jacobson

Medicare offers substantial protection from medical expenditure risk, protection that has increased in recent years. At age 65, out-of-pocket expenditures drop by 33 percent at the mean and 53 percent at the ninety-fifth percentile. Medical-related financial strain, such as difficulty paying bills and collections agency contact, is dramatically reduced. Nonetheless, using a stylized expected utility framework, the gain from reducing out-of-pocket expenditures accounts for only 18 percent of the social costs of financing Medicare. This calculation ignores any direct health benefits from Medicare or any indirect health effects due to reductions in financial stress. (JEL D14, H51, I13, I18, J14)

The Impact of Regulation on Mortgage Risk: Evidence from India

- American Economic Journal: Economic Policy---2015---John Campbell, Tarun Ramador

We employ loan-level data on over a million loans disbursed in India between 1995 and 2010 to understand how fast-changing regulation impacted mortgage lending and risk. Our paper uses changes in regulatory treatment discontinuities associated with loan size and leverage to detect regulation-induced loan delinquencies. We also find that an acceleration in the classification of assets as nonperforming resulted in substantially lower delinquency probabilities and losses given delinquency. (JEL D14, G21, G28, L51, O16, R31)

Identity-Based Policies and Identity Manipulation: Evidence from Colonial Punjab

- American Economic Journal: Economic Policy---2015---Guilhem Cassan

I study identity-marker based policies and demonstrate the existence of identity manipulation. I analyze the impact of the Punjab Alienation of Land Act (1901), a caste-based legislation, on identity manipulation. Using data from the colonial census, I show that a movement of identity manipulation took place in response to the law. I estimate that in 20 years, 7.5 percent of the population that had an incentive to do so manipulated its identity. I then use an accounting exercise to estimate that the amount of mistargeting caused by this manipulation is between 3.9 percent and 8.2 percent of the land distributed. (JEL J15, N35, N45, N55, Q15, Q24, Z13)

Tax Compliance and Loss Aversion

- American Economic Journal: Economic Policy--2015---Per Engström,Katarina Nordblom,Henry Ohlsson,Annika Persson

We study if taxpayers are loss averse when filing returns. Preliminary deficits might be viewed as losses assuming zero preliminary balances as reference points. Swedish taxpayers can try to escape such losses by claiming deductions after receiving information about the preliminary balance. Using a regression kink and

discontinuity approach, we study data for 3.6 million Swedish taxpayers for 2006. There are strong causal effects of preliminary tax deficits on the probability of claiming deductions. Compliance will increase and auditing costs will be reduced if preliminary taxes are calibrated so that most taxpayers receive refunds. (JEL H24, H26)

How Much Are Public School Teachers Willing to Pay for Their Retirement Benefits?

- American Economic Journal: Economic Policy---2015---Maria Fitzpatrick

Public sector employees receive large fractions of their lifetime income in the form of deferred compensation. The introduction of the opportunity provided to Illinois public school employees to purchase additional pension benefits allows me to estimate employees' willingness-to-pay for benefits relative to the cost of providing them. The results show employees are willing to pay 20 cents on average for a dollar increase in the present value of expected retirement benefits. The findings suggest substantial inefficiency in compensation and cast doubt on the ability of deferred compensation schemes to attract employees. (JEL H75, I21, J26, J45)

Trade and Investment under Policy Uncertainty: Theory and Firm Evidence

- American Economic Journal: Economic Policy---2015---Kyle Handley,Nuno Limão

In a dynamic model with sunk export costs, a firm's export investment is lower under trade policy uncertainty, and credible preferential trade agreements (PTAs) increase trade even if current tariffs are low. Exploring Portugal's accession to the European Community as a policy uncertainty shock we find that the trade reform accounted for a large fraction of Portuguese exporting firms' entry and sales; the accession removed uncertainty about future EC trade policies; and this uncertainty channel accounted for a large fraction of the predicted growth. Our approach can be applied to

other PTAs and sources of policy uncertainty. (JEL D22, F12, F14, F15, G31, L11)

Water Pollution Progress at Borders: The Role of Changes in China's Political Promotion Incentives

- American Economic Journal: Economic Policy---2015---Matthew Kahn,Pei Li,Daxuan Zhao

At political boundaries, local leaders have weak incentives to reduce polluting activity because the social costs are borne by downstream neighbors. This paper exploits a natural experiment set in China in which the central government changed the local political promotion criteria and thus incentivized local officials to reduce border pollution along specific criteria. We document evidence of pollution progress with respect to targeted criteria at province boundaries. Heavy metal pollutants, not targeted by the central government, have not decreased in concentration after the regime shift. Using data on the economic geography of key industrial water polluters, we explore possible mechanisms. (JEL D72, O13, O18, P25, P28, Q25, Q53)

Assessing the Welfare Effects of Unemployment Benefits Using the Regression Kink Design

- American Economic Journal: Economic Policy---2015---Camille Landais

I show how, in the tradition of the dynamic labor supply literature, one can identify the moral hazard effects and liquidity effects of unemployment insurance (UI) using variations along the time profile of unemployment benefits. I use this strategy to investigate the anatomy of labor supply responses to UI. I identify the effect of benefit level and potential duration in the regression kink design using kinks in the schedule of benefits in the US. My results suggest that the response of search effort to UI benefits is driven as much by liquidity effects as by moral hazard effects. (JEL D82, J22, J65)

The Best of Times, the Worst of Times: Understanding Pro-cyclical Mortality

- American Economic Journal: Economic Policy---2015---Ann Stevens,Douglas Miller,Marianne Page,Mateusz Filipiński

It is well-known that mortality rates are pro-cyclical. In this paper, we attempt to understand why. We find little evidence that cyclical changes in individuals' own employment-related behavior drives the relationship; own-group employment rates are not systematically related to own-group mortality. Further, most additional deaths that occur when the economy is strong are among the elderly, particularly elderly women and those residing in nursing homes. We also demonstrate that staffing in nursing homes moves countercyclically. These findings suggest that cyclical fluctuations in the quality of health care may be a critical contributor to cyclical movements in mortality. (JEL E24, E32, I12, J16, L84)

Complex Tax Incentives

- American Economic Journal: Economic Policy---2015---Johannes Abeler,Simon Jäger

How does complexity affect people's reaction to tax changes? To answer this question, we conduct an experiment in which subjects work for a piece rate and face taxes. One treatment features a simple tax system, the other a complex one. Subjects' economic incentives are identical across treatments. We introduce the same sequence of additional taxes in both treatments. Subjects in the complex treatment underreact to new taxes; some ignore new taxes entirely. The underreaction is stronger for subjects with lower cognitive ability. Contrary to predictions from models of rational inattention, subjects are equally likely to ignore large or small incentive changes (JEL D14, H24, H31)

Return to Treatment in the Formal Health Care Sector: Evidence from Tanzania

- American Economic Journal: Economic Policy---2015---Achyuta Adhvaryu,Anant Nyshadham

Improving access to the formal health care sector is a primary public health goal in many low-income countries. But the returns to this access are unclear, given that the quality of care at public health facilities is often considered inadequate. We exploit temporal and geographic variation in the cost of traveling to formal sector health facilities to show that treatment at these facilities improves short-term health outcomes for acutely ill children in Tanzania. Our results suggest that these improvements are driven in part by more timely receipt of and better adherence to antimalarial treatment. (JEL I11, I12, I15, I18, J13, O15)

The Long-Term Direct and External Effects of Jewish Expulsions in Nazi Germany

- American Economic Journal: Economic Policy---2015---Mevlud Akbulut-Yuksel,Mutlu Yuksel

This paper examines the long-term direct and spillover effects of large-scale human capital loss caused by the persecution of Jewish professionals in Nazi Germany. Using region-by-cohort variation in the percentage of the Jewish population as a quasi-experiment, we find that German children who were at school-age during the persecutions have fewer years of schooling on average in adulthood. Moreover, these children are less likely to finish high school and go to college. These results are robust after controlling for regional unemployment and income per capita, wartime destruction, Nazi and Communist Party support, compulsory schooling reform, migration, urbanization, and mortality. (JEL I21, I28, J24, J44, N34, N44, Z12)

Turning a Shove into a Nudge? A "Labeled Cash Transfer" for Education

- American Economic Journal: Economic Policy---2015---Najy Benhassine,Florencia Devoto,Esther Duflo,Pascaline Dupas,Victor Pouliquen

Conditional Cash Transfers (CCTs) have been shown to increase human capital investments, but their standard features make them expensive. We use a large randomized experiment in Morocco to estimate an alternative government-run program, a "labeled cash

transfer" (LCT): a small cash transfer made to fathers of school-aged children in poor rural communities, not conditional on school attendance but explicitly labeled as an education support program. We document large gains in school participation. Adding conditionality and targeting mothers made almost no difference in our context. The program increased parents' belief that education was a worthwhile investment, a likely pathway for the results. (JEL H23, I24, I28, I38, J24, O15, O18)

Human Capital and the Lifetime Costs of Impatience

- American Economic Journal: Economic Policy---2015---Brian Cadena,Benjamin Keys

In this paper, we examine the role of impatience in human capital formation—arguably the most important investment decision individuals make during their lifetimes. We focus on a set of investment behaviors that cannot be explained solely by variation in exponential discounting. Using data from the NL SY and a straightforward measure of impatience, we find that impatient people more frequently invest in dynamically inconsistent ways, such as dropping out of college with one year or less remaining. The cumulative investment differences result in the impatient earning 13 percent less and expressing more regret as this cohort reaches middle age. (JEL D91, I26, J24, J31)

Housing Vouchers and the Price of Rental Housing

- American Economic Journal: Economic Policy---2015---Michael Eriksen,Amanda Ross

We estimate the effect of increasing the supply of housing vouchers on rents using a panel of housing units in the American Housing Survey. We do not find that an increase in vouchers affected the overall price of rental housing but do estimate differences in effects based on an individual unit's rent before the voucher expansion. Our results are consistent with voucher recipients renting more expensive units after receiving the subsidy. We also find that the largest price

increases were for units near the maximum allowable voucher rent in cities with an inelastic housing supply. (JEL H23, I38, R31, R38)

Taxpayer Search for Information: Implications for Rational Attention

- American Economic Journal: Economic Policy---2015---Jeffrey L. Hoopes, Daniel H. Reck, Joel Slemrod

We examine data on capital-gains-tax-related information search to determine when and how taxpayers acquire information. We find seasonal increases in information search around tax deadlines, suggesting that taxpayers seek information to comply with tax law. Positive correlations between stock market activity and search as well as year-end spikes in information search on capital losses when the market performs poorly suggest that taxpayers seek information for tax planning purposes. Policy changes and news events cause information search. These data suggest that taxpayers are not always fully informed, but that rational attention and exogenous shocks to tax salience drive taxpayer information search. (JEL D12, D83, H24, H31, K34)

Asymmetric Incentives in Subsidies: Evidence from a Large-Scale Electricity Rebate Program

- American Economic Journal: Economic Policy---2015---Koichiro Ito

Many countries use substantial public funds to subsidize reductions in negative externalities. Such policy designs create asymmetric incentives because increases in externalities remain unpriced. I investigate the implications of such policies by using a regression discontinuity design in California's electricity rebate program. Using household-level panel data, I find that the incentive produced precisely estimated zero treatment effects on energy conservation in coastal areas. In contrast, the rebate induced short-run and long-run consumption reductions in inland areas. Income, climate, and air conditioner saturation significantly drive the heterogeneity. Finally, I provide a cost-effectiveness analysis

and investigate how to improve the policy design. (JEL D12, D62, H76, L94, L98, Q48)

US State Fiscal Policy and Natural Resources

- American Economic Journal: Economic Policy---2015---Alexander James

An analytical framework predicts that, in response to an exogenous increase in resource-based government revenue, a benevolent government will partially substitute away from taxing income, increase spending and save. Fifty-one years of US-state level data are largely consistent with this theory. A baseline fixed effects model predicts that a \$1.00 increase in resource revenue results in a \$0.25 decrease in nonresource revenue, a \$0.43 increase in spending and a \$0.32 increase in savings. Instrumenting for resource revenue reveals that a positive revenue shock is largely saved and the rest is transferred back to residents in the form of lower non resource tax rates. (JEL H71, H72, H76, Q38, R11)

Did the Americanization Movement Succeed? An Evaluation of the Effect of English-Only and Compulsory Schooling Laws on Immigrants

- American Economic Journal: Economic Policy---2015---Adriana Lleras-Muney, Allison Shertzer

We provide the first estimates of the effect of statutes requiring English as the language of instruction and compulsory schooling laws on the school enrollment, work, literacy, and English fluency of immigrant children during the Americanization period (1910-1930). English-only statutes moderately increased the literacy of certain foreign-born children, particularly those living in cities or whose parents were not fluent in English. However, these laws had no impact on immigrants' eventual labor market outcomes or measures of social integration (from 1940 census and WWII enlistment records). Only laws regulating the age when children could work significantly affected immigrant outcomes. (JEL I21, I26, I28, J13, J15, N31, N32)

Valuing the Wind: Renewable Energy Policies and Air Pollution Avoided

- American Economic Journal: Economic Policy---2015---Kevin Novan

Exploiting variation in the hourly production from wind turbines, this paper quantifies the heterogeneity in the marginal impact of renewable electricity on pollution. The results reveal that output from competing renewable capacity additions—e.g., wind turbines versus solar panels—provide different marginal external benefits. This finding suggests that, if governments continue to subsidize renewables, an emphasis should be placed on designing policies that internalize the heterogeneous benefits. More generally, my results highlight that, by incorrectly assuming renewable electricity is a homogenous good, we will understate the relative efficiency of the first-best pollution prices. (JEL L94, L98, Q42, Q48, Q51, Q53, Q58)

How Is Tax Policy Conducted over the Business Cycle?

- American Economic Journal: Economic Policy---2015---Carlos Vegh,Guillermo Vuletin

It is well known by now that government spending has typically been procyclical in developing economies but acyclical or countercyclical in industrial countries. Little, if any, is known, however, about the cyclical behavior of tax rates (as opposed to tax revenues, which are endogenous to the business cycle and, hence, cannot shed light on the cyclicity of tax policy). We build a novel dataset on tax rates for 62 countries for the period 1960-2013 that comprises corporate income, personal income, and value-added tax rates. We find that tax policy is acyclical in industrial countries but mostly pro cyclical in developing countries. (JEL E32, E64, H24, H25, O11, O23)

The Tax Gradient: Spatial Aspects of Fiscal Competition

- American Economic Journal: Economic Policy---2015---David Agrawal

State borders create a discontinuous tax treatment of retail sales. In a Nash game, local tax rates will be higher on the low state tax side of a border. Local taxes will decrease from the nearest high-tax border and increase from the low-tax border. Using driving time from state borders and all local sales tax rates, local tax rates on the low tax side of the border are 1.25 percentage points higher, reducing the differential in state tax rates by over three-quarters. A ten minute increase in driving time from the nearest high-tax state lowers a border town's local tax rate by 6 percent. (JEL H25, H71, H73, H77)

Telecracy: Testing for Channels of Persuasion

- American Economic Journal: Economic Policy---2015---Guglielmo Barone,Francesco D'Acunto,Gaia Narciso

We consider the long-lived slant towards Berlusconi in political information on Italian television (TV). We exploit a shock to the slanted exposure of viewers: idiosyncratic deadlines to switch to digital TV from 2008 to 2012, which increased the number of free view channels tenfold. The switch caused a drop in the vote share of Berlusconi's coalition by between 5.5 and 7.5 percentage points. The effect was stronger in towns with older and less educated voters. At least 20 percent of digital users changed their voting behavior after the introduction of digital TV. Our evidence is consistent with the existence of persuasion-biased viewers. (JEL D72, D83, L82, L88)

Calculation of a Population Externality

- American Economic Journal: Economic Policy---2015---Henning Bohn,Charles Stuart

It is known that when people generate externalities, a birth also generates an externality and efficiency requires a Pigou tax/subsidy on having children. The size of the externality from a birth is important for studying policy. We calculate the size of this "population externality" in a specific case: we consider a maintained hypothesis that greenhouse gas emissions are a serious problem and assume government reacts by

optimally restricting emissions. Calculated population externalities are large under many assumptions (JEL D62, H23, J11, J13, Q54, Q58)

Can Tax Breaks Beat Geography? Lessons from the French Enterprise Zone Experience

- American Economic Journal: Economic Policy---2015---Anthony Briant,Miren Lafourcade,Benoit Schmutz

This paper shows that urban geography matters to the effectiveness of place-based policies, using the French enterprise zone program as a case study. Whereas this program created more jobs in spatially integrated neighborhoods, its impact on local wages was only visible in the more isolated ones. In addition, a focus on the average impact of the program would lead to the conclusion that it mostly succeeded in displacing preexisting firms, but a lower level of spatial isolation was a clear determinant of the decision to create new firms from scratch. (JEL H25, H32, L52, R32, R38)

Behind the GATE Experiment: Evidence on Effects of and Rationales for Subsidized Entrepreneurship Training

- American Economic Journal: Economic Policy---2015---Robert Fairlie,Dean Karlan,Jonathan Zinman

Theories of market failures and targeting motivate the promotion of entrepreneurship training programs and generate testable predictions regarding heterogeneous treatment effects from such programs. Using a large randomized evaluation in the United States, we find no strong or lasting effects on those most likely to face credit or human capital constraints, or labor market discrimination. We do find a short-run effect on business ownership for those unemployed at baseline, but this dissipates at longer horizons. Treatment effects on the full sample are also short-term and limited in scope: we do not find effects on business sales, earnings, or employees. (JEL I26, J24, J68, L25, L26, M13)

Does Vertical Integration Decrease Prices? Evidence from the Paramount Antitrust Case of 1948

- American Economic Journal: Economic Policy---2015---Ricard Gil

I empirically examine the impact of the 1948 Paramount antitrust case on ticket prices using a unique dataset collected from Variety magazine issues between 1945 and 1955. With information on prices, revenues, and theater ownership for an unbalanced panel of 393 theaters in 26 cities, I find that vertically integrated theaters charged lower prices and sold more admission tickets than nonintegrated theaters. I also find that the rate at which prices increased in theaters was slower while integrated than after vertical divestiture. These findings together with institutional details are consistent with the prediction that vertical integration lowers prices through the elimination of double marginalization. (JEL G34, K21, L11, L22, L42, L82)

Does Agriculture Generate Local Economic Spillovers? Short-Run and Long-Run Evidence from the Ogallala Aquifer

- American Economic Journal: Economic Policy---2015---Richard Hornbeck,Pinar Keskin

Agriculture may support the local nonagricultural economy in rural areas, though agricultural expansion may also crowd-out nonagricultural activity. On the United States Plains, areas over the Ogallala aquifer experienced windfall agricultural gains when post WWII technologies increased farmers' access to groundwater. Comparing counties over the Ogallala with similar counties, nonagricultural sectors experienced only short-run relative benefits. Despite substantial and persistent agricultural gains, there was no long run relative expansion of nonagricultural sectors in Ogallala counties. Agricultural development may still encourage regional or national nonagricultural development, but agriculture does not appear to generate local economic spillovers that differentially encourage local nonagricultural activity. (JEL Q12, Q15, Q18, Q25, R11)

Mansion Tax: The Effect of Transfer Taxes on the Residential Real Estate Market

- American Economic Journal: Economic Policy---2015---Wojciech Kopczuk,David Munroe

Using discontinuities in housing transaction taxes in New York and New Jersey we find robust price bunching. Incidence for transactions local to the notch falls on sellers, with no evidence of evasion. The volume of missing transactions above the notch exceeds those bunching (beyond the usual extensive-margin response), indicating incentives for buyers and sellers not to transact (market unravels). The possibility of unraveling affects interpretation and estimation of bunching. Away from the threshold, we find increased discounts and weaker relationship between listing and sale prices. Equilibrium bargaining framework highlights that taxation affects the ultimate allocation in this search market. (JEL H71, R21, R31)

New Evidence on Taxes and the Timing of Birth

- American Economic Journal: Economic Policy--2015---Sara LaLumia,James Sallee,Nicholas Turner

This paper uses data from the universe of tax returns filed between 2001 and 2010 to test whether parents shift the timing of childbirth around the New Year to gain tax benefits. Filers have an incentive to shift births from early January into late December, through induction or cesarean delivery, because child-related tax benefits are not prorated. We find evidence of a positive, but very small, effect of tax incentives on birth timing. An additional \$1,000 of tax benefits increases the probability of a late-December birth by only about 1 percentage point. We argue that the response to tax incentives is small in part because of confusion about eligibility and delays in the issuance of Social Security numbers for newborns, as well as a lack of control over medical procedures on the part of filers with the highest tax values. In contrast to this small behavioral response, we do document a substantial reporting response among self-employed parents facing changes in the Earned Income Tax Credit as a result

of a child's birth. We estimate that this reporting response reduces federal revenue by hundreds of millions of dollars per year. (JEL H24, H31, J13, J23)

The Economics of Nationalism

- American Economic Journal: Economic Policy---2015---Xiaohuan Lan,Ben Li

This paper provides an economic framework for examining how economic openness affects nationalism. Within a country, a region's level of nationalism varies according to its economic interests in its domestic market relative to its foreign market. All else being equal, increasing a region's foreign trade reduces its economic interests in its domestic market and thus weakens its nationalism. This prediction holds both cross-sectionally and over time, as evidenced by our empirical study using the Chinese Political Compass data and the World Value Surveys. Our framework also applies to analysis of nationalism across countries and receives support from cross-country data. (JEL F14, F52, O17, O19, P26, P33)

Comparing Charitable Fundraising Schemes: Evidence from a Natural Field Experiment and a Structural Model

- American Economic Journal: Economic Policy--2015---Steffen Huck,Imran Rasul,Andrew Shephard

We present evidence from a natural field experiment and structural model to shed light on the efficacy of alternative fundraising schemes. In conjunction with the Bavarian State Opera, we mailed 25,000 opera attendees a letter describing a charitable fundraising project organized by the opera house. Recipients were randomly assigned to treatments designed to explore responses to fundraising schemes varying in: the presence of a lead donor; and how individual donations would be matched using the lead donation. The structural model estimates extensive and intensive margin responses, and is then utilized to predict giving behavior in counterfactual fundraising schemes. (JEL C93, D64, L31, L82)

Open Skies: Estimating Travelers' Benefits from Free Trade in Airline Services

- American Economic Journal: Economic Policy---2015---Clifford Winston,Jia Yan

The United States has negotiated bilateral open skies agreements to deregulate airline competition on US international routes, but little is known about their effects on travelers' welfare and the gains from the US negotiating agreements with more countries. We develop a model of international airline competition to estimate the effects of open skies agreements on fares and flight frequency. We find the agreements have generated at least \$4 billion in annual gains to travelers and that travelers would gain an additional \$4 billion if the US negotiated agreements with other countries that have a significant amount of international passenger traffic. (JEL D12, L11, L51, L93, L98)

Inflation Expectations and Readiness to Spend: Cross-Sectional Evidence

- American Economic Journal: Economic Policy---2015---Ruediger Bachmann,Tim Berg,Eric Sims

There have been suggestions for monetary policy to engineer higher inflation expectations to stimulate spending. We examine the relationship between expected inflation and spending attitudes using the microdata from the Michigan Survey of Consumers. The impact of higher inflation expectations on the reported readiness to spend on durables is generally small, outside the zero lower bound, often statistically insignificant, and inside of it typically significantly negative. In our baseline specification, a one percentage point increase in expected inflation during the recent zero lower bound period reduces households' probability of having a positive attitude towards spending by about 0.5 percentage points. (JEL D12, D84, E21, E31, E52)

Taxes on the Internet: Deterrence Effects of Public Disclosure

- American Economic Journal: Economic Policy---2015---Erlend Bø,Joel Slemrod,Thor Thoresen

Although Norway has a long tradition of public disclosure of tax filings, starting in 2001 anyone with Internet access could obtain individual information on income and income taxes paid. We examine the effect on income reporting of this change in the degree of public disclosure, making use of the fact that prior to 2001, in some municipalities, tax information was distributed widely through locally produced paper catalogs. We find an approximately 3 percent higher average increase in reported income among business owners living in areas where the switch to Internet disclosure represented a large change in access. (JEL H24, H25, H26)

Is There a Link between Foreclosure and Health?

- American Economic Journal: Economic Policy---2015---Janet Currie,Erdal Tekin

We investigate the relationship between foreclosures and hospital visits using data on all foreclosures and all hospital and emergency room visits from four states that were among the hardest hit by the foreclosure crisis. We find that living in a neighborhood with a spike in foreclosures is associated with significant increases in urgent unscheduled visits, including increases in visits for preventable conditions. The estimated relationships cannot be accounted for by increasing unemployment, declines in housing prices, migration, or by people switching from out-patient providers to hospitals. (JEL D14, F12, R31)

The Impact of Including, Adding, and Subtracting a Tax on Demand

- American Economic Journal: Economic Policy---2015---Naomi E. Feldman,Bradley Ruffle

We test the equivalence of tax-inclusive, tax-exclusive and tax-rebate prices through a series of experiments differing only in their handling of the tax. Subjects receive a cash budget and decide how much to keep and how much to spend on various attractively priced goods. Subjects spend significantly more under tax-exclusive prices whereas total purchases under tax-inclusive and tax-rebate prices are similar. These results persist

throughout most of the ten rounds despite feedback and the ability to revise purchases. The asymmetric response to tax liabilities and rebates highlights consumers' ability both to internalize and to willfully ignore hidden price components. (JEL D12, H25, H31)

The Role of Proximity in Foreclosure Externalities: Evidence from Condominiums

- American Economic Journal: Economic Policy---2015---Lynn M. Fisher, Lauren Lambie-Hanson, Paul Willen

We measure the effect of foreclosures on the sale prices of nearby properties using a dataset of condominiums in Boston. A foreclosure in the same association and at the same address depresses the sale price by 2.5 percent, but properties in the same association but located at a different address have an effect that is tightly estimated at zero. Since properties in the same association are close substitutes, we argue that the evidence points against the pecuniary externality of property coming on the market and toward a physical externality as the source of measured foreclosure externalities. (JEL R31)

The Effects of Voting Costs on the Democratic Process and Public Finances

- American Economic Journal: Economic Policy---2015---Roland Hodler, Simon Luechinger, Alois Stutzer

Increasing the attractiveness of voting is often seen as a remedy for unequal participation and the influence of special-interest groups on public policy. However, lower voting costs may also bring less informed citizens to the poll, thereby inviting efforts to sway these voters. We substantiate this argument in a probabilistic voting model with campaign contributions. In an empirical analysis for the 26 Swiss cantons, we find that lower voting costs due to postal voting are related to higher turnout, lower average education and political knowledge of participants as well as lower government welfare expenditures and lower business taxation. (JEL D72, H25, H75, I20, I38)

Income, the Earned Income Tax Credit, and Infant Health

- American Economic Journal: Economic Policy---2015---Hilary Hoynes, Doug Miller, David Simon

This paper uses quasi-experimental variation from federal tax reform to evaluate the effect of the EITC on infant health outcomes. We find that the EITC reduces the incidence of low birth weight and increases mean birth weight: a \$1,000 treatment-on-the-treated leads to a 2 to 3 percent decline in low birth weight. Our results suggest that the candidate mechanisms include more prenatal care and less negative health behaviors (smoking). Additionally, we find a shift from public to private insurance coverage, and for some a reduction in insurance overall, indicating a potential change in the quality and perhaps quantity of coverage. (JEL H24, I12, I38, J13)

Using Taxes to Reduce Carbon Dioxide Emissions Rates of New Passenger Vehicles: Evidence from France, Germany, and Sweden

- American Economic Journal: Economic Policy---2015---Thomas Klier, Joshua Linn

France, Germany, and Sweden link taxes to passenger vehicles' carbon dioxide (CO₂) emissions rates. Based on new vehicle registration data from 2005 to 2010, we find that CO₂ taxes reduce registrations. The effect is larger in France than in either Germany or Sweden, and the French results are robust to alternative estimation models. Compared with those of France, the German results vary somewhat more, and the Swedish estimates are the least robust. We find some evidence that the French tax affected the mix of new vehicles that vehicle manufacturers offered in the French market. (JEL H23, L62, Q54, Q58)

Diagnosing Hospital System Bargaining Power in Managed Care Networks

- American Economic Journal: Economic Policy---2015---Matthew Lewis, Kevin E. Pflum

We investigate the impact of hospital system membership on negotiations between hospitals and managed care organizations (MCOs). Previous research finds that system hospitals secure higher reimbursements by exploiting local market concentration. By leveraging system membership in the bargaining game, however, system hospitals may also extract a higher percentage of their value to an MCO. Our findings reveal that more of the observed price gap between system and nonsystem hospitals can be attributed to bargaining power differences than to differences linked to relative concentration. These results highlight the importance of explicitly modeling the bargaining process when evaluating negotiated-price markets more generally. (JEL C78, I11, I13, L14)

Would People Behave Differently If They Better Understood Social Security? Evidence from a Field Experiment

- American Economic Journal: Economic Policy---2015---Jeffrey Liebman,Erzo Luttmer

This paper presents the results of a randomized field experiment that provided information about key Social Security features to older workers. The experiment was designed to examine whether it is possible to affect individual behavior using a relatively inexpensive informational intervention about the provisions of a public program and to explore the mechanisms underlying the behavior change. We find that our relatively mild intervention (sending an informational brochure and an invitation to a web-tutorial) increased labor force participation one year later by 4 percentage points relative to the control group mean of 74 percent. (JEL C93, D12, H55)

Quasi-Experimental Evidence on the Connection between Property Taxes and Residential Capital Investment

- American Economic Journal: Economic Policy---2015---Byron Lutz

Do low property taxes attract new home construction? This question is answered using a large shock to prop-

erty tax burdens caused by an unusual school finance reform in the state of New Hampshire. The estimates suggest that, in most of the state, communities with a reduced tax burden experience a substantial increase in residential construction. In the area of the state near the region's primary urban center (Boston), however, the shock clears through a price adjustment—i.e., by capitalizing into property values. The differing responses are attributed to differing housing supply elasticities. (JEL H71, H73, R31)

New Estimates of the Value of a Statistical Life Using Air Bag Regulations as a Quasi-experiment

- American Economic Journal: Economic Policy---2015---Chris Rohlfs,Ryan Sullivan,Thomas Kniesner

Due to federal regulations, automobile air bag availability was a model-specific discontinuous function of model year for used vehicles in the 1990s and early 2000s. We use the discontinuities and the gradual increase in the supply of air bags to trace out the demand curve for air bags and the implied distribution of the Value of a Statistical Life (VSL) across consumers. Although imprecise, our preferred point estimates indicate that the median VSL is between \$9 million and \$11 million and that a sizable portion of consumers placed negative values on air bags, probably due to distrust of the technology. (JEL D12, J17, L51, L62)

Efficiency and Substitutability of Transit Subsidies and Other Urban Transport Policies

- American Economic Journal: Economic Policy---2014---Leonardo J. Basso,Hugo E. Silva

This paper analyzes the efficiency of and the substitutability between three urban congestion management policies: transit subsidization, car congestion pricing, and dedicated bus lanes. The model features user heterogeneity, cross-congestion effects between cars and transit, intertemporal and total transport demand elasticities, and is simulated using data for London, UK and Santiago, Chile. We find that the substitutability between policies is large and, in particular, the

marginal contribution of increased transit subsidies, as other policies are implemented first, diminishes rapidly. Bus lanes are an attractive way to increase frequencies and decrease fares without injecting public funds.

Social Support Substitution and the Earnings Rebound: Evidence from a Regression Discontinuity in Disability Insurance Reform

- American Economic Journal: Economic Policy---2014---Lex Borghans, Anne Gielen, Erzo Luttmer

We exploit a cohort discontinuity in the stringency of Dutch disability reforms to estimate the effects of decreased DI (disability insurance) generosity on behavior of existing recipients. We find evidence of social support substitution: individuals on average offset €1.00 of lost DI benefits by collecting €0.30 more from other social assistance programs, but this benefit-substitution effect declines over time. Individuals also exhibit a rebound in earnings: earnings increase by €0.62 on average per euro of lost DI benefits and this effect remains roughly constant over time. This is strong evidence of substantial remaining earnings capacity among long-term claimants of DI.

The Trade-Offs of Welfare Policies in Labor Markets with Informal Jobs: The Case of the "Seguro Popular" Program in Mexico

- American Economic Journal: Economic Policy---2014---Mariano Bosch, Raymundo Campos-Vazquez

In 2002, the Mexican government began an effort to improve health access to the 50 million uninsured in Mexico, a program known as Seguro Popular (SP). The SP offered virtually free health insurance to informal workers, altering the incentives to operate in the formal economy. We find that the SP program had a negative effect on the number of employers and employees formally registered in small and medium firms (up to 50 employees). Our results suggest that the positive gains of expanding health coverage should be weighed against the implications of the reallocation of labor away from the formal sector.

Are Incentives for R&D Effective? Evidence from a Regression Discontinuity Approach

- American Economic Journal: Economic Policy---2014---Raffaello Bronzini, Eleonora Iachini

This paper evaluates a unique R&D subsidy program implemented in northern Italy. Firms were invited to submit proposals for new projects and only those which scored above a certain threshold received the subsidy. We use a sharp regression discontinuity design to compare the investment spending of subsidized firms with that of unsubsidized firms. For the sample as a whole we find no significant increase in investment. This overall effect, however, masks substantial heterogeneity in the program's impact. We estimate that small enterprises increased their investments- by approximately the amount of the subsidy they received- whereas larger firms did not.

Long-Term Impacts of Compensatory Preschool on Health and Behavior: Evidence from Head Start

- American Economic Journal: Economic Policy---2014---Pedro Carneiro, Rita Ginja

This paper provides new estimates of the medium- and long-term impacts of Head Start on health and behavioral problems. We identify these impacts using discontinuities in the probability of participation induced by program eligibility rules. Our strategy allows us to identify the effect of Head Start for the individuals in the neighborhoods of multiple discontinuities. Participation in the program reduces the incidence of behavioral problems, health problems, and obesity of male children at ages 12 and 13. It lowers depression and obesity among adolescents, and it reduces engagement in criminal activities and idleness for young adults.

Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges

- American Economic Journal: Economic Policy---2014---Stephanie Riegg Cellini, Claudia Goldin

We provide the first comprehensive estimates of the size of the for-profit higher education sector and evaluate whether for-profits increase tuition in response to federal subsidies. By using state administrative data we include institutions that do not participate in federal student aid programs and are missed in official counts. Including these institutions doubles the number of for-profits and increases students by one-third compared with official counts. Aid-eligible institutions charge tuition for sub-baccalaureate (mainly certificate) programs that is about 78 percent higher than that charged by comparable programs in nonparticipating institutions, lending some credence to the "Bennett hypothesis" of federal aid capture.

Cash for Coolers: Evaluating a Large-Scale Appliance Replacement Program in Mexico

- American Economic Journal: Economic Policy---2014---Lucas Davis, Alan Fuchs, Paul Gertler

This paper evaluates a large-scale appliance replacement program in Mexico that from 2009 to 2012 helped 1.9 million households replace their old refrigerators and air conditioners with energy-efficient models. Using household-level billing records from the universe of Mexican residential customers, we find that refrigerator replacement reduces electricity consumption by 8 percent, about one-quarter of what was predicted by ex ante analyses. Moreover, we find that air conditioning replacement actually increases electricity consumption. Overall, we find that the program is an expensive way to reduce externalities from energy use, reducing carbon dioxide emissions at a program cost of over \$500 per ton.

The Trillion Dollar Conundrum: Complementarities and Health Information Technology

- American Economic Journal: Economic Policy---2014---David Dranove, Chris Forman, Avi Goldfarb, Shane Greenstein

We examine the heterogeneous relationship between the adoption of EMR and hospital operating costs at

thousands of US hospitals between 1996 and 2009. We first document a previously-identified puzzle: Adoption of EMR is associated with a slight cost increase. Drawing on the literature on IT and productivity, we analyze why this average effect arises. We find that: (i) EMR adoption is initially associated with a rise in costs; (ii) EMR adoption at hospitals in IT-intensive locations leads to a decrease in costs after three years; and (iii) Hospitals in other locations experience an increase in costs even after six years.

Estimating Taxable Income Responses Using Danish Tax Reforms

- American Economic Journal: Economic Policy---2014---Henrik Jacobsen Kleven, Esben Anton Schultz

This paper estimates taxable income responses using a series of Danish tax reforms and population-wide administrative data since 1980. The tax variation and data in Denmark makes it possible to overcome the biases from nontax changes in inequality and mean reversion that plague the existing literature. We provide compelling graphical evidence of taxable income responses, arguably representing the first nonparametrically identified evidence of taxable income elasticities using tax reforms. We also present panel regression evidence that is extremely robust to specification, unlike previous results which have been very sensitive.

Gasoline Taxes and Consumer Behavior

- American Economic Journal: Economic Policy---2014---Shanjun Li, Joshua Linn, Erich Muehlegger

Gasoline taxes can be employed to correct externalities from automobile use and to raise government revenue. Our understanding of the optimal gasoline tax and the efficacy of existing taxes is largely based on empirical analysis of consumer responses to gasoline price changes. In this paper, we examine directly how gasoline taxes affect gasoline consumption as distinct from tax-inclusive retail gasoline prices. We find robust evidence that consumers respond more strongly

to gasoline tax changes under a variety of model specifications. We discuss two potential reasons for our main findings as well as their implications.

The Dynamics of Firm Lobbying

- American Economic Journal: Economic Policy---2014---William Kerr,William Lincoln,Prachi Mishra

How is economic policy made? In this paper we study a key determinant of the answer to the question: lobbying by firms. Estimating a binary choice model of firm behavior, we find significant evidence for the idea that barriers to entry induce persistence in lobbying. The existence of these costs is further confirmed in studying how firms responded to a particular policy change: the expiration of legislation relating to the H-1B visa. Due to its influence on firm behavior, we argue that this persistence fundamentally changes the environment in which legislation is made.

A Test for the Rational Ignorance Hypothesis: Evidence from a Natural Experiment in Brazil

- American Economic Journal: Economic Policy---2014---Fernanda Leite Lopez de Leon,Renata Rizzi

This paper tests the rational ignorance hypothesis by Downs (1957). This theory predicts that people do not acquire costly information to educate their votes. We provide new estimates for the effect of voting participation by exploring the Brazilian dual voting system-voluntary and compulsory- whose exposure is determined by citizens' date of birth. Using a fuzzy RD approach and data from a self-collected survey, we find no impact of voting on individuals' political knowledge or information consumption. Our results corroborate Downs' predictions and refute the conjecture by Lipphart (1997) that compulsory voting stimulates civic education.

The Effects of Regulation in the Presence of Multiple Unpriced Externalities: Evidence from the Transportation Sector

- American Economic Journal: Economic Policy---2014---Antonio Bento,Daniel Kaffine,Kevin Roth,Matthew Zaragoza-Watkins

In transportation systems with unpriced congestion, allowing single-occupant low-emission vehicles in high-occupancy vehicle (HOV) lanes to encourage their adoption exacerbates congestion costs for carpoolers. The resulting welfare effects of the policy are negative, with environmental benefits overwhelmingly dominated by the increased congestion costs. Exploiting the introduction of the Clean Air Vehicle Stickers policy in California with a regression discontinuity design, our results imply a best-case cost of \$124 per ton of reductions in greenhouse gases, \$606,000 per ton of nitrogen oxides reduction, and \$505,000 per ton of hydrocarbon reduction, exceeding those of other options readily available to policymakers.

Is Gifted Education a Bright Idea? Assessing the Impact of Gifted and Talented Programs on Students

- American Economic Journal: Economic Policy---2014---Sa A. Bui,Steven Craig,Scott Imberman

We evaluate the impact of Gifted and Talented (GT) programs on students through a regression discontinuity (RD) design, and by analyzing a randomized lottery for elite magnet GT schools. We show that GT students in each analysis are exposed to higher achieving peers and, in the RD sample, a more advanced curriculum. We find that achievement for marginal students neither improves nor worsens from GT services in the short run. We also find that lottery winners only perform better in science. Using a bounding analysis we cannot rule out zero, though we do not find any significant negative effects.

Friends in High Places

- American Economic Journal: Economic Policy---2014---Lauren Cohen,Christopher J. Malloy

We demonstrate that personal connections amongst US politicians have a significant impact on Senate voting behavior. Networks based on alumni connections between politicians are consistent predictors of voting behavior. We estimate sharp measures that control for common characteristics of the network, as well as heterogeneous impacts of a common network characteristic across votes. We find that the effect of alumni networks is close to 60 percent as large as the effect of state-level considerations. We show that politicians use school ties as a mechanism to engage in vote trading ("logrolling"), and that alumni networks help facilitate the procurement of discretionary earmarks.

Recessions, Older Workers, and Longevity: How Long Are Recessions Good for Your Health?

- American Economic Journal: Economic Policy---2014---Courtney Coile, Phillip Levine, Robin McKnight

Although past research has found that recessions reduce contemporaneous mortality, workers nearing retirement age may experience reduced longevity attributable to lengthy unemployment spells and lost health insurance at a particularly vulnerable time. To test this hypothesis, we generate age-specific cohort survival probabilities using 1965–2008 Vital Statistics mortality data and link them to labor market conditions at earlier ages. Our results indicate that experiencing a recession in one's late 50s reduces longevity. We also find that it leads to several years of reduced employment, health insurance coverage, and health care utilization, which may contribute to the lower long-term likelihood of survival.

Early Retirement Incentives and Student Achievement

- American Economic Journal: Economic Policy---2014---Maria Fitzpatrick, Michael Lovenheim

Early retirement incentives (ERIs) are increasingly prevalent in education as districts seek to close budget gaps by replacing expensive experienced teachers with lower cost newer teachers. Combined with the aging of

the teacher workforce, these ERIs are likely to change the composition of teachers dramatically in the coming years. We use exogenous variation from an ERI program in Illinois in the mid-1990s to provide the first evidence in the literature of the effects of large-scale teacher retirements on student achievement. We find the program did not reduce test scores; likely, it increased them, with positive effects most pronounced in lower SES schools.

Taxation of Couples under Assortative Mating

- American Economic Journal: Economic Policy---2014---Alexander Frankel

I present a simple and tractable model of the optimal taxation of married couples, working off of the multidimensional screening framework of Armstrong and Rochet (1999). In particular, I study how the tax code varies with the degree of assortative mating. One result is that the "negative jointness" of marginal tax rates found in Kleven, Kreiner, and Saez (2007, 2009) for couples with uncorrelated earnings should be attenuated in the presence of assortative mating. When mating is sufficiently assortative, the optimal tax schedule is separable: an individual's taxes do not depend on his or her spouse's income.

Corporate Incentives and Nuclear Safety

- American Economic Journal: Economic Policy---2014---Catherine Hausman

Following electricity market restructuring, approximately half of all commercial US nuclear power reactors were sold by price-regulated public utilities to independent power producers. At the time of the sales, some policymakers raised concerns that these corporations would ignore safety. Others claimed that the sales would bring improved reactor management, with positive effects on safety. Using data on various safety measures and a difference-in-differences estimation strategy, I find that safety improved following ownership transfers and the removal of price regulations. Generation increased, and this does not appear to have come at the cost of public safety.

Under Pressure: Job Security, Resource Allocation, and Productivity in Schools under No Child Left Behind

- American Economic Journal: Economic Policy---2014---Randall Reback,Jonah Rockoff,Heather L. Schwartz

We conduct the first nationwide study of incentives under the No Child Left Behind (NCLB) Act, which requires states to punish schools failing to meet target passing rates on students' standardized exams. States' idiosyncratic policies created variation in the risk of failure among very similar schools in different states, which we use to identify effects of accountability pressure. We find NCLB lowers teachers' perceptions of job security, shifts time towards specialist teachers in high-stakes subjects and away from whole-class instruction, and has positive or neutral effects on students' enjoyment of learning and achievement in reading, math, and science.

The Incentive Effects of Marginal Tax Rates: Evidence from the Interwar Era

- American Economic Journal: Economic Policy---2014---Christina D. Romer,David Romer

This paper uses the interwar United States as a laboratory for investigating the incentive effects of marginal income tax rates. We examine the impact of the large changes in rates in this period on taxable income using time-series/cross-section analysis of data by small slices of the income distribution. We find that the effect operated in the expected direction but was economically small, and that it is precisely estimated and highly robust. We also find suggestive time-series evidence of a positive impact of marginal rate cuts on business formation, but no evidence of an important effect on other indicators of investment.

Does Abolishing User Fees Lead to Improved Health Status? Evidence from Post-apartheid South Africa

- American Economic Journal: Economic Policy---2014---Shinsuke Tanaka

Whether user fees for health services should be charged or abolished for the poor has recently been debated. This study examines the impact on child health status of removing user fees in South Africa. Our main innovation is to exploit plausibly exogenous variation in access to free health care, due to the fact that black Africans under apartheid could exercise little political power and residential choice. We find substantial improvements in weight-for-age z-scores among ex ante similar children. Falsification exercises confirm no pre-existing trend in the pre-reform period or no treatment effect among noneligible children in the post-reform period.

Inside the Refrigerator: Immigration Enforcement and Chilling Effects in Medicaid Participation

- American Economic Journal: Economic Policy---2014---Tara Watson

"Chilling effects" are a popular explanation for low program take-up rates among immigrants, but the effects of an icy policy climate are inherently hard to measure. This paper finds robust evidence that heightened federal immigration enforcement reduces Medicaid participation among children of noncitizens, even when children are themselves citizens. The decline in immigrant Medicaid participation around the time of welfare reform is largely explained by a contemporaneous spike in enforcement activity. The results imply that safety net participation is influenced not only by program design, but also by a broader set of seemingly unrelated policy choices.

The Differential Effects of Bilateral Tax Treaties

- American Economic Journal: Economic Policy---2014---Bruce Blonigen,Lindsay Oldenski,Nicholas Sly

Bilateral tax treaties (BTTs) are intended to promote foreign direct investment through double-taxation relief. Using BEA firm-level data, we find a positive effect of BTTs on FDI, which is larger for firms that use differentiated inputs. BTTs allow multinational

firms to request assistance from treaty partners' governments if they have a grievance about how tax liabilities are determined. These provisions disproportionately benefit firms that use inputs for which an arm's-length price is difficult to observe, since allocation of earnings across countries is more complex. We find differential BTT effects for both sales by existing affiliates and entry of new affiliates.

The Elasticity of Corporate Taxable Income: New Evidence from UK Tax Records

- American Economic Journal: Economic Policy---2014---Michael Devereux, Li Liu, Simon Loretz

We estimate the elasticity of corporate taxable income with respect to the statutory corporation tax rate using the population of UK corporation tax returns. We analyze bunching in the distribution of taxable income at kinks in the marginal rate schedule. We decompose this elasticity into an elasticity of total income with respect to the corporation tax rate, and an elasticity of the share of income taken as profit with respect to the difference between the personal and corporate tax rates. This implies a marginal deadweight cost at the £10,000 kink of around 29 percent of tax revenue.

Corporate Taxes and Internal Borrowing within Multinational Firms

- American Economic Journal: Economic Policy---2014---Peter Egger, Christian Keuschnigg, Valeria Merlo, Georg Wamser

This study develops a theoretical model of a multinational firm with an internal capital market. Hypotheses regarding the role of local versus foreign characteristics such as profit tax rates, lack of institutional quality, financial underdevelopment, and productivity for internal debt financing at the level of foreign affiliates are derived and assessed empirically in a panel dataset covering the universe of German multinationals. We show that differences in nontax incentives given by fundamentals in local and foreign markets can offset or reinforce tax incentives. The results point at a many

times higher tax-sensitivity of internal debt financing compared to previous research.

International Taxation and Cross-Border Banking

- American Economic Journal: Economic Policy---2014---Harry Huizinga, Johannes Voget, Wolf Wagner

This paper examines empirically how international taxation affects the volume and pricing of cross-border banking activities for a sample of banks in 38 countries over the 1998-2008 period. International double taxation of foreign-source bank income is found to reduce banking-sector FDI. Furthermore, such taxation is almost fully passed on into higher interest margins charged abroad. These results imply that international double taxation distorts the activities of international banks, and that the incidence of international double taxation of banks is on bank customers in the foreign subsidiary country.

Entrepreneurial Taxation with Endogenous Entry

- American Economic Journal: Economic Policy---2014---Florian Scheuer

I analyze the optimal taxation of profits and labor income under endogenous firm formation. Individuals differ in their skill and cost of setting up a firm, and can become workers or entrepreneurs. A tax system in which profits and labor income are subject to the same schedule uses general equilibrium effects through wages to indirectly redistribute across occupations. Optimal policies can involve low tax rates at the top and distortions of firms' input choices. However, these properties disappear under a differential treatment of profits and labor income. Then, redistribution is achieved directly through taxes and production efficiency is always optimal.

Health and the Political Agency of Women

- American Economic Journal: Economic Policy---2014---Sonia Bhalotra, Irma Clots-Figueras

We investigate whether women's political representation in state legislatures improves public provision of antenatal and childhood health services in the districts from which they are elected, arguing that the costs of poor services in this domain fall disproportionately upon women. Using large representative data samples from India and accounting for potential endogeneity of politician gender and the sample composition of births, we find that a 10 percentage point increase in women's representation results in a 2.1 percentage point reduction in neonatal mortality, and we elucidate mechanisms. Women's political representation may be an underutilized tool for addressing health in developing countries.

Beaches, Sunshine, and Public Sector Pay: Theory and Evidence on Amenities and Rent Extraction by Government Workers

- American Economic Journal: Economic Policy---2014---Jan Brueckner, David Neumark

Rent extraction by public sector workers may be limited by the ability of taxpayers to vote with their feet. But rent extraction may be higher in regions where high amenities mute the migration response. This paper develops a theoretical model that predicts such a link between public sector wage differentials and local amenities, and the predictions are tested by analyzing variation in these differentials and amenities across states. Public sector wage differentials are, in fact, larger in the presence of high amenities, with the effect stronger for unionized public sector workers, whose political power may allow greater scope for rent extraction.

Life and Death in the Fast Lane: Police Enforcement and Traffic Fatalities

- American Economic Journal: Economic Policy---2014---Gregory DeAngelo, Benjamin Hansen

Simultaneity complicates the estimation of the causal effect of police on crime. We overcome this obstacle by focusing on a mass layoff of Oregon State Police in February of 2003. Due solely to budget cuts, 35 percent

of the roadway troopers were laid off, which dramatically reduced citations. The subsequent decrease in enforcement is associated with a significant increase in injuries and fatalities. The effects are similar using control groups chosen either geographically or through data-driven methods. Our estimates suggest that a highway fatality can be prevented with \$309,000 of expenditures on state police.

Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health

- American Economic Journal: Economic Policy---2014---William Evans, Craig L. Garthwaite

The 1993 expansions of the Earned Income Tax Credit created the first meaningful separation in benefits between families containing two or more children and those with only one child. If income is protective of health, we should see improvements over time in the health for mothers eligible for these higher EITC benefits. Using data from the Behavioral Risk Factors Surveillance Survey, we find improvements in self-reported health for affected mothers. Using data from the National Health and Nutrition Examination Survey, we find reductions in the probability of having risky levels of biomarkers for these same women

The Effect of Disability Insurance Receipt on Labor Supply

- American Economic Journal: Economic Policy---2014---Eric French, Jae Song

This paper exploits the effectively random assignment of judges to Disability Insurance cases to estimate the causal impact of Disability Insurance receipt on labor supply. We find that benefit receipt reduces labor force participation by 26 percentage points three years after a disability determination decision, although the reduction is smaller for older people, college graduates, and those with mental illness. OLS and instrumental variables estimates are similar. Furthermore, over 60 percent of those denied benefits by an administrative law judge are subsequently allowed benefits within ten

years, showing that most applicants apply, reapply, and appeal until they get benefits.

Civil Service Rules and Policy Choices: Evidence from US State Governments

- American Economic Journal: Economic Policy---2014---Gergely Ujhelyi

This paper studies the policy impact of civil service regulations, exploiting reforms undertaken by US state governments throughout the twentieth century. These reforms replaced political patronage with a civil service recruited based on merit and protected from politics. I find that state politicians respond to these changes by spending relatively less through the reformed state-level bureaucracies. Instead, they allocate more funds to lower level governments. The reallocation of expenditures leads to reduced long-term investment by state governments.

The Incapacitation Effect of Incarceration: Evidence from Several Italian Collective Pardons

- American Economic Journal: Economic Policy---2014---Alessandro Barbarino, Giovanni Mastrobuoni

We estimate the "incapacitation effect" on crime using variation in Italian prison population driven by eight collective pardons passed between 1962 and 1990. The prison releases are sudden (within one day), very large (up to 35 percent of the entire prison population), and happen nationwide. Exploiting this quasi-natural experiment we break the simultaneity of crime and prisoners and, in addition, use the national character of the pardons to separately identify incapacitation from changes in deterrence. The elasticity of total crime with respect to incapacitation is between -17 and -30 percent. A cost-benefit analysis suggests that Italy's prison population is below its optimal level.

Consumer Inertia and Firm Pricing in the Medicare Part D Prescription Drug Insurance Exchange

- American Economic Journal: Economic Policy---2014---Keith Ericson

I use the Medicare Part D prescription drug insurance market to examine the dynamics of firm interaction with consumers on an insurance exchange. Enrollment data show that consumers face switching frictions leading to inertia in plan choice, and a regression discontinuity design indicates initial defaults have persistent effects. In the absence of commitment to future prices, theory predicts firms respond to inertia by raising prices on existing enrollees, while introducing cheaper alternative plans. The complete set of enrollment and price data from 2006 through 2010 confirms this prediction: older plans have approximately 10 percent higher premiums than comparable new plans.

The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown

- American Economic Journal: Economic Policy---2014---Niels Johannesen, Gabriel Zucman

During the financial crisis, G20 countries compelled tax havens to sign bilateral treaties providing for exchange of bank information. Policymakers have celebrated this global initiative as the end of bank secrecy. Exploiting a unique panel dataset, our study is the first attempt to assess how the treaties affected bank deposits in tax havens. Rather than repatriating funds, our results suggest that tax evaders shifted deposits to havens not covered by a treaty with their home country. The crackdown thus caused a relocation of deposits at the benefit of the least compliant havens. We discuss the policy implications of these findings.

Paging Inspector Sands: The Costs of Public Information

- American Economic Journal: Economic Policy---2014---Sacha Kapoor, Arvind Magesan

We exploit the introduction of pedestrian countdown signals—timers that indicate when traffic lights will change—to evaluate a policy that improves the information of all market participants. We find that although countdown signals reduce the number of pedestrians struck by automobiles, they increase the number of collisions between automobiles. They also cause more collisions overall, implying that welfare gains can be attained by hiding the information from drivers. Whereas most empirical studies on the role of information in markets suggest that asymmetric information reduces welfare, we conclude that asymmetric information can, in fact, improve it.

The Dividend Clientele Hypothesis: Evidence from the 2003 Tax Act

- American Economic Journal: Economic Policy---2014---Laura Kawano

This paper provides evidence that dividend and capital gains tax rates importantly influence household portfolio choices. Using data from the Surveys of Consumer Finances around the 2003 dividend tax reductions, I estimate the relationship between taxes and household portfolio dividend yields. I find that a one percentage point decrease in the dividend tax rate relative to the long-term capital gains tax rate causes household portfolio dividend yields to increase by 0.04 percentage points. The results suggest that high income households significantly increased their portfolio dividend yields in response to the 2003 dividend tax rate reductions.

Watch Your Step: Optimal Policy in a Tipping Climate

- American Economic Journal: Economic Policy---2014---Derek Lemoine,Christian Traeger

We investigate the optimal policy response to the possibility of abrupt, irreversible shifts in system dynamics. The welfare cost of a tipping point emerges from the policymaker's response to altered system dynamics. Our policymaker also learns about a threshold's location by

observing the system's response in each period. Simulations with a recursive, numerical climate-economy model show that tipping possibilities raise the optimal carbon tax more strongly over time. The resulting policy paths ultimately lower optimal peak warming by up to 0.5°C. Different types of posttipping shifts in dynamics generate qualitatively different optimal pretipping policy paths.

Stimulating Local Public Employment: Do General Grants Work?

- American Economic Journal: Economic Policy---2014---Heléne Lundqvist,Matz Dahlberg,Eva Mörk

We apply the regression kink design to the Swedish grant system and estimate causal effects of intergovernmental grants on local public employment. Our robust conclusion is that grants do not stimulate local public employment. We find no statistically significant effects on total local public employment, and we can exclude even moderate effects. When disaggregating the total effect by sector, we find that personnel in the traditional welfare sectors are unaffected, a conclusion which applies to both publicly and privately employed in these sectors. The only positive and statistically significant effect of grants is that on administrative personnel.

The Revenue Demands of Public Employee Pension Promises

- American Economic Journal: Economic Policy---2014---Robert Novy-Marx,Joshua Rauh

We calculate increases in contributions required to achieve full funding of state and local pension systems in the United States over 30 years. Without policy changes, contributions would have to increase by 2.5 times, reaching 14.1 percent of the total own revenue generated by state and local governments. This represents a tax increase of \$1,385 per household per year, around half of which would go to pay down legacy liabilities while half would fund the cost of new promises. We examine sensitivity to asset return assumptions,

wage correlations, the treatment of workers not currently in Social Security, and endogenous geographical shifts in the tax base.

Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities

- American Economic Journal: Economic Policy---2014---Thomas Piketty,Emmanuel Saez,Stefanie Stantcheva

This paper derives optimal top tax rate formulas in a model where top earners respond to taxes through three channels: labor supply, tax avoidance, and compensation bargaining. The optimal top tax rate increases when there are zero-sum compensation-bargaining effects. We present empirical evidence consistent with bargaining effects. Top tax rate cuts are associated with top one percent pretax income shares increases but not higher economic growth. US CEO "pay for luck" is quantitatively more prevalent when top tax rates are low. International CEO pay levels are negatively correlated with top tax rates, even controlling for firms' characteristics and performance.

Airline Pricing, Price Dispersion, and Ticket Characteristics on and off the Internet

- American Economic Journal: Economic Policy---2014---Anirban Sengupta,Steven N. Wiggins

This paper uses transaction data to investigate the effects of Internet purchase on airline fares. Our data include ticket characteristics, restrictions, flight load factors, and dates and channel of purchase. Controlling for ticket and flight characteristics, online purchasers pay about 11 percent less than offline purchasers, which seems rooted in more efficient shopping. The results do not support a spillover in terms of reduced fares or dispersion from greater Internet shopping. The paper also uses the data to reevaluate the relationship between market concentration and fares, but fails to identify any statistically significant, robust relationship.

Corrigendum: The Price Effects of a Large Merger of Manufacturers: A Case Study of Maytag Whirlpool

- American Economic Journal: Economic Policy---2014---Orley C. Ashenfelter,Daniel S. Hosken,Matthew C. Weinberg

Effects of Federal Policy to Insure Young Adults: Evidence from the 2010 Affordable Care Act's Dependent-Coverage Mandate

- American Economic Journal: Economic Policy---2013---Yaa Akosa Antwi,Asako S. Moriya,Kosali Simon

Using data from the Survey of Income and Program Participation (SIPP), we study the health insurance and labor market implications of the recent Affordable Care Act (ACA) provision that allows dependents to remain on parental policies until age 26. Our comparison of outcomes for young adults aged 19-25 with those who are older and younger, before and after the law, shows a high take-up of parental coverage, resulting in substantial reductions in uninsurance and other forms of coverage. We also find preliminary evidence of increased labor market flexibility in the form of reduced work hours.

Absorptive Capacity and the Growth and Investment Effects of Regional Transfers: A Regression Discontinuity Design with Heterogeneous Treatment Effects

- American Economic Journal: Economic Policy---2013---Sascha Becker,Peter Egger,Maximilian von Ehrlich

Researchers often estimate average treatment effects of programs without investigating heterogeneity across units. Yet, individuals, firms, regions, or countries vary in their ability to utilize transfers. We analyze Objective 1 transfers of the EU to regions below a certain income level by way of a regression discontinuity design with systematically varying heterogeneous treatment effects. Only about 30 percent and 21 percent of the regions?those with sufficient human capital

and good-enough institutions?are able to turn transfers into faster per capita income growth and per capita investment, respectively. In general, the variance of the treatment effect is much bigger than its mean.

Profiting from Regulation: Evidence from the European Carbon Market

- American Economic Journal: Economic Policy---2013---James Bushnell,Howard Chong,Erin Mansur

We investigate how cap-and-trade regulation affects profits. In late April 2006, the EU CO₂ allowance price dropped 50 percent, equating to a \$28 billion reduction in the value of aggregate annual allowances. We examine daily returns for 552 stocks from the EUROSTOXX index. Despite reductions in environmental costs, we find that stock prices fell for firms in both carbon- and electricity-intensive industries, particularly for firms selling primarily within the EU. Our results imply that investors focus on product price impacts, rather than just compliance costs and the nominal value of pollution permits.

Measuring the Environmental Benefits of Wind-Generated Electricity

- American Economic Journal: Economic Policy---2013---Joseph Cullen

Production subsidies for renewable energy, such as solar or wind power, are rationalized by their environmental benefits. Subsidizing these projects allows clean, renewable technologies to produce electricity that otherwise would have been produced by dirtier, fossil-fuel power plants. In this paper, I quantify the emissions offset by wind power for a large electricity grid in Texas using the randomness inherent in wind power availability. When accounting for dynamics in the production process, the results indicate that only for high estimates of the social costs of pollution does the value of emissions offset by wind power exceed cost of renewable energy subsidies.

Death by Market Power: Reform, Competition, and Patient Outcomes in the National Health Service

- American Economic Journal: Economic Policy---2013---Martin Gaynor,Rodrigo Moreno-Serra,Carol Propper

The effect of competition on the quality of health care remains a contested issue. Most empirical estimates rely on inference from nonexperimental data. In contrast, this paper exploits a procompetitive policy reform to provide estimates of the impact of competition on hospital outcomes. The English government introduced a policy in 2006 to promote competition between hospitals. Using this policy to implement a difference-in-differences research design, we estimate the impact of the introduction of competition on not only clinical outcomes but also productivity and expenditure. We find that the effect of competition is to save lives without raising costs.

Superstar Cities

- American Economic Journal: Economic Policy---2013---Joseph Gyourko,Christopher Mayer,Todd Sinai

We document large long-run differences in average house price appreciation across metropolitan areas over the past 50 years, and show they can be explained by an inelastic supply of land in some unique locations combined with an increasing number of high-income households nationally. The resulting high house prices and price-to-rent ratios in those "superstar" areas crowd out lower income households. The same forces generate a similar pattern among municipalities within a metropolitan area. These facts suggest that disparate local house price and income trends can be driven by aggregate demand, not just changes in local factors such as productivity or amenities.

State Gun Policy and Cross-State Externalities: Evidence from Crime Gun Tracing

- American Economic Journal: Economic Policy---2013---Brian Knight

This paper provides a theoretical and empirical analysis of crossstate externalities associated with gun regulations that impact gun trafficking. Using tracing data, which identify the source state for crime guns recovered in destination states, we find that firearms tend to flow from states with weak laws to states with strict laws, satisfying a key theoretical condition for the existence of externalities. We also find that gun flows are more significant between nearby states, suggesting that externalities are spatial in nature. Finally, we present evidence that criminal possession of guns is higher in states exposed to weak laws in nearby states.

Corruption Dynamics: The Golden Goose Effect

- American Economic Journal: Economic Policy---2013---Paul Niehaus,Sandip Sukhtankar

Theoretical work on disciplining corrupt agents has emphasized the role of expected future rents—for example, efficiency wages. Yet taken seriously this approach implies that illicit future rents should also deter corruption. We study this "golden goose" effect in the context of a statutory wage increase in India's employment guarantee scheme, comparing official microrecords to original household survey data to measure corruption. We estimate large golden goose effects that reduced the total impact of the wage increase on theft by roughly 64 percent. In short, rent expectations matter

Bank Bailouts, International Linkages, and Cooperation

- American Economic Journal: Economic Policy---2013---Friederike Niepmann,Tim Schmidt-Eisenlohr

Financial institutions are increasingly linked internationally. As a result, financial crises and government intervention have stronger effects beyond borders. We provide a model of international contagion allowing for bank bailouts. While a social planner trades off tax distortions, liquidation losses, and intra- and intercountry income inequality, in the noncooperative game between governments there are inefficiencies due

to externalities, a lack of burden sharing, and free riding. We show that, in absence of cooperation, stronger interbank linkages make government interests diverge, whereas cross-border asset holdings tend to align them. We analyze different forms of cooperation and their effects on global and national welfare.

The Economic and Policy Consequences of Catastrophes

- American Economic Journal: Economic Policy---2013---Robert Pindyck,Neng Wang

How likely is a catastrophic event that would substantially reduce the capital stock, GDP, and wealth? How much should society be willing to pay to reduce the probability or impact of a catastrophe? We answer these questions and provide a framework for policy analysis using a general equilibrium model of production, capital accumulation, and household preferences. Calibrating the model to economic and financial data, we estimate the mean arrival rate of shocks and their size distribution, the tax on consumption society would accept to limit the maximum size of a catastrophic shock, and the cost to insure against its impact.

What Does Health Reform Mean for the Health Care Industry? Evidence from the Massachusetts Special Senate Election

- American Economic Journal: Economic Policy---2013---Mohamad M. Al-Ississ,Nolan H. Miller

We exploit the surprise election of Republican Scott Brown to the US Senate to evaluate the market's assessment of the impact of the recent US health reform legislation on the health care industry. We find that Brown's election was associated with abnormal returns of 2.1 percent and 6 percent for investments in the health care sector overall and managed care firms, respectively. Investments in the pharmaceutical sector experienced abnormal returns of 2.8 percent, while health care facilities (e.g., hospitals) experienced abnormal losses of 3.5 percent. Firms involved with Medicare Advantage benefitted more, while those in-

volved with Medicaid Managed Care benefitted less from the election.

The Welfare Effects of Misperceived Product Costs: Data and Calibrations from the Automobile Market

- American Economic Journal: Economic Policy---2013---Hunt Allcott

This analysis exploits new data from the Vehicle Ownership and Alternatives Survey, which elicits beliefs over the financial benefits of owning higher fuel economy vehicles. The data are used to test for underestimation and to document evidence of "MPG Illusion": consumers think as if fuel costs scale linearly in miles per gallon instead of gallons per mile. Counterfactuals suggest that the MPG Illusion reduces welfare by less than \$4 per new vehicle. Furthermore, even the most severe plausible underestimation of the financial benefits of fuel economy cannot account for the consumer welfare gains attributed to fuel economy standards.

Beyond Work Ethic: Religion, Individual, and Political Preferences

- American Economic Journal: Economic Policy---2013---Christoph Basten, Frank Betz

We investigate the effect of Reformed Protestantism, relative to Catholicism, on preferences for leisure, and for redistribution and intervention in the economy. We use a Fuzzy Spatial Regression Discontinuity Design to exploit a historical quasi-experiment in Western Switzerland, where in the sixteenth century a hitherto homogeneous region was split and one part assigned to adopt Protestantism. We find that Reformed Protestantism reduces referenda voting for more leisure by 14, redistribution by 5, and government intervention by 7 percentage points. These preferences translate into higher per capita income as well as greater income inequality.

Driving under the (Cellular) Influence

- American Economic Journal: Economic Policy---2013---Saurabh Bhargava, Vikram Pathania

We investigate the causal link between driver cell phone use and crash rates by exploiting a natural experiment induced by the 9 pm price discontinuity that characterizes a majority of recent cellular plans. We first document a 7.2 percent jump in driver call likelihood at the 9 pm threshold. Using a prior period as a comparison, we next document no corresponding change in the relative crash rate. Our estimates imply an upper bound in the crash risk odds ratio of 3.0, which rejects the 4.3 asserted by Redelmeier and Tibshirani (1997). Additional panel analyses of cell phone ownership and cellular bans confirm our result.

Local Responses to Federal Grants: Evidence from the Introduction of Title I in the South

- American Economic Journal: Economic Policy---2013---Elizabeth Cascio, Nora Gordon, Sarah Reber

We analyze the effects of the introduction of Title I of the 1965 Elementary and Secondary Education Act, a large federal grants program designed to increase poor students' educational services and achievement. We focus on the South, the poorest region of the country. Title I increased school spending by \$0.50 on the dollar in the average southern school district and by more in districts with less ability to offset grants through local tax reductions. Title I-induced increases in school budgets appear to have reduced high school dropout rates of whites, but not blacks.

The Effect of a Universal Child Benefit on Conceptions, Abortions, and Early Maternal Labor Supply

- American Economic Journal: Economic Policy---2013---Libertad Gonz?lez

I study the impact of a universal child benefit on fertility and maternal labor supply. I exploit the unanticipated introduction of a sizable child benefit in Spain in 2007. Following a regression discontinuity-type design, I find that the benefit significantly increased fertility, in part through a reduction in abortions. Families who received the benefit did not increase consumption. Instead, eligible mothers stayed out of the labor

force longer after childbirth, which led to their children spending less time in formal child care.

Persistent Antimarket Culture: A Legacy of the Pale of Settlement after the Holocaust

- American Economic Journal: Economic Policy---2013---Irena Grosfeld,Alexander Rodnyansky,Ekaterina Zhuravskaya

We estimate long-term effects of Jewish presence in Europe before World War II, using discontinuity at the border of the "Pale of Settlement" area where Jews were allowed to live in the Russian Empire. Current residents of the Pale have lower support for market, and are less entrepreneurial but more trusting compared to those outside the Pale. We suggest a mechanism and test for it: anti-Semitism generated persistent anti-market culture and trust among non-Jews. Consistent with this mechanism, antimarket attitudes and trust decrease with distance to pogroms controlling for historical Jewish presence. Self-identification and cohesion of majority depends on the presence of minority.

Substitution and Stigma: Evidence on Religious Markets from the Catholic Sex Abuse Scandal

- American Economic Journal: Economic Policy---2013---Daniel Hungerman

This paper considers substitution between charitable activities in the context of religious practice by examining the Catholic Church sex abuse scandal's impact on both Catholic and non-Catholic religiosity. I find a fall in the Catholic population compensated by increases in non-Catholic participation and nonaffiliation. Back-of-the-envelope calculations suggest the scandal generated about \$3 billion dollars in donations to non-Catholic faiths. Those leaving Catholicism frequently chose dissimilar alternatives: Baptist churches gained significantly while the Episcopal Church did not. These results challenge several theories of religiosity and suggest that policies or shocks specific to one religious group could have effects on other groups.

Incentive Schemes for Local Government: Theory and Evidence from Comprehensive Performance Assessment in England

- American Economic Journal: Economic Policy---2013---Ben Lockwood,Francesco Porcelli

This paper studies Comprehensive Performance Assessment, an explicit incentive scheme for local government in England. Motivated by a theoretical political agency model, we predict that CPA should increase service quality and local taxation, but have an ambiguous effect on the efficiency of service provision. We test these predictions using Welsh local governments as a control group: CPA increased the property tax, and our index of service quality, but had no significant effect on efficiency overall. There is evidence of a heterogeneous effect of CPA: it impacted more on councils where electoral competition was initially weak, in line with our theory.

The Sky Is Not Flat: How Discriminatory Is the Access to International Air Services?

- American Economic Journal: Economic Policy---2013---Roberta Piermartini,Linda Rousova?,Linda Fache Rousova

Using information on 2,300 Air Services Agreements covering 184 countries, we investigate the impact of air services liberalization on passenger flows. We find that a certain level of liberalization is required to have a positive effect on passenger traffic. In particular, we estimate that the multilateralization of multiple designation provisions, Open Skies Agreements and European Economic Area-type agreements would increase passenger traffic worldwide by 0.5, 5, and 10 percent, respectively. The potential endogeneity problem is carefully dealt with using instrumental variables and propensity score matching.

Corrigendum: Measuring the Output Responses to Fiscal Policy

- American Economic Journal: Economic Policy---2013---Alan Auerbach,Yuriy Gorodnichenko

The published version of our paper had an accounting mistake in the construction of one time series. This note describes the mistake and presents results based on corrected data. The revised results are very similar to those originally reported.

Natural Resources and Local Communities: Evidence from a Peruvian Gold Mine

- American Economic Journal: Economic Policy---2013---Fernando M. Arag?n,Juan Pablo Rud,Fernando Mart?n Arag?n S?nchez

This paper examines the local economic impact of Yanacocha, a large gold mine in Northern Peru. Using annual household data from 1997 to 2006, we find evidence of a positive effect of the mine's demand for local inputs on real income. The effects are only present in the supply market and surrounding areas, and reach unskilled workers in non-mining sectors. Consistent with a general equilibrium framework, we also find an increase in the local price of nontradable goods. Taken together, our results underline the potential of backward linkages from extractive industries to create positive spillovers in less developed economies. (JEL L72, O13, O18, Q32, Q33, R11)

Improving College Performance and Retention the Easy Way: Unpacking the ACT Exam

- American Economic Journal: Economic Policy---2013---Eric Bettinger,Brent J. Evans,Devin G. Pope

Improving college performance and retention can be difficult. We propose a simple and low-cost change in the way colleges use the ACT exam in their admission decisions that can greatly increase their ability to identify students at a high risk of underperforming and dropping out. Specifically, we show that only two of the four subtests of the ACT, English and Mathematics, can effectively predict outcomes in college. This result is robust across various samples, specifications and outcome measures. We demonstrate that by eliminating the noise associated with the two nonpredictive

subtests, student-college matches can be significantly improved. (JEL I23)

Does Less Income Mean Less Representation?

- American Economic Journal: Economic Policy---2013---Eric Brunner,Stephen Ross,Ebonya Washington

We assemble a novel dataset of matched legislative and constituent votes and demonstrate that less income does not mean less representation. We show: (i) The opinions of high- and low-income voters are highly correlated; the legislator's vote often reflects the desire of both. (ii) What differences in representation by income exist vary by legislator party. Republicans more often vote the will of their higher income over their lower income constituents; Democratic legislators do the reverse. (iii) Differences in representation by income are largely explained by the correlation between constituent income and party affiliation. (JEL D31, D72)

Multi-product Firms and Exchange Rate Fluctuations

- American Economic Journal: Economic Policy---2013---Arpita Chatterjee,Rafael Dix-Carneiro,Jade Vichyanond

This paper studies the effect of exchange rate shocks on export behavior of multi-product firms. We provide a theoretical framework illustrating how firms adjust their prices, quantities, product scope, and sales distribution across products in the event of exchange rate fluctuations. In response to a real exchange rate depreciation, firms increase markups for all products, but markup increases decline with firm-product-specific marginal costs of production. We find robust evidence for our theoretical predictions using Brazilian customs data containing destination-specific and product-specific export sales and quantities. The sample period covers the years 1997-2006, during which Brazil experienced a series of drastic currency fluctuations. (JEL F14, F31, F33, O19, O24)

How Do Mortgage Subsidies Affect Home Ownership? Evidence from the Mid-century GI Bills

- American Economic Journal: Economic Policy---2013---Daniel Fetter

The largest twentieth-century increase in US home ownership occurred between 1940 and 1960, associated largely with declining age at first ownership. I shed light on the contribution of coincident government mortgage market interventions by examining home loan benefits granted under the World War II and Korean War GI Bills. Veterans' benefits increased home ownership rates primarily by shifting purchase earlier in life, explaining 7.4 percent of the overall 1940-1960 increase, and 25 percent of the increase for affected cohorts. A rough extrapolation suggests that broader changes in mortgage terms can explain 40 percent of the 1940-1960 increase. (JEL G21, N22, N92, R21, R31)

Evaluating US Fuel Economy Standards in a Model with Producer and Household Heterogeneity

- American Economic Journal: Economic Policy---2013---Mark R. Jacobsen

This paper employs an empirically estimated model to study the equilibrium effects of an increase in the US corporate average fuel economy (CAFE) standards. I identify and model heterogeneity across firms and find that the profit impacts of CAFE fall almost entirely on domestic producers. The welfare analyses consider the simultaneous household decision of vehicle and miles traveled, allowing direct comparison with a gasoline tax. Finally, I consider dynamic impacts in the used car market. I find these comprise nearly half the gross welfare cost of CAFE and fall disproportionately on low-income households. Contrary to previous results, the overall welfare costs are regressive. (JEL H24, L51, L62)

The EITC, Tax Refunds, and Unemployment Spells

- American Economic Journal: Economic Policy---2013---Sara LaLumia

The earned income tax credit generates large average tax refunds for low-income parents, and these refunds are distributed in a narrow time frame. I rely on this plausibly exogenous source of variation in liquidity to investigate the effect of cash on hand on unemployment duration. Among EITC-eligible women, unemployment spells beginning just after tax refund receipt last longer than unemployment spells beginning at other times of year. There is no evidence that tax refund receipt is associated with longer unemployment duration for men, or that the longer durations for women are associated with higher-quality subsequent job matches. (JEL H24, J64)

Social Capital and Political Accountability

- American Economic Journal: Economic Policy---2013---Tommaso Nannicini,Andrea Stella,Guido Tabellini,Ugo Troiano

We investigate a channel through which social capital may improve economic well-being and the functioning of institutions: political accountability. The main idea is that voters who share values and beliefs that foster cooperation are more likely to vote based on criteria of social welfare rather than narrow personal interest. We frame this intuition into a simple model of political agency and take it to the data using information on the criminal prosecutions and absenteeism rates of Italian members of Parliament. Empirical evidence shows that the electoral punishment of these misbehaviors is considerably larger in districts with higher social capital. (JEL D72, I31, Z13)

Feeling the Florida Heat? How Low-Performing Schools Respond to Voucher and Accountability Pressure

- American Economic Journal: Economic Policy---2013---Cecilia Elena Rouse,Jane Hannaway,Dan Goldhaber,David Figlio

While numerous studies have found that school accountability boosts test scores, it is uncertain whether estimated test score gains reflect genuine improvements or merely "gaming" behaviors. This paper brings to bear new evidence from a unique five-year, three-round survey conducted of a census of public elementary schools in Florida that is linked with detailed administrative data on student performance. We show that schools facing accountability pressure changed their instructional practices in meaningful ways, and that these responses can explain a portion of the test score gains associated with the Florida school accountability system. (JEL H75, I21, I28)

Can Owning a Home Hedge the Risk of Moving?

- American Economic Journal: Economic Policy---2013---Todd Sinai, Nicholas Souleles

For households that face a possibility of moving across MSAs, the risk of home owning depends on the covariance of the sale prices of their current houses with the purchase prices of their likely future houses. We find empirically that households tend to move between highly correlated MSAs, significantly increasing the distribution of expected correlations in real house price growth across MSAs, and so raising the "moving-hedge" value of owning. Own/rent decisions are sensitive to this hedging value, with households being more likely to own when their hedging value is greater due to higher expected correlations and likelihoods of moving. JEL (D14, R21, R23, R31)

The Contagion Effect of Neighboring Foreclosures

- American Economic Journal: Economic Policy---2013---Charles Towe, Chad Lawley

We examine the contagion effect of residential foreclosures and find strong evidence of a social interactions influence on default decisions where the interaction is based on neighbors' behavior in a previous period. Using a unique spatially explicit parcel-level dataset documenting residential foreclosures in Maryland for

the years 2006-2009 and a highly localized neighborhood definition, based on 13 nearest neighbors, we find that a neighbor in foreclosure increases the hazard of additional defaults by 18 percent. This feedback effect goes beyond a temporary reduction in local house prices and implies a negative social multiplier effect of foreclosures. (JEL R23, R31)

The Iceberg Theory of Campaign Contributions: Political Threats and Interest Group Behavior

- American Economic Journal: Economic Policy---2013---Marcos Chamon, Ethan Kaplan

We present a model where special interest groups condition contributions on the receiving candidate's support and also her opponent's. This allows interest groups to obtain support from contributions as well as from threats of contributing. Out-of-equilibrium contributions help explain the missing money puzzle. Our framework contradicts standard models in predicting that interest groups give to only one side of a race. We also predict that special interest groups will mainly target lopsided winners, whereas general interest groups will contribute mainly to candidates in close races. We verify these predictions in FEC data for US House elections from 1984-1990. (JEL D72)

Let Them Have Choice: Gains from Shifting Away from Employer-Sponsored Health Insurance and toward an Individual Exchange

- American Economic Journal: Economic Policy---2013---Leemore Dafny, Kate Ho, Mauricio Varela

Most nonelderly Americans purchase health insurance through their employers, which sponsor a limited number of plans. Using a panel dataset representing over ten million insured lives, we estimate employees' preferences for different health plans and use the estimates to predict their choices if more plans were made available to them on the same terms, i.e., with equivalent subsidies and at large-group prices. Using conservative assumptions, we estimate a median welfare gain of 13 percent of premiums. A proper accounting of the costs and benefits of a transition from employer-sponsored

to individually-purchased insurance should include this nontrivial gain. (JEL G22, I13, J32)

Effects of Terms of Trade Gains and Tariff Changes on the Measurement of US Productivity Growth

- American Economic Journal: Economic Policy---2013---Robert Feenstra,Benjamin Mandel,Marshall B. Reinsdorf,Matthew J. Slaughter

The acceleration in US productivity growth since 1995 is often attributed to declining prices for information technology (IT) goods, and therefore enhanced productivity growth in that sector. We investigate an alternative explanation for these IT price movements: gains in the US terms of trade and tariff reductions, especially for IT products, which led to greater gains than shown by official indexes. We do not, however, investigate the indexes used to deflate the domestic absorption components of GDP, and if upward biases are present in those indexes that could offset some of the effects of mismeasured export and import indexes. (JEL C43, E23, F13, F14, J24)

Political Price Cycles in Regulated Industries: Theory and Evidence

- American Economic Journal: Economic Policy---2013---Rodrigo M. S. Moita,Claudio Paiva

The early work of Stigler (1971) treats the regulatory process as the arbitration of conflicting economic and political interests rather than a pure welfare-maximizing effort. This paper builds on these ideas and models the regulatory process as a game where the industry-lobby, consumers-voters, and a regulator-politician interact to define the regulated price, in alternating electoral and non-electoral periods. The equilibrium that emerges consists of a fully rational political price cycle in a regulated industry. Using monthly data for regulated gasoline and electricity prices from Brazil, we find strong evidence pointing towards the existence of electoral price cycles in both markets. (JEL D72, L51, L71, L78, L94, L98, O14)

Long-Term Impacts of Individual Development Accounts on Homeownership among Baseline Renters: Follow-Up Evidence from a Randomized Experiment

- American Economic Journal: Economic Policy---2013---Michal Grinstein-Weiss,Michael Sheraden,William Gale,William M. Rohe,Mark Schreiner,Clinton Key

We examine the long-term effects of a 1998-2003 randomized experiment in Tulsa, Oklahoma with Individual Development Accounts that offered low-income households 2:1 matching funds for housing down payments. Prior work shows that, among households who rented in 1998, homeownership rates increased more through 2003 in the treatment group than for controls. We show that control group renters caught up rapidly with the treatment group after the experiment ended. As of 2009, the program had an economically small and statistically insignificant effect on homeownership rates, the number of years respondents owned homes, home equity, and foreclosure activity among baseline renters. (JEL D14, H75, R21, R31)

The Demand for Food of Poor Urban Mexican Households: Understanding Policy Impacts Using Structural Models

- American Economic Journal: Economic Policy---2013---Manuela Angelucci,Orazio Attanasio

We use Oportunidades, a conditional cash transfer to women, to show that standard demand models do not represent the sample's behavior: Oportunidades increases eligible households' food budget shares, despite food being a necessity; demand for food and high-protein food changes over time only in treatment areas; the treatment effects on food and high-protein food consumption are larger than the prediction from the Engel curves at baseline; and the curves do not change in eligible households with high baseline bargaining power for the transfer recipient. Thus, handing transfers to women is a likely determinant of the observed nutritional changes. (JEL D12, H23, J16, O12)

Public Transfers and Domestic Violence: The Roles of Private Information and Spousal Control

- American Economic Journal: Economic Policy---2013---Gustavo Bobonis,Melissa González-Brenes,Roberto Castro

We study whether transfer programs in which funds are targeted to women decrease the incidence of spousal abuse. We examine the impact of the Mexican Oportunidades program on spousal abuse rates and threats of violence using data from a specialized survey. Beneficiary women are 40 percent less likely to be victims of physical abuse, but are more likely to receive violent threats with no associated abuse. This evidence is consistent with a model of decision-makers' interactions with asymmetric information in the male partner's gains to marriage, who can then use threats of violence to extract rents from their female partners. (JEL D82, J12, J16, K42, O15, O17)

Targeting with Agents

- American Economic Journal: Economic Policy---2013---Paul Niehaus,Antonia Atanassova,Marianne Bertrand,Sendhil Mulainathan

Targeting assistance to the poor is a central problem in development. We study the problem of designing a proxy means test when the implementing agent is corruptible. Conditioning on more poverty indicators may worsen targeting in this environment because of a novel tradeoff between statistical accuracy and enforceability. We then test necessary conditions for this tradeoff using data on Below Poverty Line card allocation in India. Less eligible households pay larger bribes and are less likely to obtain cards, but widespread rule violations yield a de facto allocation much less progressive than the de jure one. Enforceability appears to matter. (JEL D12, I32, I38, O12, O15)

The Price Effects of a Large Merger of Manufacturers: A Case Study of Maytag-Whirlpool

- American Economic Journal: Economic Policy---2013---Orley Ashenfelter,Daniel S. Hosken,Matthew Weinberg

Many experts speculate that US antitrust policy towards horizontal mergers has been too lenient. We estimate the price effects of Whirlpool's acquisition of Maytag to provide new evidence on this debate. We compare price changes in appliance markets most affected by the merger to markets where concentration changed much less or not at all. We estimate price increases for dishwashers and relatively large price increases for clothes dryers, but no price effects for refrigerators or clothes washers. The combined firm's market share fell across all four affected categories, and the number of distinct appliance products offered for sale fell. (JEL G34, K21, L11, L41, L68)

Unemployment in an Interdependent World

- American Economic Journal: Economic Policy---2013---Gabriel Felbermayr,Mario Larch,Wolfgang Lechthaler

How do changes in labor market institutions, like more generous unemployment benefits in one country, affect labor market outcomes in other countries? We set up a two-country Armingtonian trade model with frictions on the goods and labor markets. Contrary to the literature, higher labor market frictions increase unemployment at home and abroad. The strength of the spillover depends on the relative size of countries and on trade costs. It is exacerbated when real wages are rigid. Using panel data for 20 rich OECD countries, and controlling for institutions as well as for business cycle comovement, we confirm our theoretical predictions. (JEL E24, F16, J64, J65)

Smoke Gets in Your Eyes: Cigarette Tax Salience and Regressivity

- American Economic Journal: Economic Policy---2013---Jacob Goldin,Tatiana Homonoff

Recent evidence suggests consumers pay less attention to commodity taxes levied at the register than to taxes included in a good's posted price. If this attention gap is larger for high-income consumers than for low-income consumers, policymakers can manipulate a tax's regressivity by altering the fraction of the tax imposed at the register. We investigate income differences in attentiveness to cigarette taxes, exploiting state and time variation in cigarette excise and sales tax rates. Whereas all consumers respond to taxes that appear in cigarettes' posted price, our results suggest that only low-income consumers respond to taxes levied at the register. (JEL D12, H22, H25, H71, L66)

Late Budgets

- American Economic Journal: Economic Policy--2012---Asger Lau Andersen,David Lassen,Lasse Holbøll Westh Nielsen

The budget forms the legal basis for government spending, and timely budgets, enacted before the new fiscal year, are an integral part of good governance. This paper examines the causes of late budgets using a unique dataset of budget completion dates for US state governments 1988-2007, constructed from news reports and state budget office surveys. We find 23 percent of state budgets to be late. We show that changing economic circumstances and divided government are the driving forces behind late budgets, which is consistent with a war-of-attrition bargaining model featuring budget baselines and preferences over deviations from such baselines. (JEL C78, D72, H61, H72)

Framing Social Security Reform: Behavioral Responses to Changes in the Full Retirement Age

- American Economic Journal: Economic Policy---2012---Luc Behaghel,David Blau

We use a US Social Security reform as a quasi-experiment to provide evidence on framing effects in retirement behavior. The reform increased the full retirement age (FRA) from 65 to 66 in two-month increments per year of birth. We find strong evidence

that the spike in the benefit claiming hazard at 65 moved in lockstep along with the FRA. Results on self-reported retirement and exit from employment go in the same direction. The responsiveness to the new FRA is stronger for people with higher cognitive skills. We interpret the findings as evidence of reference dependence with loss aversion. (JEL D91, H55, J14, J26)

Happiness on Tap: Piped Water Adoption in Urban Morocco

- American Economic Journal: Economic Policy--2012---Floencia Devoto,Esther Duflo,Pascaline Dupas,William Parienté,Vincent Pons

Connecting private dwellings to the water main is expensive and typically cannot be publicly financed. We show that households' willingness to pay for a private connection is high when it can be purchased on credit, not because a connection improves health but because it increases the time available for leisure and reduces inter- and intra-household conflicts on water matters, leading to sustained improvements in well-being. Our results suggest that facilitating access to credit for households to finance lump sum quality-of-life investments can significantly increase welfare, even if those investments do not result in any health or income gains. (JEL D12, I31, O12, O13, O18, Q25)

Poverty Alleviation and Child Labor

- American Economic Journal: Economic Policy---2012---Eric Edmonds,Norbert Schady

Poor women with children in Ecuador were selected at random for a cash transfer that is less than 20 percent of median child labor earnings. Poor families with children in school at the time of the award use the transfer to postpone the child's entry into the labor force. Students in families induced to take up the transfer by the experiment reduce paid employment by 78 percent and unpaid economic activity inside their home by 32 percent. Time in unpaid household services increases, but overall time spent working declines. (JEL I32, I38, J13, J22, J82, O12)

Innovation and Climate Change Policy

- American Economic Journal: Economic Policy---2012---Joshua Gans

This paper examines whether climate change policies will induce innovation in environmentally friendly technologies. The model demonstrates that a tighter emissions cap will reduce the scale of fossil fuel usage and that this will diminish incentives to improve fossil fuel efficiencies. In addition, such policies may stimulate the relative demand for innovations that improve the efficiency of alternative energy but carbon scarcity may diminish innovation incentives overall. Only for technologies that directly abate carbon pollution will there be an unambiguously positive impact on innovation. These results have implications for climate change targets and the design of climate change policy. (JEL O31, Q54, Q55, Q58)

Discrimination in Grading

- American Economic Journal: Economic Policy---2012---Rema N. Hanna, Leigh Linden

We report the results of an experiment that was designed to test for discrimination in grading in India. We recruited teachers to grade exams. We randomly assigned child "characteristics" (age, gender, and caste) to the cover sheets of the exams to ensure that there is no relationship between these observed characteristics and the exam quality. We find that teachers give exams that are assigned to be lower caste scores that are about 0.03 to 0.08 standard deviations lower than those that are assigned to be high caste. The teachers' behavior appears consistent with statistical discrimination. (JEL I21, J13, O15, O17, Z13)

The Heterogeneous Geographic and Socioeconomic Incidence of Cigarette Taxes: Evidence from Nielsen Homescan Data

- American Economic Journal: Economic Policy---2012---Matthew Harding, Ephraim Leibtag, Michael Lovenheim

We use Nielsen Homescan data to examine who bears the economic burden of cigarette taxes. We find cigarette taxes are less than fully passed through to consumer prices, suggesting consumers and producers split the excess burden of these taxes. Using information on consumer location, we show the availability of lower-tax goods across state borders creates significant differences in the pass-through rate. Tax avoidance opportunities also have a sizable effect on purchasing behavior by altering consumer search, prices paid and quantities purchased. Finally, we demonstrate that the incidence of cigarette taxes and the border effect varies by household income and education. (JEL D12, H22, H25, H26, H71, L66)

Spatial Competition and Cross-Border Shopping: Evidence from State Lotteries

- American Economic Journal: Economic Policy---2012---Brian Knight, Nathan Schiff

This paper investigates competition between jurisdictions in the context of cross-border shopping for state lottery tickets. Our theoretical model, in which consumers consider both travel costs and lottery payoffs, predicts that per-resident sales should be more responsive to prices in small states with densely populated borders. Using weekly sales data from US lotteries and drawing identification from the rollover feature of jackpots, we estimate this responsiveness and find large effects that vary significantly across states. Using these estimates, we show that competitive pressures from neighboring states may lead to substantially lower optimal prices. (JEL H27, H71, H73, R51)

The Impact of Year-Round Schooling on Academic Achievement: Evidence from Mandatory School Calendar Conversions

- American Economic Journal: Economic Policy---2012---Steven McMullen, Katy Rouse

In 2007, 22 Wake County, North Carolina traditional calendar schools were switched to year-round calendars, spreading the 180 instructional days evenly across the year. This paper presents a human capital model to

illustrate the conditions under which these calendars might affect achievement. We then exploit the natural experiment to evaluate the impact of year-round schooling on student achievement using a multi-level fixed effects model. Results suggest that year-round schooling has essentially no impact on academic achievement of the average student. Moreover, when the data are broken out by race, we find no evidence that any racial subgroup benefits from year-round schooling. (JEL H75, I21, I28, J24)

Clunkers or Junkers? Adverse Selection in a Vehicle Retirement Program

- American Economic Journal: Economic Policy---2012---Ryan Sandler

Vehicle retirement programs have become popular tools of public policy for reducing pollution. The efficacy of these programs is difficult to measure, as it is difficult to tell how much a vehicle would have polluted otherwise. I estimate that counterfactual using data from a long-running local program in California. I utilize the universe of emissions inspections from the California Smog Check Program to construct vehicle usage histories of retired cars and similar vehicles which did not retire early. I find that the program's cost-effectiveness steadily declined over time because of the depreciation of the vehicle fleet, while adverse selection remained a problem throughout. (JEL D82, Q53, Q58, R48)

Distributive Politics and Electoral Incentives: Evidence from Seven US State Legislatures

- American Economic Journal: Economic Policy---2012---Toke Aidt, Julia Shvets

We study the effect of electoral incentives on the allocation of public services across legislative districts. We develop a model in which elections encourage legislators to cater to parochial interests and thus aggravate the common pool problem. Using unique data from seven US states, we study how the amount of funding that a legislator channels to his district changes when he faces a term limit. We find that legislators bring less pork to their district when they cannot seek

re-election. Consistent with the Law of $1/N$, this last term reduction in funding is smaller in states with many legislative districts. (JEL D72, H70)

Surviving the Global Financial Crisis: Foreign Ownership and Establishment Performance

- American Economic Journal: Economic Policy---2012---Laura Alfaro, Maggie Chen

We examine the differential response of establishments to the recent global financial crisis with particular emphasis on the role of foreign ownership. Using a worldwide establishment panel dataset, we investigate how multinational subsidiaries around the world responded to the crisis relative to local establishments. We find that, first, multinational subsidiaries fared on average better than local counterfactuals with similar economic characteristics. Second, among multinational subsidiaries, establishments sharing stronger vertical production and financial linkages with parents exhibited greater resilience. Finally, in contrast to the crisis period, the effect of foreign ownership and linkages on establishment performance was insignificant in noncrisis years. (JEL F23, G01, L22, M16)

The Redistributive Impact of Nonlinear Electricity Pricing

- American Economic Journal: Economic Policy---2012---Severin Borenstein

Electricity regulators often mandate increasing-block pricing (IBP)—i.e., marginal price increases with the customer's average daily usage—to protect low-income households from rising costs. IBP has no cost basis, raising a classic conflict between efficiency and distributional goals. Combining household-level utility billing data with census data on income, I find that IBP in California results in modest wealth redistribution, but creates substantial deadweight loss relative to the transfers. I also show that a common approach to studying income distribution effects by using median household income within census block groups may be misleading. (JEL D31, L11, L51, L94, L98, Q41, Q48)

Cracks in the Melting Pot: Immigration, School Choice, and Segregation

- American Economic Journal: Economic Policy---2012---Elizabeth Cascio,Ethan G. Lewis

We examine whether low-skilled immigration to the United States has contributed to immigrants' residential isolation by reducing native demand for public schools. We address endogeneity in school demographics using established Mexican settlement patterns in California and use a comparison group to account for immigration's broader effects. We estimate that between 1970 and 2000, the average California school district lost more than 14 non-Hispanic households with children to other districts in its metropolitan area for every 10 additional households enrolling low-English Hispanics in its public schools. By disproportionately isolating children, the native reaction to immigration may have longer-run consequences than previously thought. (JEL H75, I21, J15, J24, J61, R23)

Does State Fiscal Relief during Recessions Increase Employment? Evidence from the American Recovery and Reinvestment Act

- American Economic Journal: Economic Policy---2012---Gabriel Chodorow-Reich,Laura Feiverson,Zachary Liscow,William Gui Woolston

The American Recovery and Reinvestment Act (ARRA) of 2009 included \$88 billion of aid to state governments administered through the Medicaid reimbursement process. We examine the effect of these transfers on states' employment. Because state fiscal relief outlays are endogenous to a state's economic environment, OLS results are biased downward. We address this problem by using a state's prerecession Medicaid spending level to instrument for ARRA state fiscal relief. In our preferred specification, a state's receipt of a marginal \$100,000 in Medicaid outlays results in an additional 3.8 job-years, 3.2 of which are outside the government, health, and education sectors. (JEL H75, I18, I38, R23)

Fast-Track Authority and International Trade Negotiations

- American Economic Journal: Economic Policy---2012---Paola Conconi,Giovanni Facchini,Maurizio Zanardi

We develop a simple model of trade relations in which legislators with different stakes in import-competing and export industries decide whether to grant fast-track authority (FTA) to the president, giving up the power to amend international trade agreements. We show that strategic delegation motives are key to understanding FTA votes, which involve a decision between alternative country representatives: the executive or the majority in Congress. We then examine the determinants of all votes by US congressmen on FTA since the introduction of this institutional procedure in 1974. Our empirical analysis provides strong support for the predictions of the model. (JEL D72, F12, F13)

The Doctor Might See You Now: The Supply Side Effects of Public Health Insurance Expansions

- American Economic Journal: Economic Policy---2012---Craig L. Garthwaite

In the United States, public health insurance programs cover over 90 million individuals. Expansions of these programs, such as the recently passed Patient Protection and Affordable Care Act (PPACA), may have large effects on physician behavior. This study finds that following the implementation of the State Children's Health Insurance Program (SCHIP), physicians decreased the number of hours spent with patients, but increased their program participation. Suggestive evidence shows that this decrease resulted from shorter office visits. These findings are consistent with the predictions from a mixed-economy model of physician behavior and provide evidence of crowd out resulting from the creation of SCHIP. (JEL H75, I11, I13, I18)

Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How It Is Delivered?

- American Economic Journal: Economic Policy---2012---Claudia Sahm,Matthew Shapiro,Joel Slemrod

Recent fiscal policies, including the 2008 stimulus payments and the 2009 Making Work Pay Tax Credit, aimed to increase household spending. This paper quantifies the spending response to these policies and examines differences in spending by whether the stimulus was delivered as a one-time payment or as a flow of payments from reduced withholding. Based on responses from a representative sample of households in the Thomson Reuters/University of Michigan Surveys of Consumers, the paper finds that the reduction in withholding in 2009 boosted spending at roughly half the rate (13 percent) as the one-time payments (25 percent) in 2008. (JEL D12, E21, E62)

Fiscal Spending Jobs Multipliers: Evidence from the 2009 American Recovery and Reinvestment Act

- American Economic Journal: Economic Policy---2012---Daniel Wilson

This paper estimates the "jobs multiplier" of fiscal stimulus spending using the state-level allocations of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of 2009. Because the level and timing of stimulus funds that a state receives was potentially endogenous, I exploit the fact that most of these funds were allocated according to exogenous formulary allocation factors such as the number of federal highway miles in a state or its youth share of population. Cross-state IV results indicate that ARRA spending in its first year yielded about eight jobs per million dollars spent, or \$125,000 per job. (JEL E24, E62, H72, H75, R23)

Corrigendum: Quantitative Effects of Fiscal Foresight

- American Economic Journal: Economic Policy---2012---Eric Leeper,Alexander Richter,Todd Walker

Measuring the Output Responses to Fiscal Policy

- American Economic Journal: Economic Policy---2012---Alan Auerbach,Yuriy Gorodnichenko

A key issue in current research and policy is the size of fiscal multipliers when the economy is in recession. We provide three insights. First, using regime-switching models, we find large differences in the size of spending multipliers in recessions and expansions with fiscal policy being considerably more effective in recessions than in expansions. Second, we estimate multipliers for more disaggregate spending variables which behave differently relative to aggregate fiscal policy shocks, with military spending having the largest multiplier. Third, we show that controlling for predictable components of fiscal shocks tends to increase the size of the multipliers in recessions. (JEL C32, E62, H20, H62, H63)

A Model-Based Evaluation of the Debate on the Size of the Tax Multiplier

- American Economic Journal: Economic Policy---2012---Ryan Chahrour,Stephanie Schmitt-Grohé,Martín Uribe

The SVAR and narrative approaches to estimating tax multipliers deliver significantly different results. The former yields multipliers of about 1 and the latter of about 3. The two approaches differ along two important dimensions: the identification scheme and the reduced-form transmission mechanism. This paper uses a DSGE-model to evaluate the hypothesis that the difference in multipliers is due to differences in transmission mechanisms. The main finding of the paper is that this hypothesis is rejected. Instead, the observed differences in estimated multipliers are due either to the models failing to identify the same tax

shock, or to small-sample uncertainty. (JEL E13, E23, E32, E62, H20)

Fiscal Policy Multipliers on Subnational Government Spending

- American Economic Journal: Economic Policy---2012---Jeffrey Clemens, Stephen Miran

Balanced budget requirements lead to substantial procyclicality in state government spending, with the stringency of a state's rules driving the pace at which it must adjust to shocks. We show that fiscal institutions can generate natural experiments in deficit-financed spending that are informative regarding fiscal stabilization policy. Alternative sources of variation in subnational fiscal policy often implicitly involve "windfall" financing, which precludes any effect of future debt or taxation on current consumption and investment. Consistent with a role for these "Ricardian" effects, our estimates are smaller than those in related studies, implying an on-impact multiplier below 1. (JEL C51, E32, E62, H72)

Measuring Tax Multipliers: The Narrative Method in Fiscal VARs

- American Economic Journal: Economic Policy---2012---Carlo Favero, Francesco Giavazzi

This paper argues in favor of empirical models built by including in fiscal VAR models structural shocks identified via the narrative method. We first show that "narrative" shocks are orthogonal to the relevant information set a fiscal VAR. We then derive impulse responses to these shocks. The use of narrative shocks does not require the inversion of the moving-average representation of a VAR for the identification of the relevant shocks. Therefore, within this framework, fiscal multipliers can be identified and estimated even when, in the presence of "fiscal foresight," the MA representation of the VARs is not invertible. (JEL C32, E62, H20, H62, H63)

Global Savings and Global Investment: The Transmission of Identified Fiscal Shocks

- American Economic Journal: Economic Policy---2012---James Feyrer, Jay Shambaugh

This paper examines the effect of exogenous shocks to savings on world capital markets. Exogenous tax increases in the United States (from Romer and Romer 2010) are only partially offset by changes in domestic private savings, and only a small amount is absorbed by increased domestic investment (contra Feldstein and Horioka 1980). Almost half the change in taxes is transmitted abroad through a change in the US current account. Other countries experience decreases in current accounts and increases in investment in response to exogenous US tax increases. We cannot reject symmetric responses across countries with different currency regimes and levels of development. (JEL E21, E22, E23, E62, F32, F42)

Quantitative Effects of Fiscal Foresight

- American Economic Journal: Economic Policy---2012---Eric Leeper, Alexander Richter, Todd Walker

Legislative and implementation lags imply that substantial time evolves between when news arrives about fiscal changes and when the changes actually take place—time when households and firms can adjust their behavior. We identify two types of fiscal news—government spending using the Survey of Professional Forecasters and taxes using the municipal bond market. The main contribution of the paper is a mapping from reduced-form estimates of news into a DSGE framework. We find that news about fiscal policy is a time-varying process and show that ignoring the time variation can have important consequences in a conventional macroeconomic model. (JEL E12, E62, H20, H30, H62)

Empirical Evidence on the Aggregate Effects of Anticipated and Unanticipated US Tax Policy Shocks

- American Economic Journal: Economic Policy---2012---Karel Mertens,Morten Ravn

We provide evidence on the dynamic effects of tax liability changes in the United States. We distinguish between surprise and anticipated tax changes. Preamounced but not yet implemented tax cuts give rise to contractions in output, investment, and hours worked while real wages increase. There are no significant anticipation effects on aggregate consumption. Implemented tax cuts, regardless of their timing, have expansionary effects, on output, consumption, investment, hours worked, and real wages. Results are shown to be robust. Tax shocks are important impulses to the US business cycle and anticipation effects have been important during several business cycle episodes. (JEL E23, E32, E62, H20, H30)

Fiscal Imbalances and Borrowing Costs: Evidence from State Investment Losses

- American Economic Journal: Economic Policy---2012---Robert Novy-Marx,Joshua D. Rauh

During the last quarter of 2008, financial losses in state pension funds varied from 12 percent to 68 percent of the revenue generated by the state government. We quantify a sovereign default channel in the state municipal market by examining how changes in bond spreads vary with state pension fund losses, controlling for credit ratings and various measures of the state's fiscal strength. Municipal bond spreads rose by 7-15 basis points for each 10 percent of state-generated revenue lost by states in the lower half of the credit quality spectrum. (JEL H71, H72, H74, H75)

The Effects of Tax Shocks on Output: Not So Large, but Not Small Either

- American Economic Journal: Economic Policy---2012---Roberto Perotti

I argue that, on theoretical grounds, the discretionary component of taxation should be allowed to have different effects than the automatic response of tax revenues to macroeconomic variables. Based on a novel dataset, I show two results. First, responses to a tax shock that allow for a distinction between the discretionary and the endogenous components of tax changes are about halfway between the large effects estimated by Romer and Romer (2010) and the smaller effects estimated, for instance, by Favero and Giavazzi (2012) or Blanchard and Perotti (2002). Second, there is almost no statistically significant evidence of anticipation effects. (JEL E23, E62, H22, H24, H25, K34)

The Effect of Health Insurance Coverage on the Use of Medical Services

- American Economic Journal: Economic Policy---2012---Michael Anderson,Carlos Dobkin,Tal Gross

Substantial uncertainty exists regarding the causal effect of health insurance on the utilization of care. We exploit a sharp change in insurance coverage rates that results from young adults "aging out" of their parents' insurance plans to estimate the effect of insurance coverage on the utilization of emergency department (ED) and inpatient services. Aging out results in an abrupt 5 to 8 percentage point reduction in the probability of having health insurance. We find that uninsured status leads to a 40 percent reduction in ED visits and a 61 percent reduction in inpatient hospital admissions. (JEL G22, I11, I18)

Regulation, Ownership, and Costs: A Historical Perspective from Indian Railways

- American Economic Journal: Economic Policy---2012---Dan Bogart,Latika Chaudhary

This paper studies the relationship between operational costs and state ownership in Indian railways between 1874 and 1912. We find the move to state ownership significantly decreased working expenses. The cost declines are not driven by anticipation effects, changes in reporting standards, or long run trends. Rather, the evidence suggests the colonial Government of India

reduced operational costs by cutting labor costs. Our surprising results can be explained by the undemocratic colonial nature of the Government of India, a fiscal system heavily reliant on railways for revenues, and a regulatory environment under private ownership that weakened incentives to lower costs. (JEL L32, L51, L92, N45, N75, O18, R41)

Green Infrastructure: The Effects of Urban Rail Transit on Air Quality

- American Economic Journal: Economic Policy---2012---Yihsu Chen,Alexander Whalley

The transportation sector is a major source of air pollution worldwide, yet little is known about the effects of transportation infrastructure on air quality. This paper quantifies the effects of one major type of transportation infrastructure—urban rail transit—on air quality using the sharp discontinuity in ridership on opening day of a new rail transit system in Taipei. We find that the opening of the Metro reduced air pollution from one key tailpipe pollutant, carbon monoxide, by 5 to 15 percent. Little evidence that the opening of the Metro affected ground level ozone pollution is found however. (JEL L92, Q53, R41, R53)

Sacred Cars? Cost-Effective Regulation of Stationary and Nonstationary Pollution Sources

- American Economic Journal: Economic Policy---2012---Meredith Fowle,Christopher Knittel,Catherine Wolfram

For political and practical reasons, environmental regulations sometimes treat point-source polluters, such as power plants, differently from mobile-source polluters, such as vehicles. This paper measures the extent of this regulatory asymmetry in the case of nitrogen oxides (NO_x), the most recalcitrant criteria air pollutant in the United States. We find significant differences in marginal abatement costs across source types: the marginal cost of reducing NO_x from cars is less than half the marginal cost of reducing NO_x from power plants. Our results measure the possible efficiency gains and distributional implications associated with

increasing the sectoral scope of environmental regulations.(JEL Q53, Q58, R41)

Do Strikes Kill? Evidence from New York State

- American Economic Journal: Economic Policy---2012---Jonathan Gruber,Samuel Kleiner

Hospitals now represent one of the largest union sectors of the US economy, and there is particular concern about the impact of strikes on patient welfare. We analyze the effects of nurses' strikes in hospitals on patient outcomes in New York State. Controlling for hospital specific heterogeneity, the results show that nurses' strikes increase in-hospital mortality by 18.3 percent and 30-day readmission by 5.7 percent for patients admitted during a strike, with little change in patient demographics, disease severity or treatment intensity. The results suggest that hospitals functioning during nurses' strikes do so at a lower quality of patient care. (JEL H75, I11, I12, J52)

Inertia and Overwithholding: Explaining the Prevalence of Income Tax Refunds

- American Economic Journal: Economic Policy---2012---Damon Jones

Over three-quarters of US taxpayers receive income tax refunds, which are effectively zero-interest loans to the government. Previous explanations include precautionary and/or forced savings motives. I present evidence on a third explanation: inertia. I find that following a change in tax liability, prepayments are only adjusted by 29 percent of the tax change after one year and 61 percent after three years. Adjustment increases with income and experience, and for EITC recipients, I rule out adjustment greater than 2 percent. Thus, policies affecting default-withholding rules are no longer neutral decisions, but rather, may affect consumption smoothing, particularly for low-income taxpayers. (JEL D14, H24, K34)

Will There Be Blood? Incentives and Displacement Effects in Pro-social Behavior

- American Economic Journal: Economic Policy---2012---Nicola Lacetera, Mario Macis, Robert Slonim

We present evidence from nearly 14,000 American Red Cross blood drives and from a natural field experiment showing that economic incentives have a positive effect on blood donations without increasing the fraction of donors who are ineligible to donate. The effect increases with the incentive's economic value. However, a substantial proportion of the increase in donations is explained by donors leaving neighboring drives without incentives to attend drives with incentives; this displacement also increases with the economic value of the incentive. We conclude that extrinsic incentives stimulate prosocial behavior, but unless displacement effects are considered, the effect may be overestimated. (JEL D64, H41, I12)

Income Taxes, Compensating Differentials, and Occupational Choice: How Taxes Distort the Wage-Amenity Decision

- American Economic Journal: Economic Policy---2012---David Powell, Hui Shan

The link between taxes and occupational choices is central for understanding the welfare impacts of income taxes. Just as taxes distort the labor-leisure decision, they may also distort the wage-amenity decision. Yet, there have been few studies on the full response along this margin. When tax rates increase, workers favor jobs with lower wages and more amenities. We introduce a two-step methodology which uses compensating differentials to characterize the tax elasticity of occupational choice. We estimate a significant compensated elasticity of 0.03, implying that a 10 percent increase in the net-of-tax rate causes workers to change to a 0.3 percent higher wage job. (JEL H24, H31, J22, J24, J31)

Personal Retirement Accounts and Saving

- American Economic Journal: Economic Policy---2011---Emma Aguila

Aging populations are leading countries worldwide to social security reforms. Many countries are moving from pay-as-you-go to personal retirement account (PRA) systems because of their financial sustainability and positive impact on private savings. PRA systems boost private savings at a macro level by converting a government liability into financial wealth managed by private fund managers. However, at a micro level, changes in retirement wealth affect individuals' saving and consumption patterns through their working lives. Retirement wealth increased for lower-income workers after Mexico introduced PRAs, crowding out saving, increasing consumption, and offsetting some of the PRA effect on private savings. (JEL D14, E21, H55, J26, O16)

The Effect of an Employer Health Insurance Mandate on Health Insurance Coverage and the Demand for Labor: Evidence from Hawaii

- American Economic Journal: Economic Policy---2011---Thomas Buchmueller, John DiNardo, Robert Valletta

We examine the effects of the most durable employer health insurance mandate in the United States, Hawaii's Prepaid Health Care Act, using Current Population Survey data covering the years 1979 to 2005. Relying on a variation of the classical Fisher permutation test applied across states, we find that Hawaii's law increased insurance coverage over time for worker groups with low rates of coverage in the voluntary market. We find no statistically significant support for the hypothesis that the mandate reduced wages and employment probabilities. Instead, its primary detectable effect was an increased reliance on exempt part-time workers. (JEL G22, I18, J23, J32)

Capital Income Taxes with Heterogeneous Discount Rates

- American Economic Journal: Economic Policy---2011---Peter Diamond,Johannes Spinnewijn

With heterogeneity in both skills and discount factors, the Atkinson- Stiglitz theorem that savings should not be taxed does not hold. In a model with heterogeneity of preferences at each earnings level, introducing a savings tax on high earners or a savings subsidy on low earners increases welfare, regardless of the correlation between ability and discount factor. Extending Emmanuel Saez (2002), a uniform savings tax increases welfare if that correlation is sufficiently high. Key for the results is that types who value future consumption less are more tempted by a lower paid job. Some optimal tax results and empirical evidence are presented. (JEL D14, H21, H24)

Medicare Part D and the Financial Protection of the Elderly

- American Economic Journal: Economic Policy---2011---Gary V. Engelhardt,Jonathan Gruber

We examine the impact of the expansion of public prescription-drug insurance coverage from Medicare Part D and find evidence of substantial crowd-out. Using the 2002-2007 waves of the Medical Expenditure Panel Survey, we estimate the extension of Part D benefits resulted in 75 percent crowd-out of both prescription-drug insurance coverage and expenditures of those 65 and older. Part D is associated with sizeable reductions in out-of-pocket spending, much of which has accrued to a small proportion of the elderly. On average, we estimate a welfare gain from Part D comparable to the deadweight cost of program financing. (JEL H51, I18, J14)

How Do 401(k)s Affect Saving? Evidence from Changes in 401(k) Eligibility

- American Economic Journal: Economic Policy---2011---Alexander Gelber

This paper investigates the effect of 401(k) eligibility on saving. To address the possibility that eligibility correlates across individuals with their unobserved tastes for saving, I examine a change in eligibility: some individuals are initially ineligible for their 401(k) but become eligible when they have worked at their firm long enough. I find that eligibility raises 401(k) balances. Other financial assets and net worth respond insignificantly to eligibility, but the confidence intervals do not rule out substantial responses. In response to eligibility, IRA assets increase, consistent with a "crowd-in" hypothesis, and accumulation of cars decreases. (JEL D14, E21, J26)

Did Bankruptcy Reform Cause Mortgage Defaults to Rise?

- American Economic Journal: Economic Policy---2011---Wenli Li,Michelle J. White,Ning Zhu

Homeowners in financial distress can use bankruptcy to avoid defaulting on their mortgages, since filing loosens their budget constraints. But the 2005 bankruptcy reform made bankruptcy less favorable to homeowners and therefore caused mortgage defaults to rise. We test this relationship and find that the reform caused prime and subprime mortgage default rates to rise by 23% and 14%, respectively. Default rates rose even more for homeowners who were particularly negatively affected by the reform. We calculate that bankruptcy reform caused mortgage default rates to rise by one percentage point even before the start of the financial crisis. (JEL D14, G01, G21, K35)

Why Do Skilled Immigrants Struggle in the Labor Market? A Field Experiment with Thirteen Thousand Resumes

- American Economic Journal: Economic Policy---2011---Philip Oreopoulos

Thousands of randomly manipulated resumes were sent in response to online job postings in Toronto to investigate why immigrants, allowed in based on skill, struggle in the labor market. The study finds substantial discrimination across a variety of occupations towards

applicants with foreign experience or those with Indian, Pakistani, Chinese, and Greek names compared with English names. Listing language fluency, multinational firm experience, education from highly selective schools, or active extracurricular activities had no diminishing effect. Recruiters justify this behavior based on language skill concerns but fail to fully account for offsetting features when listed. (JEL J15, J24, J61)

Just Keep My Money! Supporting Tax-Time Savings with US Savings Bonds

- American Economic Journal: Economic Policy---2011---Peter Tufano

This paper reports the results of a 2007 experiment testing whether specific process simplification can foster increased take-up rates for savings products, particularly by low-to-moderate income (LMI) households. Tax refund recipients at certain H&R Block tax preparation offices were given the option to purchase US Savings Bonds with their tax refunds, augmenting the tax-site savings options offered by H&R Block. Those who received the savings bond offer were substantially more likely to purchase a savings product on-site than those who didn't, even after controlling for client demographics. Much of this take-up was directed at intra-family gifting, or asset building on behalf of children. (JEL D14, H24)

After Midnight: A Regression Discontinuity Design in Length of Postpartum Hospital Stays

- American Economic Journal: Economic Policy---2011---Douglas Almond, Joseph J. Doyle

Estimates of moral hazard in health insurance markets can be confounded by adverse selection. This paper considers a plausibly exogenous source of variation in insurance coverage for childbirth in California. We find that additional health insurance coverage induces substantial extensions in length of hospital stay for mother and newborn. However, remaining in the hospital longer has no effect on readmissions or mortality, and the estimates are precise. Our results suggest that

for uncomplicated births, minimum insurance mandates incur substantial costs without detectable health benefits. (JEL D82, G22, I12, I18, J13)

Public-Place Smoking Laws and Exposure to Environmental Tobacco Smoke (ETS)

- American Economic Journal: Economic Policy---2011---Christopher Carpenter, Sabina Postolek, Casey Warman

Public-place smoking restrictions are the most important non-price tobacco control measures worldwide, yet surprisingly little is known about their effects on exposure to environmental tobacco smoke (ETS). We study these laws in Canada using data with questions about respondents' ETS exposure in public and private places. In fixed effects models we find these laws had no effects on smoking but induced large and statistically significant reductions in public-place ETS exposure, especially in bars and restaurants. We do not find significant evidence of ETS displacement to private homes. Our results indicate wide latitude for health improvements from banning smoking in public places. (JEL D12, H75, I12, I18, Q51)

A's from Zzzz's? The Causal Effect of School Start Time on the Academic Achievement of Adolescents

- American Economic Journal: Economic Policy---2011---Scott Carrell, Teny Maghakian, James West, Teny Maghakian Shapiro

Recent sleep research finds that many adolescents are sleep-deprived because of both early school start times and changing sleep patterns during the teen years. This study identifies the causal effect of school start time on academic achievement by using two policy changes in the daily schedule at the US Air Force Academy along with the randomized placement of freshman students to courses and instructors. Results show that starting the school day 50 minutes later has a significant positive effect on student achievement, which is roughly equivalent to raising teacher quality by one standard deviation. (JEL I23, J13)

Government Form and Public Spending: Theory and Evidence from US Municipalities

- American Economic Journal: Economic Policy---2011---Stephen Coate,Brian Knight

There are two main forms of government in US cities: council-manager and mayor-council. This paper develops a theory of fiscal policy determination under these two forms. The theory predicts that expected public spending will be lower under mayor-council but that either form of government could be favored by a majority of citizens. The latter prediction means that the theory is consistent with the coexistence of both government forms. Support for the former prediction is found in both a cross-sectional analysis and a panel analysis of changes in government form. (JEL H11, H72, R51)

The Trade Effects of Endogenous Preferential Trade Agreements

- American Economic Journal: Economic Policy---2011---Peter Egger,Mario Larch,Kevin Staub,Rainer Winkelmann

Structural new trade theory models have never been used to evaluate and quantify the role of preferential trade agreement (PTA) membership for trade in a way which is consistent with general equilibrium. Apart from filling this gap, the present paper aims at delivering an empirical model which takes into account both that PTA membership is endogenous and that the world matrix of bilateral trade flows contains numerous zero entries. These features are treated in an encompassing way by means of (possibly two-part) Poisson pseudomaximum likelihood estimation with endogenous binary indicator variables in the empirical model. (JEL F11, F13, F15)

Electoral Rules and Politicians' Behavior: A Micro Test

- American Economic Journal: Economic Policy---2011---Stefano Gagliarducci,Tommaso Nannicini,Paolo Naticchioni

Theory predicts that the majoritarian electoral system should produce more targeted redistribution and lower rents than proportional representation. We test these predictions using data on the Italian House of Representatives, and address the nonrandom selection into different systems exploiting one feature of the two-tier elections between 1994-2001: candidates could run for both the majoritarian and proportional tier, but if they won in both they had to accept the majoritarian seat. Focusing on elections decided by a narrow margin, we find that majoritarian representatives put forward more bills targeted at their constituency and show lower absenteeism rates than their proportional colleagues. (JEL D72)

Do Child Tax Benefits Affect the Well-Being of Children? Evidence from Canadian Child Benefit Expansions

- American Economic Journal: Economic Policy---2011---Kevin Milligan,Mark Stabile

We exploit changes in child benefits in Canada to study the impact of family income on child and family well-being. Using variation in child benefits across province, time, and family type, we study outcomes spanning test scores, mental health, physical health, and deprivation measures. The findings suggest that child benefit programs had significant positive effects on test scores, maternal health, and mental health, among other measures. We find strong and interesting differences in the effects of benefits by child sex: benefits have stronger effects on educational outcomes and physical health for boys, and on mental health outcomes for girls. (JEL I12, I31, I38, J13)

Implementing Anti-discrimination Policies in Statistical Profiling Models

- American Economic Journal: Economic Policy---2011---Devin G. Pope,Justin R. Sydnor

How should statistical models used for assigning prices or eligibility be implemented when there is concern about discrimination? In many settings, factors such as race, gender, and age are prohibited. However,

the use of variables that correlate with these omitted characteristics (e.g., zip codes, credit scores) is often contentious. We provide a framework to address these issues and propose a method that can eliminate proxy effects while maintaining predictive accuracy relative to an approach that restricts the use of contentious variables outright. We illustrate the value of our proposed method using data from the Worker Profiling and Reemployment Services system. (JEL C53, J15, J65, J71)

Gender-Based Taxation and the Division of Family Chores

- American Economic Journal: Economic Policy---2011---Alberto Alesina,Andrea Ichino,Loukas Karabarbounis

Gender-based taxation (GBT) satisfies Ramsey's rule because it taxes at a lower rate the more elastic labor supply of women. We study GBT in a model in which labor elasticities emerge endogenously from intrahousehold bargaining. We explore the cases of superior bargaining power for men, higher male wages, and higher female home productivity. In all cases, men commit to a career in the market, take less home duties than women, and have lower labor supply elasticity. When society resolves its distributional concerns efficiently with gender-specific lump sum transfers, GBT with higher marginal tax rates on (single and married) men is optimal. (JEL D13, H21, H24, J16, J22)

Manipulation of Social Program Eligibility

- American Economic Journal: Economic Policy---2011---Adriana Camacho,Emily Conover

We document how manipulation of a targeting system for social welfare programs evolves over time. First, there was strategic behavior of some local politicians in the timing of the household interviews around local elections. Then, there was corrupt behavior with the sudden emergence of a sharp discontinuity in the score density, exactly at the eligibility threshold, which coincided with the release of the score algorithm to local officials. The discontinuity at the threshold is larger

where mayoral elections are more competitive. While cultural forces are surely relevant for corruption, our results also highlight the importance of information and incentives. (JEL D72, I32, I38, O15, O17).

Identifying the Aggregate Productivity Effects of Entry and Size Restrictions: An Empirical Analysis of License Reform in India

- American Economic Journal: Economic Policy---2011---Amalavoyal Chari

Distortions in the allocation of resources between heterogeneous producers have the potential to generate large reductions in aggregate productivity, a point that has been stressed by recent studies. There is, however, little direct empirical evidence from actual policy experiments on the magnitude of these effects. This paper proposes a simple methodology that empirically identifies the separate effects of entry and size restrictions on aggregate productivity, and uses it to analyse the impact of a policy reform in India. (JEL L11, L24, O14, O47)

No Child Left Behind: Subsidized Child Care and Children's Long-Run Outcomes

- American Economic Journal: Economic Policy---2011---Tarjei Havnes,Magne Mogstad

Many developed countries are currently considering a move toward subsidized, widely accessible child care or preschool. However, studies on how large-scale provision of child care affects child development are scarce, and focused on short-run outcomes. We analyze a large-scale expansion of subsidized child care in Norway, addressing the impact on children's long-run outcomes. Our precise and robust difference-in-differences estimates show that subsidized child care had strong positive effects on children's educational attainment and labor market participation, and also reduced welfare dependency. Subsample analyses indicate that girls and children with low-educated mothers benefit the most from child care. (JEL J13, J16)

The End of Court-Ordered Desegregation

- American Economic Journal: Economic Policy---2011---Byron Lutz

In response to three Supreme Court rulings in the early 1990s, numerous court-ordered desegregation plans have been terminated. Using a unique dataset and an event study research design, this paper explores the impact of these terminations. The results suggest that termination produces a moderate increase in racial segregation. Outside of the south, dismissal also increases the rate at which black students drop out of school and attend private school. In the south, in contrast, there is no change in the school attendance patterns of blacks. Finally, evidence is presented that whites re-enter dismissed districts in large numbers in the south. (JEL H75, I21, I28, J15, K10)

Immigration and the Neighborhood

- American Economic Journal: Economic Policy---2011---Albert Saiz,Susan Wachter

Within metropolitan areas, neighborhoods of growing immigrant settlement are becoming relatively less desirable to natives. We deploy a geographic diffusion model to instrument for the growth of immigrant density in a neighborhood. Our approach deals explicitly with potential unobservable shocks that may be correlated with proximity to immigrant enclaves. The evidence is consistent with a causal interpretation of an impact from growing immigrant density to native flight and relatively slower housing value appreciation. Further evidence indicates that these results are driven more by the demand for residential segregation based on ethnicity and education than by foreignness per se. (JEL I20, J11, J15, R23, Z13)

The Surprising Incidence of Tax Credits for the Toyota Prius

- American Economic Journal: Economic Policy---2011---James Sallee

This paper estimates the incidence of tax incentives for the Toyota Prius. Transaction microdata indicate that

both federal and state incentives were fully captured by consumers. This is surprising because Toyota faced a binding production constraint, which suggests that they could have appropriated the gains. The paper proffers an explanation based on an intertemporal link in pricing that stems from search frictions, which has the unconventional implication that statutory burden influenced economic burden. The paper develops a bounding estimator to account for endogenous selection into preferential tax regimes that may be useful in other contexts. (JEL H22, H24, L11, L62)

The Cabals of a Few or the Confusion of a Multitude: The Institutional Trade-Off between Representation and Governance

- American Economic Journal: Economic Policy---2011---Leah Brooks,Justin Phillips,Maxim Sinit-syn

Our model illustrates how political institutions trade off between the competing goals of representation and governance, where governance is the responsiveness of an institution to a single pivotal voter. We use exogenous variation from the 30-year history of the federal Community Development Block Grant program to identify this trade-off. Cities with more representative governments—those with larger city councils—use more grant funds to supplement city revenues rather than implementing tax cuts, thereby moving policy further away from the governance ideal. In sum, more representative government is not without cost. (JEL D72, H71, R50)

The Effect of Classmate Characteristics on Post-secondary Outcomes: Evidence from the Add Health

- American Economic Journal: Economic Policy---2011---Robert Bifulco,Jason Fletcher,Stephen Ross

This paper uses a within-school/across-cohort design to present new evidence of the effects of high school classmate characteristics on a wide range of post-secondary outcomes. We find that increases in the percent of

classmates with college-educated mothers decreases the likelihood of dropping out and increases the likelihood of attending college, despite showing no impact on a range of in-school achievement, attitudes, and behaviors. The percent of students from disadvantaged minority groups does not show any effects on post-secondary outcomes, but is associated with students reporting less caring student-teacher relationships and increased prevalence of some undesirable student behaviors during high school. (JEL I21, J13, J15)

Transfer Program Complexity and the Take-Up of Social Benefits

- American Economic Journal: Economic Policy---2011---Henrik Jacobsen Kleven,Wojciech Kopczuk

We model complexity in social programs as a by-product of the screening process. While a more rigorous screening process may improve targeting efficiency, the associated complexity is costly to applicants and induces incomplete take-up. We integrate the study of take-up with the study of rejection (Type I) and award (Type II) errors, and characterize optimal programs when policy makers choose screening intensity (and complexity), an eligibility rule, and a benefit level. Consistent with many real-world programs, optimal programs feature high complexity, incomplete take-up, classification errors of both Type I and II and, in some cases, "excessive" benefits. (JEL D04, D82, H23, I18, I38)

Calorie Posting in Chain Restaurants

- American Economic Journal: Economic Policy---2011---Bryan Bollinger,Phillip Leslie,Alan Sorensen

We study the impact of mandatory calorie posting on consumers' purchase decisions using detailed data from Starbucks. We find that average calories per transaction fall by 6 percent. The effect is almost entirely related to changes in consumers' food choices—there is almost no change in purchases of beverage calories. There is no impact on Starbucks profit on average, and for the subset of stores located close to their competitor

Dunkin Donuts, the effect of calorie posting is actually to increase Starbucks revenue. Survey evidence and analysis of commuters suggests the mechanism for the effect is a combination of learning and salience. (JEL D12, D18, D83, L83)

How Effective Are Public Policies to Increase Health Insurance Coverage among Young Adults?

- American Economic Journal: Economic Policy---2011---Phillip Levine,Robin McKnight,Samantha Heep

This paper assesses the impact of policies to increase insurance coverage for young adults. The introduction of SCHIP in 1997 enabled low-income teens up to age 19 to gain access to public health insurance. More recent policies enabled young adults between the ages of 19 and (typically) 24 to remain covered under their parents' health insurance. We use the discrete break in coverage at age 19 to evaluate the impact of SCHIP, and quasi-experimental variation to evaluate the impact of "extended parental coverage" laws. Our results suggest that both types of policies were effective at increasing health insurance coverage. (JEL G22, H75, I18, J13)

Culture, Context, and the Taste for Redistribution

- American Economic Journal: Economic Policy---2011---Erzo Luttmer,Monica Singhal

Is culture an important determinant of preferences for redistribution? To separate culture from the economic and institutional environment ("context"), we relate immigrants' redistributive preferences to the average preference in their birth countries. We find a strong positive relationship that is robust to rich controls for economic factors and cannot easily be explained by selective migration. This effect is as large as that of own household income and appears stronger for those less assimilated into the destination country. Immigrants from high-preference countries are more likely to vote for more pro-redistribution parties. The effect of culture persists strongly into the second generation. (JEL H23, Z13)

Payment Choice, Image Motivation and Contributions to Charity: Evidence from a Field Experiment

- American Economic Journal: Economic Policy---2011---Adriaan Soetevent

This paper examines the impact of payment choice on charitable giving with a door-to-door fund-raising field experiment. Respondents can donate cash only, use debit only, or have both options. Cash donations have lower visibility vis-à-vis solicitors than debit card donations. When debit replaces cash, participation drops by 87 percent. Conditional on participation, donors in the Debit-only treatment give more than donors in Cash-only. In Cash&Debit, almost all donors prefer cash; participation decreases compared to Cash-only. Physical attractiveness of both female and male solicitors increases contributions. Solicitor self-confidence has a negative impact. (JEL D14, D64, L31)

The Effects of Pharmaceutical Marketing and Promotion on Adverse Drug Events and Regulation

- American Economic Journal: Economic Policy---2010---Guy David,Sara Markowitz,Seth Richards-Shubik

This paper analyzes the relationship between postmarketing promotional activity and reporting of adverse drug reactions (ADRs) by modeling the interaction between a regulator (the FDA) and a pharmaceutical firm. Promotion-driven market expansions enhance profitability yet may involve the risk of inappropriate drug prescriptions, leading to regulatory actions against the firm. We empirically test the relationship between drug promotion and reporting of ADRs using an innovative combination of commercial data on pharmaceutical promotion and FDA data on regulatory interventions and ADRs. We provide some evidence that increased levels of promotion and advertising lead to increased reporting of ADRs for certain conditions. (JEL L51, L65, M31, M37)

Detecting Illegal Arms Trade

- American Economic Journal: Economic Policy---2010---Stefano DellaVigna,Eliana La Ferrara

We propose a method to detect illegal arms trade based on investor knowledge. We focus on countries under arms embargo and identify events that suddenly increase or decrease conflict intensity. If a weapon-making company is trading illegally, an event that increases the demand for arms may increase stock prices. We find positive event returns for companies headquartered in countries with high corruption and low transparency in arms trade. We also suggest a method to detect potential embargo violations based on chains of reactions by individual stocks. The presumed violations positively correlate with the number of UN investigations and Internet stories. (JEL D74, F13, G14, K42, L64)

International Trade in Used Vehicles: The Environmental Consequences of NAFTA

- American Economic Journal: Economic Policy---2010---Lucas Davis,Matthew Kahn

Since trade restrictions were eliminated in 2005, Mexico has imported over 2.5 million used vehicles from the United States. Using a unique, vehicle-level dataset, we find that traded vehicles are dirtier than the stock of vehicles in the United States and cleaner than the stock in Mexico, so when a vehicle is traded from the United States to Mexico average vehicle emissions per mile tend to decrease in both countries. Overall, however, the evidence suggests that trade has increased total lifetime emissions, primarily because of low vehicle retirement rates in Mexico. (JEL F13, F14, L62, O13, O19, Q53, Q56)

Sharing Demographic Risk--Who Is Afraid of the Baby Bust?

- American Economic Journal: Economic Policy---2010---Alexander Ludwig,Michael Reiter

We model the reaction of a PAYG pension system to demographic shocks. We compare the ex ante first best

and second best solution of a Ramsey planner with full commitment to the outcome under simple third best rules. The model is calibrated to the German economy. We find that the German system comes relatively close to the second-best solution, and that the recent baby-boom/baby-bust cycle leads to welfare losses of about 5 percent of lifetime consumption for some cohorts. We argue that it is crucial for all our results to correctly model the labor market distortions arising from the pension system. (JEL D91, E62, H55, J11)

Short-Run Impacts of Accountability on School Quality

- American Economic Journal: Economic Policy---2010---Jonah Rockoff, Lesley Turner

In the fall of 2007, New York City began using student tests and other measures to assign each school a grade (A to F), and linked grades to rewards and consequences, including possible school closure. These grades were released in late September, arguably too late for schools to make major changes in programs or personnel, and students were tested again in January (English) and March (math). Despite this time frame, regression discontinuity estimates indicate that receipt of a low grade significantly increased student achievement, more so in math than English, and improved parental evaluations of school quality. (JEL H75, I21, I28, J45)

Appropriation, Property Rights Institutions, and International Trade

- American Economic Journal: Economic Policy---2010---Christodoulos Stefanadis

In producer-friendly economies—economies that are ruled by productive agents and have strong property rights institutions—international trade causes an institutional improvement and an aggregate shift of talent towards production, and away from socially wasteful appropriation. However, in predator-friendly economies—economies that are ruled by rent seekers and have weak institutions—international trade leads to an insti-

tutional deterioration, and a more unfavorable talent allocation. (JEL D72, F12, K11)

Domestic Institutions and the Bypass Effect of Financial Globalization

- American Economic Journal: Economic Policy---2010---Jiandong Ju, Shang-Jin Wei

This paper proposes a simple model to study how domestic institutions affect patterns of international capital flows. Inefficient financial system, and poor corporate governance, may be bypassed by two-way capital flows in which domestic savings leave the country in the form of financial capital outflows but domestic investment takes place via inward FDI. While financial globalization always improves the welfare of a developed country with a good financial system, its effect is ambiguous for a developing country with an inefficient financial sector or poor corporate governance. Interestingly, financial and property rights institutions can have opposite effects on capital flows. (JEL D02, E21, F21, F32, G34)

Dividend and Corporate Taxation in an Agency Model of the Firm

- American Economic Journal: Economic Policy---2010---Raj Chetty, Emmanuel Saez

Recent evidence on the effect of dividend taxes on firm behavior is inconsistent with neoclassical theories of dividend and corporate taxation. We develop a simple agency model in which managers and shareholders have conflicting interests to explain the evidence. In this model, dividend taxation induces managers to undertake unproductive investments by retaining earnings, and creates a first-order deadweight cost. In contrast, corporate taxes do not distort the manager's payout decision and may only create second-order efficiency costs. Corporate income taxation may therefore be a more efficient way to generate revenue than dividend taxation, challenging existing intuitions based on neoclassical models. (JEL D21, G35, H25, H32)

The Effect of Fast Food Restaurants on Obesity and Weight Gain

- American Economic Journal: Economic Policy---2010---Janet Currie,Stefano Della Vigna,Enrico Moretti,Vikram Pathania

We investigate how changes in the supply of fast food restaurants affect weight outcomes of 3 million children and 3 million pregnant women. Among ninth graders, a fast food restaurant within 0.1 miles of a school results in a 5.2 percent increase in obesity rates. Among pregnant women, a fast-food restaurant within 0.5 miles of residence results in a 1.6 percent increase in the probability of gaining over 20 kilos. The implied effects on caloric intake are one order of magnitude larger for children than for mothers, consistent with smaller travel cost for adults. Non-fast food restaurants and future fast-food restaurants are uncorrelated with weight outcomes. (JEL I12, J13, J16, L83)

The General Equilibrium Incidence of Environmental Mandates

- American Economic Journal: Economic Policy---2010---Don Fullerton,Garth Heutel

Pollution regulations affect factor demands, relative returns, production, and output prices. In our model, one sector includes pollution as an input that can be a complement or substitute for labor or capital. For each type of mandate, we find conditions where more burden is on labor or on capital. Stricter regulation does not always place less burden on the better substitute for pollution. Also, restrictions on pollution per unit output create an "output-subsidy effect" on factor prices that can reverse the usual output and substitution effects. We find analogous effects for a restriction on pollution per unit capital. (JEL H23, Q53, Q58)

Is Lottery Gambling Addictive?

- American Economic Journal: Economic Policy---2010---Jonathan Guryan,Melissa Kearney

We present an empirical test for the addictiveness of lottery gambling that exploits an exogenous shock to local market consumption of lottery gambling. It uses the sale of a winning jackpot ticket in a zip code as an instrument for present consumption and tests for a causal relationship between present and future consumption. This test estimates the time path of persistence non-parametrically. Data from the Texas State Lottery suggests that after 6 months, roughly half of the initial increase in lottery consumption is maintained. After 18 months, roughly 40 percent of the initial shock persists, though estimates become less precise. (JEL D12, H27, H71)

Trade Restrictiveness and Deadweight Losses from US Tariffs

- American Economic Journal: Economic Policy---2010---Douglas Irwin

This paper calculates a trade restrictiveness index, i.e., the uniform tariff that yields the same welfare loss as an existing tariff structure, for nearly a century of US data. The results show that the average tariff understates the TRI by about 75 percent. The static deadweight loss from US tariffs is about 1 percent of GDP after the Civil War, but falls almost continuously thereafter to less than one-tenth of 1 percent of GDP. Import duties produced an average welfare loss of 40 cents for every dollar of revenue, slightly higher than contemporary estimates of the marginal cost of taxation. (JEL F13, N71, N72)

The Price of Gasoline and New Vehicle Fuel Economy: Evidence from Monthly Sales Data

- American Economic Journal: Economic Policy---2010---Thomas Klier,Joshua Linn

This paper uses a unique dataset of monthly new vehicle sales by detailed model from 1978 to 2007, and implements a new identification strategy to estimate the effect of the price of gasoline on individual vehicle model sales. We control for unobserved vehicle and consumer characteristics by using within model year changes in the price of gasoline and sales. We find a

significant sales response, suggesting that the gasoline price increase from 2002 to 2007 explains nearly half of the decline in market share of US manufacturers. On the other hand, an increase in the gasoline tax would only modestly raise average fuel economy. (JEL H25, L11, L62, L71)

Dynamic Commitment and the Soft Budget Constraint: An Empirical Test

- American Economic Journal: Economic Policy---2010---Per Pettersson-Lidbom

This paper develops an empirical framework for the problem of soft budgets which is explicitly based on a dynamic commitment problem, i.e., the inability of a supporting organization to commit itself not to extend more resources ex post to a budget-constrained organization than it was prepared to provide ex ante. Swedish local governments are used as a testing ground since the central government distributed a large number of fiscal transfers. The estimated soft-budget effect is economically significant: on average, a local government increases its debt by more than 20 percent by going from a hard to a soft budget constraint. (JEL D82, G32, L32)

Do Taxpayers Bunch at Kink Points?

- American Economic Journal: Economic Policy---2010---Emmanuel Saez

This paper uses tax return data to analyze bunching at the kink points of the US income tax schedule. We estimate the compensated elasticity of reported income with respect to (one minus) the marginal tax rate using bunching evidence. We find clear evidence of bunching around the first kink point of the Earned Income Tax Credit but concentrated solely among the self-employed. A simple tax evasion model can account for those results. We find evidence of bunching at the threshold of the first income tax bracket where tax liability starts but no evidence of bunching at any other kink point. (JEL H23, H24, H26)

Front Matter and Editor's Note

- American Economic Journal: Economic Policy---2010---Alan Auerbach

Public Provision of Private Goods and Nondistortionary Marginal Tax Rates

- American Economic Journal: Economic Policy---2010---Sören Blomquist,Vidar Christiansen,Luca Micheletto

Using an optimal taxation model combined with a previously neglected scheme of public provision of private goods, we show that there is an efficiency gain if public provision of selected goods replaces market purchases and that efficiency requires marginal income tax rates to be higher than if the goods were purchased in the market. Part of the marginal tax serves the same role as a market price and conveys information about a real social cost of working more hours. It might be that economies with higher marginal tax rates have less severe distortions than economies with lower marginal tax rates. (JEL H21, H42, I38)

A Greater Price for a Greater Good? Evidence That Consumers Pay More for Charity-Linked Products

- American Economic Journal: Economic Policy---2010---Daniel W. Elfenbein,Brian McManus

To study whether consumers will pay more for products that generate charitable donations, we analyze data from eBay on charity and noncharity auctions of otherwise identical products. Charity prices are 6 percent higher, on average, than noncharity prices. Bids below the closing price are also higher, as are bids by individuals bidding on identical charity and noncharity products. Bidders appear to value charity revenue at least partially as a public good, as they submit bids earlier in charity auctions, stimulating other bidders to bid more aggressively. Our results help explain why firms may pledge charitable donations, green production, or similar activities. (JEL D12, D44, D64, L81, M14, M31)

The Micro-geography of Tax Avoidance: Evidence from Littered Cigarette Packs in Chicago

- American Economic Journal: Economic Policy---2010---David Merriman

The large tax differentials between Chicago and neighboring jurisdictions provide an incentive for cigarette tax avoidance. Data from a random sample of cigarette packs littered in Chicago reveals a startling degree of tax avoidance: three-quarters did not display a Chicago tax stamp. Also, the \$2.68 difference between the tax in Chicago and surrounding counties decreases the probability of a local stamp by almost 60 percent, and a one mile increase in distance to the lower-tax state border increases the probability a pack of a local stamp by about one percent. These results are consistent with the predictions of economic theory. (JEL H25, H26, H71)

Optimal Taxation and Social Insurance with Endogenous Private Insurance

- American Economic Journal: Economic Policy---2010---Raj Chetty, Emmanuel Saez

We characterize welfare gains from government intervention when the private sector provides partial insurance. We analyze models in which adverse selection, pre-existing information, or imperfect optimization create a role for government intervention. We derive formulas that map existing empirical estimates into quantitative predictions for optimal policy. When private insurance generates moral hazard, standard formulas for optimal government insurance must be modified to account for fiscal externalities. In contrast, standard formulas are unaffected by "informal" private insurance that does not generate moral hazard. Applications to health and unemployment show that formal private market insurance can significantly reduce optimal government benefit rates. (JEL D82, G22, H21, H23, J65)

Are Tax Incentives for Charitable Giving Efficient? Evidence from France

- American Economic Journal: Economic Policy---2010---Gabrielle Fack, Camille Landais

This paper estimates the effect of tax incentives for charitable contributions in France. We focus on two reforms that increased the nonrefundable tax credit rate for charitable contributions by 32 percent. We use a difference-in-difference identification, comparing the evolution of contributions for groups of households with similar income, but different taxable status due to differences in family size. We control for censoring issues and investigate distributional effects using a three-step censored quantile regression estimator. We find that the price elasticity of contributions is relatively small, but tends to increase with the level of gifts. (JEL D14, D64, H24)

The First of the Month Effect: Consumer Behavior and Store Responses

- American Economic Journal: Economic Policy---2010---Justine Hastings, Ebonya Washington

Previous research has demonstrated that benefit recipients decrease expenditures on, and consumption of, food throughout the benefit month. Using detailed grocery store scanner data, we ask two questions: whether cycling is due to a desire for variety that leads to within-month substitution across product quality, and whether cycling is driven by countercyclical retail pricing. We find that the decrease in food expenditures is largely driven by reductions in quantity, not quality, and that prices for foods purchased by benefit households vary pro-cyclically with demand, implying that households could save money by delaying their food purchases until later in the month. (JEL D12, I38)

Child Benefit Support and Method of Payment: Evidence from a Randomized Experiment in Belgium

- American Economic Journal: Economic Policy---2010---Marieke Huysentruyt, Eva Lefevere

We examine the effects of information and information presentation format on individuals' choice of payment method in a large randomized experiment carried out with the Belgian National Office for Family Benefits. We find that a one-time mailing providing information about method of payment for child benefit support caused a fourfold increase in parents' decision to switch from payment by check to electronic payment. Simple, low-cost supplements significantly raised people's responsiveness to the mailing. Our results suggest that complexity and information (processing) costs pose significant barriers to transitioning to electronic payment methods, and that deliberate efforts to lower these costs can contribute to large behavioral changes. (JEL D83, J13)

Estimating the Effect of Student Aid on College Enrollment: Evidence from a Government Grant Policy Reform

- American Economic Journal: Economic Policy---2010---Helena Nielsen,Torben Sørensen,Christopher Taber

In this paper, we estimate the response of college enrollment to changes in student aid arising from a Danish reform. We separately identify the effect of aid from that of other observed and unobserved variables such as parental income. We exploit the combination of a kinked aid scheme and a reform to identify the effect of direct costs on enrollment. To allow for potential biases due to borrowing constraints, we use detailed information on parents' assets. We find that enrollment is less responsive than found in other studies and that borrowing constraints only deter college enrollment to a minor extent. (JEL H52, I22, I23)

Pitfalls of Participatory Programs: Evidence from a Randomized Evaluation in Education in India

- American Economic Journal: Economic Policy---2010---Abhijit V. Banerjee,Rukmini Banerji,Esther Dufo,Rachel Glennerster,Stuti Khemani

Participation of beneficiaries in the monitoring of public services is increasingly seen as a key to improving their quality. We conducted a randomized evaluation of three interventions to encourage beneficiaries' participation to India: providing information on existing institutions, training community members in a testing tool for children, and training volunteers to hold remedial reading camps. These interventions had no impact on community involvement, teacher effort, or learning outcomes inside the school. However, in the third intervention, youth volunteered to teach camps, and children who attended substantially improved their reading skills. This suggests that citizens face constraints in influencing public services. (JEL H52, I21, I28, O15)

Tagging and Income Taxation: Theory and an Application

- American Economic Journal: Economic Policy---2010---Helmuth Cremer,Firouz Gahvari,Jean-Marie Lozachmeur

We derive a set of analytical results for optimal income taxation with tags using quasilinear preferences and a Rawlsian social welfare function. Secondly, assuming a constant elasticity of labor supply and log-normality of the skills distribution, we analytically identify the winners and losers of tagging. Third, we prove that if the skills distribution in one group first-order stochastically dominates the other, tagging calls for redistribution from the former to the latter group. Finally, we calibrate our model to the US workers using gender as tag. Welfare implications are dramatic. Only male high-wage earners lose. Everyone else gains, some substantially. (JEL H21, H23, H24)

Input Constraints and the Efficiency of Entry: Lessons from Cardiac Surgery

- American Economic Journal: Economic Policy---2010---David M. Cutler,Robert Huckman,Jonathan T. Kolstad

Prior studies suggest that with elastically supplied inputs free entry may lead to an inefficiently high

number of firms in equilibrium. Under input scarcity, however, the welfare loss from free entry is reduced. Further, free entry may increase use of high-quality inputs, as oligopolistic firms underuse these inputs when entry is constrained. We assess these predictions by examining how the 1996 repeal of certificate-of-need (CON) legislation in Pennsylvania affected the market for cardiac surgery in the state. We show that entry led to a redistribution of surgeries to higher quality surgeons, and that this entry was approximately welfare neutral. (JEL I11, L13)

Tax Competition for Heterogeneous Firms with Endogenous Entry

- American Economic Journal: Economic Policy---2010---Ronald Davies, Carsten Eckel

This paper models tax competition for mobile firms that are differentiated by their productivities. Because taxes affect the distribution of firms, they affect wages, prices, and the number of firms. From the social planner's perspective, optimal taxes efficiently distribute income between private and public consumption and are harmonized, providing the optimal number of firms. This is not a Nash equilibrium. As is common in such models, equilibrium taxes are inefficiently low. Furthermore, there is no pure strategy equilibrium with equal taxes resulting in too many firms. This illustrates a new distortion from tax competition and a new benefit from harmonization. (JEL H21, H25, H87)

Time Is Money: Choosing between Charitable Activities

- American Economic Journal: Economic Policy---2010---Naomi Feldman

This paper analyzes the impact of a preferential tax-price for monetary donations on the joint decision to donate time (volunteer) and money. The methodological approach takes into account that consumption of each charitable good affects consumption of the other. Using data from a national survey on household charitable giving, the results show that donations of time and money are substitutes. However, a decrease in

the tax-price of monetary donations also has a positive effect on donations of time that acts outside the change in relative prices. This more than offsets the substitution effect leading to an overall positive correlation between the two charitable goods. (JEL D64, H24, H31)

Playing with Fire: Cigarettes, Taxes, and Competition from the Internet

- American Economic Journal: Economic Policy---2010---Austan Goolsbee, Michael Lovenheim, Joel Slemrod

This paper documents the rise of the Internet as a source of state tax-free cigarettes and its impact on taxed sales elasticities. Using data on cigarette tax rates, taxable cigarette sales and individual smoking rates by state from 1980 to 2005 merged with data on Internet penetration, this paper documents that there has been a substantial increase in the sensitivity of taxable cigarette sales to state tax rates that is correlated with the rise of Internet usage within states. The estimates imply that the increased sensitivity from cigarette smuggling over the Internet has lessened the revenue generating potential of cigarette tax increases significantly, although states are still far from the revenue-maximizing tax rates. (JEL D12, H25, H31, H71, L66)

The Optimal Taxation of Height: A Case Study of Utilitarian Income Redistribution

- American Economic Journal: Economic Policy---2010---N. Gregory Mankiw, Matthew Weinzierl

Should the income tax include a credit for short taxpayers and a surcharge for tall ones? The standard utilitarian framework for tax analysis answers this question in the affirmative. Moreover, a plausible parameterization using data on height and wages implies a substantial height tax: a tall person earning \$50,000 should pay \$4,500 more in tax than a short person. One interpretation is that personal attributes correlated with wages should be considered more widely for determining taxes. Alternatively, if policies such as a

height tax are rejected, then the standard utilitarian framework must fail to capture intuitive notions of distributive justice. (JEL D64, H21, H23, H24, J11)

Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence

- American Economic Journal: Economic Policy---2010---Jesse Rothstein

The EITC is intended to encourage work. But EITC-induced increases in labor supply may drive wages down. I simulate the economic incidence of the EITC. In each scenario that I consider, a large portion of low-income single mothers' EITC payments is captured by employers through reduced wages. Workers who are EITC ineligible also see wage declines. By contrast, a traditional Negative Income Tax (NIT) discourages work, and so induces large transfers from employers to their workers. With my preferred parameters, \$1 in EITC spending increases after-tax incomes by \$0.73, while \$1 spent on the NIT yields \$1.39. (JEL H22, H23, H24, H31, J22)