
Literature Report

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Abstract

Deadlines and infrequent monitoring in the dynamic provision of public goods

- Journal of Public Economics---2017---George Georgiadis

We consider a dynamic game of private provision of a discrete public good. In our model, a group of agents contributes to a project over time, which is completed once the cumulative contributions reach a threshold. Provided that this occurs prior to a prespecified deadline, each agent receives a lump-sum payoff. We show that a shorter deadline can induce the agents to raise their efforts, but no matter the length of the deadline, effort provision is inefficient due to the agents' frontloading incentives. Only if the agents do not monitor progress until the deadline are their frontloading incentives eliminated, so by committing to a deadline equal to the first-best completion time, it is possible to restore efficiency. Recognizing that deadlines are not renegotiation proof, we show that by committing to monitor progress to date at the first-best completion time, and then again at a sufficiently later date, efficiency can be attained. In this case, that monitoring date acts as a self-enforcing deadline.

Information provision and consumer behavior: A natural experiment in billing frequency

- Journal of Public Economics---2017---Casey Wichman

In this study, I estimate a causal effect of increased billing frequency on consumer behavior. I exploit a natural experiment in which residential water customers switched exogenously from bimonthly to monthly billing. Customers increase consumption by 3.5–5% in response to more frequent information. This result is reconciled in models of price and quantity uncertainty, where increases in billing frequency reduce the distortion in consumer perceptions. Using treatment effects as sufficient statistics, I calculate consumer welfare gains equivalent to 0.5–1% of annual water expenditures. Heterogeneous treatment effects suggest increases in outdoor water use.

From gallons to miles: A disaggregate analysis of automobile travel and externality taxes

- Journal of Public Economics---2017---Ashley Langer, Vikram Maheshri, Clifford Winston

Policymakers have prioritized increasing highway revenues as rising fuel economy and a fixed federal gasoline tax have led to highway funding deficits. We use a novel disaggregate sample of motorists to estimate the

effect of the price of a vehicle mile traveled on VMT, and we provide the first national assessment of VMT and gasoline taxes that are designed to raise a given amount of revenue. We find that a VMT tax dominates a gasoline tax on efficiency, distributional, and political grounds when policymakers enact independent fuel economy policies and when the VMT tax is differentiated with externalities imposed per mile.

Are bureaucrats paid like CEOs? Performance compensation and turnover of top civil servants

- Journal of Public Economics---2017---Benny Geys, Tom-Reiel Heggedal, Rune J. Sørensen

Recent research explores the effect of financial and career incentives on public-sector hiring processes and subsequent performance. The reverse relation between performance and bureaucrats' compensation and turnover has received only limited attention. Due to the distinct features of public-sector organizations, bureaucrats are traditionally argued to require either permanent positions and fixed wages, or low-powered performance incentives. This article studies how the performance of top civil servants in Norwegian local governments affects their compensation and turnover. We thereby build on a unique new dataset over the period 1991–2014. Our results indicate that better performing top civil servants obtain a higher compensation and are less likely to be replaced. Nonetheless, these incentives remain low-powered in line with agency theory prescriptions.

Protests and trust in the state: Evidence from African countries

- Journal of Public Economics---2017---Marc Sangnier, Yanos Zylberberg

This paper provides empirical evidence that, after protests, citizens substantially revise their views on the current leader, but also their trust in the country's institutions. The empirical strategy exploits variation in the timing of an individual level survey and the proximity to social protests in 13 African countries. First, we find that trust in political leaders strongly

and abruptly decreases after protests. Second, trust in the country monitoring institutions plunges as well. Both effects are much stronger when protests are repressed by the government. As no signs of distrust are recorded even a couple of days before the social conflicts, protests can be interpreted as sudden signals sent on a leaders' actions from which citizens extract information on their country fundamentals.

Immobilizing corporate income shifting: Should it be safe to strip in the harbor?

- Journal of Public Economics---2017---Thomas A. Gresik, Dirk Schindler, Guttorm Schjelderup

Many subsidiaries can deduct interest payments on internal debt from their taxable income. By issuing internal debt from a tax haven, multinationals can shift income out of host countries through the interest rates they charge and the amount of internal debt they issue. We show that, from a welfare perspective, thin capitalization rules that restrict the amount of debt for which interest is tax deductible (safe harbor rules) are inferior to rules that limit the ratio of debt interest to pre-tax earnings (earnings stripping rules), even if a safe harbor rule is used in conjunction with an earnings stripping rule.

Why not consider that being absolutely poor is worse than being only relatively poor?

- Journal of Public Economics---2017---Benoît Decerf

No current strategy to measure income poverty is able to (i) account for both its absolute and relative aspects and (ii) always consider that an individual who is absolutely poor is poorer than another individual who is only relatively poor. I propose a measure of income poverty satisfying (i) and (ii). Unlike alternative proposals satisfying (i), a decrease in a poor individual's income never reduces this measure. An application illustrates that the measure yields intuitive judgments about unequal growth experiences, for which all absolute (resp. relative) poverty measures systematically conclude that poverty has decreased (resp. increased).

Institutional constraints and the inefficiency in public investments

- Journal of Public Economics---2017---Leyla D. Karakas

This paper studies limits on executive authority by identifying a dynamic channel through which they interact with policy-making. The model features two agents, one of which becomes the incumbent in each of the two periods and unilaterally decides on investment in a common-interest public good, targeted pork spending and the future executive constraint. While a weak constraint permits an incumbent to enact his desired policies in case of re-election, the same applies to his opponent in the opposite scenario. However, this trade-off changes with the level of the public good, because the agents' shared investment interest dominates their conflict over pork spending to a lesser extent as the efficiency gains from investing get exhausted. In equilibrium, more efficient states of the public good are associated with tighter executive constraints. Despite the fact that agents share the same preferences over public good consumption, equilibrium public good provision is inefficient. Moreover, this inefficiency worsens as the incumbent's re-election chances deteriorate. These findings shed light on why incumbents facing similar electoral environments make different institutional choices.

The effect of age-targeted tax credits on labor force participation of older workers

- Journal of Public Economics---2017---Lisa Laun

I analyze the effect of income tax policy changes on labor force participation of older workers. I exploit two age-targeted policy initiatives to promote work at older ages simultaneously implemented in Sweden in 2007: an earned income tax credit and a payroll tax credit for workers above age 65. Using an age-based discontinuity in eligibility criteria, I conduct a difference-in-differences analysis with the reform as an instrument for the net-of-tax rate. I find a participation elasticity with respect to the net-of-participation-tax rate of

about 0.22 in the year following the 65th birthday for individuals who were working four years earlier.

Local governance and the quality of local infrastructure: Evidence from village road projects in rural China

- Journal of Public Economics---2017---Ho Lun Wong, Yu Wang, Renfu Luo, Linxiu Zhang, Scott Rozelle

Research has shown that allowing local communities to elect their own leaders increases local infrastructure investment. However, much less is known about the effects of local governance reform on the quality of local infrastructure. This paper examines the effects of governance reform implemented in rural Chinese villages on the quality of village road projects. We conduct surveys in 101 rural villages and collect data related to the implementation of the reform over the last two decades. We also measure the quality of over 550 village road projects completed in these villages. Using fixed effects and instrumental variable estimation methods, we find that the implementation of village governance reform increases the quality of village road projects. We also find evidence supporting the following effect mechanisms: (1) village leaders become younger and more educated, (2) high quality road projects increase incumbent leaders' re-election chances, and (3) village residents participate more actively in the management and monitoring of village road projects.

Optimal tax administration

- Journal of Public Economics---2017---Michael Keen, Joel Slemrod

This paper sets out a framework for analyzing optimal interventions by a tax administration, one that parallels and can be closely integrated with established frameworks for thinking about optimal tax policy. Its key contribution is the development of a summary measure of the impact of administrative interventions—the “enforcement elasticity of tax revenue”—that is a sufficient statistic for the behavioral response to such interventions, much as the elasticity of taxable income

serves as a sufficient statistic for the response to tax rates. Among the applications are characterizations of the optimal balance between policy and administrative measures, and of the optimal compliance gap.

Turf wars

- Journal of Public Economics---2017---Helios Herrera,Ernesto Reuben,Michael M. Ting

Turf wars in organizations commonly occur in environments where competition undermines collaboration. We develop a game theoretic model and experimental test of turf wars. The model explores how team production incentives ex post affect team formation decisions ex ante. In the game, one agent decides whether to share jurisdiction over a project with other agents. Agents with jurisdiction decide whether to exert effort and receive a reward based on their relative performance. Hence, sharing can increase joint production but introduces competition for the reward. We find that collaboration has a non-monotonic relationship with both productivity and rewards. The laboratory experiment confirms the model's main predictions.

The effects of test-based retention on student outcomes over time: Regression discontinuity evidence from Florida

- Journal of Public Economics---2017---Guido Schwerdt,Martin R. West,Marcus A. Winters

Many American states require that students lacking basic reading proficiency after third grade be retained and remediated. We exploit a discontinuity in retention probabilities under Florida's test-based promotion policy to study its effects on student outcomes through high school. We find large positive effects on achievement that fade out entirely when retained students are compared to their same-age peers, but remain substantial through grade 10 when compared to students in the same grade. Being retained in third grade due to missing the promotion standard increases students' grade point averages and leads them to take fewer remedial courses in high school but has no effect on their probability of graduating.

Regulatory protective measures and risky behavior: Evidence from ice hockey

- Journal of Public Economics---2017---Alberto Chong,Pascual Restrepo

We provide evidence supporting the Peltzman effect, by which individuals required to wear protective gear end up taking additional risks that potentially offset the intended aim of the device. We take advantage of the fact that wearing a visor—a protective device in Ice Hockey—is mandatory in European, minor, and junior leagues but not in the NHL. This allows us to estimate the impact of wearing a visor by comparing the behavior in the NHL and other leagues of players who always wear a visor with that of players who wear one only when it is required. We find that when players are forced to wear a visor their behavior becomes more risky, earning an additional 0.19 penalty in minutes per game (compared to the average 1.14 penalty in minutes in our sample). We estimate an even larger effect of visors when we focus on players who were forced to use one during the 2004 season, when the NHL canceled its regular season and players had to move to European leagues temporarily. These estimates are not driven by players' observable attributes, playing style, or other differences across leagues.

Uncertain altruism and the provision of long term care

- Journal of Public Economics---2017---Helmuth Cremer,Firouz Gahvari,Pierre Pestieau

When family assistance is uncertain, benefits cannot be conditioned on family aid. We study the role of private and public LTC insurance in this environment and compare the properties and optimality of the topping up versus opting out public insurance schemes. Under topping up, the required LTC is less than full insurance and should be provided publicly unless private insurance market for dependency is fair. With an opting out scheme, there will be three possible equilibria depending on the children's degree of altruism. These imply: full LTC insurance with no aid from children, less than full insurance just enough to induce aid, and

full insurance with aid. Fair private insurance can support only the first equilibrium. Opting out policies are self-targeted and dominate topping up schemes when the degree of children's altruism is sufficiently large. However, when the degree of altruism is small the dominance goes in the opposite direction.

The response of deferred executive compensation to changes in tax rates

- Journal of Public Economics---2017---Aspen Gorry, Kevin A. Hassett, R. Glenn Hubbard, Aparna Mathur

Given the increasing use of stock options in executive compensation, we examine how taxes influence the choice of compensation and document that income deferral is an important margin of adjustment in response to tax rate changes. To account for this option in the empirical analysis, we explore deferral by estimating how executives' choice of compensation between current and deferred income depends on changes in tax policy. Our empirical results suggest a significant impact of taxes on the composition of executive compensation.

The elasticity of taxable income in the presence of deduction possibilities

- Journal of Public Economics---2017---Philipp Dörrenberg, Andreas Peichl, Sebastian Sieglöcher

Several recent studies show that the elasticity of taxable income (ETI) is not a sufficient statistic for the welfare costs of taxation due to factors such as tax-base shifting. This paper provides an additional argument demonstrating the non-sufficiency of the ETI, namely tax deductions. Building on a theoretical framework which incorporates deductions in a standard optimal-tax model, we show that the ETI is not sufficient for welfare analysis if (i) deductions generate externalities and if (ii) deductions are responsive to tax-rate changes. While the first condition should arguably hold true for the majority of tax deductions, we provide an empirical examination of the second condition. Relying on rich German panel data from administrative tax records, we

exploit several tax reforms that were implemented in Germany between 2001 and 2008. Our main estimates indicate an overall ETI between 0.54 and 0.68 and an elasticity of deductions with respect to the net-of-tax rate of about 0.9. These results suggest that the ETI is not sufficient to calculate the welfare cost of taxation.

Cross-country evidence on the relation between capital gains taxes, risk, and expected returns

- Journal of Public Economics---2017---Luzi Hail, Stephanie Sikes, Clare Wang

This study empirically examines the role of risk sharing between taxable investors and the government on the relation between capital gains taxes and expected returns. Specifically, using an international panel from 26 countries over the period 1990 to 2004, we find evidence that the general positive relation between capital gains taxes and expected returns becomes weaker or even reverses when (i) a firm's systematic risk is high, (ii) the market risk premium is high, or (iii) the risk-free rate is low. The results are particularly pronounced in countries with substantive changes in tax rates, more trust in government institutions, less integrated and less liquid capital markets, and lower foreign institutional ownership as well as around substantive increases and decreases in the risk parameters. We corroborate our findings in a single country setting, using the 1978, 1997, and 2003 capital gains tax rate changes in the United States as events. Our results underscore the importance of macroeconomic and firm-specific factors in determining the effect of tax capitalization, and suggest that tax rate changes can sometimes have opposite valuation implications than what policymakers have in mind.

Do dividend taxes affect corporate investment?

- Journal of Public Economics---2017---Annette Alstadsæter, Martin Jacob, Roni Michaely

We test whether dividend taxes affect corporate investments. We exploit Sweden's 2006 dividend tax cut of 10 percentage points for closely held corporations and

5 percentage points for widely held corporations. Using rich administrative panel data and triple-difference estimators, we find that this dividend tax cut does not affect aggregate investment but that it affects the allocation of corporate investment. Cash-constrained firms increase investment after the dividend tax cut relative to cash-rich firms. Reallocation is stronger among closely held firms that experience a larger tax cut. This result is explained by higher external equity in cash-constrained firms and by higher dividends in cash-rich firms after the tax cut.

Does front-loading taxation increase savings? Evidence from Roth 401(k) introductions

- Journal of Public Economics---2017---John Beshears,James Choi,David Laibson,Brigitte Madrian

Can governments increase private savings by taxing savings up front instead of in retirement? Roth 401(k) contributions are not tax-deductible in the contribution year, but withdrawals in retirement are untaxed. The more common before-tax 401(k) contribution is tax-deductible in the contribution year, but both principal and investment earnings are taxed upon withdrawal. Using administrative data from eleven companies that added a Roth contribution option to their existing 401(k) plan between 2006 and 2010, we find no evidence that total 401(k) contribution rates differ between employees hired before versus after Roth introduction, which implies that take-home pay declines and the amount of retirement consumption being purchased by 401(k) contributions increases after Roth introduction. We reject several neoclassical explanations for our null finding. Results from a survey experiment suggest two behavioral explanations: (1) employee confusion about and neglect of the tax properties of Roth balances and (2) partition dependence.

Do Required Minimum Distribution Rules Matter? The Effect of the 2009 Holiday on Retirement Plan Distributions

- Journal of Public Economics---2017---Jeffrey Brown,James Poterba,David P. Richardson

This paper investigates how the one-year suspension in 2009 of the Required Minimum Distribution (RMD) rules associated with qualified retirement plans affected the distribution elections of participants at a large retirement services provider. Roughly one third of those who were affected by the RMD rules in 2008 discontinued their distributions in 2009. The suspension probabilities of those for whom 2008 distributions equaled the RMD amount, a plausible indication that the RMD rules were a binding constraint, were not very different from the corresponding probabilities of those for whom 2008 distributions exceeded the RMD amount. Participants who died within six years of the distribution holiday were less likely to suspend than those who were still alive in late 2015, suggesting that RMD rules are more likely to bind for those with longer retirement horizons. The probability of suspension declined substantially with age and rose modestly with financial resources. Individuals taking monthly distributions were less likely to suspend distributions than those taking annual distributions, particularly at higher wealth levels, perhaps because they use their distributions to finance monthly consumption. The findings offer insights on the relationship between participant attributes and distribution behavior, bear on the choice between competing models of saver behavior, and provide some evidence on the revenue consequences of changing RMD rules.

Voluntary disclosure of evaded taxes — Increasing revenue, or increasing incentives to evade?

- Journal of Public Economics---2017---Dominika Langenmayr

Many countries apply lower fines to tax evading individuals when they voluntarily disclose the tax evasion they committed. I model such voluntary disclosure mechanisms theoretically and show that while such mechanisms increase the incentive to evade taxes, they nevertheless increase tax revenues net of administrative costs. I confirm the importance of administrative costs in a survey of German competent local tax authorities. I then test the effects of voluntary disclosure

on the tax evasion decision, using the introduction of the 2009 offshore voluntary disclosure program in the U.S. for identification. The analysis confirms that the introduction of voluntary disclosure increases tax evasion.

Growth and inequality in public good provision

- Journal of Public Economics---2017---Simon Gächter,Friederike Mengel,Elias Tsakas,Alexander Vostroknutov

In a novel experimental design, we study public good games with dynamic interdependencies, where each agent's wealth at the end of period t serves as her endowment in $t+1$. In this setting, growth and inequality arise endogenously allowing us to address new questions regarding their interplay and effect on cooperation. We find that amounts contributed are increasing over time even in the absence of punishment possibilities. Variation in wealth is substantial with the richest groups earning more than ten times what the poorest groups earn. Introducing the possibility of punishment does not increase wealth and in some cases even decreases it. In the presence of a punishment option, inequality in early periods is strongly negatively correlated with group income in later periods, highlighting negative interaction effects between endogenous inequality and punishment.

The general equilibrium impacts of unemployment insurance: Evidence from a large online job board

- Journal of Public Economics---2017---Ioana Marinescu

During the Great Recession, U.S. unemployment benefits were extended by up to 73 weeks. Theory predicts that extensions increase unemployment by discouraging job search, a partial equilibrium effect. Using data from the large job board CareerBuilder.com, I find that a 10% increase in benefit duration decreased state-level job applications by 1%, but had no robust effect on job vacancies. Job seekers thus faced reduced competition for jobs, a general equilibrium effect. Calibration

implies that the general equilibrium effect reduces the impact of unemployment insurance on unemployment by 39%.

Using raffles to fund public goods: Lessons from a field experiment

- Journal of Public Economics---2017---Jeffrey Carpenter,Peter Matthews

Despite a long tradition of using lotteries, raffles and similar mechanisms to fund public goods, there has been little systematic study of the design features of these mechanisms and how the resulting incentives affect the level of provision. Partnering with a charity that provides public goods locally, we conducted a field experiment in which participants were randomly assigned to one of four raffle treatments to examine the effectiveness of alternative incentive schemes designed to encourage either participation or "volume." Contrary to theory which anticipates that gains can be made mostly on volume, our results indicate that significant revenue gains are available on both margins. Indeed, the large opportunity cost of using the standard linear raffle (in which the price per chance to win is fixed) that we find suggests the importance of mechanism design when considering the voluntary provision of public goods.

Knowledge, power, and self-interest

- Journal of Public Economics---2017---Bernhard Kittel,Georg Kanitsar,Stefan Traub

The paper reports the results of a laboratory experiment assessing the impact of social position (endowment) and power (structurally advantaged or disadvantaged network positions) on redistributive decisions, which involve a classical efficiency-equality trade-off. The experiment involves three decision conditions: veil of ignorance, informed dictator, and majority vote. We use a three-person social-preference model in order to derive hypotheses on the effect of knowledge and power on tax choices. Our results confirm that disclosing the social position raises the measured self-interest (Knowledge Effect) and that mandating a majority vote

results in concessions, the size of which depends on the player's structural position in the network (Power Effect).

The effectiveness of incomplete and overlapping pollution regulation: Evidence from bans on phosphate in automatic dishwasher detergent

- Journal of Public Economics---2017---Alex Cohen,David A. Keiser

This paper examines the effectiveness of command-and-control policies in the presence of incomplete and overlapping regulations. We study how recent bans on phosphate in household dishwasher detergent affect pollution loads to waterways, costs at wastewater treatment facilities, and consumer behavior. We show that the effectiveness of the bans in reducing effluent depends critically on regulations at receiving treatment facilities. As cost minimizers, facilities with an emissions standard on phosphorus face no incentive to deviate from the standard. We show that bans have weak effects on effluent, especially in the most polluted waterways. We also use an early, isolated ban in Spokane, Washington to study the effect of the bans on consumers. We find that this ban shifted approximately 40% of dishwasher detergent sales from Spokane to bordering counties until a state-wide ban was implemented. Using these estimates, we find that the welfare loss to consumers from recent bans is likely greater than the cost-savings to treatment plants.

The value of socialized medicine: The impact of universal primary healthcare provision on mortality rates in Turkey

- Journal of Public Economics---2017---Resul Cesur,Pinar Gunes,Erdal Tekin,Aydogan Ulker

This paper examines the impact of universal, free, and easily accessible primary healthcare on population health as measured by age-specific mortality rates, focusing on a nationwide socialized medicine program implemented in Turkey. The Family Medicine Program (FMP), launched in 2005, assigns each Turkish citizen to a specific state-employed family physician

who offers a wide range of primary healthcare services that are free-of-charge. Furthermore, these services are provided at family health centers, which operate on a walk-in basis and are located within neighborhoods in close proximity to the patients. To identify the causal impact of the FMP, we exploit the variation in its introduction across provinces and over time. Our estimates indicate that the FMP caused the mortality rate to decrease by 25.6% among infants, 7.7% among the elderly, and 22.9% among children ages 1–4. These estimates translate into 2.6, 1.29, and 0.13 fewer deaths among infants, the elderly, and children ages 1–4, respectively. Furthermore, the effects appear to strengthen over time. We also show evidence to suggest that the FMP has contributed to an equalization of mortality across provinces. Finally, our calculations indicate that each family physician saves about 0.15, 0.46, and 0.005 lives among infants, the elderly, and children ages 1–4 per province every year.

Does credit-card information reporting improve small-business tax compliance?

- Journal of Public Economics---2017---Joel Slemrod,Brett Collins,Jeffrey L. Hoopes,Daniel Reck,Michael Sebastiani

We investigate the response of small businesses operating as sole proprietorships to Form 1099-K, an information report introduced in 2011 which provides the Internal Revenue Service with information about electronic sales (e.g., credit card sales). The overall impact of the policy appears to be relatively small. However, theory and distributional analysis isolates a subset of taxpayers expected to be especially sensitive to reporting, who report receipts equal to or slightly exceeding the receipts reported on 1099-K. Among this set of taxpayers, information reporting induced more complete tax reporting—30% of sensitive taxpayers filed a return declaring business income for the first time, and among those that were already filing, we estimate an increase in reported receipts by up to 24%. These taxpayers largely offset increased reported receipts with increased reported expenses, which do not face information reporting, diminishing the impact on reported

net taxable income.

The effect of expanding Medicaid eligibility on Supplemental Security Income program participation

- Journal of Public Economics---2017---Marguerite Burns,Laura Dague

Low-income adults without dependent children have historically had few paths to obtain public health insurance unless they qualified for Supplemental Security Income (SSI) cash benefits because of a disability. However, in states that expand their Medicaid programs, childless adults may obtain Medicaid without undergoing an intensive SSI disability review process and with substantially higher income and assets than the SSI program allows. This expanded availability of Medicaid coverage, independent of SSI participation, creates an opportunity to increase earnings and savings without jeopardizing health insurance coverage. In this paper, we use the natural experiments created by state decisions to expand Medicaid to nondisabled, nonelderly adults without dependent children to study the effect of decoupling Medicaid eligibility and cash assistance using a difference-in-differences study design. We collected data on the income eligibility limits, enrollment caps, and coverage characteristics of state Medicaid expansions to childless adults from 2001 to 2013. We combine these data with the nationally representative American Community Survey to estimate the effects of state expansion on SSI participation. We find relative declines in SSI participation of 0.17 percentage points on average after the introduction of Medicaid coverage for childless adults, a 7% relative decrease. This finding suggests the potential for small but important efficiency gains from separating SSI and Medicaid eligibility.

Robust policies to mitigate carbon leakage

- Journal of Public Economics---2017---Christoph Böhringer,Knut Einar Rosendahl,Halvor Briseid Storrøsten

Unilateral climate policy induces carbon leakage

through the relocation of emission-intensive and trade-exposed industries to regions without emission regulation. Previous studies suggest that emission pricing combined with border carbon adjustment is a second-best instrument, and more cost-effective than output-based rebating. We show that the combination of output-based rebating and a consumption tax for emission-intensive and trade-exposed goods can be equivalent with border carbon adjustment. Moreover, it is welfare improving for a region that implements emission pricing along with output-based rebating to introduce such a consumption tax. The welfare gain is particularly large if output-based rebating is already implemented for a sector that is not much exposed to leakage, e.g., due to uncertainty about exposure or due to lobbying activities. Thus, supplementing output-based rebating with a consumption tax constitutes robust policies to mitigate carbon leakage.

Insurance design in the presence of safety nets

- Journal of Public Economics---2017---Tse-Ling Teh

Safety net assistance and insurance exist to manage risk and improve welfare. This shared goal may lead to crowding out. In a new approach, this paper analyzes the interaction of assistance with two dimensions of insurance design: level of coverage and types of risks covered. In a society of risk averse vulnerable individuals and risk neutral assistance providers, Pareto improvements in welfare are achieved through incompleteness in the types of risks covered. The results imply that safety nets promote demand for and the emergence of incomplete insurance. These results have a wide application to insurance markets where safety nets are available, including health care, disaster aid and social welfare.

Robust mechanism design and social preferences

- Journal of Public Economics---2017---Felix Bierbrauer,Axel Ockenfels,Andreas Pollak,Désirée Rückert

We study two classic challenges in mechanism design – bilateral trade à la Myerson and Satterthwaite (1983) and redistributive income taxation à la Mirrlees (1971) and Piketty (1993) – to show that some standard mechanism design solutions systematically fail with social preferences. We therefore introduce the notion of a social-preference-robust mechanism which works not only for selfish but also for social preferences of different nature and intensity, and characterize the optimal mechanism for this class. With the help of a series of laboratory experiments we find that behavior can indeed be better controlled with social-preference-robust mechanisms.

Profit shifting of U.S. multinationals

- Journal of Public Economics---2017---Tim Dowd,Paul Landefeld,Anne Moore

We analyze the profit shifting behavior of U.S. multinational firms using a unique panel data set of U.S. tax returns over the period 2002–2012. Prior research has found significant effects of tax rates in affiliate and parent countries on the profit shifting behavior of multinational entities, with semi-elasticities ranging from close to zero to well above one. We build on this prior work by allowing more heterogeneity in response across the distribution of tax rates and by including affiliates located in tax havens around the world. Our findings suggest that elasticities based on a log-linear specification may severely understate the sensitivity of profits to tax in low-tax jurisdictions while simultaneously overstating this elasticity in high-tax jurisdictions. Accounting for this type of nonlinearity appears crucial in considering how the global allocation of firm profits might change in response to tax rate changes.

The behavioralist as tax collector: Using natural field experiments to enhance tax compliance

- Journal of Public Economics---2017---Michael Hallsworth,John List,Robert Metcalfe,Ivo Vlaev

This paper presents results from two large-scale natural field experiments that tested the effect of social norm

messages on tax compliance. Using administrative data from >200,000 individuals in the United Kingdom, we show that including social norm messages in standard reminder letters increases payment rates for overdue tax. This result offers a rare example of social norm messages affecting tax compliance behavior in a real world setting. We find no evidence that loss framing is more effective than gain framing. Descriptive norms appear to be more effective than injunctive norms. Messages referring to public services or financial information also significantly increased payment rates. The field experiments accelerated the collection of tax revenue at little cost.

Matching donations without crowding out?

Some theoretical considerations, a field, and a lab experiment

- Journal of Public Economics---2017---Maja Adena,Steffen Huck

Is there a way of matching donations that avoids crowding out? We introduce a novel matching method where the matched amount is allocated to a different project, present some simple theoretical considerations that predict reduced crowding out or crowding in (depending on the degree of substitutability between the two projects) and present evidence from a large-scale natural field experiment and a laboratory experiment. Similar to findings in the literature, conventional matching for the same project results in partial crowding out in the field experiment and, as predicted, crowding out is reduced under the novel matching scheme. The lab experiment provides more fine-tuned evidence for the change in crowding and yields further support for the theory: the novel matching method works best when the two projects are complements rather than substitutes.

Why weak patents? Testing the examiner ignorance hypothesis

- Journal of Public Economics---2017---Zhen Lei,Brian Wright

There is a widespread impression, reflected in recent legislation, that US Patent Office examiners issue many

patents of dubious validity, and are insufficiently informed to distinguish these from other valid applications. We address this issue using related application outcomes at the European Patent Office as indicators for patent weakness. We create a proxy for potentially citable prior art using latent semantic analysis of US patent documents, and use this to construct a measure of examiner search effort. We find that US examiners tend to devote more search effort to weaker patents, implying that they can identify a substantial portion of the weak patents that they issue. Why the patent system fails to make better use of examiners' ability to identify weak patents is a question that merits further investigation.

Pension-spiking, free-riding, and the effects of pension reform on teachers' earnings

- Journal of Public Economics---2017---Maria Fitzpatrick

In many states, local school districts are responsible for setting the earnings that determines the size of pensions, but are not required to make contributions to cover the resulting state pension fund liabilities. In this paper, I document evidence that this intergovernmental incentive inherent in public sector defined benefit pension systems distorts the amount and timing of income for public school teachers. I use the introduction of a policy that required experience-rating on earnings increases above a certain limit in a differences-in-differences framework to identify whether districts are willing to pay the full costs of their earnings promises. Because of the design of the policy, overall earnings of teachers near retirement did not change. Instead, districts that previously provided one-time pay increases shifted to smaller increments spread out over several years. In addition, some districts that did not practice pension-spiking prior to the reform appear to begin providing payments up to the new, lower limit, perhaps due to increased salience of the fiscal incentive. Therefore, the policy was ineffective at decreasing pension costs.

Teacher performance pay: Experimental evidence from Pakistan

- Journal of Public Economics---2017---Felipe Barrera-Orsorio,Dhushyanth Raju

We present evidence from the first three years of a randomized controlled trial of a government-administered pilot teacher performance pay program in Punjab, Pakistan. The program offers yearly cash bonuses to teachers in a sample of 600 public primary schools with the lowest mean student exam scores in the province. The bonus is linked to the change in the school's average student exam scores, the change in the school's enrollment, and the level of student exam participation in the school. Bonus receipt and size are randomly assigned across schools according to whether or not the teacher is the school's head. The program increases student exam participation rates in the second and third year and increases enrollment in grade 1 in the third year. We do not find that the program increases student exam scores in any year. Mean impacts are similar across program variants. The absence of positive impacts on test scores may be due to weaknesses in the program's incentive structure and/or limitations in the program's administrative data.

The effect of price shocks on undocumented students' college attainment and completion

- Journal of Public Economics---2017---Dylan Conger,Lesley Turner

We examine the effect of a price shock caused by the temporary removal of in-state tuition benefits on the attainment of undocumented immigrants enrolled in a large urban college system using a difference-in-differences identification strategy. The 113% one-semester tuition increase led to an 8% decrease in reenrollment and a similarly-sized reduction in credit accumulation. For students who had been enrolled at least a year prior to the policy change, the price hike caused them to leave college sooner but did not increase their probability of dropping out. Conversely, students who entered college the semester prior to the policy change experienced lasting reductions in attainment,

including a 22% decrease in degree receipt compared to students with more college experience at the time of the price shock. Our results suggest that public subsidies that lower college prices can increase degree completion among resource-constrained students who have made the decision to enroll in college, with larger benefits accruing to those who are early in their college careers.

School segregation and the identification of tipping behavior

- Journal of Public Economics---2017---Gregorio Caetano,Vikram Maheshri

We develop a method to empirically implement the Schelling model of segregation, and use it to study racial segregation in Los Angeles schools from 1995 to 2012. Our two-step method combines the estimation of parents' preferences for their children's peers with a counterfactual simulation analysis. We find substantial heterogeneity in the existence and locations of tipping points and stable equilibria. Schools are observed on equilibrium trajectories, but many remained out of equilibrium by 2012. We also introduce novel instrumental variables to identify preferences for endogenous peer groups that require no additional data and can be used in other educational settings.

The return to labor market mobility: An evaluation of relocation assistance for the unemployed

- Journal of Public Economics---2017---Marco Caliendo,Steffen Künn,Robert Mahlstedt

In many European countries, labor markets are characterized by high regional disparities in terms of unemployment rates on the one hand and low geographical mobility among the unemployed on the other hand. In order to counteract the geographical mismatch of workers, the German active labor market policy offers a subsidy covering moving costs to incentivize unemployed job seekers to search/accept jobs in distant regions. Based on administrative data, this study provides the first empirical evidence on the impact of

this subsidy on participants' prospective labor market outcomes. We use an instrumental variable approach to take endogenous selection based on observed and unobserved characteristics into account when estimating causal treatment effects. We find that unemployed job seekers who participate in the subsidy program and move to a distant region receive higher wages and find more stable jobs compared to non-participants. We show that the positive effects are (to a large extent) the consequence of a better job match due to the increased search radius of participants.

Capital taxation and imperfect competition: ACE vs. CBIT

- Journal of Public Economics---2017---Kurt Brekke,Armando Garcia Pires,Dirk Schindler,Guttorm Schjelderup

This paper compares the Comprehensive Business Income Tax (CBIT) and the Allowance for Corporate Equity tax (ACE) under imperfect competition using an oligopoly Salop model and a monopolistic competition model. A key insight is that the effect of a switch to either tax system depends on technology and the intensity of competition. Both tax systems are distortionary when entry is endogenous. Using the Salop model, we show that ACE (CBIT) tends to improve welfare in decreasing returns (increasing returns) to scale industries, whereas the two regimes are welfare neutral in constant returns to scale industries.

Local labor markets and criminal recidivism

- Journal of Public Economics---2017---Crystal S. Yang

This paper estimates the impact of local labor market conditions on criminal recidivism using administrative prison records on four million offenders released from 43 states between 2000 and 2013. Exploiting the timing of each offender's release from prison, I find that being released to a county with higher low-skilled wages significantly decreases the risk of recidivism. The impact of higher wages on recidivism is larger for both black offenders and first-time offenders, and in sectors that

report being more willing to hire ex-offenders. These results are robust to individual- and county-level controls, such as policing and corrections activity, and do not appear to be driven by changes in the composition of released offenders during good or bad economic times.

Threatening thresholds? The effect of disastrous regime shifts on the non-cooperative use of environmental goods and services

- Journal of Public Economics---2017---Florian Diekert

This paper presents a tractable dynamic game in which agents jointly use a resource. The resource replenishes fully but collapses irreversibly if the total use exceeds a threshold. The threshold is assumed to be constant, but its location may be unknown. Consequently, an experiment to increase the level of safe resource use will only reveal whether the threshold has been crossed or not. If the consequence of crossing the threshold is disastrous (i.e., independent of how far the threshold has been exceeded), it is individually and socially optimal to update beliefs about the threshold's location at most once. The threat of a disastrous regime thereby facilitates coordination on a "cautious equilibrium". If the initial safe level is sufficiently valuable, the equilibrium implies no experimentation and coincides with the first-best resource use. The less valuable the initial safe value, the more the agents will experiment. For sufficiently low initial values, immediate depletion of the resource is the only equilibrium. When the regime shift is not disastrous, but the damage depends on how far threshold has been exceeded, experimentation may be gradual.

Trade in fossil fuel deposits for preservation and strategic action

- Journal of Public Economics---2017---Thomas Eichner, Rüdiger Pethig

In the world economy with interdependent markets for fossil fuel deposits and extracted fossil fuel, some

coalition of countries may fight climate change by purchasing and preserving fossil fuel deposits, which would be exploited otherwise. Assuming that deposits are traded on a market with a uniform price, we find that the outcome is efficient if the coalition is a price taker in both markets, but inefficient if it acts strategically in the deposit market but not in the fuel market, or acts strategically in both markets. The latter result demonstrates that Harstad's (2012, Theorem 1) 'efficiency-despite-strategic-action result' is not robust with respect to changes in the concepts of the deposit market and market (or bargaining) power. In a simplified parametric version of the game, a strategically acting coalition buys fewer deposits, consumes more fuel, and puts up with higher climate damage than in first-best.

The effect of a fiscal squeeze on tax enforcement: Evidence from a natural experiment in China

- Journal of Public Economics---2017---Shawn Xiaoguang Chen

This paper investigates the impact of the abolition of the agricultural taxes in 2005 across China on county governments' incentives for tax enforcement. I show that the revenue loss of county governments was largely offset by tougher tax enforcement. The incentive for VAT enforcement can be weakened, however, if the county: (1) receives a lower share of total VAT revenues; (2) has a broader VAT tax base; or, (3) has more abundant sources of revenue from land sales. These findings suggest that incentives of local governments can be vital to tax enforcement and to the tax capacity of a country.

Expert information and majority decisions

- Journal of Public Economics---2017---Kohei Kawamura, Vasileios Vlaseros

This paper shows experimentally that hearing expert opinions can be a double-edged sword for collective decision making. We present a majoritarian voting game of common interest where committee members receive

not only private information, but also expert information that is more accurate than private information and observed by all members. In theory, there are Bayesian Nash equilibria where the committee members' voting strategy incorporates both types of information and access to expert information enhances the efficiency of the majority decision. However, in the laboratory, expert information had excessive influence on the voting behaviour and prevented efficient aggregation of individual information. We find a large efficiency loss due to the presence of expert information especially when the committee size is large. Using an incentivized questionnaire, we find that many subjects severely underestimate the efficiency gain from information aggregation and they follow expert information much more frequently than efficiency requires. This suggests that those who understand the efficiency gain from information aggregation and perceive the game correctly might nonetheless be "stuck" in an inefficient outcome.

Voting, education, and the Great Gatsby Curve

- Journal of Public Economics---2017---Christopher Rauh

High inequality goes hand in hand with low intergenerational earnings mobility across countries. Little is known about why the US is characterized by high inequality and low mobility, while the opposite tends to hold for Scandinavian countries. In an overlapping generations model, calibrated to the US, education policies are endogenized via probabilistic voting. By exploiting cross-country variation in the bias in voter turnout towards the educated and elderly, the model replicates the negative relation between inequality and public education expenditures and accounts for more than a quarter of the variation in inequality and mobility. For the US, I find that compulsory voting could foster mobility, whereas inequality would be hardly affected.

Does negative advertising affect giving behavior? Evidence from campaign contributions

- Journal of Public Economics---2017---Sarah Niebler, Carly Urban

This paper contributes to a growing literature that explains why individuals contribute to political campaigns. We build a panel dataset that follows contributors from primary to general elections to quantify the persistence of giving in political contests. Those who gave to winning candidates in the primary were most likely to contribute again in the general election. Next, we use an instrumental variable strategy to document that within party negative advertising decreases the probability that individuals contribute to their preferred party in the general election, regardless of whether they initially contributed to a winning or losing primary candidate.

Bunching at the kink: Implications for spending responses to health insurance contracts

- Journal of Public Economics---2017---Liran Einav, Amy Finkelstein, Paul Schrimpf

A large literature in empirical public finance relies on "bunching" to identify a behavioral response to non-linear incentives and to translate this response into an economic object to be used counterfactually. We conduct this type of analysis in the context of prescription drug insurance for the elderly in Medicare Part D, where a kink in the individual's budget set generates substantial bunching in annual drug expenditure around the famous "donut hole." We show that different alternative economic models can match the basic bunching pattern, but have very different quantitative implications for the counterfactual spending response to alternative insurance contracts. These findings illustrate the importance of modeling choices in mapping a compelling reduced form pattern into an economic object of interest.

Happy voters

- Journal of Public Economics---2017---Federica Liberini, Michela Redoano, Eugenio Proto

Empirical models of retrospective voting primarily employ standard monetary and financial indicators to proxy for voters' utility and to explain voters' behavior. We show that subjective well-being explains variation in voting intention that goes beyond what is captured by these monetary and financial indicators. For example, individuals who are satisfied with their life are 1.6% more likely to support the incumbent; by contrast, a 10% increase in family income leads to a 0.18% increase in an individual's support of the incumbent. We use difference-in-differences analysis to identify how voter intention is affected by a negative shock to well-being: the death of a spouse. Individuals who experience the death of a spouse are around 10% less likely than those in the control group to support the incumbent. The results hold even if elected officials' policies (health care, social welfare) cannot reasonably be blamed for the death.

Redistribution and insurance with simple tax instruments

- Journal of Public Economics---2017---Sebastian Findeisen, Dominik Sachs

We analyze optimal taxation of labor and capital income in a life cycle framework with idiosyncratic income risk and ex-ante heterogeneity. Tax instruments are simple in that they can only condition on current income. We provide a decomposition of labor income tax formulas into a redistribution and an insurance component. The latter is independent of the social welfare function and determined by the degree of income risk and risk aversion. The optimal linear capital tax is non-zero and trades off redistribution and insurance against savings distortions. Our quantitative results reveal that the insurance component contributes significantly to optimal labor income tax rates and provides a lower bound on optimal taxes. Optimal capital taxes are significant.

The right look: Conservative politicians look better and voters reward it

- Journal of Public Economics---2017---Niclas Berggren, Henrik Jordahl, Panu Poutvaara

Since good-looking politicians win more votes, a beauty advantage for politicians on the left or on the right is bound to have political consequences. We show that politicians on the right look more beautiful in Europe, the United States and Australia. Our explanation is that beautiful people earn more, which makes them less inclined to support redistribution. Our model of within-party competition predicts that voters use beauty as a cue for conservatism when they do not know much about candidates and that politicians on the right benefit more from beauty in low-information elections. Evidence from real and experimental elections confirms both predictions.

Potential Pareto Public Goods

- Journal of Public Economics---2017---Sagi Dekel, Sven Fischer, Ro'i Zultan

Potential Pareto Public Goods create an aggregate benefit to society while harming some members of the community. As the overall benefit outweighs the harm incurred, provision may lead to Pareto improvement if the gains from cooperation are used to compensate the harmed parties. Such situations are ubiquitous, e.g., in not-in-my-backyard (NIMBY) problems. We study experimentally voluntary contributions to Potential Pareto Public Goods, in which provision is efficient but harms a minority in the group. We test the effects of punishment and reward institutions, with and without communication. We find that contributions to Potential Pareto Public Goods are not viewed as unequivocally socially desirable and do not increase with communication or punishment. With the reward institution, communication facilitates compensation, undoing the harm imposed on the minority player by majority contributions. Consequently, contributions are no longer viewed as socially undesirable, and majority contributions increase. Taken together, our results establish that perceptions and behavior in voluntary

contributions to Potential Pareto Public Goods are dramatically different than with universal public goods that benefit all members of the community. We suggest that the underlying mechanism is team reasoning: individuals consider what is good for the group, and play their part in achieving that goal.

Weighting recent performance to improve college and labor market outcomes

- Journal of Public Economics---2017---George Bulman

There is a great deal of policy interest in reducing college dropout rates, increasing graduation rates, and improving labor market outcomes. To this end, individual colleges and state university systems use high school grade point averages and class rankings in an effort to offer admission and scholarships to students who are most likely to achieve long-run success. However, a significant fraction of students exhibit steep positive or negative performance trends during high school. This study shows that academic performance in later grades is given no greater weight in admissions but is the best predictor of college and labor market outcomes, greatly exceeding prior grades and entrance exam scores. Placing greater weight on later grades and extending application deadlines to allow the consideration of 12th grade performance is shown to significantly alter which students are admitted to college and to improve their expected long-run outcomes. Importantly, weighting recent performance does not appear to affect college diversity. Evidence is presented that the predictive power of later grades is driven primarily by students who experience large negative performance trajectories during high school.

Promotion incentives in the public sector: Evidence from Chinese schools

- Journal of Public Economics---2017---Naureen Karachiwalla,Albert Park

We provide evidence that promotion incentives influence the effort of public employees by studying China's system of promotions for teachers. Predictions from a

tournament model of promotion are tested using retrospective panel data on primary and middle school teachers. Consistent with theory, high wage increases for promotion are associated with better performance, teachers increase effort in years leading up to promotion eligibility, and they reduce effort if they are repeatedly passed over for promotion. Evaluation scores are positively associated with teacher time use and with student test scores, diminishing concerns that evaluations are manipulated.

Voting as a lottery

- Journal of Public Economics---2017---Giuseppe Attanasi, Luca Corazzini, Francesco Passarelli

This paper studies the issue of constitutional design, and supermajorities in particular, from a behavioral economics perspective. The relevant parameters are voting power, risk aversion, and pessimism. Voters who feel powerful prefer lower thresholds, while risk averters and those who feel pessimistic about the majority prefer higher thresholds. We also analyze the effects of loss aversion and overconfidence. The former leads voters to prefer more protective voting rules, a manifestation of their bias towards the status quo. The latter leads them to prefer overly low (high) protection when they receive good (bad) news about how others will vote. Finally, we study constitutional agreements on the voting rule. Members of the constituent assembly are heterogeneous in the parameters above. Weak and minority members anticipate high expropriation risk in future decisions. This gives them consistent leverage to push for a protective constitution.

Social insurance with competitive insurance markets and risk misperception

- Journal of Public Economics---2017---Helmuth Cremer, Kerstin Roeder

We examine the role of uniform and non-uniform social insurance to supplement a general income tax when neither public nor private insurers can observe individual risk, which is positively correlated with wages

(e.g., for old age dependency). In the (private market) Rothschild and Stiglitz (1976) equilibrium low-wage/low-risk individuals are not fully insured. While social insurance provided to the poor has a negative incentive effect, it also increases their otherwise insufficient insurance coverage. Social insurance to the rich produces exactly the opposite effects. Whichever of these effects dominates, some social insurance is always desirable irrespective of the pattern of correlation. Finally, we introduce risk misperception which exacerbates the failure of private markets. Rather surprisingly, this does not necessarily strengthen the case for public insurance.

The market sensitivity of retirement and defined contribution pensions: Evidence from the public sector

- Journal of Public Economics---2017---Matthew T. Gustafson

I provide evidence that defined contribution (DC) pensions make retirement more positively correlated with stock market returns as compared to defined benefits (DB) pensions. To identify the effect, I exploit the U.S. federal government's switch in 1984 from a DB pension system (CSRS) to a hybrid-DC pension system (FERS). I estimate that FERS exposes approximately 24% more pension wealth to the financial markets. Compared to untreated employees, employees treated with the hybrid-DC pension respond to a one standard deviation shock to quarterly market returns by adjusting their retirement date by approximately one month, approximately offsetting changes in DC pension wealth with labor income.

Public procurement with unverifiable quality: The case for discriminatory competitive procedures

- Journal of Public Economics---2017---Gian Luigi Albano, Berardino Cesi, Alberto Iozzi

Unverifiable quality may affect the enforcement of procurement contracts even when the award procedure is able to select the most efficient firm in the market. In this paper, we show that a discriminatory competitive

mechanism – which awards the contract on the basis of price and (firms') past performance – yields an efficient allocation of the contract and allows the buyer to implement her desired quality. Quality enforcement arises out of relational contracting whereby the buyer 'handicaps' a contractor in future competitive tendering processes if it fails to provide the required quality. We study an infinitely repeated procurement model with two firms and one buyer imperfectly informed on the firms' cost, in which, in each period, the buyer runs a discriminatory auction. We restrict our analysis to the case of a buyer committed to her handicapping strategy, a case which captures some of the features of a public buyer. When players use either grim trigger or stick-and-carrot strategies, we find that the buyer can induce the delivery of optimal (unverifiable) quality with a variety of handicap levels and, when applicable, durations of the punishment period; for some values of the handicap and the length of the punishment period, both firms remain active in the market even when punished.

Gender biases in student evaluations of teaching

- Journal of Public Economics---2017---Anne Boring

This article uses data from a French university to analyze gender biases in student evaluations of teaching (SETs). The results of fixed effects and generalized ordered logit regression analyses show that male students express a bias in favor of male professors. Also, the different teaching dimensions that students value in male and female professors tend to match gender stereotypes. Men are perceived by both male and female students as being more knowledgeable and having stronger class leadership skills (which are stereotypically associated with males), despite the fact that students appear to learn as much from women as from men.

Assessing bankruptcy reform in a model with temptation and equilibrium default

- Journal of Public Economics---2017---Makoto Nakajima

A life-cycle model with equilibrium default in which

agents with and without temptation coexist is constructed to evaluate the 2005 bankruptcy law reform. The calibrated model indicates that the 2005 reform reduces bankruptcies, as seen in the data, and improves welfare, as lower default premia allows better consumption smoothing. A counterfactual reform of changing income garnishment rate is also investigated. Interesting contrasting welfare effects between two types of agents emerge. Agents with temptation prefer a lower garnishment rate as tighter borrowing constraint prevents them from over-borrowing, while those without prefer better consumption smoothing enabled by a higher garnishment rate.

Vehicle miles (not) traveled: Fuel economy requirements, vehicle characteristics, and household driving

- Journal of Public Economics---2017---Jeremy West,Mark Hoekstra,Jonathan Meer,Steven Puller

A major concern with addressing the negative externalities of gasoline consumption by regulating fuel economy, rather than increasing fuel taxes, is that households respond by driving more. This paper exploits a discrete threshold in the eligibility for Cash for Clunkers to show that fuel economy restrictions lead households to purchase vehicles that have lower cost-per-mile, but are also smaller and lower-performance. Whereas the former effect can increase driving, the latter effect can reduce it. Results indicate that these households do not drive more, suggesting that behavioral responses do not necessarily undermine the effectiveness of fuel economy restrictions at reducing gasoline consumption.

Does fundraising create new giving?

- Journal of Public Economics---2017---Jonathan Meer

Despite an extensive literature on the impacts of a variety of charitable fundraising techniques, little is known about whether these activities increase overall giving or merely cause donors to substitute away from other causes. Using detailed data from Donorschoose.org, an online platform linking teachers with prospective

donors, I examine the extent to which matching grants for donations to certain requests affect giving to others. Eligibility for matches is determined in entirely by observable attributes of the request, providing an exogenous source of variation in incentives to donate between charities. I find that, while matches increase giving to eligible requests, they do not appear to crowd out giving to similar ones, either contemporaneously or over time.

The insurance value of medical innovation

- Journal of Public Economics---2017---Darius Lakdawalla,Anup Malani,Julian Reif

Economists think of medical innovation as a valuable but risky good, producing health benefits but increasing financial risk for consumers and healthcare payers. This perspective overlooks how innovation can lower physical risks borne by healthy patients facing the prospect of future disease. We present an alternative framework that accounts for all these sources of value and links them to the value of healthcare insurance. We show that any innovation worth buying reduces overall risk and generates positive insurance value on its own. We conduct a stylized numerical exercise to assess the potential empirical significance of our insights. Our calculations suggest that conventional methods meaningfully understate the value of historical health gains and disproportionately undervalue treatments for the most severe illnesses, where physical risk to consumers is the costliest. These calculations also suggest that the value of physical insurance from new technologies may exceed the financial spending risk that they pose.

Compulsory voting, turnout, and government spending: Evidence from Austria

- Journal of Public Economics---2017---Mitchell Hoffman,Gianmarco León,María Lombardi

We study a unique quasi-experiment in Austria, where compulsory voting laws are changed across Austria's nine states at different times. Analyzing state and national elections from 1949 to 2010, we show that

compulsory voting laws with weakly enforced fines increase turnout by roughly 10 percentage points. However, we find no evidence that this change in turnout affected government spending patterns (in levels or composition) or electoral outcomes. Individual-level data on turnout and political preferences suggest that these results occur because the impacts of compulsory voting on turnout are larger among those who are non-partisan, who have low interest in politics, and who are uninformed.

The fiscal cost of weak governance: Evidence from teacher absence in India

- Journal of Public Economics---2017---Karthik Muralidharan,Jishnu Das,Alaka Holla,Aakash Mohpal

The relative return to strategies that augment inputs versus those that reduce inefficiencies remains a key open question for education policy in low-income countries. Using a new nationally-representative panel dataset of schools across 1297 villages in India, we show that the large public investments in education over the past decade have led to substantial improvements in input-based measures of school quality, but only a modest reduction in inefficiency as measured by teacher absence. In our data, 23.6% of teachers were absent during unannounced school visits, and we estimate that the salary cost of unauthorized teacher absence is \$1.5billion/year. We find two robust correlations in the nationally-representative panel data that corroborate findings from smaller-scale experiments. First, reductions in student-teacher ratios are correlated with increased teacher absence. Second, increases in the frequency of school monitoring are strongly correlated with lower teacher absence. Using these results, we show that reducing inefficiencies by increasing the frequency of monitoring could be over ten times more cost effective at increasing the effective student-teacher ratio than hiring more teachers. Thus, policies that decrease the inefficiency of public education spending are likely to yield substantially higher marginal returns than those that augment inputs.

Who monitors the monitor? Effect of party observers on electoral outcomes

- Journal of Public Economics---2017---Agustín Casas,Jose Guillermo Diaz,Andre Trindade

We investigate whether electoral monitors, who are in charge of assuring the fairness of elections, interfere with their outcome. More precisely, does the monitors' presence bias the results in favor of their own preferences? To do so, we construct a novel dataset from the raw voting records of the 2011 national elections in Argentina. We exploit a natural experiment to show that electoral observers cause, on average, a 1.5% increase in the vote count for the observers' preferred party, which can reach up to 6% for some parties. This bias, which appears under various electoral rules, occurs mainly in municipalities with lower civic capital and weakens the accountability role of elections.

The tradeoff of the commons under stochastic use

- Journal of Public Economics---2017---Xiaoyong Cao,Jiong Gong

We develop a model of scarce renewable resources to study the problem of the commons. Our model formulation differs from the existing literature in that it assumes the use of the commons to be stochastic in nature. One example is microwave spectrum for mobile and wireless communications. We investigate three mechanisms of resource allocation: free usage, the exclusive franchise, and a regulated monopoly. We show that the welfare tradeoff among these three mechanisms depends on the characteristics of the commons and their usage patterns. In particular, we find that property rights are not always the best solution. We then make four extensions that apply to spectrum allocations.

Innovation under regulatory uncertainty: Evidence from medical technology

- Journal of Public Economics---2017---Ariel Dora Stern

This paper explores how the regulatory approval process affects innovation incentives in medical technologies. Prior studies have found early mover regulatory advantages for drugs. I find the opposite for medical devices, where pioneer entrants spend 34% (7.2 months) longer than follow-on entrants in regulatory approval. Back-of-the-envelope calculations suggest that the cost of a delay of this length is upwards of 7% of the total cost of bringing a new high-risk device to market. Considering potential explanations, I find that approval times are largely unrelated to technological novelty, but are meaningfully reduced by the publication of objective regulatory guidelines. Finally, I consider how the regulatory process affects small firms' market entry patterns and find that small firms are less likely to be pioneers in new device markets, a fact consistent with relatively higher costs of doing so for more financially constrained firms.

Decentralization and political career concerns

- Journal of Public Economics---2017---Jiahua Che, Kim-Sau Chung, Yang K. Lu

Politicians' career paths often start at some subnational governments and end at the national one. Allocation of authorities among national and subnational governments affects (i) how tempting the prospects of taking national offices are, and hence how strong bureaucrats' political career concerns are, and (ii) whether the incentives generated by these political career concerns can be put into productive use at subnational governments. We illustrate this tradeoff in determining the optimal degree of decentralization using China as a case study. We also compare the equilibrium degree of decentralization in autocracy and in democracy.

Inside severance pay

- Journal of Public Economics---2017---Tito Boeri, Pietro Garibaldi, Espen Moen

All OECD countries have either legally mandated severance pay or compensations imposed by industry-level bargaining in case of employer initiated job separations. The paper shows that mandatory severance is optimal

in presence of wage deferrals induced by workers' moral hazard. We also establish a link between optimal severance and efficiency of the legal system and characterize the effects of shifting the burden of proof from the employer to the worker. Quantitatively, the welfare effects of suboptimal severance payments vary in general equilibrium between 1 and 3 %. The model accounts also for two neglected features of the legislation. The first is the discretion of judges in declaring the nature, economic vs. disciplinary, of the layoff. The second feature regards the relationship between severance and tenure. Our theory gives necessary conditions under which optimal severance is increasing with tenure, as generally observed.

Combining price and quantity controls under partitioned environmental regulation

- Journal of Public Economics---2017---Jan Abrell, Sebastian Rausch

This paper analyzes hybrid emissions trading systems (ETs) under partitioned environmental regulation when firms' abatement costs and future emissions are uncertain. We show that hybrid policies that introduce bounds on the price or the quantity of abatement provide a way to hedge against differences in marginal abatement costs across partitions. Price bounds are more efficient than abatement bounds as they also use information on firms' abatement technologies while abatement bounds can only address emission uncertainty. Using a numerical stochastic optimization model with equilibrium constraints for the European carbon market, we find that introducing hybrid policies in EU ETS reduces expected excess abatement costs of achieving targeted emission reductions under EU climate policy by up to 89%. We also find that under partitioned regulation there is a high likelihood for hybrid policies to yield sizeable ex-post cost reductions.

The political economy of public income volatility: With an application to the resource curse

- Journal of Public Economics---2017---James Robinson, Ragnar Torvik, Thierry Verdier

In recent years many countries have witnessed a great deal of volatility in public budgets, be it due to volatility in the access to foreign loans in Greece, or to unstable oil prices in Venezuela. We study the political consequences of such public income volatility. As is standard, in our model political incentives create inefficient policies to increase re-election probabilities, but we show that making public income uncertain creates specific new effects. Future volatility reduces the benefit of being in power, making policy more efficient. Yet at the same time it also reduces the re-election probability of an incumbent and since some of the policy inefficiencies are concentrated in the future, this makes inefficient policy, such as patronage public employment, less costly. Our model highlights a new political economy connection between the volatility of the public budget and economic growth. In the case where volatility comes from natural resource prices, a characteristic of many developing countries, we show that volatility in itself may be a source of inefficient resource extraction, jointly interacting with increased patronage employment.

Information-sensitive Leviathans

- Journal of Public Economics---2016---Andreas Nicklisch,Kristoffel Grechenig,Christian Thöni

We study information conditions under which individuals are willing to delegate their sanctioning power to a central authority. We design a public goods game in which players can move between institutional environments, and we vary the observability of others' contributions. We find that the relative popularity of centralized sanctioning crucially depends on the interaction between the observability of the cooperation of others and the absence of punishment targeted at cooperative individuals. While central institutions do not outperform decentralized sanctions under perfect information, large parts of the population are attracted by central institutions that rarely punish cooperative individuals in environments with limited observability.

Uniform price mechanisms for threshold public goods provision with complete information: An experimental investigation

- Journal of Public Economics---2016---Zhi Li,Christopher M. Anderson,Stephen Swallow

We introduce two novel mechanisms for provision point public goods, motivated by the design of uniform price auctions: The uniform price auction mechanism (UPA) collects an endogenously determined uniform price from everyone offering at least that price, while the uniform price cap mechanism (UPC) collects the uniform price from everyone offering at least that price, plus the full offer of everyone offering less. UPC has the same undominated perfect equilibria as standard provision point (PPM) and proportional rebate (PR) mechanisms, and UPA a somewhat broader set. However, our mechanisms' different marginal penalty structures may facilitate equilibrium selection and lead to higher contributions and more frequent provision. Through laboratory experiments, using both homogeneous (symmetric) and heterogeneous induced values, we show our mechanisms improve upon PR and PPM: UPC generates higher aggregate contributions than PR and PPM, leading to higher provision rates than PPM; UPA attracts much higher contributions, although it provides less frequently. This ranking emerges because high offers are more common (especially among high value people in the heterogeneous environment) in the uniform price mechanisms, where higher offers only increase the payment when needed for provision.

Physician ownership of complementary medical services

- Journal of Public Economics---2016---Brian K. Chen,Paul Gertler,Chun-Yuh Yang

When physicians own complementary medical service facilities such as laboratories and imaging centers, they gain financially by referring patients to these entities. This creates an incentive for the physician to exploit patients' trust by recommending more services than necessary. Using data from Taiwan, which introduced a "separating" policy, that restricts physician ownership

of pharmacies, we estimate that where the policy was binding, eliminating this incentive caused physicians to prescribe 7.1% less in drugs. Taking into account increases in complementary diagnostic services and that drugs are only a part of overall primary care spending, the policy reduced total expenditures by 1.8%. However, a large number of clinics exploited a loophole in the law and either had at baseline or integrated pharmacies into their practices post-policy making them exempt from the policy. As a result, the policy only reduced total drug expenditures by 2.1% and total primary care cost by 0.5%.

Sin licenses revisited

- Journal of Public Economics---2016---Markus Haavio,Kaisa Kotakorpi

We analyze personalized regulation in the form of sin licenses to correct the distortion in the consumption of a harmful good when consumers suffer from varying degrees of self-control problems. We take into account preference uncertainty, which generates a trade-off between flexibility and commitment provided by sin licenses. We also account for the possibility that consumers may trade the sin good in a secondary market, which partially erodes the commitment power of sin licenses. We show that if sophisticated consumers are allowed to choose any general, individualized pricing scheme for sin goods, they will choose a system of sin licenses. Nevertheless, sin licenses do not implement the social optimum in our general setting. We derive a simple criterion for assessing whether switching to a system of sin licenses improves welfare over linear sin taxes.

Optimal tax mix with income tax non-compliance

- Journal of Public Economics---2016---Jason Huang,Juan Rios

Although developing countries face high levels of income inequality, they rely more on consumption taxes, which tend to be linear and are less effective for redistribution than a non-linear income tax. One explanation

for this pattern is that the consumption taxes are generally more enforceable in these economies. This paper studies the optimal combination of a linear consumption tax with a non-linear income tax for redistributive purposes. In our model, households might not comply with the income tax code by reporting income levels that differ from their true income. However, the consumption tax is fully enforceable. We derive a formula for the optimal income tax schedule as a function of the consumption tax rate, the recoverable elasticities, and the moments of the taxable income distribution. Our equation differs from those of Mirrlees (1971) and Saez (2001) because households face a consumption tax and they respond to income tax not only through labor supply but also through mis-reporting their incomes. Both aspects are empirically relevant to our calibration of the optimal top rate in the Russian economy. We then characterize the optimal mix between a linear consumption tax rate and a non-linear income tax schedule. Finally, we find that the optimal consumption tax rate is non-increasing in the redistributive motives of the social planner.

Information, competition, and the quality of charities

- Journal of Public Economics---2016---Silvana Krasteva,Huseyin Yildirim

Drawing upon the all-pay auction literature, we propose a model of charity competition in which informed giving alone can account for the significant quality heterogeneity across similar charities. Our analysis identifies a negative effect of competition and a positive effect of informed giving on the equilibrium quality of charity. In particular, we show that as the number of charities grows, so does the percentage of charity scams, approaching one in the limit. In light of this and other results, we discuss the need for regulating non-profit entry and conduct as well as promoting informed giving.

On the implications of introducing cross-border loss-offset in the European Union

- Journal of Public Economics---2016---Zarko Kalamov,Marco Runkel

This article investigates a tax competition model where countries compete for capital and profits of multinational enterprises (MNEs) through statutory tax rates and cross-border loss-offset provisions, which allow a transfer of foreign subsidiaries' losses to the parent company. A joint implementation of full cross-border loss-relief is welfare maximizing, because it ensures production efficiency and no profit shifting in equilibrium. Local governments choose zero level of the loss-relief in a noncooperative equilibrium, if only capital is mobile and relax the loss-offset, when MNEs engage in profit shifting. Therefore, allowing multinationals to undertake international tax planning activities may be welfare-improving in our model.

Special interests and the media: Theory and an application to climate change

- Journal of Public Economics---2016---Jesse Shapiro

A journalist reports to a voter on an unknown, policy-relevant state. Competing special interests can make claims that contradict the facts but seem credible to the voter. A reputational incentive to avoid taking sides leads the journalist to report special interests' claims to the voter. In equilibrium, the voter can remain uninformed even when the journalist is perfectly informed. Communication is improved if the journalist discloses her partisan leanings. The model provides an account of persistent public ignorance on climate change that is consistent with narrative and quantitative evidence.

Information, non-financial incentives, and student achievement: Evidence from a text messaging experiment

- Journal of Public Economics---2016---Roland G. Fryer

This paper describes a field experiment in Oklahoma City Public Schools in which students were provided with free cellular phones and daily information about the link between human capital and future outcomes via text message in one treatment and minutes to talk and text as an incentive in a second treatment. Students' reported beliefs about the relationship between education and outcomes were influenced by the information treatment. However, there were no measurable changes in student effort, attendance, suspensions, or state test scores, though there is evidence that scores on college entrance exams four years later increased. The patterns in the data appear most consistent with a model in which students have present-bias or lack knowledge of the educational production function, though other explanations are possible.

Optimal taxation when people do not maximize well-being

- Journal of Public Economics---2016---Aart Gerritsen

I derive the optimal nonlinear income tax when individuals do not necessarily maximize their own well-being. This generates a corrective argument for taxation: optimal marginal taxes are higher (lower) if individuals work too much (too little) from a well-being point of view. I allow for multidimensional heterogeneity and derive the optimal tax schedule in terms of measurable sufficient statistics. One of these statistics measures the degree to which individuals fail to optimize their labor supply. I empirically estimate this by using British life satisfaction data as a measure of well-being. I find that low-income workers tend to work 'too little' and high-income workers 'too much,' providing a motive for lower marginal tax rates at the bottom and higher marginal tax rates at the top of the income distribution.

Do norms on contribution behavior affect intrinsic motivation? Field-experimental evidence from Germany

- Journal of Public Economics---2016---Pierre Boyer,Nadja Dwenger,Johannes Rincke

This paper studies how imposing norms on contribution behavior affects individuals' intrinsic motivation. We consider the church levy, which the Catholic Church in Germany collects as a charitable donation, despite the fact that the levy is legally a tax. We design a randomized field experiment with treatments informing individuals that the levy is a tax. We demonstrate that treatment effects differ across motivational types. Among weakly intrinsically motivated individuals, communicating the legal norm results in a significant crowd-out of intrinsic motivation. In contrast, strongly intrinsically motivated individuals do not show any treatment response.

Taking the high road? Compliance with commuter tax allowances and the role of evasion spillovers

- Journal of Public Economics---2016---Jörg Paetzold,Hannes Winner

This paper provides evidence of evasion in the context of a widely used commuter tax allowance, and explores evasion spillovers as a determinant of the individual compliance decision. For this purpose, we exploit discontinuities in the commuter allowance scheme and employ a research design resting on a large panel of individual tax returns. We find that around 30% of all allowance claims are overstated and, consistent with deliberate tax evasion, we observe sharp reactions of taxpayers to thresholds where the allowance discretely jumps to a higher amount. Further, we use variation in job changes to uncover spillover effects from the work environment on the individual compliance decision. These effects appear to be asymmetric: Job changers moving to companies with a higher fraction of cheaters increase their cheating. In contrast, movers to companies with a lower fraction of cheaters tend not to alter their reporting behavior. We provide suggestive evidence that the spillover has more to do with an information environment, but can ultimately not reject other behavioral explanations such as asymmetric persistence of norms.

Local favoritism in at-large proportional representation systems

- Journal of Public Economics---2016---Jon Fiva,Askill Halse

Pork barrel spending is typically attributed to the strategic behavior of political elites hoping to be electorally rewarded by voters residing in their districts. Such behavior is expected to depend on the incentives imposed by the electoral system. We estimate the causal effect of local representation in a closed-list proportional representation system where individual candidates have no clear electoral incentive to favor their hometown. Using data from Norwegian regional governments, we still find a hometown bias. We document that municipalities with a representative on the regional council from the same party as the regional governor tend to obtain more funding for local investments. Citizens also tend to vote more often for parties whose gubernatorial candidate is from their own hometown, consistent with expectations of particularistic benefits. A possible explanation is that regional council members are often recruited from local politics and remain loyal to their roots. We find no evidence that regional council experience affects politicians' future career prospects at the local level.

Network effects and environmental externalities: Do clean technologies suffer from excess inertia?

- Journal of Public Economics---2016---Mads Greaker,Kristoffer Midttømme

We study the diffusion of a clean substitute to a dirty durable in a dynamic model. Consumer utility of both durables increases in their respective market shares due to network effects.

A model of redistribution under social identification in heterogeneous federations

- Journal of Public Economics---2016---Joshua Holm

Redistribution of resources to accommodate income heterogeneity within a federation is often fiercely debated (e.g., Belgium, Germany or the European Union). To help elucidate potential drivers behind such debates, this article builds on social identity theory to develop a theoretical framework linking jurisdictional identification and preferences towards intra-federation redistributive financial flows. We show that federal, rather than local, identification can lead individuals to shift their redistribution preferences against their narrowly-defined personal economic interest. In contrast to predictions of standard models, the sign and strength of this effect depends crucially not only upon individuals' characteristics, but also upon the social groups (i.e. regions) to which they belong. We furthermore illustrate that federal, rather than regional, identification should be more widespread in poorer and/or more populous regions within a federation, but less common in regions which are very homogeneous internally or very dissimilar from the rest of the federation.

Disability benefit generosity and labor force withdrawal

- Journal of Public Economics---2016---Kathleen J. Mullen,Stefan Staubli

A key component for estimating the optimal size and structure of disability insurance (DI) programs is the elasticity of DI claiming with respect to benefit generosity. Yet, in many countries, including the United States, all workers face identical benefit schedules, which are a function of one's labor market history, making it difficult to separate the effect of the benefit level from the effect of unobserved preferences for work on individuals' claiming decisions. To circumvent this problem, we exploit exogenous variation in DI benefits in Austria arising from several reforms to its DI and old age pension system in the 1990s and 2000s. We use comprehensive administrative social security records data on the universe of Austrian workers to compute benefit levels under six different regimes, allowing us to identify and precisely estimate the elasticity of DI claiming with respect to benefit generosity. We find that, over

this time period, a 1% increase in potential DI benefits was associated with a 1.2% increase in DI claiming.

Progressive taxation in a tournament economy

- Journal of Public Economics---2016---Jeffrey Carpenter,Peter Matthews,Benjamin Tabb

Not enough is known about the responsiveness of individuals, in particular those who work under different incentives, to changes in marginal tax rates. We ask whether changes in tax rates are less distortionary for workers engaged in a contest. To examine this potential rationale for a more progressive tax code, we first model the effort decisions of workers faced with progressive taxation under tournaments and piece rates. Because of the difficulty identifying any distortion that may be induced by the tax code in naturally occurring data, we then report on the results of a real-effort experiment based on this model. Consistent with a behavioral approach to public finance, we find that competitive tournament workers are less sensitive and hint, in our discussion, at the possible welfare benefits of progressive taxation in tournament economies.

Homophily, group size, and the diffusion of political information in social networks: Evidence from Twitter

- Journal of Public Economics---2016---Yosh Halberstam,Brian Knight

We investigate the role of homophily – a tendency to interact with similar individuals–in the diffusion of political information in social networks. We develop a model predicting disproportionate exposure to like-minded information and that larger groups have more connections and are exposed to more information. To test these hypotheses, we use data on links and communications between politically-engaged Twitter users. We find that users affiliated with majority political groups, relative to the minority group, have more connections, are exposed to more information, and are exposed to information more quickly. Likewise, we find that users are disproportionately exposed to

like-minded information and that information reaches like-minded users more quickly.

Effort, luck, and voting for redistribution

- Journal of Public Economics---2016---Lars J. Lefgren, David P. Sims, Olga Stoddard

We conduct an experiment to determine how the correspondence between economic rewards and effort, as opposed to luck, affects subjects' ex post voting over redistribution. We find that a large, statistically significant proportion of both high- and low-payoff voters are willing to vote contrary to their self-interest in favor of groups that exert proportionately more effort. We confirm these results in an additional, distinct sample. We also show that when subjects' own effort is greater than the group's average effort level, they exhibit greater self-interest in voting for redistribution compared to subjects whose effort is below average. Our results have implications for both understanding individual redistributive preferences and group voting behavior.

The Effects of DACAmentation: The Impact of Deferred Action for Childhood Arrivals on Unauthorized Immigrants

- Journal of Public Economics---2016---Nolan G. Pope

As the largest immigration policy in 25 years, Deferred Action for Childhood Arrivals (DACA) made deportation relief and work authorization available to 1.7 million unauthorized immigrants. This paper looks at how DACA affects DACA-eligible immigrants' labor market outcomes. I use a difference-in-differences design for unauthorized immigrants near the criteria cutoffs for DACA eligibility. I find DACA increases the likelihood of working by increasing labor force participation and decreasing the unemployment rate for DACA-eligible immigrants. I also find DACA increases the income of unauthorized immigrants in the bottom of the income distribution. I find little evidence that DACA affects the likelihood of attending school. Using these estimates, DACA moved 50,000 to 75,000 unauthorized immigrants into employment. If the effects of

Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA) are similar to DACA, then DAPA could potentially move over 250,000 unauthorized immigrants into employment.

Securing property rights: A dilemma experiment in Austria, Mexico, Mongolia, South Korea and the United States

- Journal of Public Economics---2016---T.K. Ahn, Loukas Balafoutas, Mongoljin Batsaikhan, Francisco Campos-Ortiz, Louis Putterman, Matthias Sutter

Secure property rights result from a combination of public enforcement, private protective measures, and voluntary norm-compliance. We conduct a laboratory experiment to study how culture interacts with institutions in shaping individuals' behaviors and group outcomes in a property rights dilemma. The experiment is conducted in five countries: Austria, Mexico, Mongolia, South Korea and the United States. We find that the security of property varies with the experimentally available institutions and country-level indicators such as trust and quality of government. Subjects from countries with higher levels of trust are more likely to abstain initially from theft, devote more resources to production and support funding public protection of property through taxation. Our findings highlight the relevance of cultural and institutional factors, and their interaction, in addressing the collective action problem of safeguarding property rights.

Static and dynamic underinvestment: An experimental investigation

- Journal of Public Economics---2016---Marina Agranov, Guillaume Fréchette, Thomas Palfrey, Emanuel Vespa

In this paper, we analyze a stylized version of an environment with public goods, dynamic linkages, and legislative bargaining. Our theoretical framework studies the provision of a durable public good as a modified two-period version of Battaglini et al. (2012). The experimental design allows us to disentangle inefficiencies

that would result in a one-shot world (static inefficiencies) from additional inefficiencies that emerge in an environment in which decisions in the present affect future periods (dynamic inefficiencies). We solve the first-best solution and compare it to the symmetric stationary subgame-perfect equilibrium of a legislative bargaining game. The experimental results indicate that subjects do react to dynamic linkages, and, as such, there is evidence of both static and dynamic inefficiencies. The quantitative predictions of the bargaining model with respect to the share of dynamic inefficiencies are closest to the data when dynamic linkages are high. To the extent that behavior is different from the model's predictions, a systematic pattern emerges — namely, the use of strategic cooperation, whereby groups increase the efficiency of current proposals by selectively punishing, in future proposals, individuals who propose highly inefficient allocations.

Does medical malpractice law improve health care quality?

- Journal of Public Economics---2016---Michael Frakes, Anupam B. Jena

We assess the potential for medical liability forces to deter medical errors and improve health care treatment quality, identifying liability's influence by drawing on variations in the manner by which states formulate the negligence standard facing physicians. Using hospital discharge records from the National Hospital Discharge Survey and clinically-validated quality metrics inspired by the Agency for Health Care Research and Quality, we find evidence suggesting that treatment quality may improve upon reforms that expect physicians to adhere to higher quality clinical standards. We do not find evidence, however, suggesting that treatment quality may deteriorate following reforms to liability standards that arguably condone the delivery of lower quality care. Similarly, we do not find evidence of deterioration in health care quality following remedy-focused liability reforms such as caps on non-economic damages awards.

Superstitions, street traffic, and subjective well-being

- Journal of Public Economics---2016---Michael Anderson, Fangwen Lu, Yiran Zhang, Jun Yang, Ping Qin

Congestion plays a central role in urban and transportation economics. Existing estimates of congestion costs rely on stated or revealed preferences studies. We explore a complementary measure of congestion costs based on self-reported happiness. Exploiting quasi-random variation in daily congestion in Beijing that arises because of superstitions about the number four, we estimate a strong effect of daily congestion on self-reported happiness. When benchmarking this effect against the relationship between income and self-reported happiness we compute implied congestion costs that are several times larger than conventional estimates. Several factors, including the value of reliability and externalities on non-travelers, can reconcile our alternative estimates with the existing literature.

Fiscal rules and compliance expectations – Evidence for the German debt brake

- Journal of Public Economics---2016---Friedrich Heinemann, Eckhard Janeba, Christoph Schröder, Frank Streif

Fiscal rules have become popular to limit deficits and high debt burdens in many countries. A growing literature examines their impact based on aggregate fiscal performance. So far, no evidence exists on how fiscal rules influence deficit expectations of fiscal policy makers. In the context of the German debt brake, we study this expectation dimension. In a first step, we introduce a dynamic model in an environment characterized by lagged implementation of a new rule, which in turn characterizes the setup of the German debt brake and raises credibility issues. In a second step, we analyze a unique survey of members of all 16 German state parliaments and show that the debt brake's credibility is far from perfect. The heterogeneity of compliance expectations in the survey corresponds to

our theoretical predictions regarding states' initial fiscal conditions, specific state fiscal rules, and bailout perceptions. In addition, there is a robust asymmetry in compliance expectations between insiders and outsiders (both for in-state vs. out-of-state politicians and the incumbent government vs. opposition dimension), which we attribute to overconfidence rather than noisy information.

Divided we reform? Evidence from US welfare policies

- Journal of Public Economics---2016---Andreas Bernecker

Divided government is often thought of as causing legislative deadlock. I investigate the link between divided government and economic reforms using a novel data set on welfare reforms in US states between 1978 and 2010. Panel data regressions show that, under divided government, a US state is around 25% more likely to adopt a welfare reform than under unified government. Several robustness checks confirm this counter-intuitive finding. Case study evidence suggests an explanation based on policy competition between governor, senate, and house.

Pension reform and labor supply

- Journal of Public Economics---2016---Erik Hernaes, Simen Markussen, John Piggott, Knut Røed

We exploit a comprehensive restructuring of the early retirement system in Norway in 2011 to examine labor supply responses to increases in work incentives and actuarially neutral reductions in the age of first access to pension benefits. We find that increasing the returns to work is a powerful policy: The removal of an earnings test, implying a doubling of the average net take-home wage, led to an increase in average labor supply by 7h per week (30%) at age 63 and by 8h (46%) at age 64. The responses primarily came at the extensive margin. In contrast, reducing the access age has almost no effect on labor supply, in our setting with actuarially fair work incentives.

Identification of treatment effects under imperfect matching with an application to Chinese elite schools

- Journal of Public Economics---2016---Hongliang Zhang

This paper extends the treatment effect framework for causal inference to contexts in which the instrument appears in a data set that can only be linked imperfectly to the treatment and outcome variables contained in another data set. To overcome this problem, I form all pairwise links between information on the instrument and information on the treatment and outcome matched by the commonly recorded personal characteristics in both data sets. I show how these imperfect conditional matches can be used to identify both the average and distributional treatment effects for compliers of the common units of the two data sets. This multiple data source approach is then applied to analyze the effect of attending an elite middle school in a Chinese city where schools' admissions lottery records can only be linked imperfectly to the administrative student records.

Gamma discounters are short-termist

- Journal of Public Economics---2016---Christian Gollier

Using the gamma discounting argument of Weitzman (1998, 2001) when future interest rates are uncertain, several countries have decided to base their investment and sustainability policy evaluation on a decreasing term structure of discount rates. We show that this interpretation of the gamma discounting argument is in fact equivalent to the Local Expectations Hypothesis, a hypothesis globally rejected in empirical finance. We also show that gamma discounters are time-inconsistent and short-termist when shocks to economic growth are persistent. This is because they fail to account for the correlation between future consumption levels and spot interest rates.

Relational altruism and giving in social groups

- Journal of Public Economics---2016---Kimberley Scharf,Sarah Smith

Much fundraising is done by individuals within existing social groups. Exploiting a unique dataset, we demonstrate (i) a positive relationship between social group size and the number of donations; (ii) a negative relationship between group size and the size of individual donations; (iii) no clear relationship between group size and the total amount raised. Free riding with respect to the activity being funded cannot explain the relationship between group size and donation size, since the number of social group members is only a subset of total contributors. Instead, the findings are consistent with the notion that giving in social groups is motivated by “relational altruism” .

Can welfare abuse be welfare improving?

- Journal of Public Economics---2016---Karol Mazur

I analyze quantitatively a model of labor search with unemployment insurance (UI), savings, voluntary quits and various labor attachment requirements. In particular, I study welfare consequences of a powerful reform giving UI entitlement to workers quitting their jobs voluntarily in order to search for another one. Results of the model calibrated to the US labor market show that there may be significant welfare gains associated with pursuing a generous entitlement policy for quitters as compared to the US status-quo. Moreover, I employ the assumption of monetary search costs and show that it can explain the empirically documented unemployed worker search behavior. Finally, by inducing different unemployment benefit eligibility requirements, the model identifies a concrete policy that could help us understand differences in the unemployment rate, match quality and income inequality between the US and Europe.

Cross-border tax evasion under a unilateral FATCA regime

- Journal of Public Economics---2016---Dhammika Dharmapala

Cross-border tax evasion has emerged in recent years as a central issue in tax enforcement. Traditionally, the legal regime governing cross-border tax enforcement was based on information exchange upon request. In 2010, the US Congress enacted the Foreign Account Tax Compliance Act (FATCA), which seeks to induce foreign financial institutions (FFIs) to participate in a global regime of automatic information reporting of the income of US residents to the US government. This paper presents a simple theoretical model of cross-border investment that analyzes the consequences of this (unilateral) FATCA regime. The model emphasizes cross-border investors’ (heterogeneous) intrinsic motivation to comply with tax law, as well as the impact of information reporting requirements on the cost of providing financial services. In FATCA-compliant equilibria (in which FFIs report information to the US government) FFIs face a higher cost of providing financial services, increasing the fees charged to their accountholders. Consequently, tax-compliant behavior – such as investing via their domestic financial sector – becomes more costly for foreign residents. Under certain conditions, a unilateral FATCA regime causes increased cross-border tax evasion among residents of foreign countries. This result is robust to various extensions.

The economics of faith: using an apocalyptic prophecy to elicit religious beliefs in the field

- Journal of Public Economics---2016---Ned Augenblick,Jesse Cunha,Ernesto Dal Bó,Justin M. Rao

We model religious faith as a “demand for beliefs,” following the logic of the Pascalian wager. We show how standard experimental interventions linking financial consequences to falsifiable religious statements can elicit and characterize beliefs. We implemented this approach with members of a group that expected the “End of the World” to occur on May 21, 2011 by varying monetary prizes payable before and after May 21st. To our knowledge, this is the first incentivized elicitation of religious beliefs ever conducted. The results suggest that the members held extreme, sincere beliefs that were unresponsive to experimental manipulations

in price.

Who benefits when the government pays more? Pass-through in the Medicare Advantage program

- Journal of Public Economics---2016---Mark Dugan,Amanda Starc,Boris Vabson

Governments contract with private firms to provide a wide range of services. While a large body of previous work has estimated the effects of that contracting, surprisingly little has investigated how those effects vary with the generosity of the contract. In this paper we examine this issue in the Medicare Advantage (MA) program, through which the federal government contracts with private insurers to coordinate and finance health care for 17 million Medicare recipients. To do this, we exploit a substantial policy-induced increase in MA reimbursement in metropolitan areas with a population of 250,000 or more relative to MSAs below this threshold. Our results demonstrate that the additional reimbursement leads more private firms to enter this market and to an increase in the share of Medicare recipients enrolled in MA plans. Our findings also reveal that about one-eighth of the additional reimbursement is passed through to consumers in the form of better coverage. A somewhat larger share accrues to private insurers in the form of higher profits and we find suggestive evidence of a large impact on advertising expenditures. Our results have implications for a key feature of the Affordable Care Act that will reduce reimbursement to MA plans by \$156 billion from 2013 to 2022.

Cohort mortality risk or adverse selection in annuity markets?

- Journal of Public Economics---2016---Edmund Cannon,Ian Tonks

We show that tests for adverse selection in annuity markets using prices are not identified. Within the UK annuity market, different annuity products create the potential for a Rothschild-Stiglitz separating equilibrium as different risk types could choose different

annuities. Empirical analyses using the “money’s worth” suggest that prices are indeed consistent with this explanation. However, we show that this pattern of annuity prices would also result from the actions of regulated annuity providers who must reserve against cohort mortality risk. Annuity products that might attract different consumer risk types also have different risks for the provider.

Do tax credits stimulate R&D spending? The effect of the R&D tax credit in its first decade

- Journal of Public Economics---2016---Nirupama Rao

This paper examines the impact of the U.S. federal R&D tax credit between 1981–1991 using confidential IRS data from corporate tax returns. The empirical analysis makes two key advances on previous work. First, it implements a new instrumental variables (IV) strategy based on tax changes that directly addresses the simultaneity of R&D spending and marginal credit rates. Second, the analysis makes use of new restricted-access IRS corporate return data describing R&D expenditures. Estimates imply that a 10% reduction in the user cost of R&D leads the average firm to increase its research intensity—the ratio of R&D spending to sales—by 19.8% in the short-run. Long-run estimates imply that the average firm faces adjustment costs and increases spending over time, though small and young firms show evidence of reversing initial increases. Analysis of the components of qualified research shows that wages and supplies account for the bulk of the increase in research spending. Elasticities of qualified and total research intensities from a smaller sample suggest firms respond to user cost changes largely by increasing their qualified spending, meaning that the type of R&D the federal credit deems qualified research is an important margin on which the credit affects firm behavior.

Investing in schools: capital spending, facility conditions, and student achievement

- Journal of Public Economics---2016---Paco Martorell,Kevin Stange,Isaac McFarlin

Public investments in repairs, modernization, and construction of schools cost billions. However, little is known about the nature of school facility investments, whether it actually changes the physical condition of public schools, and the subsequent causal impacts on student achievement. We study the achievement effects of nearly 1400 capital campaigns initiated and financed by local school districts, comparing districts where school capital bonds were either narrowly approved or defeated by district voters. Overall, we find little evidence that these school capital campaigns improve student achievement. Event-study analysis focused on the students actually affected by large campus renovations also generates very precise zero estimates of achievement effects. Thus, U.S. school capital campaigns financed by local districts – the predominant method through which facility investments are made – may be a limited tool for realizing substantial gains in student achievement or closing achievement gaps.

Does banning carbonated beverages in schools decrease student consumption?

- Journal of Public Economics---2016---Shirlee Lichtman-Sadot

I evaluate the effectiveness of carbonated beverage bans in schools by investigating their impact on household soda consumption. I match households in Nielsen Homescan data to their school district's carbonated beverage policies over an eight-year period (2002–2009). I find that when high schools ban the sale of carbonated beverages to students, households with a high school student experiencing the ban increase their consumption of non-diet soda by roughly the equivalent of 3.4 cans per month. I present evidence that this is a substantial offsetting (67–75%) of the average non-diet carbonated beverage consumption in high schools, when these are available to students, thus demonstrating the persistence of preferences when attempting to alter unhealthy habits.

Task-specific experience and task-specific talent: Decomposing the productivity of high school teachers

- Journal of Public Economics---2016---Jason Cook, Richard Mansfield

We use administrative panel data to decompose worker performance into components relating to general talent, task-specific talent, general experience, and task-specific experience. We consider the context of high school teachers, in which tasks consist of teaching particular subjects in particular tracks. Using the timing of changes in the subjects and difficulty levels to which teachers are assigned to provide identifying variation, we show that a substantial part of the productivity gains to teacher experience are actually subject-specific. Similarly, while three-quarters of the variance in the permanent component of productivity among teachers is portable across subjects and levels, there exist non-trivial subject-specific and level-specific components. Counterfactual simulations suggest that maximizing the test-score contribution of task-specific experience and task-specific talent can increase student performance by as much as .04 test score standard deviations relative to random assignment of teachers to classrooms.

Immigrant group size and political mobilization: Evidence from European migration to the United States

- Journal of Public Economics---2016---Allison Shertzer

Immigration to democratic nations generates new groups of potential voters. This paper investigates how the electorate share of immigrant groups influences their likelihood of becoming politically mobilized, focusing on the mechanism of coalition formation with the Democratic Party. Using newly assembled data on ethnic enclaves in American cities at the start of the twentieth century, I show immigrants were more likely to mobilize politically as their share of the local electorate grew larger. This effect is driven by political mobilization in voting districts where the Democratic

Party likely needed an immigrant group's vote to win elections. I also consider the shape of the electorate share effect, showing it is nonlinear and consistent with a political economy model of coalition formation.

Repatriation taxes and outbound M&As

- Journal of Public Economics---2016---Lars Feld,Martin Ruf,Uwe Scheuering,Ulrich Schreiber,Johannes Voget

Repatriation taxes reduce the competitiveness of multinational firms from tax credit countries when bidding for targets in low tax countries. This comparative disadvantage with respect to bidders from exemption countries violates ownership neutrality, which results in production inefficiencies due to second-best ownership structures. This paper empirically estimates the magnitude of these effects. The abolishment of repatriation taxes in Japan and in the U.K. in 2009 has increased the number of acquisitions abroad by Japanese and British firms by 16.1% and 1.6%, respectively. A similar policy switch in the U.S. is simulated to increase the number of U.S. cross-border acquisition by 11.0%. The yearly gain in efficiency is estimated to be 108.9 million dollar due to the Japanese reform and 3.9 million dollar due to the U.K. reform. Simulating such a reform for the U.S. results in a yearly efficiency gain of 537.0 million dollar.

Limit pricing and the (in)effectiveness of the carbon tax

- Journal of Public Economics---2016---Saraly Andrade de Sa,Julien Daubanes

We present a theory of limit-pricing monopoly in non-renewable-resource production. Facing a very inelastic demand, an oil monopoly seeks to induce the highest price that does not destroy its demand, unlike the conventional Hotellian analysis: The monopoly tolerates some ordinary substitutes to its oil but deters high-potential ones. With limit pricing, policy-induced extraction changes do not obey the usual logic. For example, oil taxes have no effect on current oil production. Extraction increases when high-potential substitutes

are promoted, but can be effectively reduced by supporting ordinary substitutes. The carbon tax not only applies to oil; it also penalizes its ordinary (carbon) substitutes, whose market shares are taken over by the monopoly. Thus, the carbon tax ambiguously affects current and long-term oil production and carbon emissions.

Cognitive performance in competitive environments: Evidence from a natural experiment

- Journal of Public Economics---2016---Julio González-Díaz,Ignacio Palacios-Huerta

Competitive situations that involve cognitive performance are widespread in labor markets, schools, and organizations, including test taking, competition for promotion in firms, and others. This paper studies cognitive performance in a high-stakes competitive environment. The analysis takes advantage of a natural experiment that randomly allocates different emotional states across professional subjects competing in a cognitive task. The setting is a chess match where two players play an even number of chess games against each other alternating the color of the pieces. White pieces confer an advantage for winning a chess game and who starts the match with these pieces is randomly decided. The theoretical analysis shows that in this setting there is no rational reason why winning frequencies should be better than 50-50 in favor of the player drawing the white pieces in the first game. Yet, we find that observed frequencies are about 60-40. Differences in performance are also stronger when the competing subjects are more similar in cognitive skills. We conclude that the evidence is consistent with the hypothesis that psychological elements affect cognitive performance in the face of experience, competition, and high stakes.

Education and optimal dynamic taxation: The role of income-contingent student loans

- Journal of Public Economics---2016---Sebastian Findeisen,Dominik Sachs

We study the optimal design of integrated education finance and tax systems. The distribution of wages is endogenously determined by the costly education decisions of heterogeneous individuals before labor market entry. Consistent with empirical evidence, this human capital investment decision is risky. We find that an integrated education and tax system in which the government provides education loans to young individuals coupled with income-contingent repayment can always be designed in a Pareto optimal way. We present a simple empirically driven application of the framework to US data in which individuals make a college entry decision. We find the optimal repayment schemes for college loans can be well approximated by a schedule that is linearly increasing in income up to a threshold and constant afterwards. So although the full optimum could lead to complicated non-linear schedules in theory, very simple instruments can replicate it fairly well. The welfare gains from income-contingent repayment are significant.

It's not just the thought that counts: An experimental study on the hidden cost of giving

- Journal of Public Economics---2016---Xiaofei Pan,Erte Xiao

Receiving a gift can create an impulse to reciprocate, even when doing so may be inefficient and potentially harmful to a third party. This paper provides a theoretical framework for a pure gift effect on reciprocity impulses and experimental evidence that such an effect exists: that is, a gift receiver will favor an actual gift giver over an intended gift giver, even if the intended gift giver incurred the same costs and signaled the same intention to give. This result contrasts with the predictions of existing theories on social preferences. We also show that the pure gift effect is present even when it leads to a less efficient outcome, or when the gift is given without the expectation of future returns. Our findings suggest that when reciprocating a gift becomes socially inefficient, it may be more advantageous to guard against gift receiving or to keep donations “secret” than to try to control the intent to give.

Allowing firms to choose between separate accounting and formula apportionment taxation

- Journal of Public Economics---2016---Thomas A. Gresik

This paper analyzes the effect on firm behavior and national tax revenues of allowing multinational firms to choose to be taxed under separate accounting rules or an apportionment formula. Separate accounting always generates more profitable output and conditional labor demand distortions from tax differentials while either method can generate a more profitable income-shifting distortion. Both low-cost and high-cost firms can prefer separate accounting while medium-cost firms prefer formula apportionment. With symmetric countries, a firm's preferred method generates greater tax revenues in the country with the lower tax rate. With asymmetric countries, a firm's preferred method need no longer generate greater tax revenues in the lower-tax-rate country due to the fact that countries and firms now value tax base distortions differently. With this misalignment of preferences, some firms can choose the preferred method of both countries at fixed tax rates.

Household heterogeneity, aggregation, and the distributional impacts of environmental taxes

- Journal of Public Economics---2016---Sebastian Rausch,Giacomo A. Schwarz

This paper examines how the general equilibrium incidence of an environmental tax depends on the effect of different incomes and preferences of heterogeneous households on aggregate outcomes. We develop a Harberger-type model with general forms of preferences and substitution between capital, labor, and pollution in production that captures the impact of household heterogeneity and interactions with production characteristics on the general equilibrium. We theoretically show that failing to incorporate household heterogeneity can qualitatively affect incidence. We quantitatively illustrate that this aggregation bias can be important for assessing the incidence of a carbon tax, mainly by affecting the returns to factors of production. Our

findings are robust to a number of extensions including alternative revenue recycling schemes, pre-existing taxes, non-separable utility in pollution, labor–leisure choice, and multiple commodities.

Taxing multinationals in the presence of internal capital markets

- Journal of Public Economics---2016---Marko Koethenbueger,Michael Stimmelmayr

There is ample evidence that internal capital markets incur efficiency costs for multinational enterprises (MNEs). This paper analyzes whether tax avoidance behavior interacts with these costs and how policies of competing governments respond to it. We show that the interaction in itself may lead to profit taxes that are inefficiently high (low), provided the costs are attenuated (magnified) by higher profit taxes. Further, internal efficiency costs might render infrastructure provision inefficiently low. We also clarify the implications of the decision to set up an internal capital market and of external finance for the behavior of competing governments. The results are consistent with empirical findings that are not inherently related to the notion of fiscal competition.

Dynamic aspects of family transfers

- Journal of Public Economics---2016---Kathleen McGarry

Parents transfer a great deal to their adult children, and we have rich theoretical models providing a framework for these transfers. However, both the models and existing empirical work typically examine behavior in the cross section. To date, we know little about the dynamic aspects of family transfers. Here I examine transfers over a span of 17 years and find substantial changes in reciprocity over time and a strong negative correlation between transfers and transitory income. I also find that events such as job loss and divorce are strong predictors of parental transfers and, although rare, are typically associated with larger transfers than income alone might predict. Finally, transfers are

distributed unequally across siblings, and perhaps surprisingly, the distribution of transfers becomes even more unequal when examined over an extended period of time than in any single year. The evidence presented here thus suggests that dynamic analyses can provide insights into behavior that are impossible to obtain in a static context.

Corruption, norm violation and decay in social capital

- Journal of Public Economics---2016---Ritwik Banerjee

The paper studies the link between corruption and social capital (measured as trust), using data from a lab experiment. Subjects play either a harassment bribery game or a strategically identical but differently framed ultimatum game, followed by a trust game. In a second experiment, we elicit social appropriateness norm of actions in the bribery game and ultimatum game treatments. Our experimental design allows us to examine whether subjects, who have been asked to pay a bribe, are less likely to trust than those in an isomorphic role in the ultimatum game. We also uncover the underlying mechanism behind any such behavioral spillover. Results suggest that a) there is a negative spillover effect of corruption on trust and the effect increases with decrease in social appropriateness norm of the bribe demand; b) lower trust in the bribery game treatment is explained by lower expected return on trust; c) surprisingly, for both the bribery and ultimatum game treatments, social appropriateness norm violation engenders the decay in trust through its adverse effect on belief about trustworthiness.

The design of insurance coverage for medical products under imperfect competition

- Journal of Public Economics---2016---David Bardey,Helmuth Cremer,Jean-Marie Lozachmeur

This paper studies the design of health insurance with ex post moral hazard, when there is imperfect competition in the market for the medical product. Various

scenarios, such as monopoly pricing or horizontal differentiation are considered. Insurers (or their regulator) can commit to a reimbursement policy which specifies two types of copayments: an ad valorem coinsurance rate and a specific (per unit) copayment. By combining both copayment rates in an adequate way the insurer can effectively control the producer price, which is then set so that the producer's revenue just covers fixed costs. Consequently, a suitable regulation of the copayment instruments leads to the same reimbursement rule as under perfect competition for medical products. Additional rationing of coverage because of imperfect competition is not necessary. The optimal policy involves the smallest possible copayment combined with the largest possible coinsurance rate such that the participation constraint of health providers is binding.

Supply vs. demand under an affirmative action ban: Estimates from UC law schools

- Journal of Public Economics---2016---Danny Yagan

Affirmative action bans can reduce black enrollment not only by reducing black admission advantages (contracting demand) but also by reducing applications (contracting supply) from black students who can still gain admission but prefer alternative schools that still practice affirmative action. When affirmative action was banned at UC law schools, Berkeley's black applications and enrollment declined by almost half even as black admission rates rose relative to whites. I ask whether black enrollment at UC law schools would have markedly declined even if black supply had not contracted. I find in a large sample of students applying to law schools nationwide that black supply contractions were driven mostly or entirely by students unlikely to gain admission under the ban, yielding stronger post-ban black applicant pools. Holding applicant pools constant, I estimate that the ban reduced black admission rates at both Berkeley and UCLA by half. Hence, black enrollment would likely have plummeted even if black supply had not contracted—as could occur under a nationwide ban that eliminates

affirmative-action-practicing alternatives.

Do tax incentives affect charitable contributions? Evidence from public charities' reported revenues

- Journal of Public Economics---2016---Nicolas Duquette

This paper estimates the effect of the charitable contribution tax deduction on charities' donation revenue from charities' tax filings. A one percent increase in the tax cost of giving causes charitable receipts to fall by about four percent, an effect three times larger the consensus in the literature. Further analysis reveals substantial heterogeneity in the tax response by subsector: health care and home care are more tax-sensitive than other charities, while higher education and arts are less tax-sensitive. The results are consistent with substantial tax response heterogeneity within the sample and between sampled and unsampled charities, implying that the mean tax elasticity of charitable contributions is a poor predictor of tax incentive effects for individual charities.

The long-term impact of matching and rebate subsidies when public goods are impure: Field experimental evidence from the carbon offsetting market

- Journal of Public Economics---2016---Martin Kesternich, Andreas Löschel, Daniel Römer

In this paper, we investigate both short- and long-term impacts of financial stimuli on public goods provision when contributions are tied to individual harm-related behavior. We conduct a large-scale field experiment to examine voluntary contributions to a carbon offsetting program during the online purchase of a bus ticket. We systematically vary the individual payoff structure by introducing different price rebates (25%, 50%, 75%) and corresponding matching grants (1/3:1, 1:1, 3:1). Using data on returning customers, we investigate the long-term effects of the different stimuli, both while treatments were in place as well as their persistence

for the time after treatment removal. In the first bookings, our results show that all price rebate schemes increase the participation rate in the offsetting program, while we find weaker effects for matching grants. When bookers are treated repeatedly, only the equal (1:1) matching scheme continues to lead to higher participation rates. Even after removing the subsidies, we report higher participation rates for customers previously facing a 1:1 matching scheme. This treatment is also the only one increasing net contributions of customers compared to the control group.

Mr. Rossi, Mr. Hu and politics. The role of immigration in shaping natives' voting behavior

- Journal of Public Economics---2016---Guglielmo Barone,D'Ignazio, Alessio,Guido de Blasio,Paolo Naticchioni

Using Italian municipality-level data on national elections and IV estimation strategy, we find that immigration generates a sizable causal increase in votes for the center-right coalition, which has a political platform less favorable to immigrants. Additional findings are: (i) the effect is heterogeneous across municipalities with different sizes; (ii) the gain in votes for the center-right coalition corresponds to a loss of votes for the center and center-left parties, a decrease in voter turnout, and a rise in protest votes; (iii) the relationship between immigration and electoral gains percolates to mayoral election at the municipality level; (iv) cultural diversity, competition in the labor market and for public services, and political competition are the most relevant channels at work.

Optimal income taxation when asset taxation is limited

- Journal of Public Economics---2016---Árpád Ábrahám,Sebastian Koehne,Nicola Pavoni

Several frictions restrict the government's ability to tax assets. First, it is very costly to monitor trades on international asset markets. Second, agents can resort to nonobservable low-return assets such as cash, gold or foreign currencies if taxes on observable assets become

too high. This paper shows that limitations in asset taxation have important consequences for the taxation of labor income. We study a simple dynamic moral hazard model of social insurance with observable and nonobservable saving decisions. We find that optimal labor income taxes become less progressive when the ability to tax savings is limited.

Conformism and self-selection in social networks

- Journal of Public Economics---2016---Vincent Boucher

I present a model of conformism in social networks that incorporates both peer effects and self-selection. I show that conformism has positive social value and that social welfare can be bounded by network polarization and connectivity measures. I apply the model to empirical data on high school students' participation in extracurricular activities. I find that the local effect of conformism (i.e. the endogenous peer effect for a fixed network structure) ranges from 7.5% to 45%, depending on the number of peers that an individual has. Simulations show that the optimal policies of an inequality-averse policymaker change depending on a school's enrollment. Small schools should encourage shy students to interact more with other students, while large schools should focus on promoting role models within the school.

The costs and benefits of balanced budget rules: Lessons from a political economy model of fiscal policy

- Journal of Public Economics---2016---Marina Azzimonti,Marco Battaglini,Stephen Coate

This paper analyzes the impact of a balanced budget rule that requires that legislators do not run deficits in the political economy model of Battaglini and Coate (2008). The main finding is that the rule leads to a gradual reduction in the level of public debt. Legislators reduce debt in periods when the demand for public goods is relatively low. They do so because the rule, by restricting future fiscal policies, raises the expected

costs of carrying debt. Whether the rule increases citizen welfare depends on a comparison of the benefits of a lower debt burden with the costs of greater volatility in taxes and less responsive public good provision. A quantitative version of the model is developed in which costs and benefits can be evaluated. A welfare loss results if the debt level when the rule is imposed lies in the support of the long-run distribution associated with the unconstrained equilibrium.

Where does voucher funding go? How large-scale subsidy programs affect private-school revenue, enrollment, and prices

- Journal of Public Economics---2016---Daniel Hungerman, Kevin Rinz

Using a new dataset constructed from nonprofit tax-returns, this paper explores how vouchers and other large-scale programs subsidizing private school attendance have affected the fiscal outcomes of private schools and the affordability of a private education. We find that subsidy programs created a large transfer of public funding to private schools, suggesting that every dollar of funding increased revenue by a dollar or more. Turning to the incidence of subsidies and the impact of subsidies on enrollment, our findings depend on the type of program introduced: programs that restrict eligibility to certain groups of students create large enrollment gains but no change in price, while programs that offer unrestricted subsidies lead to price increases but no change in enrollment. We calculate elasticities of demand and supply for private schools, and discuss welfare effects.

Crime and conspicuous consumption

- Journal of Public Economics---2016---Daniel Mejia, Pascual Restrepo

We study how property crime distorts consumption decisions. Using an incomplete information model, we argue that consuming conspicuous goods reveals information to criminals seeking bountiful victims and increases the likelihood of being victimized. Thus, property crime reduces the consumption of visible goods,

even when these cannot be directly stolen but simply carry information about a potential victim's wealth. We exploit the large decline in property crime in the U.S. during the 90s to test this mechanism. Using data from the U.S. Consumer Expenditure Survey from 1986 to 2003, we find that households located in states experiencing sharper reductions in property crime increased significantly their consumption of visible goods, even when these goods are not generally stolen, both in absolute terms and relative to other consumption goods. Our findings hold when we instrument the decline in property crime during the 90s using a variety of strategies.

Optimal redistribution and monitoring of labor supply

- Journal of Public Economics---2016---Floris T. Zoutman, Bas Jacobs

This paper extends the Mirrlees (1971) model of optimal non-linear income taxation with a monitoring technology that allows the government to verify labor supply at a positive, but non-infinite cost. We analyze the joint determination of the non-linear monitoring and tax schedules, and the conditions under which these can be implemented. Monitoring of labor supply reduces the distortions created by income taxation and raises optimal marginal tax rates, possibly above 100%. The optimal intensity of monitoring increases with the marginal tax rate and the labor-supply elasticity. Our simulations demonstrate that monitoring strongly alleviates the trade-off between equity and efficiency. Welfare gains of monitoring are around 2.8% of total output. The optimal intensity of monitoring follows a U-shaped pattern, similar to that of optimal marginal tax rates. Our paper can explain why large welfare states optimally rely on work-dependent tax credits, active labor-market policies, benefit sanctions and work bonuses in welfare programs.

Tax policy and the financing of innovation

- Journal of Public Economics---2016---Luis A. Bryce Campodonico, Roberto Bonfatti, Luigi Pisano

We study tax policy in a Schumpeterian growth model with asymmetric information in the financing of innovation. Investors cannot a priori distinguish between more or less talented entrepreneurs. Net-worth allows talented entrepreneurs to self-invest and avoid being pooled with less talented entrepreneurs in the credit market. Increasing net-worth boosts innovation even when financed through higher profit taxes. Taxing consumption effectively raises net-worth and subsidizes profits simultaneously. Sufficiently taxing consumption implements the social optimum free of adverse selection. If forced to tax consumption less, the government implements a second best allocation with adverse selection when boosting net-worth enough to avoid adverse selection requires taxing profits excessively.

The long-run consequences of Chernobyl: Evidence on subjective well-being, mental health and welfare

- Journal of Public Economics---2016---Alexander Danzer,Natalia Danzer

This paper assesses the long-run toll taken by a large-scale technological disaster on welfare, well-being and mental health. We estimate the causal effect of the 1986 Chernobyl catastrophe after 20years by linking geographic variation in radioactive fallout to respondents of a nationally representative survey in Ukraine according to their place of residence in 1986. We exclude individuals who were exposed to high levels of radiation—about 4% of the population. Instead, we focus on the remaining majority of Ukrainians who received subclinical radiation doses; we find large and persistent psychological effects of this nuclear disaster. Affected individuals exhibit poorer subjective well-being, higher depression rates and lower subjective survival probabilities; they rely more on governmental transfers as source of subsistence. We estimate the aggregate annual welfare loss at 2–6% of Ukraine’s GDP highlighting previously ignored externalities of large-scale catastrophes.

Do consumers recognize the value of fuel economy? Evidence from used car prices and gasoline price fluctuations

- Journal of Public Economics---2016---James Sallee,Sarah West,Wei Fan

Debate about the appropriate design of energy policy hinges critically on whether consumers might undervalue energy efficiency, due to myopia or some other manifestation of limited rationality. We contribute to this debate by measuring consumers’ willingness to pay for fuel economy using a novel identification strategy and high quality microdata from wholesale used car auctions. We leverage differences in future fuel costs across otherwise identical vehicles that have different current mileage, and therefore different remaining lifetimes. By seeing how price differences across high and low mileage vehicles of different fuel economies change in response to shocks to the price of gasoline, we estimate the relationship between vehicle prices and future fuel costs. Our data suggest that used automobile prices move one for one with changes in present discounted future fuel costs, which implies that consumers fully value fuel economy.

Higher taxes, more evasion? Evidence from border differentials in TV license fees

- Journal of Public Economics---2016---Melissa Berger,Gerlinde Fellner-Röhling,Rupert Sausgruber,Christian Traxler

This paper studies the evasion of TV license fees in Austria. We exploit border differentials to identify the effect of fees on evasion. Comparing municipalities at the low- and high-fee side of state borders reveals that higher fees trigger significantly more evasion. Our preferred estimator indicates that a one percent increase in fees raises the evasion rate by 0.3 percentage points. The positive effect of fees on evasion is confirmed in different parametric and non-parametric approaches and survives several robustness checks.

The impact of depreciation savings on investment: Evidence from the corporate Alternative Minimum Tax

- Journal of Public Economics---2016---Jongsang Park

Over the past decade, the United States has offered investment incentives in the form of larger depreciation savings, namely, bonus depreciation. The neoclassical investment model implies that investment responds to changes in depreciation savings, but there have been few direct attempts to investigate this implication. This paper examines investment patterns surrounding the 1999 shortening of the Alternative Minimum Tax (AMT) depreciation recovery periods, finding strong evidence that firms subject to the AMT increase investment in response to the AMT reform. The empirical results show that firms subject to the AMT increase their investment, measured as the ratio of capital expenditures to capital stock, by around 0.0418 to 0.0622, compared to firms subject to the regular tax. Given their average annual investment rate of approximately 0.27 during this period, the results imply a relative increase in investment of 15%--23%. By contrast, I find that the 2002 introduction of bonus depreciation, available both for firms subject to the regular tax and for firms subject to the AMT, affects both groups of firms similarly. The estimation uses an empirical specification developed from the Summers (1981) tax-adjusted q model, and the results imply that the responsiveness of investment to the tax term is somewhat larger than previously estimated.

The effects of induced emotions on pro-social behaviour

- Journal of Public Economics---2016---Michalis Drouvelis, Brit Grosskopf

Emotions are commonly experienced and expressed in human societies; however, their consequences on economic behaviour have received only limited attention. This paper investigates the effects of induced positive and negative emotions on cooperation and sanctioning behaviour in a one-shot voluntary contributions

mechanism game, where personal and social interests are at odds. We concentrate on two specific emotions: anger and happiness. Our findings provide clear evidence that measures of social preferences are sensitive to subjects' current emotional states. Specifically, angry subjects contribute, on average, less than happy subjects and overall welfare as measured by average net earnings is lower when subjects are in an angry mood. We also find that how punishment is used is affected by moods: angry subjects punish harsher than happy subjects, *ceteris paribus*. These findings suggest that anger, when induced, can have a negative impact on economic behaviour.

Tax compliance and psychic costs: Behavioral experimental evidence using a physiological marker

- Journal of Public Economics---2016---Uwe Dulleck, Jonas Fookien, Cameron Newton, Andrea Ristl, Markus Schaffner, Benno Torgler

Although paying taxes is a key element of a well-functioning society, there is still limited understanding as to why people actually pay their taxes. Models emphasizing that taxpayers make strategic, financially motivated compliance decisions seemingly assume an overly restrictive view of human nature. Law abidance may be more accurately explained by social norms, a concept that has gained growing importance as research attempts to understand the tax compliance puzzle. This study analyzes the influence of psychic stress generated by the possibility of breaking social norms in the tax compliance context. We measure psychic stress using heart rate variability (HRV), which captures the psychobiological or neural equivalents of psychic stress that may arise from the contemplation of real or imagined actions, producing immediate physiologic discomfort. The results of our laboratory experiments provide empirical evidence of a positive correlation between psychic stress and tax compliance, thus underscoring the importance of moral sentiments for tax compliance. We also identify three distinct types of individuals who differ in their levels of psychic stress, tax morale, and tax compliance.

Income redistribution in open economies

- Journal of Public Economics---2016---Áron Tóbiás

I propose a model of income redistribution in an open-economy environment. The world consists of a finite number of countries whose governments seek to maximize the welfare of their low-skilled populations by taxing skilled workers' labor income. While tax competition limits the extent to which redistribution is possible—as compared to the closed-economy outcome—when skilled people are internationally mobile, I argue that race to the bottom does not necessarily occur, even if the number of countries becomes arbitrarily large. The asymptotic sustainability of the welfare state crucially depends on the statistical properties of the probability distribution of skilled people's location preferences.

Voting and optimal provision of a public good

- Journal of Public Economics---2016---Ran Shao,Lin Zhou

In this paper, we study the optimal provision of a costly public good using an average efficiency criterion. For every fixed cost, we identify a quota mechanism as the optimal mechanism among those that are dominant-incentive-compatible, deficit-free and kind. Moreover, we also consider the asymmetric case and demonstrate that a committee mechanism is optimal for a large class of mechanisms. In particular, this mechanism dominates all VCG (pivotal) mechanisms.

Sending the pork home: Birth town bias in transfers to Italian municipalities

- Journal of Public Economics---2016---Felipe Carozzi,Luca Repetto

We ask whether the birthplaces of Italian members of Parliament are favoured in the allocation of central government transfers. Using a panel of municipalities for the years between 1994 and 2006, we find that municipal governments of legislators' birth towns receive larger transfers per capita. Exploiting variation in birthplaces induced by parliamentary turnover for

estimation, we find that this effect is driven by legislators who were born in a town outside their district of election. As a result, we argue that our findings cannot be a consequence of re-election incentives, the usual motivation for pork-barrel policies in the literature. Rather, politicians may be pursuing other personal motives. In line with this hypothesis, we find that the birth town bias essentially disappears when legislative elections are near. We explore several possible mechanisms behind our results by matching parliamentarians to a detailed dataset on local level administrators.

Experiencing breast cancer at the workplace

- Journal of Public Economics---2016---Giulio Zanella,Ritesh Banerjee

We study a dynamic natural experiment involving nearly 3000 American women of age 50–64 to understand how a woman's propensity to receive an annual mammography changes over time after a co-worker is diagnosed with breast cancer. We find that in the year this event occurs the probability of screening drops by about 6 percentage points, off a base level of 70%. This impact effect is persistent for at least two years. Underlying mechanisms and implications for health policy are discussed.

Political self-serving bias and redistribution

- Journal of Public Economics---2016---Bruno Defains,Romain Espinosa,Christian Thöni

We explore the impact of the self-serving bias on the supply and demand for redistribution. We present results from an experiment in which participants decide on redistribution after performing a real effort task. Dependent on individual performance, participants are divided into two groups, successful and unsuccessful. Participants' success is exogenously determined, because they are randomly assigned to either a hard or easy task. However, because participants are not told which task they were assigned to, there is ambiguity as to whether success or failure should be attributed to internal or external factors. Participants take two redistribution decisions. First, they choose a supply of

redistribution in a situation where no personal interests are at stake. Second, they choose a redistributive system behind a veil of ignorance. Our results confirm and expand previous findings on the self-serving bias: successful participants are more likely to attribute their success to their effort rather than luck, and they opt for less redistribution. Unsuccessful participants tend to attribute their failure to external factors and opt for more redistribution. We demonstrate that the self-serving bias contributes to a polarization of the views on redistribution.

Mass media, instrumental information, and electoral accountability

- Journal of Public Economics---2016---Christian Bruns, Oliver Himmler

Journalism is widely believed to be crucial for holding elected officials accountable. At the same time economic theory has a hard time providing an instrumental explanation for the existence of “accountability journalism”. According to the common Downsian reasoning, rational voters should not be willing to pay for information out of purely instrumental motives because the individual probabilities of casting the decisive vote are typically very low. We show that this rationale does not apply when a group of voters shares a common goal such as accountability and information is delivered via mass media. In contrast to the pessimistic Downsian view, rational voters can have a considerable willingness to pay for the provision of instrumental information in these scenarios. Our model thus reconciles the rational voter approach with the common perception of journalism as a watchdog that holds elected officials accountable.

Hierarchical accountability in government

- Journal of Public Economics---2016---Razvan Vlaicu, Alexander Whalley

This paper studies a setting where a relatively uninformed voter holds a policymaker accountable through an informed intermediary. In equilibrium the voter uses the intermediary to insulate the policymaker from

pandering incentives when the voter’s policy expertise is low or the policymaker’s congruence is high. The voter can thus enjoy the benefits of bureaucratic expertise without forfeiting electoral responsiveness. We examine the model’s predictions using U.S. city-level data, and find that hierarchically-accountable managers reduce popular city employment, and adjust it more flexibly, than electorally-accountable mayors. The estimated incentive effects are smaller in cities with high voter expertise and larger during election years, and are robust to instrumentation by precipitation shocks that influenced early 20th century manager government adoptions for reasons obsolete today.

How to make the metropolitan area work? Neither big government, nor laissez-faire

- Journal of Public Economics---2016---Carl Gaigne, Stephane Riou, Jacques Thisse

We study how administrative boundaries and tax competition among asymmetric jurisdictions interact with the labor and land markets to determine the economic structure and performance of metropolitan areas. Contrary to general belief, cross-border commuting need not be welfare-decreasing in the presence of agglomeration economies that vary with the distribution of firms within the metropolitan area. Tax competition implies that the central business district is too small and prevents public policy enhancing global productivity to deliver their full impact. Although our results support the idea of decentralizing the provision of local public services by independent jurisdictions, they highlight the need of coordinating tax policies and the importance of the jurisdiction sizes within metropolitan areas.

Divided majority and information aggregation: Theory and experiment

- Journal of Public Economics---2016---Laurent Bouton, Micael Castanheira, Aniol Llorente-Saguer

We propose a theory-based experimental approach to compare the properties of approval voting (AV) with those of plurality. This comparison is motivated by

the theoretical prediction that, in our aggregate uncertainty setup, AV should produce close to first-best outcomes, while plurality will not. The experiment shows, first, that welfare gains are substantial. Second, both aggregate and individual responses are in line with theoretical predictions, and thus with strategic voting. Finally, subjects' behavior under AV highlights the need to study equilibria in asymmetric strategies.

Dynasties in professions and the role of rents and regulation: Evidence from Italian pharmacies

- Journal of Public Economics---2016---Sauro Mo-
cetti

This paper provides causal evidence concerning the role of rents in explaining dynasties in professions. It focuses on the Italian pharmacist labor market, and exploits discontinuities (established by law) in the relationship between the number of pharmacies that should serve a city and the population. Using a regression discontinuity design, it shows that a reduction in rent, proxied by the pharmacy-to-population ratio, has a significant and negative impact on the propensity of pharmacists' children to follow their parents' career. In contrast, pharmacy rents do not affect the career choices of non-pharmacists' children, who face higher entry barriers (i.e. they do not inherit the family business). Further evidence shows that rents and lower exposure to competition are associated with stronger family ties also among other professions and within firms.

Traffic accidents and the London congestion charge

- Journal of Public Economics---2016---Colin
Green, John Heywood, María Navarro

In a rare effort to internalize congestion costs, London recently instituted charges for traveling by car to the central city during peak hours. Although the theoretical influence on the number and severity of traffic accidents is ambiguous, we show that the policy generated a substantial reduction in both the number of accidents and in the accident rate. At the same time,

the spatial, temporal and vehicle specific nature of the charge may cause unintended substitutions as traffic and accidents shift to other proximate areas, times and to uncharged vehicles. We demonstrate that, to the contrary, the congestion charge reduced accidents and the accident rate in adjacent areas, times and for uncharged vehicles. These results are consistent with the government's objective to use the congestion charge to more broadly promote public transport and change driving habits.

The effect of tax enforcement on tax elasticities: Evidence from charitable contributions in France

- Journal of Public Economics---2016---Gabrielle
Fack, Camille Landais

In the "sufficient statistics" approach, the optimal tax rate is usually expressed as a function of tax elasticities that are often endogenous to other policy instruments available to the tax authority, such as the level of information, enforcement, etc. In this paper we provide evidence that both the magnitude and the anatomy of tax elasticities are extremely sensitive to a particular policy instrument: the level of tax enforcement. We exploit a natural experiment that took place in France in 1983, when the tax administration tightened the requirements to claim charitable deductions. The reform led to a substantial drop in the amount of contributions reported to the administration, which can be credibly attributed to overreporting of charitable contributions before the reform, rather than to a real change in giving behaviors. We show that the reform was also associated with a substantial decline in the absolute value of the elasticity of reported contributions. This finding allows us to partially identify the elasticity of overreporting contributions, which is shown to be large and inferior to -2 in the lax enforcement regime. We further show using bunching of taxpayers at kink-points of the tax schedule that the elasticity of taxable income also experienced a significant decline after the reform. Our results suggest that failure to account for the effect of tax enforcement on both the magnitude and the anatomy of the elasticity of the tax base with respect to the net of tax rate can lead to mis-

leading policy conclusions, both for the global optimal tax rate (when all policy instruments are optimized) and the local optimal tax rate (conditional on all other policy instruments staying at their status quo levels, potentially away from the optimum).

The effect of vehicle fuel economy standards on technology adoption

- Journal of Public Economics---2016---Thomas Klier, Joshua Linn

Many countries are tightening passenger vehicle fuel economy standards. This paper provides the first empirical evidence on the effects of fuel economy standards on technology adoption. We investigate changes in the rate and direction of technology adoption, that is, the extent to which technology is used to increase fuel economy at the expense of other vehicle attributes. We find that recent changes in U.S. and European standards have both increased the rate of technology adoption and affected the direction of technology adoption. Producers reduced horsepower and torque compared to a counterfactual in which fuel economy standards remained unchanged. We estimate opportunity costs from reduced horsepower and torque to be economically significant relative to the gains from fuel savings.

Malapportionment and multilateral bargaining: An experiment

- Journal of Public Economics---2016---Emanuel I. Vespa

Members of collective decision-making bodies often represent communities that differ in population sizes. Malapportionment results when decision-making power is not allocated evenly across the population. Two well known institutions with malapportionment have emerged: bicameralism and weighted voting. This paper studies experimentally how agenda setting power affects the distribution of resources, comparing across those two institutions. Conventional wisdom suggests that malapportionment favors scarcely populated states. I find that this is the case under weighted voting, but not necessarily in a bicameral system. In

the later case, the allocation of agenda setting power can be used to eliminate distortions stemming from malapportionment.

Teacher pay and school productivity: Exploiting wage regulation

- Journal of Public Economics---2016---Jack Britton, Carol Propper

The impact of teacher pay on school productivity is a central concern for governments worldwide, yet evidence is mixed. In this paper we exploit a feature of teacher labour markets to determine the impact of teacher wages. Teacher wages are commonly set in a manner that results in flat wages across heterogeneous labour markets. This creates an exogenous gap between the outside labour market and inside (regulated) wage for teachers. We use the centralised wage regulation of teachers in England to examine the effect of pay on school performance. We use data on over 3000 schools containing around 200,000 teachers who educate around half a million children per year. We find that teachers respond to pay. A ten percent shock to the wage gap between local labour market and teacher wages results in an average loss of around 2% in average school performance in the key exams taken at the end of compulsory schooling in England.

Intensive and extensive margins of fertility, capital accumulation, and economic welfare

- Journal of Public Economics---2016---Akira Momota

This paper investigates the impact of low fertility on long-term capital accumulation and economic welfare. We find that the impact differs depending on whether the low fertility arises from a decrease in the fertility of mothers (the intensive margin of fertility) or the motherhood rate (the extensive margin of fertility). We show that an increase in the fertility of mothers decreases the capital stock and economic welfare. Conversely, we identify a U-shaped relationship between the extensive margin of fertility and the capital stock because of the existence of two opposing effects, such

that the decline in fertility may reduce economic welfare. Furthermore, we show that an intragenerational income redistribution policy can eliminate the welfare loss resulting from the incomplete market.

Foreign aid and voting in international organizations: Evidence from the IWC

- Journal of Public Economics---2015---Christian Dippel

I use a unique dispute between major aid donors in the International Whaling Commission (IWC) to investigate whether donor nations change their aid giving in response to changes in aid recipients' voting behavior inside international organizations (IOs). This relationship is difficult to pin down in most IOs because agenda items constantly change and donor coalitions fluctuate with them. I exploit the fact that the IWC has, on the one hand, seen two fixed aid donor blocs opposing each other for three decades over a single issue, but has on the other hand seen rich variation in both membership and voting behavior of aid recipient countries. Using an identification strategy that relates changes in bilateral aid to within-recipient variation in IWC voting-bloc affiliation and fixed cross-sectional variation in donors' voting bloc, the evidence suggests that Japan rewards joining the pro-whaling bloc, and that countries who recently experienced aid reductions from the three big anti-whaling donors – the U.S., the U.K., and France – are more likely to join the pro-whaling bloc.

Empowering poor people through public information? Lessons from a movie in rural India

- Journal of Public Economics---2015---Martin Ravallion,Dominique van de Walle,Puja Dutta,Rinku Murgai

Mass public information campaigns have promised to empower poor people, but do they deliver on that promise? We designed and implemented a trial information campaign in poor rural areas of India, in the form of an entertaining movie that teaches people their rights under a large national antipoverty program. In

randomly assigned villages, the movie brought significant gains in knowledge and more positive perceptions about the scheme and village life relative to control villages. But objectively measured outcomes showed no gain. The movie changed perceptions but not reality. We conclude that information is not the key constraint in this context.

Government versus private ownership of public goods: The role of bargaining frictions

- Journal of Public Economics---2015---Patrick Schmitz

The government and a non-governmental organization (NGO) can invest in the provision of a public good. Who should be the owner of the public project? In an incomplete contracting model in which ex post negotiations are without frictions, the party that values the public good most should be the owner, regardless of technological aspects. However, under the plausible assumption that there are bargaining frictions, the optimal ownership structure depends on technological aspects and on the parties' valuations. We show that the differences between incomplete contracting models with public goods and private goods are thus smaller than has previously been thought.

Reexamining the consumption smoothing benefits of Unemployment Insurance

- Journal of Public Economics---2015---Chloe East,Elira Kuka

The Great Recession spurred renewed interest in the moral hazard effects of the Unemployment Insurance (UI) program, however little research has focused on determining its benefits. This paper examines the consumption smoothing benefit of the UI program over the last 40years, finding strong evidence of heterogeneity in this effect over time. In particular, the effects of UI are smaller in the 1990s compared with the 1970s. The 1990s were unique because of the long period of low unemployment rates as well as relatively low UI program generosity, thus we test whether the consumption smoothing effects vary by the state unemployment

rate and average program generosity. We find suggestive evidence that the effects are larger when the state unemployment rate and average generosity are high. Together, these two dimensions can explain around 30–46% of the differential effect that we find in the 1990s.

Norm conformity across societies

- Journal of Public Economics---2015---Moti Michaeli, Daniel Spiro

This paper studies the aggregate distribution of declared opinions and behavior when heterogeneous individuals make the trade-off between being true to their private opinions and conforming to a social norm. The model sheds light on how various sanctioning regimes induce conformity and by whom, and on phenomena such as societal polarization and unimodal concentration. In strict societies, individuals will tend to either fully conform to the social norm or totally ignore it, while individuals in liberal societies will tend to compromise between these two extremes. Furthermore, the degree of strictness determines whether those who nearly agree with the norm or those who strongly disagree with it will conform. The degree of liberalism similarly determines which individuals will compromise the most. A number of empirical predictions, and several methods of how to test them, are suggested.

The unintended consequences of internet diffusion: Evidence from Malaysia

- Journal of Public Economics---2015---Luke Miner

Can the introduction of the Internet undermine incumbent power in a semi-authoritarian regime? I examine this question using evidence from Malaysia, where the incumbent coalition lost its 40-year monopoly on power in 2008. I develop a novel methodology for measuring Internet penetration, matching IP addresses with physical locations, and apply it to the 2004 to 2008 period in Malaysia. Using distance to the backbone to instrument for endogenous Internet penetration, I find that Internet exposure accounts for 6.6 points, nearly half the swing against the incumbent party in 2008.

I find limited evidence of increased turnover, and no evidence of an effect on turnout.

Does expansion of higher education lead to trickle-down growth?

- Journal of Public Economics---2015---Sebastian Böhm, Volker Grossmann, Thomas Steger

The paper revisits the debate on trickle-down growth in view of the widely discussed changes in the distribution of earnings and income that followed a massive expansion of higher education. We propose a dynamic general equilibrium model to dynamically evaluate whether economic growth triggered by an increase in public education expenditure on behalf of those with high learning ability eventually trickles down to low-ability workers and serves them better than redistribution through labor income taxation or education policies targeted to the low-skilled. Our results suggest that promoting higher education implies that low-skilled workers first lose in terms of consumption and income but eventually gain. Policies that aim at expanding the skills of low-ability workers make them better off only moderately because of adverse general equilibrium effects. Low-ability workers typically benefit most from redistribution.

Political accountability and sequential policymaking

- Journal of Public Economics---2015---Ethan Bueno de Mesquita, Dimitri Landa

We develop a model of political accountability with sequential policymaking. When a bureaucrat's actions are transparent, his overseer faces a political time inconsistency problem—she is tempted to revise her retention rule in the middle of the policymaking process. As a result, the bureaucrat's equilibrium behavior overemphasizes later tasks. If the overseer knows the technology by which policies translate into outcomes, then she can eliminate these distortions using task-specific budget caps. However, if the overseer is uncertain about this technology, such budget caps introduce ex post inefficiency. When uncertainty is sufficiently

large and consequential, the overseer prefers an institutional environment with a fungible budget and no transparency. Such an environment allows the overseer to exploit the bureaucrat's expertise, though at the cost of weaker overall incentives.

Professional norms and physician behavior: Homo oeconomicus or homo hippocraticus?

- Journal of Public Economics---2015---Iris Kesternich,Heiner Schumacher,Joachim Winter

Physicians' treatment decisions determine the level of health care spending to a large extent. The analysis of physician agency describes how doctors trade off their own and their patients' benefits, with a third party (such as the collective of insured individuals or the taxpayers) bearing the costs. Professional norms are viewed as restraining physicians' self-interest and as introducing altruism towards the patient. We present a controlled experiment that analyzes the impact of professional norms on prospective physicians' trade-offs between their own profits, the patients' benefits, and the payers' expenses for medical care. Our data support the notion that professional norms derived from the Hippocratic tradition shift weight to the patient in physicians' decisions while decreasing their self-interest and efficiency concerns.

The value of technology improvements in games with externalities: A fresh look at offsetting behavior

- Journal of Public Economics---2015---Michael Hoy,Mattias K Polborn

We model the effect of safety technology improvements in a symmetric game in which each player's payoff depends on his own precaution and the other players' average precaution. We derive conditions under which an improved technology increases or decreases players' equilibrium utilities.

Income receipt and mortality — Evidence from Swedish public sector employees

- Journal of Public Economics---2015---Elvira Andersson,Petter Lundborg,Johan Vikström

In this paper, we study the short-run effect of salary receipt on mortality among Swedish public sector employees. By exploiting variation in paydays across work-places, we completely control for mortality patterns related to, for example, public holidays and other special days or events coinciding with paydays and for general within-month and within-week mortality patterns. We find a dramatic increase in mortality on the day that salaries arrive. The increase is especially pronounced for younger workers and for deaths due to activity-related causes such as heart conditions and strokes. The effect is entirely driven by an increase in mortality among low income individuals, who are more likely to experience liquidity constraints. All things considered, our results suggest that an increase in general economic activity on salary receipt is an important cause of the excess mortality.

Luck, choice and responsibility — An experimental study of fairness views

- Journal of Public Economics---2015---Johanna Mollerstrom,Bjørn-Atle Reme,Erik Sørensen

We conduct laboratory experiments where third-party spectators have the opportunity to redistribute resources between two agents, thereby eliminating inequality and offsetting the consequences of controllable and uncontrollable luck. Some spectators go to the limits and equalize either all or no inequalities, but many follow an interior allocation rule. These interior allocators regard an agent's choices as more important than the cause of her low income and do not always compensate bad uncontrollable luck. Instead, they condition such compensation on the agent's decision regarding controllable luck exposure, even though the two types of luck are independent. This allocation rule is previously unaccounted for by the fairness views in the literature. Moreover, its policy implications are fundamentally different in that it extends individual

responsibility for choices made to also apply to areas that were not affected by these choices.

Optimal wage redistribution in the presence of adverse selection in the labor market

- Journal of Public Economics---2015---Spencer Bastani, Tomer Blumkin, Luca Micheletto

In this paper we highlight a novel role played by the non-linear income tax in the presence of adverse selection in the labor market due to asymmetric information between workers and firms. Relying on the Rothschild and Stiglitz equilibrium concept, we show that an appropriate choice of the tax schedule enables the government to affect the wage distribution by controlling the transmission of information in the labor market. This represents an additional channel through which the government can foster the pursuit of its redistributive goals.

Majority choice of tax systems in single- and multi-jurisdictional economies

- Journal of Public Economics---2015---Stephen Calabrese, Dennis Epple, Richard Romano

We examine majority choice of tax instruments in an economy with heterogeneous households. In our framework majority voting equilibrium exists despite the multidimensional policy choice set. We examine single and multi-jurisdictional economies. We identify five competing incentives that influence choice of tax instruments. Equilibria generally entail a mixture of tax types. With multiple jurisdictions, strong reliance on head taxation in rich communities arises to deter poorer households from immigrating, in spite of local incentives to use alternative tax instruments to redistribute wealth. If relocation costs preclude inter-community mobility, the equilibrium tax system is fundamentally affected, with redistribution incentives then dominating choice of instruments and tax rates. Limiting or eliminating head taxation fundamentally alters stratification, public good provision levels, and tax systems.

Keeping up with the Joneses, the Smiths and the Tanakas: On international tax coordination and social comparisons

- Journal of Public Economics---2015---Thomas Aronsson, Olof Johansson-Stenman

Recent evidence suggests that social comparisons between people in different countries have become more important over time due to globalization. This paper deals with optimal nonlinear income taxation in an international setting, where consumers derive utility from their relative consumption compared both with other domestic residents and people in another country. The optimal tax policy in our framework reflects both correction for positional externalities and redistributive aspects of such correction due to the incentive constraint facing each government. If the national governments behave as Nash competitors to each other, the resulting tax policy only internalizes the externalities that are due to within-country comparisons, whereas the tax policy chosen by the leader country in a Stackelberg game also to some extent reflects between-country comparisons. We also derive globally Pareto-efficient tax policies in a cooperative framework, and conclude that there are potentially large welfare gains of international tax policy coordination.

More and cheaper haircuts after VAT cut? On the efficiency and incidence of service sector consumption taxes

- Journal of Public Economics---2015---Tuomas Kosonen

Consumption tax rates targeted at specific sectors are often reformed without any empirical knowledge about the efficiency of these policies. This paper sheds light on tax incidence as well as the efficiency issue, the potential for welfare improving reform, by studying the impact of value added taxes (VAT) on prices and quantities of labor intensive services. I utilize a VAT reform targeted at a specific service sector, which creates a natural experiment set up. The VAT for hairdressing services in Finland was reduced from 22% to 8%, and the previous tax treatment still applied to other

labor intensive services. The choice of the treatment and control groups was exogenous to circumstances in Finland, since these groups were selected from a wider European setting. The results suggest that hairdressers cut their prices only by half of what a complete pass-through would have implied, and that there was hardly any adjustment in equilibrium quantity due to the reform. Hairdressers were able to increase their profits significantly. There is important heterogeneity in the results according to firm size.

Local natural resource curse?

- Journal of Public Economics---2015---Lars-Erik Borge,Pernille Parmer,Ragnar Torvik

Utilizing an output based efficiency measure we investigate whether higher public revenues harm efficiency in the production of local public goods. Much variation in revenues among Norwegian local governments can be explained by revenues collected from hydropower production. This revenue variation, combined with good data availability, can be used to address a main concern in the resource curse literature; that public sector revenue, and in particular the revenue from natural resources, is endogenous. We obtain an exogenous measure of local revenue by instrumenting the variation in hydropower revenue, and thus total revenue, by topology, average precipitation and meters of river in steep terrain. We find support for what we term the Paradox of Plenty hypothesis—that higher local government revenue reduces the efficiency in production of public goods. We do not find support for what we term the Rentier State hypothesis—that revenue derived from natural resources should harm efficiency more than revenue derived from other sources such as taxation.

Optimal tax salience

- Journal of Public Economics---2015---Jacob Goldin

Recent empirical work finds that consumers under-account for commodity taxes when the after-tax price is not prominent. I investigate how policymakers may

utilize such “low-salience” taxes to promote welfare. The optimal combination of high- and low-salience taxes balances two competing effects: low-salience taxes dampen distortionary substitution but cause consumers to misallocate their budgets. Using a stylized model, I show the availability of taxes with differing salience provides an extra degree of freedom that can be used to implement the first-best welfare outcome. I characterize the optimal policy and derive a formula for incremental adjustments when the first-best is unattainable.

Quantity restrictions on advertising, commercial media bias, and welfare

- Journal of Public Economics---2015---Anna Kerkhof,Johannes Münster

We study the welfare effect of a quantity restriction on advertising in free-to-air television (and other advertising financed media) in the presence of commercial media bias. Broadcasters face a trade-off between increasing the number of viewers by sending content that is highly valued by viewers, and increasing the price of advertising by choosing advertiser friendly content. A cap on advertising drives the per-viewer price of ads up; thus, content improves for viewers. Therefore, the cap can be welfare enhancing, even when viewers are not ad averse. Competition among broadcasters makes it more likely that a cap on advertising improves welfare. Thus, there is a complementarity between regulation and competition on this market. We also show that a tax on advertising revenues has quite different effects than a cap on advertising quantity.

Unsticking the flypaper effect in an uncertain world

- Journal of Public Economics---2015---Carlos Vegh,Guillermo Vuletin

We provide a novel explanation for the flypaper effect based on insurance arguments. In our model, the flypaper effect arises due to the differential response of precautionary savings to private income or fiscal transfers shocks in an uncertain world with incomplete

markets. The model generates two testable implications: (i) the flypaper effect is a decreasing function of the correlation between fiscal transfers and private income, and (ii) such relationship is stronger the higher is the volatility of fiscal transfers and/or private income. An empirical analysis of Argentinean provinces for the period 1963–2006 finds strong support for the model's implications.

Do polls create momentum in political competition?

- Journal of Public Economics---2015---Philipp Den-ter,Dana Sisak

We explore how public opinion polls affect candidates' campaign spending in political competition. Generally, polls lead to (more) asymmetric behavior. Under a majority rule, there always exists an equilibrium in which the initially more popular candidate invests more in the campaign and thereby increases her lead in expectation: polls create momentum. When campaigning is very effective and the race is very close, a second type of equilibrium may exist: The trailing candidate outspends and overtakes his opponent. Regardless of the type of equilibrium, polls have a tendency to decrease expected total campaigning expenditures by amplifying ex-ante asymmetries between candidates and thus defusing competition. When candidates care also for their vote share in addition to having the majority, candidates' incentives crucially depend on the distribution of voters' candidate preferences.

Corporate taxation and capital accumulation: Evidence from sectoral panel data for 14 OECD countries

- Journal of Public Economics---2015---Stephen Bond,Jing Xing

We present new empirical evidence that sector-level capital-output ratios are strongly influenced by corporate tax incentives, as summarised by the tax component of a standard user cost of capital measure. We use sectoral panel data for the USA, Japan, Australia and eleven EU countries over the period 1982–2007. Our

panel combines internationally consistent data on capital stocks, value-added and relative prices from the EU KLEMS database with corporate tax measures from the Oxford University Centre for Business Taxation. Our results for equipment investment are particularly robust, and strikingly consistent with the basic economic theory of corporate investment.

Mediocracy

- Journal of Public Economics---2015---Andrea Mat-tozzi,Antonio Merlo

We study the recruitment of individuals in the political sector. We propose an equilibrium model of political recruitment by two political parties competing in an election. We show that political parties may deliberately choose to recruit only mediocre politicians, in spite of the fact that they could select better individuals. Furthermore, we show that when political talent is scarce this phenomenon is more likely to occur in proportional than in majoritarian electoral systems.

Equilibrium tax rates and income redistribution: A laboratory study

- Journal of Public Economics---2015---Marina Agranov,Thomas Palfrey

This paper reports results from a laboratory experiment that investigates the Meltzer–Richard model of equilibrium tax rates, inequality, and income redistribution. The experiment varies the amount of wage inequality and the political process used to determine tax rates. We find that higher inequality leads to higher tax rates; the effect is significant and large in magnitude. The tax rates and labor supply functions are both quantitatively close to the theory. The result is robust to the political institution. The theoretical model of Meltzer–Richard is extended to incorporate social preferences in the form of altruism and inequity aversion, which are found to have negligible effects in the data.

Hoping for the best, unprepared for the worst

- Journal of Public Economics---2015---Justin Fox,Richard Van Weelden

We explore the incentives for a career-minded policymaker to take preventative action to protect a principal against a possible crisis. The policymaker's ability and the action he takes are unobserved, but the principal draws inferences about the policymaker's ability based on the resulting outcome before deciding whether to retain him. When the crisis is potentially catastrophic, it is in the principal's interest for the policymaker to take preventative action. However, when the crisis is sufficiently rare, he fails to do so. Instead, the policymaker directs his efforts toward activities that enhance the principal's welfare when the crisis doesn't materialize. This distortion is driven by the policymaker's desire to be retained together with the inability of the principal to observe the policymaker's action. Our framework provides a novel explanation for why policymakers often fail to prepare effectively for rare disasters and other potential crises and contributes to a growing literature on electorally induced distortions in multi-task problems.

Fear of Obama: An empirical study of the demand for guns and the U.S. 2008 presidential election

- Journal of Public Economics---2015---Emilio Depetris-Chauvin

Using monthly data constructed from futures markets on presidential election outcomes and a novel proxy for firearm purchases, this paper analyzes the response of the demand for guns to the likelihood of Barack Obama being elected in 2008. Point estimate suggests the existence of a large Obama effect on the demand for guns. This political effect is larger than the effect associated with the worsening economic conditions. This paper presents robust empirical evidence supporting the hypothesis that the unprecedented increase in the demand for guns was partially driven by fears of a future Obama gun-control policy. Conversely, the

evidence for a racial prejudice motivation is less conclusive. Furthermore, this paper argues that the Obama effect did not represent a short-lived intertemporal substitution effect, and that it permanently affected the stock of guns in circulation. Finally, states that had the largest increases in the demand for guns during the 2008 election race experienced significant changes in certain categories of crime relative to other states following Obama's election. In particular, those states were 20% more likely to experience a shooting event where at least three people were killed.

Media competition and electoral politics

- Journal of Public Economics---2015---Amedeo Piatto,Florian Schuett

We build a framework linking competition in the media market to political participation. Media outlets report on the ability of candidates running for office and compete for audience through their choice of slant. Citizens consume news only if the expected utility of being informed about candidates' ability is sufficiently large for their group collectively. Our results can reconcile seemingly contradictory empirical evidence showing that entry in the media market can either increase or decrease turnout. While information pushes up independent turnout, partisans adjust their turnout to the ability of their preferred candidate, and on average they vote less when informed.

What do normative indices of multidimensional inequality really measure?

- Journal of Public Economics---2015---Kristof Bosmans,Koen Decancq,Erwin Ooghe

We argue that normative indices of multidimensional inequality do not only measure a distribution's extent of inequity (i.e., the gaps between the better-off and the worse-off), but also its extent of inefficiency (i.e., the non-realized mutually beneficial exchanges of goods). We provide a decomposition that allows us to quantify these two parts of inequality. Strikingly, the inequity component turns out to be a two-stage

measure, that is, a measure that applies a unidimensional inequality measure to the vector of individual well-being levels. The decomposition also clarifies existing controversies surrounding two prominent transfer axioms, viz., uniform majorization and correlation increasing majorization. An application to inequality in human development illustrates the analysis.

Productivity returns to experience in the teacher labor market: Methodological challenges and new evidence on long-term career improvement

- Journal of Public Economics---2015---John P. Papay,Matthew A. Kraft

We present new evidence on the relationship between teacher productivity and job experience. Econometric challenges require identifying assumptions to model the within-teacher returns to experience with teacher fixed effects. We describe the identifying assumptions used in past models and in a new approach that we propose, and we demonstrate how violations of these assumptions can lead to substantial bias. Consistent with past research, we find that teachers experience rapid productivity improvement early in their careers. However, we also find evidence of returns to experience later in the career, indicating that teachers continue to build human capital beyond these first years.

How individual preferences are aggregated in groups: An experimental study

- Journal of Public Economics---2015---Attila Ambrus,Ben Greiner,Parag Pathak

This paper experimentally investigates how individual preferences, through unrestricted deliberation, are aggregated into a group decision in two contexts: reciprocating gifts and choosing between lotteries. In both contexts, we find that median group members have a significant impact on the group decision, but the median is not the only influential group member. Non-median members closer to the median tend to have more influence than other members. By investigating the same individual's influence in different groups, we find evidence for relative position in the

group having a direct effect on influence. These results are consistent with predictions from spatial models of dynamic bargaining, for members with intermediate levels of patience. We also find that group deliberation involves bargaining and compromise as well as persuasion: preferences tend to shift towards the choice of the individual's previous group, especially for those with extreme individual preferences.

The hidden costs of tax evasion

- Journal of Public Economics---2015---Loukas Balafoutas,Adrian Beck,Rudolf Kerschbamer,Matthias Sutter

We experimentally examine the impact of tax evasion attempts on the performance of credence goods markets, where contractual incompleteness results from asymmetric information on the welfare maximizing quality of the goods. Our results suggest that tax evasion attempts – independently of whether they are successful or not – lead to efficiency losses in the form of too low quality and less frequent trade. Thus, shadow economies may reduce welfare not only by inducing agents to incur costs to hide or to uncover taxable transactions, by imposing risk on uncertainty-averse tax evaders and by distorting competition, but also by creating an additional efficiency loss in the underlying market by forfeiting possible gains from trade and by inducing insufficient quality provision. We call these the hidden costs of tax evasion.

Asset accumulation and labor force participation of disability insurance applicants

- Journal of Public Economics---2015---Pian Shu

This paper provides empirical evidence of the existence of forward-looking asset-accumulation behavior among disability-insurance applicants, previously examined only in the theoretical literature. Using panel data from the RAND Health and Retirement Study, I show that rejected applicants for Social Security Disability Insurance (SSDI) possess significantly more assets than accepted applicants immediately prior to application and exhibit lower attachment to the labor force. These

empirical results are consistent with the theoretical prediction in Diamond and Mirrlees (1978) and Golosov and Tsyvinski (2006) that certain individuals with high unwillingness to work maximize utility by planning in advance for their future disability insurance application. Because the existing empirical literature on disability insurance does not account for this intertemporal channel, it may underestimate the total work-disincentive effect of SSDI.

Efficient education subsidization and the pay-as-you-use principle

- Journal of Public Economics---2015---Bei Li,Jie Zhang

We investigate whether the pay-as-you-use principle of public finance should apply to education subsidization for children to internalize human capital externalities in an intergenerational model with endogenous fertility, leisure, and accumulations of human and physical capital. We characterize social optimality concerning physical and human capital accumulation, leisure, labor, and fertility to guide the design of efficient education subsidization. We show that efficient education subsidization requires future generations benefitting from it pay for it when fertility and leisure are endogenous. Namely, the government should uphold the pay-as-you-use principle to subsidize children's education by deficit and repay the debt by future taxes.

Effects of social security policies on benefit claiming, retirement and saving

- Journal of Public Economics---2015---Alan Gustman,Thomas L. Steinmeier

An enhanced version of a structural model jointly explains benefit claiming, wealth and retirement, including reversals from states of lesser to greater work. The model is estimated with Health and Retirement Study data. Alternative beliefs about the future of Social Security affect claiming behavior. Effects of three potential policies are also examined: increasing the early entitlement age, increasing the full retirement

age, and eliminating the payroll tax for seniors. Predicted responses to increasing the full entitlement age are sensitive to beliefs.

Has regulation of charitable foundations thrown the baby out with the bath water?

- Journal of Public Economics---2015---Ben Marx

Regulations to curb tax avoidance and evasion through charitable foundations have been in place since the Tax Reform Act of 1969. Newly-compiled longitudinal data makes it possible to estimate the effects of these regulations by comparing affected and unaffected foundations before and after the reform. Donations and entry dropped precipitously. Proxy variables suggest significant deterrence of abuses, but half of the decline in donations can be explained by the increased cost of running a foundation. The results highlight the potential for large reductions in the benefits of regulation when the cost of compliance affects externality-producing actions such as charitable giving.

The impact of controlled foreign company legislation on real investments abroad. A multi-dimensional regression discontinuity design

- Journal of Public Economics---2015---Peter Egger,Georg Wamser

Controlled foreign company (CFC) rules are frequently imposed by countries as part of their anti-tax-avoidance legislation. This paper aims at quantifying the impact of the German CFC rule on the universe of foreign investments held by German multinational firms. The German CFC legislation gives rise to a multi-dimensional regression discontinuity design, which allows us to estimate local average treatment effects along the dimensions determining treatment. Our results suggest a significant and economically large impact of the CFC legislation on multinationals' real activity abroad. We also find evidence of some heterogeneity in estimated treatment effects according to parametric as well as nonparametric estimates.

Price regulation and parallel imports of pharmaceuticals

- Journal of Public Economics---2015---Kurt Brekke,Tor Helge Holmås,Odd Rune Straume

This paper studies the effects of price regulation and parallel imports in the on-patent pharmaceutical market. In a theory model where the producer price is subject to bargaining between the brand-name producer and a distributor, we show that the effects of stricter price regulation crucially depend on whether the producer faces competition from parallel imports. While parallel imports improve the bargaining position of the distributor, price regulation counteracts this effect and may even be profitable for the producer. We test the implications of our model on a unique dataset with information on sales and prices at both producer and retail level for 165 substances over 4 years (2004–2007). We show that stricter price regulation reduces competition from parallel imports, and has no (strictly negative) effect on producer profits in the presence (absence) of parallel imports. Our results suggest that price regulation might improve static efficiency without being harmful for dynamic efficiency in the presence of parallel imports.

Losing my religion: The effects of religious scandals on religious participation and charitable giving

- Journal of Public Economics---2015---Nicolas Botan,Ricardo Perez-Truglia

We study how the U.S. Catholic clergy abuse scandals affected religious participation, religious beliefs, and pro-social behavior. To estimate the causal effects of the scandals on various outcomes, we conduct an event-study analysis that exploits the fine distribution of the scandals over space and time. First, a scandal causes a significant and long-lasting decline in religious participation in the zip code where it occurs. Second, the decline in religious participation does not generate a statistically significant decline in religious beliefs, pro-social beliefs, and some commonly used measures of pro-social behavior. This evidence is consistent with

the view that changes in religious participation during adulthood may have limited or no effect on deep beliefs and values. Third, the scandals cause a long-lasting decline in charitable contributions. Indeed, the decline in charitable giving is an order of magnitude larger than the direct costs of the scandals to the Catholic churches (e.g., lawsuits). If we assume that the scandals affect charitable giving only through the decline in religious participation, our estimates would suggest that the strong cross-sectional correlation between religious participation and charitable giving has the presumed direction of causality.

Together or separate? Post-conflict partition, ethnic homogenization, and the provision of public schooling

- Journal of Public Economics---2015---Eik Swee

The partitioning of political jurisdictions is becoming an increasingly common component of agreements to end ethnic conflict, although its impact on post-conflict recovery remains unclear. This paper studies the effects of the partition which ended the 1992–1995 Bosnian War on the post-war provision of public schooling. I find that partitioned municipalities provide 58% more primary schools and 37% more teachers (per capita). Driven mainly by convergent preferences for ethnically oriented schools, however, this arrangement delivers distributional consequences: in partitioned municipalities, ethnic majority children are more likely to complete primary schooling, while for ethnic minority children it is the opposite.

Donor coordination in project funding: Evidence from a threshold public goods experiment

- Journal of Public Economics---2015---Luca Corazzini,Christopher Cotton,Paola Valbonesi

We present results from an experiment with multiple public goods, where each good produces benefits only if total contributions to it reach a minimum threshold. The presence of multiple public goods makes coordination among participants more difficult, discouraging donor participation and decreasing the likelihood of

any public good being effectively funded. Applied to the case of fundraising, the results show how overall donations and the number of effectively funded projects may both decrease as the total number of projects vying for funding increases. The analysis considers whether making one of the contribution options salient, either through its merits or by arbitrarily choosing one to feature during the experiment, helps overcome the increased coordination problem. The results have implications for the growing popularity of crowdfunding websites, and suggest benefits to these sites from helping donors compare and identify the most promising projects.

War and local collective action in Sierra Leone: A comment on the use of coefficient stability approaches

- Journal of Public Economics---2015---Felipe González,Edward Miguel

In a study of the effect of civil war exposure on local collective action outcomes in Sierra Leone, Bellows and Miguel (2009) employ a coefficient stability approach to assess the importance of omitted variable bias building on Altonji et al. (2005a). Here we clarify the econometric assumptions underlying Bellows and Miguel (2009), and extend their analysis using data on dependent variable reliability ratios and the method developed in Oster (2015).

Discounting, risk and inequality: A general approach

- Journal of Public Economics---2015---Marc Fleurbaey,Stéphane Zuber

The common practice consists in using a unique value of the discount rate for all public investments. Endorsing a social welfare approach to discounting, we show how different public investments should be discounted depending on: the risk on the returns on investment, the systematic risk on aggregate consumption, the distribution of gains and losses, and inequality. We also study the limit value of the discount rate for very long term investments. We highlight the type of information

that is needed about long-term scenarios in order to evaluate investments.

Basic versus supplementary health insurance: Moral hazard and adverse selection

- Journal of Public Economics---2015---Jan Boone

This paper introduces a tractable model of health insurance with both moral hazard and adverse selection. We show that government sponsored universal basic insurance should cover treatments with the biggest adverse selection problems. Treatments not covered by basic insurance can be covered on the private supplementary insurance market. Surprisingly, the cost effectiveness of a treatment does not affect its priority to be covered by basic insurance.

Global inspection games

- Journal of Public Economics---2015---Miguel Sanchez Villalba

In the tax evasion game – a typical example of “inspection game” – audits are costly and audit probabilities are determined by the tax agency based on the tax returns submitted by taxpayers. We find that if taxpayers’ incomes are correlated (e.g., when they are subject to a common shock) the optimal audit probability for low declarations is an increasing function of the average declaration, as the latter is an informative signal of the realized level of income. Since a taxpayer’s optimal declaration is an increasing function of the probability of an audit, the optimal auditing rule creates incentives for taxpayers to coordinate their declarations. The resulting coordination game features multiplicity of equilibria and thus “strategic uncertainty” about the equilibrium that will be selected.

A model of public opinion management

- Journal of Public Economics---2015---Andrea Patacconi,Nick Vikander

Policymakers often motivate their decisions using information collected by government agencies. While more information can help hold the government to account,

it may also give policymakers an incentive to meddle with the work of bureaucrats. This paper develops a model of biased information gathering to examine how different disclosure rules and the degree of independence of government agencies affect citizen welfare. Disclosure rules and agency independence interact in subtle ways. We find that secrecy is never optimal and yet insulating the agency from political pressure, so that its information is always unbiased, may also not be socially optimal. A biased information-gathering process can benefit the government by helping it to shape public opinion. But it can also benefit the public, by curbing the government's tendency to implement its ex ante favored policy, thus mitigating the agency conflict between policymakers and the public.

How did distributional preferences change during the Great Recession?

- Journal of Public Economics---2015---Raymond Fisman,Pamela Jakiela,Shachar Kariv

To better understand how support for redistributive policies is shaped by macroeconomic shocks, we explore how distributional preferences changed during the recent "Great Recession." We conducted identical modified dictator games during both the recession and the preceding economic boom. The experiments capture subjects' selfishness (the weight on one's own payoff) and equality-efficiency tradeoffs (concerns for reducing differences in payoffs versus increasing total payoffs), which we then compare across economic conditions. Subjects exposed to recession exhibit greater selfishness and higher emphasis on efficiency relative to equality. Reproducing recessionary conditions inside the laboratory by confronting subjects with possible negative payoffs [weakly] intensifies selfishness and increases efficiency orientation, bolstering the interpretation that differing economic circumstances drive our results.

Bundling decisions in procurement auctions with sequential tasks

- Journal of Public Economics---2015---Sanxi Li,Hailin Sun,Jianye Yan,Jun Yu

This paper investigates the principal's bundling decision during a procurement auction for a project consisting of two sequential tasks, in which task externality exists and information arrives sequentially. We show that, although increasing the number of bidders in the market for the second task always tilts the principal's choice toward unbundling, increasing the number of consortiums that can perform both tasks tilts the principal's preference toward bundling if the externality is negative.

Is more information always better? Party cues and candidate quality in U.S. judicial elections

- Journal of Public Economics---2015---Claire S.H. Lim,James M. Snyder

We investigate the influence of electoral rules on voting behavior and the quality of judges, using newly collected data on judicial elections and ratings from 39 U.S. states. We find that in partisan elections, where candidates' party affiliations are listed on the ballot, party drives voting behavior and candidate quality has little effect on outcomes. In nonpartisan elections, where party affiliation is not on the ballot, party has a much smaller influence on voting behavior and candidate quality has a substantial effect on outcomes. If the primary task of public officials is not to represent voters' ideology and their decisions have little variability across parties, then we need to seriously consider the potential cost of partisan competition. To the extent that partisan voting behavior crowds out the influence of candidate quality on voting outcomes, the desirability of the partisan election system should be carefully assessed.

Benefit incidence with incentive effects, measurement errors and latent heterogeneity: A case study for China

- Journal of Public Economics---2015---Martin Ravallion,Shaohua Chen

In what is probably the largest cash transfer program in the world today China's Dibao program aims to fill all poverty gaps. In theory, the program creates

a poverty trap, with 100% benefit withdrawal rate (BWR). But is that what we see in practice? The paper proposes an econometric method of estimating the mean BWR allowing for incentive effects, measurement errors and correlated latent heterogeneity. Under the method's identifying assumptions, a feasible instrumental variables estimator corrects for incentive effects and measurement errors, and provides a bound for the true value when there is correlated incidence heterogeneity. The results suggest that past methods of assessing benefit incidence using either nominal official rates or raw tabulations from survey data are deceptive. The actual BWR appears to be much lower than the formal rate and is likely to be too low in the light of the literature on optimal income taxation. The paper discusses likely reasons based on qualitative observations from field work. The program's local implementation appears to matter far more than incentives implied by its formal rules.

Pivotality and responsibility attribution in sequential voting

- Journal of Public Economics---2015---Björn Bartling,Urs Fischbacher,Simeon Schudy

This paper analyzes responsibility attributions for outcomes of collective decision making processes. In particular, we ask if decision makers are blamed for being pivotal if they implement an unpopular outcome in a sequential voting process. We conduct an experimental voting game in which decision makers vote about the allocation of money between themselves and recipients without voting rights. We measure responsibility attributions for voting decisions by eliciting the monetary punishment that recipients assign to individual decision makers. We find that pivotal decision makers are punished significantly more for an unpopular voting outcome than non-pivotal decision makers. Our data also suggest that some voters avoid being pivotal by voting strategically in order to delegate the pivotal vote to subsequent decision makers.

Leaders and followers: Perspectives on the Nordic model and the economics of innovation

- Journal of Public Economics---2015---Joseph Stiglitz

What kinds of social and economic systems are most conducive to innovation? We formulate a simple model in which countries can close the gap with the technological leader, but where the cost of doing so may be so high that the country chooses to remain laggards. Observed disparities in productivity may be the result of a recognition that the cost of closing the gap exceeds benefit and there may therefore exist an international equilibrium in which there are leaders and followers. Even if it is granted that the United States is the leader and Scandinavia are followers, there are theoretical grounds for arguing that the Nordic model may in fact be better for innovation, suggesting that if the US adopted some of the Nordic institutions, innovations would be higher, and societal welfare would be improved even more.

Reprint of "The Scandinavian model—An interpretation"

- Journal of Public Economics---2015---Erling Barth,Karl Ove Moene,Fredrik Willumsen

The small open economies in Scandinavia have for long periods had high work effort, small wage differentials, high productivity, and a generous welfare state. To understand how this might be an economic and political equilibrium we combine models of collective wage bargaining, creative job destruction, and welfare spending. The two-tier system of wage bargaining provides microeconomic efficiency and wage compression. Combined with a vintage approach to the process of creative destruction we show how wage compression fuels investments, enhances average productivity and increases the mean wage by allocating more of the work force to the most modern activities. Finally, we show how the political support of welfare spending is fueled by both a higher mean wage and a lower wage dispersion.

Nordic exceptionalism? Social democratic egalitarianism in world-historic perspective

- Journal of Public Economics---2015---Mattia Fochesato, Samuel Bowles

In what respect, if any, are the Nordic economies exceptionally egalitarian when viewed from a world historical perspective? Our answer is based on archaeological, historical and ethnographic as well as contemporary evidence over the past three thousand years. The countries exemplifying the Nordic model are not exceptionally equal in the ownership of material wealth. Moreover, the advent of social democracy in the Nordic nations did not result in a more equal distribution of years of schooling. But intergenerational economic and social mobility appears to be exceptional in the Nordic nations, and by most measures, inequalities in living standards in the Nordic economies are less than in other advanced economies. The closest Nordic analogy in our data set is to the egalitarian distribution of well-being and limited intergenerational transmission of wealth found in some horticultural and (especially) forager economies.

Kantian optimization: A microfoundation for cooperation

- Journal of Public Economics---2015---John Roemer

Although evidence accrues in biology, anthropology and experimental economics that homo sapiens is a cooperative species, the reigning assumption in economic theory is that individuals optimize in an autarkic manner (as in Nash and Walrasian equilibrium). I here postulate a cooperative kind of optimizing behavior, called Kantian. It is shown that in simple economic models, when there are negative externalities (such as congestion effects from use of a commonly owned resource) or positive externalities (such as a social ethos reflected in individuals' preferences), Kantian equilibria dominate the Nash-Walras equilibria in terms of efficiency. While economists schooled in Nash equilibrium may view the Kantian behavior as utopian, there is some – perhaps much – evidence that it exists. If

cultures evolve through group selection, the hypothesis that Kantian behavior is more prevalent than we may think is supported by the efficiency results here demonstrated.

Labor income dynamics and the insurance from taxes, transfers, and the family

- Journal of Public Economics---2015---Richard Blundell, Michael Graber, Magne Mogstad

What do labor income dynamics look like over the life-cycle? What is the relative importance of persistent shocks, transitory shocks and heterogeneous profiles? To what extent do taxes, transfers and the family attenuate these various factors in the evolution of life-cycle inequality? In this paper, we use rich Norwegian population panel data to answer these important questions. We let individuals with different education levels have a separate income process; and within each skill group, we allow for non-stationarity in age and time, heterogeneous experience profiles, and shocks of varying persistence. We find that the income processes differ systematically by age, skill level and their interaction. To accurately describe labor income dynamics over the life-cycle, it is necessary to allow for heterogeneity by education levels and account for non-stationarity in age and time. Our findings suggest that the redistributive nature of the Norwegian tax-transfer system plays a key role in attenuating the magnitude and persistence of income shocks, especially among the low skilled. By comparison, spouse's income matters less for the dynamics of inequality over the life-cycle.

Taxation and the long run allocation of labor: Theory and Danish evidence

- Journal of Public Economics---2015---Claus Kreiner, Jakob Munch, Hans Jørgen Whitta-Jacobsen

Inspired by Hayek (1945), we study the distortionary effects of taxation on labor mobility and the long run allocation of labor across different profitable opportunities. These effects are not well detected by the methods applied in the large public finance literature estimating

the elasticity of taxable income and quantifying the efficiency loss from taxation. Our analysis builds on a standard search theoretic framework where workers are continually seeking better paid jobs, but are also fired from time to time because of economic development and productivity shocks. We incorporate non-linear taxation into this setting and estimate the structural parameters of the model using employer–employee register based data for the full Danish population of workers and workplaces for the years 2004–2006. Our results indicate that along the intensive margin the Danish taxation generates an overall efficiency loss corresponding to a 12% reduction in total income. It is possible to reap 4/5 of this potential efficiency gain by going from a high-tax Scandinavian system to a level of taxation in line with low-tax OECD countries such as the United States. The tax-responsiveness of labor mobility and allocation corresponds to an elasticity of taxable income with respect to the net-of-tax rate in the range 0.15–0.35.

Estimating labour supply elasticities based on cross-country micro data: A bridge between micro and macro estimates?

- Journal of Public Economics---2015---Markus Jantti,Jukka Pirttilä,Håkan Selin

The Nordic model relies on high tax rates to finance an extensive welfare state. If labour supply elasticities are large, the burden of financing the model can be large even if, arguably, the practice of providing subsidised goods that support labour supply is likely to mitigate these effects. We utilise repeated cross sections of micro data from several countries, including the four major Nordic countries, available from the Luxembourg Income Study, LIS, to estimate labour supply elasticities, both at the intensive and extensive margins. The data span over four decades and include a large number of tax reform episodes, with tax rate variation arising both from cross-sectional and country-level differences. Using these data, we investigate whether micro and macro estimates differ in a systematic way. The results do not provide strong support for the view that elasticities at the macro level would be higher than the

corresponding micro elasticities.

Is universal child care leveling the playing field?

- Journal of Public Economics---2015---Tarjei Havnes,Magne Mogstad

We assess the case for universal child care programs in the context of a Norwegian reform which led to a large-scale expansion of subsidized child care. We use non-linear difference-in-differences methods to estimate the quantile treatment effects of the reform. We find that the effects of the child care expansion were positive in the lower and middle parts of the earnings distribution of exposed children as adults, and negative in the uppermost part. We complement this analysis with local linear regressions of the child care effects by family income. We find that most of the gains in earnings associated with the universal child care program relate to children of low income parents, whereas upper-class children actually experience a loss in earnings. In line with the differential effects by family income, we estimate that the universal child care program substantially increased intergenerational income mobility. To interpret the estimated heterogeneity in child care effects, we examine the mediating role of educational attainment and cognitive test scores, and show that our estimates are consistent with a simple model where parents make a tradeoff between current family consumption and investment in children. Taken together, our findings could have important implications for the policy debate over universal child care programs, suggesting that the benefits of providing subsidized child care to middle and upper-class children are unlikely to exceed the costs. Our study also points to the importance of universal child care programs in explaining differences in earnings inequality and income mobility across countries and over time.

Benefits conditional on work and the Nordic model

- Journal of Public Economics---2015---Ann-Sofie Kolm,Mirco Tonin

Welfare benefits in the Nordic countries are often tied

to employment. We argue that this is one of the factors behind the success of the Nordic model, where a comprehensive welfare state is associated with high employment. In a general equilibrium setting, the underlining mechanism works through wage moderation and job creation. The benefits make it more important to hold a job, thus lower wages will be accepted, and more jobs created. Moreover, we show that the incentive to acquire higher education improves, further boosting employment in the long run. These positive effects help in counteracting the negative impact of taxation.

A life cycle model of health and retirement: The case of Swedish pension reform

- Journal of Public Economics---2015---Tobias Laun,Johanna Wallenius

Sweden is one of the few Western economies to have undertaken a large pension reform in recent years. This was done with great expectations, but little formal analysis. In this paper we develop a life cycle labor supply model to quantify the predicted labor supply implications of this reform. In our framework, individuals choose when to stop working and, given eligibility criteria, when/if to apply for disability and pension benefits. Agents are heterogeneous in skills and receive exogenous shocks to health throughout their life. We find that the new pension system creates large incentives for the continued employment of older workers. This is promising news for countries grappling with pension reform, and indicates that there are significant lessons to be learned from the Swedish case.

Made in China, sold in Norway: Local labor market effects of an import shock

- Journal of Public Economics---2015---Ragnhild Balsvik,Sissel Jensen,Kjell G Salvanes

We analyze whether increased exposure to import competition from China threatens the Nordic model. We find negative employment effects for low-skilled workers, and observe that low-skilled workers tend to be pushed into unemployment or leave the labor force

altogether. We find no evidence of wage effects. We partly expect this in a Nordic model where firms are flexible at the employment margin, while centralized wage bargaining provides less flexibility at the wage margin. The import shock is smaller, and our estimates suggest that import competition from China explains almost 10% of the reduction in the manufacturing employment share from 1996 to 2007 which is half of the effect found by Autor et al. (2013) for the US.

Do lottery payments induce savings behavior? Evidence from the lab

- Journal of Public Economics---2015---Emel Filiz-Ozbay,Jonathan Guryan,Kyle Hyndman,Melissa Kearney,Erkut Ozbay,Emel Filiz Ozbay

This paper presents the results of a laboratory experiment designed to investigate whether the option of a Prize Linked Savings (PLS) product alters the likelihood that subjects choose to delay payment. By comparing PLS and standard savings products in a controlled way, we find strong evidence that a PLS payment option leads to greater rates of payment deferral than does a straightforward interest payment option of the same expected value. The appeal of the PLS option is strongest among men and self-reported lottery players. We use the results of our experiment to structurally estimate the parameters of the decision problem governing time preference, risk aversion, and probability weighting. We employ the parameter estimates in a series of policy simulations that compare the relative effectiveness of PLS products as compared to standard savings products.

Cooperation in teams: The role of identity, punishment, and endowment distribution

- Journal of Public Economics---2015---Qian Weng,Fredrik Carlsson

Common identity and peer punishment have been identified as crucial means to reduce free riding and promote cooperation in teams. This paper examines the relative importance of these two mechanisms under two income distributions in team cooperation. In a repeated public

good experiment, we use different combinations of homogeneous/heterogeneous endowments, strong/weak identity, and absence/presence of peer punishment. We find that without punishment, a strong identity can raise cooperation in homogenous and heterogeneous teams, but that the effect depends on the strength of the identity. When punishment is introduced, the impact of punishment depends on the strength of the identity-building activity and the effectiveness of punishment. Furthermore, we find no evidence of stronger cooperation or punishment in teams with strong identity. These findings provide important implications for management policy makers in organizations: ex ante income heterogeneity should be implemented in teams with caution, and the decision of whether identity or punishment is a more effective norm enforcement mechanism in teams is rather sensitive to their interaction and relative strengths.

Selection vs. accountability: An experimental investigation of campaign promises in a moral-hazard environment

- Journal of Public Economics---2015---Nick Felto-
vovich,Francesco Giovannoni

We examine retrospective- and prospective-voting considerations in an experiment implementing a simple voting model. In each period, the official chooses how much rent to appropriate from a social endowment. Announcement of this choice is followed by an election between the official and a randomly selected challenger, with the winner becoming the official in the next period. We vary two features of the setting: (a) the discount factor, and (b) whether candidates can make costless, non-binding “campaign promises” about their behaviour if elected. Consistent with the model’s predictions, both raising the discount factor and introducing campaign promises lead to lower rent appropriation by officials and worse electoral outcomes (other things equal) for incumbents. Campaign promises, despite being cheap talk, have real effects: promising less appropriation is rewarded by voters, but breaking such promises is punished. Finally, we find a weak positive association between campaign promises and officials’

subsequent behaviour.

Fox News and political knowledge

- Journal of Public Economics---2015---Elizabeth
Schroeder,Daniel Stone

The effects of partisan media on political knowledge are theoretically ambiguous. Knowledge effects are important because of their close connection to welfare effects, but the existing empirical literature on knowledge is limited. We study the knowledge effects of the Fox News Channel. Following DellaVigna and Kaplan (2007), we exploit naturally random variation in Fox’s availability to identify causal effects. We use knowledge survey data from 2000, 2004 and 2008; our final sample has nearly one million question-level observations. We first confirm and expand on previous findings of Fox effects on voting. We then present an array of results from our knowledge analysis. While average effects (across issues), over the full time-frame are near-zero and most precise, we find evidence of positive effects both for issues that were more favorable to Republicans and for issues that Fox covered more often, and negative effects for issues Fox neglected. We also present evidence of Fox being associated with a decline in newspaper readership.

Election cycles and electricity provision: Evidence from a quasi-experiment with Indian special elections

- Journal of Public Economics---2015---
Thushyanthan Baskaran,Brian Min,Yogesh
Uppal

We present evidence from India showing that state governments induce electoral cycles in electricity service provision. Our data and research strategy allow us to build on models of political business cycles and targeted distribution in two important ways. First, we demonstrate that by manipulating the flow of critical inputs into economic activity like electricity, elected leaders can influence economic outcomes even in contexts where they have constrained fiscal capacity. Second, we identify the effect of elections on electricity

provision by focusing on special elections held for exogenous reasons. Our results show that state governments induce substantive increases in electricity service to constituencies that hold special elections. Manipulation of the power supply is stronger in contested constituencies and during special elections held in states where the government commands only a small majority. Overall, we find no evidence of positive welfare effects from the electoral manipulation of electricity supply.

Norm enforcement in social dilemmas: An experiment with police commissioners

- Journal of Public Economics---2015---David Dickinson, David Masclet, Marie Claire Villeval

Do individuals trained in law enforcement punish or reward differently from typical student-subjects? We analyze norm enforcement behavior of newly appointed police commissioners in both a game with positive externalities (based on a Voluntary Contribution Mechanism) and a similar game with negative externalities. Depending on the treatment, a reward or sanction institution is either exogenously or endogenously implemented. Police commissioners cooperate significantly more in both games and bear a higher burden of the sanction costs compared to non-police subjects. When the norm enforcement institution is endogenous, subjects favor rewards over sanctions, but police subjects are more likely to vote for sanctions. Police subjects also reward and sanction more than the others when the institution results from a majority vote. Our experiment suggests that lab evidence on social dilemma games with positive or negative externalities and enforcement institutions is rather robust.

New parties and policy outcomes: Evidence from Colombian local governments

- Journal of Public Economics---2015---Hector Galindo-Silva

In many democracies, increasing political competition has changed the traditional party system and brought new parties into the political arena. This study examines whether the presence of politicians from new

parties affects the size of government (measured by public spending and tax revenue). The study focuses on Colombian municipalities, where new parties have been numerous and successful in recent years. Regression discontinuity estimates show that public spending and tax revenues are significantly higher in municipalities governed by a mayor from a new party. Using information about local politics and the features of the new parties, I argue that this result is not associated with new party ideology, but instead relates to new parties having lower probability of reelection which raises the incentives to increase short-term rent seeking.

Conflict networks

- Journal of Public Economics---2015---Jörg Franke, Tahir Öztürk

Conflict parties are frequently involved in more than one conflict simultaneously. In this paper the structure of local conflicts is modeled as a conflict network where rivals invest in conflict specific technology to attack their respective neighbors. We prove that there exists a unique equilibrium and examine the relation between total conflict investment (a proxy for conflict intensity) and underlying network characteristics. We also identify a class of conflict networks where peaceful conflict resolution is beneficial in the sense that conflict intensity is reduced. Outside of this class peaceful conflict resolution may be detrimental because countervailing local network effects can actually result in higher conflict intensity.

Consumers, experts, and online product evaluations: Evidence from the brewing industry

- Journal of Public Economics---2015---Grant Jacobsen

The growth of the Internet has led to a dramatic increase in the number of consumer or “user” product ratings, which are posted online by individuals who have consumed a good, and are available to other individuals as they make decisions about which products to purchase. These ratings have the potential to substantially improve the match between products and

consumers, however the extent to which they do so likely depends on whether the ratings reflect actual consumer experiences. This paper evaluates one potential source of bias in consumer ratings: mimicry of the reviews of experts. Using a rich dataset on consumer product ratings from the brewing industry and a regression discontinuity empirical framework, I show that expert reviews influence consumer ratings. Consumer ratings fall in response to negative expert reviews and increase in response to positive expert reviews. The results are most pronounced for strongly negative or strongly positive expert reviews. This mimicry limits the extent to which information on product quality from actual consumer experiences diffuses to the population. I suggest that “nudges” could be implemented to limit the extent to which mimicry affects ratings.

Replacing churches and mason lodges? Tax exemptions and rural development

- Journal of Public Economics---2015---Luc Behaghel,Adrien Lorenceau,Simon Quantin

This paper analyzes a tax credit program targeted at rural areas in France, including temporary and permanent wage subsidies on different types of jobs. We find no impact of the program on employment and wages, pointing to the absence of labor demand response. Comparison with a contemporaneous urban scheme suggests ways that the incentives of the rural program could be targeted more effectively.

Optimal trading ratios for pollution permit markets

- Journal of Public Economics---2015---Stephen Holland,Andrew Yates

We demonstrate a novel method for improving the efficiency of pollution permit markets by optimizing the exchange of emissions through trade. Under full-information, it is optimal for emissions to exchange according to the ratio of marginal damages. Under asymmetric information, we derive necessary conditions for the marginal damage trading ratios to be optimal, illustrate that the marginal damage trading ratios are

generally not optimal, and show how to improve efficiency using optimal trading ratios. We calculate the optimal trading ratios for a global carbon market. The gains from using optimal trading ratios rather than marginal damage trading ratios range from substantial to trivial, which suggests the need for careful consideration of asymmetric information when designing permit markets.

General revenue sharing and public sector unions

- Journal of Public Economics---2015---Laura Feiverson

In this paper, I find that in the context of a large intergovernmental general revenue sharing program implemented from 1972 to 1986, cities increased expenditures one-for-one with federal grants, which is suggestive of a large flypaper effect. Furthermore, I find that cities in states with pro-union collective bargaining laws spent more than half of the transfers on increased wages, while cities in states without such laws spent a greater fraction on increased government services. These latter findings suggest that public sector unions play an important role in determining the usage and impact of intergovernmental grants.

Charitable giving: Altruism has no limits

- Journal of Public Economics---2015---Luciana Eclahu,Diego Nocetti

The current consensus is that, due to the free rider problem, a theory of charitable giving based exclusively on altruism cannot explain the levels of contributions and participation observed in the data. In contrast, in this paper we demonstrate that altruism may have more predictive power than previously understood. We present a model in which the object of altruism is a large number of potential recipients of a good for which there is a target level of provision (e.g. an acute malnutrition treatment, an insecticide-treated bed net). We show that in this case donors may measure the value of a contribution with reference to the impact that such contribution has on additional recipients,

not with reference to the impact on the total level of an organization's charitable resources as traditionally assumed. In this situation, the equilibrium involves no free riding whatsoever. Equilibria that do involve free riding are characterized by provision of the target level of the charitable good to all potential recipients.

Transaction costs, the opportunity cost of time and procrastination in charitable giving

- Journal of Public Economics---2015---Stephen Knowles, Maroš Servátka

We conduct a laboratory experiment to study whether giving people more time to donate to charity reduces donations. People may intend to donate, but because of the transaction costs of doing so, postpone making the payment until they are less busy, and having postponed making the donation once, keep postponing. We conjecture that transaction costs will have a greater effect on donations if the solicitation is received when the opportunity cost of time is high. We find evidence of a transaction cost reducing donations, with the size of this effect depending on the opportunity cost of time, but no statistically significant evidence that giving people more time to donate increases procrastination and thus reduces donations.

Interaction, protection and epidemics

- Journal of Public Economics---2015---Sanjeev Goyal, Adrien Vigier

Individuals respond to the risk of contagious infections by restricting interaction and by investing in protection. We develop a model that examines the trade-off between these two actions and the consequences for infection rates.

The occurrence of tax amnesties: Theory and evidence

- Journal of Public Economics---2015---Ralph-C Bayer, Harald Oberhofer, Hannes Winner

This paper presents a theoretical model and empirical evidence to explain the occurrence of tax amnesties.

We treat amnesties as endogenous, resulting from a strategic game between many taxpayers discounting future payments from punishment and a government that balances costs and benefits of amnesty programs. From the model we derive hypotheses about the factors that should influence the occurrence of tax amnesties. To test these predictions empirically, we rely on amnesty information from US States between 1981 and 2011. In line with the theoretical model, our empirical findings suggest that the likelihood of amnesties is mainly driven by a government's fiscal requirements and the taxpayers' expectations on future amnesties.

The taxation of foreign profits: A unified view

- Journal of Public Economics---2015---Michael Devereux, Clemens Fuest, Ben Lockwood

This paper synthesizes and extends the literature on the taxation of foreign source income in a framework that covers both greenfield and acquisition investment, and a general constraint linking investment at home and abroad for the multinational by introducing a cost of adjustment for the mobile factor. Unless the cost of adjustment is zero, the domestic tax on foreign-source income should always be set to ensure the optimal allocation of the mobile factor between domestic and foreign assets and should follow the classical rules in the literature; national optimality requires the deduction rule, and global optimality requires the credit rule. Only in the zero-cost case does exemption become optimal. Allowances can be set so as to ensure that domestic and foreign asset purchases are undistorted by the tax system: this requires a cash-flow tax on domestic investment in the greenfield case, and a cross-border cash flow tax on foreign investment in both cases. These basic results extend to various extensions of the model, notably: (i) when a profit-shifting motive is present; and (ii) to some extent, when a corporate income tax is in place. The introduction of tax administration costs into the model can explain the empirical trend towards the use of the exemption regime.

The effect of Beijing's driving restrictions on pollution and economic activity

- Journal of Public Economics---2015---V. Brian Viard, Shihe Fu

We evaluate the pollution and labor supply reductions from Beijing's driving restrictions. Causal effects are identified from both time-series and spatial variation in air quality and intra-day variation in television viewership. Based on daily data from multiple monitoring stations, air pollution falls 21% during one-day-per-week restrictions. Based on hourly television viewership data, viewership during the restrictions increases by 9 to 17% for workers with discretionary work time but is unaffected for workers without, consistent with the restrictions' higher per-day commute costs reducing daily labor supply. We provide possible reasons for the policy's success, including evidence of high compliance based on parking garage entrance records.

Reforming an asymmetric union: On the virtues of dual tier capital taxation

- Journal of Public Economics---2015---Andreas Haufler, Christoph Lülkesmann

The tax competition for mobile capital, in particular the reluctance of small countries to agree on measures of tax coordination, has ongoing political and economic fallouts within Europe. We analyse the effects of introducing a two tier structure of capital taxation, where the asymmetric member states of a union choose a common, federal tax rate in the first stage, and then non-cooperatively set local tax rates in the second stage. We show that this mechanism effectively reduces competition for mobile capital between the members of the union. Moreover, it distributes the gains across the heterogeneous states in a way that yields a strict Pareto improvement over a one tier system of purely local tax choices. We also discuss the effects of diverging capital endowments within the union and capital flows to third countries.

Long-term care insurance, informal care, and medical expenditures

- Journal of Public Economics---2015---Hyuncheol Bryant Kim, Wilfredo Lim

This paper provides empirical evidence on the short-run impact of government subsidies of long-term care. We apply a regression discontinuity design using administrative data from South Korea to estimate the first-year impact of subsidies for formal home and institutional care on informal care use and medical expenditures. These subsidies lead to increases in formal long-term care utilization, even when accounting for crowd out of private spending. Our main finding is that the benefits of subsidized home and facility care are heterogeneous across physical function level, and therefore that setting policy accordingly has the potential to dramatically reduce medical expenses. We also find that formal long-term care is a substitute for informal care at the intensive margin, but do not find such evidence at the extensive margin. The results suggest that publicly financed home care may have limited impact among the more able, but that it may be both more cost-effective and beneficial than institutional care for the least able.

Interpreting pre-trends as anticipation: Impact on estimated treatment effects from tort reform

- Journal of Public Economics---2015---Anup Malani, Julian Reif

While conducting empirical work, researchers sometimes observe changes in outcomes before adoption of a new policy. The conventional diagnosis is that treatment is endogenous. This observation is also consistent, however, with anticipation effects that arise naturally out of many theoretical models. This paper illustrates that distinguishing endogeneity from anticipation matters greatly when estimating treatment effects. It provides a framework for comparing different methods for estimating anticipation effects and proposes a new set of instrumental variables to address the problem that subjects' expectations are unobservable. Finally, this paper examines a specific set of tort reforms that was not targeted at physicians but was

likely anticipated by them. Interpreting pre-trends as evidence of anticipation increases the estimated effect of these reforms by a factor of two compared to a model that ignores anticipation.

The architecture of federations: Constitutions, bargaining, and moral hazard

- Journal of Public Economics---2015---Christoph Lüllesmann, Anke Kessler, Gordon M. Myers, Christoph Lüllesmann

The paper studies a federal system where (a) a region provides non-contractible inputs into the social benefits from a public policy project with spillovers to other regions, and (b) where political bargaining between different levels of government may ensure efficient decision making ex post. Allowing intergovernmental grants to be designed optimally, we ask whether project authority should rest with the region or with the central government. Centralization is shown to dominate when governments are benevolent. With regionally biased governments, both centralization and decentralization yield inefficiencies and the second-best institution depends on parameter values if political bargaining is prohibited. When bargaining is feasible, however, the first best can often be achieved under decentralization, but not under centralization. At the root of this dichotomy is the alignment of decision making over essential inputs and project size under decentralized governance, and their misalignment under centralization.

The employment effects of terminating disability benefits

- Journal of Public Economics---2015---Timothy Moore

Few social security disability insurance (DI) beneficiaries return to the labor force, making it hard to assess their likely employment in the absence of benefits. Using administrative data, I examine the employment of individuals who lost DI eligibility after the 1996 removal of drug and alcohol addictions as qualifying conditions. Approximately 22% started working at

levels that would have disqualified them for DI, an employment response that is large relative to their work histories. Those who received DI for 2–3 years had the largest response, suggesting that a period of public assistance may maximize the employment of some disabled individuals.

What is the optimal speed limit on freeways?

- Journal of Public Economics---2015---Arthur van Benthem

When choosing his speed, a driver faces a trade-off between private benefits (time savings) and private costs (fuel cost and own damage and injury). Driving faster also has external costs (pollution, adverse health impacts and injury to other drivers). This paper uses large-scale speed limit increases in the western United States in 1987 and 1996 to address three related questions. First, do the social benefits of raising speed limits exceed the social costs? Second, do the private benefits of driving faster exceed the private costs? Third, what is the optimal speed limit? I find that a 10mph speed limit increase on highways leads to a 3–4mph increase in travel speed, 9–15% more accidents, 34–60% more fatal accidents, and elevated pollutant concentrations of 14–24% (carbon monoxide), 8–15% (nitrogen oxides), 1–11% (ozone) and 9% higher fetal death rates around the affected freeways. Using these estimates, I find that the social costs of speed limit increases are two to seven times larger than the social benefits. In contrast, many individual drivers would enjoy a net private benefit from driving faster. Privately, a value of a statistical life (VSL) of \$6.0 million or less justifies driving faster, but the social planner's VSL could be at most \$0.9–\$2.0 million to justify higher speed limits. I conclude that the optimal speed limit was lower, but not much lower, than 55mph.

Out of work and into school: Labor market policies and college enrollment during the Great Recession

- Journal of Public Economics---2015---Andrew Barr, Sarah Turner

The Great Recession brought large increases in unemployment and college enrollment; we examine how changing state labor market conditions and state-specific variation in Unemployment Insurance (UI) interact to affect enrollment outcomes. We identify a substantial role of the UI program in affecting post-secondary enrollment choices. We provide some of the first evidence that the duration of UI affects a displaced individual's propensity to enroll, and suggestive evidence that these effects are larger in states with more inclusive approved training laws. These findings identify a substantial overlap between UI policy and post-secondary enrollment decisions, indicating the potential importance of UI in not only providing income but also facilitating investments in skills.

De Gustibus non est Taxandum: Heterogeneity in preferences and optimal redistribution

- Journal of Public Economics---2015---Benjamin B. Lockwood,Matthew Weinzierl

The prominent but unproven intuition that preference heterogeneity reduces redistribution in a standard optimal tax model is shown to hold under the plausible condition that the distribution of preferences for consumption relative to leisure rises, in terms of first-order stochastic dominance, with income. Given familiar functional form assumptions on utility and the distributions of ability and preferences, a simple statistic for the effect of preference heterogeneity on marginal tax rates is derived. Numerical simulations and suggestive empirical evidence demonstrate the link between this potentially measurable statistic and the quantitative implications of preference heterogeneity for policy.

First-day criminal recidivism

- Journal of Public Economics---2015---Ignacio Munyo,Martín Rossi

We report that on any given day the number of inmates released from incarceration significantly affects the number of offenses committed this day, and we name this as first-day recidivism. Our estimates of this novel approach to study early recidivism are robust to a

variety of alternative model specifications. We then show that first-day recidivism can be eliminated by an increase in the gratuity provided to prisoners at the time of their release. A simple cost-benefit analysis shows that increasing the gratuity at release is a very efficient policy.

Nutrition and cognitive achievement: An evaluation of the School Breakfast Program

- Journal of Public Economics---2015---David Frisvold

This paper investigates the impact of the School Breakfast Program (SBP) on cognitive achievement. The SBP is a federal entitlement program that offers breakfast to any student, including free breakfast for any low-income student, who attends a school that participates in the program. To increase the availability of the SBP, many states mandate that schools participate in the program if the percent of free or reduced-price eligible students in a school exceeds a specific threshold. Using the details of these mandates as a source of identifying variation, I find that the availability of the program increases student achievement.

Women's schooling and fertility under low female labor force participation: Evidence from mobility restrictions in Israel

- Journal of Public Economics---2015---Victor Lavy,Alexander Zablotsky

This paper studies the effect of mothers' education on fertility in a mostly Muslim population with very low female labor force participation. We first show that a removal of travel restrictions on Israeli Arabs had raised female education and had almost no effect on male education. Next, we show that it lowered fertility rates among exposed women, which we interpret as an effect of female education on fertility. We rule out labor-force participation, age at marriage, marriage and divorce rates and spousal labor-force participation and earnings as confounding factors or as mechanisms but find that spousal education and children quality play a role in the fertility decline. We provide a variety

of robustness tests that rule out other channels by which the removal of the travel restrictions could have affected fertility directly. These results are particularly interesting and important for the context of many Muslim countries with low rates of female labor force participation.

Public child care and mothers' labor supply— Evidence from two quasi-experiments

- Journal of Public Economics---2015---Stefan Bauernschuster,Martin Schlotter

Public child care is expected to assist families in reconciling work with family life. Yet, empirical evidence for the relevance of public child care to maternal employment is inconclusive. We exploit the introduction of a legal claim to a place in kindergarten in Germany, which was contingent on day-of-birth cut-off dates and resulted in a marked increase in kindergarten attendance of three-year olds in the following years. Instrumental variable and difference-in-differences estimations on two individual-level data sets yield positive effects of public child care on maternal employment. A set of placebo treatment tests corroborate the validity of our identification strategies.

Social identity and inequality: The impact of China's hukou system

- Journal of Public Economics---2015---Farzana Afridi,Sherry Li,Ren Yufei

We conduct an experimental study to investigate the causal impact of social identity on individuals' performance under incentives. We focus on China's household registration (hukou) system, which favors urban residents and discriminates against rural residents in resource allocation. Our results show that making individuals' hukou identity salient significantly reduces the performance of rural migrant students, relative to their local urban counterparts, on an incentivized cognitive task, and consequently significantly lowers their relative ranking in the earnings distribution under the piece rate regime. However, the impact of hukou identity salience is insignificant in the tournament regime,

suggesting that its negative effect on migrant students' performance may be mitigated when competition is introduced. The results demonstrate the impact of institutionally imposed social identity on individuals' economic performance, and potentially on inequality.

Corruption and socially optimal entry

- Journal of Public Economics---2015---Rabah Amir,Chrystie Burr

The paper investigates the effects of corruption in the entry-certifying process on market structure and social welfare for a Cournot industry with linear demand and costs. To gain entry, a firm must pay a bribe-maximizing official a fixed percentage of anticipated profit, in addition to the usual set-up cost. This would lead to a monopoly, but only in markets without pre-existing or shadow-economy firms. A benevolent social planner may preempt the harmful effects of corruption by either manipulating the number of pre-existing firms in the market, or by setting up two independent (corrupt) licensing authorities. A socially optimal number of firms in the market may be reached by choosing the right number of pre-existing firms or by having exactly two licensing authorities. These mechanisms may be seen as restoring second-best efficiency in settings characterized by two major sources of distortion: Imperfect competition and corruption. We also show in an extension that the basic insights carry over in a qualitative sense to a model with quadratic costs and first best entry regulation.

Desert and inequity aversion in teams

- Journal of Public Economics---2015---David Gill,Rebecca Stone

Teams are becoming increasingly important in work settings. We develop a framework to study the strategic implications of a meritocratic notion of desert under which team members care about receiving what they feel they deserve. Team members find it painful to receive less than their perceived entitlement, while receiving more may induce pleasure or pain depending on whether their preferences exhibit desert elation or

desert guilt. Our notion of desert generalizes distributional concern models to situations in which effort choices affect the distribution perceived to be fair; in particular, desert nests inequity aversion over money net of effort costs as a special case. When identical teammates share team output equally, desert guilt generates a continuum of symmetric equilibria. Equilibrium effort can lie above or below the level in the absence of desert, so desert guilt generates behavior consistent with both positive and negative reciprocity and may underpin social norms of cooperation.

Reducing binge drinking? The effect of a ban on late-night off-premise alcohol sales on alcohol-related hospital stays in Germany

- Journal of Public Economics---2015---Jan Marcus,Thomas Siedler

Excessive alcohol consumption among young people is a major public health concern. On March 1, 2010, the German state of Baden-Württemberg banned the sale of alcoholic beverages between 10pm and 5am at off-premise outlets (e.g., gas stations, kiosks, supermarkets). We use rich monthly administrative data from a 70% random sample of all hospitalizations during the years 2007–2011 in Germany in order to evaluate the short-term impact of this policy on alcohol-related hospitalizations. Applying difference-in-differences methods, we find that the policy change reduces alcohol-related hospitalizations among adolescents and young adults by about 7%. There is also evidence of a decrease in the number of hospitalizations due to violent assault as a result of the ban.

Intergovernmental grants as signals and the alignment effect: Theory and evidence

- Journal of Public Economics---2015---Emanuele Bracco,Ben Lockwood,Francesco Porcelli,Michela Redoano

This paper provides a simple political agency model to explain the effect of political alignment between different tiers of government on intergovernmental grants and election outcomes. Key features of the model are:

(i) rational voters interpret public good provision as a signal of incumbent competence, and (ii) realistically, grants are unobservable to voters. In this setting, the national government will use the grant as an instrument to manipulate the public good signal for the benefit of aligned local incumbents and challengers. Then, aligned municipalities receive more grants, with this effect being stronger before elections, and the probability that the aligned local incumbent is re-elected is higher. These predictions are tested using a regression discontinuity design on a new data-set on Italian municipalities. At a second empirical stage, the national grant to municipalities is instrumented with an alignment indicator, allowing estimation of a flypaper effect for Italian municipalities.

School governance, teacher incentives, and pupil–teacher ratios: Experimental evidence from Kenyan primary schools

- Journal of Public Economics---2015---Esther Duflo,Pascaline Dupas,Michael Kremer

Some education policymakers focus on bringing down pupil–teacher ratios. Others argue that resources will have limited impact without systematic reforms to education governance, teacher incentives, and pedagogy. We examine a program under which school committees at randomly selected Kenyan schools were funded to hire an additional teacher on an annual contract renewable conditional on performance, outside normal Ministry of Education civil-service channels, at one-quarter normal compensation levels. For students randomly assigned to stay with existing classes, test scores did not increase significantly, despite a reduction in class size from 82 to 44 on average. In contrast, scores increased for students assigned to be taught by locally-hired contract teachers. One reason may be that contract teachers had low absence rates, while centrally-hired civil-service teachers in schools randomly assigned contract teachers endogenously reduced their effort. Civil-service teachers also captured rents for their families, with approximately 1/3 of contract teacher positions going to relatives of existing teachers. A governance program that empowered par-

ents within school committees reduced both forms of capture. The best contract teachers obtained civil service jobs over time, and we estimate large potential dynamic benefits from supplementing a civil service system with locally-hired contract teachers brought in on a probationary basis and granted tenure conditional on performance.

Experimentally estimated impacts of school vouchers on college enrollment and degree attainment

- Journal of Public Economics---2015---Matthew M. Chingos,Paul E. Peterson

We provide the first experimental estimates of the long-term impacts of a voucher to attend private school by linking data from a privately sponsored voucher initiative in New York City, which awarded the scholarships by lottery to low-income families, to administrative records on college enrollment and degree attainment. We find no significant effects on college enrollment or four-year degree attainment of the offer of a voucher. However, we find substantial, marginally significant impacts for minority students and large, significant impacts for the children of women born in the United States. Negative point estimates for the children of non-minority and foreign-born mothers are not statistically significant at conventional levels. The information needed to match students to administrative data on postsecondary outcomes was available for 99% of the sample. We find evidence of substantial bias due to attrition in the original evaluation, which relied on data collected at follow-up sessions.

Substance-abuse treatment and mortality

- Journal of Public Economics---2015---Isaac D. Swensen

Drug-overdose deaths, which have more than doubled over the past decade, represent a growing public-health concern. Though substance-abuse treatment may be effective in reducing drug abuse, evidence for a causal effect of treatment on drug-related mortality is lacking. I analyze the effect of substance-abuse treatment on

mortality by exploiting county-level variation in treatment facilities driven by facility openings and closings. The estimates indicate that a 10% increase in facilities lowers a county's drug-induced mortality rate by 2%. The estimated effects persist across individual and county characteristics and further indicate that spillovers of treatment reduce other related causes of death.

Optimal taxation in a habit formation economy

- Journal of Public Economics---2015---Sebastian Koehne,Moritz Kuhn

This paper studies habit formation in consumption preferences in a dynamic Mirrlees economy. We derive optimal labor and savings wedges based on a recursive approach. We show that habit formation creates a motive for subsidizing labor supply and savings. In particular, habit formation invalidates the well-known “no distortion at the top” result. We demonstrate that the theoretical findings are quantitatively important: in a parametrized life-cycle model, average labor and savings wedges fall by more than one-third compared with the case of time-separable preferences.

Exploring mortgage interest deduction reforms: An equilibrium sorting model with endogenous tenure choice

- Journal of Public Economics---2015---Amy Binner,Brett Day

In most equilibrium sorting models (ESMs) of residential choice across neighborhoods, the question of whether households rent or buy their home is either ignored or else tenure status is treated as exogenous. Of course, tenure status is not exogenous and households' tenure choices may have important public policy implications, particularly since higher levels of homeownership have been shown to correlate strongly with various indicators of improved neighborhood quality. Indeed, numerous policies including that of mortgage interest deduction (MID) have been implemented with the express purpose of promoting homeownership. This paper presents an ESM with simultaneous rental and

purchase markets in which tenure choice is endogenized and neighborhood quality is partly determined by neighborhood composition. The public policy relevance of the model is shown through a calibration exercise for Boston, Massachusetts, which explores the impacts of various reforms to the MID policy. The simulations confirm some of the arguments made about reforming MID but also demonstrate how the complex patterns of behavioral change induced by policy reform can lead to unanticipated effects. The results suggest that it may be possible to reform MID while maintaining the prevailing rates of homeownership and reducing the federal budget deficit.

Emotion venting and punishment in public good experiments

- Journal of Public Economics---2015---David Dickinson,David Masclet

Experimental studies have shown that sanctions effectively deter free riding within groups. However, the over-use of costly punishment may actually harm overall welfare. A main reason for over-punishment is that free-riders generate negative emotions that likely favor excessive punishments. In this paper we ask whether the venting of one's emotions in different ways can reduce the level of excessive punishment in a standard VCM-with-punishment environment while preserving the norm enforcement properties of punishment. We find that venting emotions reduces (excessive) punishment, and under certain conditions the net effect is an increase in final payoffs (i.e., welfare) to the group.

The effect of pollution on labor supply: Evidence from a natural experiment in Mexico City

- Journal of Public Economics---2015---Rema Hanna,Paulina Oliva

Moderate effects of pollution on health may exert important influences on work. We exploit exogenous variation in pollution due to the closure of a large refinery in Mexico City to understand how pollution impacts labor supply. The closure led to a 19.7% decline in pollution, as measured by SO₂, in the surrounding

neighborhoods. The closure led to a 1.3h (or 3.5%) increase in work hours per week. The effects do not appear to be driven by differential labor demand shocks nor selective migration.

Leadership and the voluntary provision of public goods: Field evidence from Bolivia

- Journal of Public Economics---2015---B. Kelsey Jack,Maria Recalde

We conduct a controlled field experiment in 52 communities in rural Bolivia to investigate the effect that local authorities have on voluntary public good provision. In our study, community members pool resources to provide environmental education material for local schools. We find that voluntary contributions increase when democratically elected local authorities lead by example. The results are driven by two factors: (1) authorities, like other individuals, give more when they are called upon to lead than when they give in private, and (2) high leader contributions increase the likelihood that others follow. Both effects are stronger when authorities, as compared to randomly selected community members, lead by example. We explore two underlying sources of leadership influence. First, we provide evidence that the effect of a leader's contribution is not limited to signaling the value of the public good. Second, we examine how leader characteristics affect the likelihood that others follow. Specifically, our study shows that authority influence is driven by a combination of formal leadership status, observable characteristics, and the amount that authorities contribute when they give publicly before others.

Optimal disability insurance with unobservable skill heterogeneity

- Journal of Public Economics---2015---Kyung-woo Lee

This paper studies the U.S. income tax and disability insurance systems in a unified framework with relevant private information and a general social welfare function. To that end, I develop a dynamic model in which agents differ in labor productivity and disability

status, which are both private information. The optimal allocation can exhibit negative marginal labor income tax rates for high-skilled individuals but zero for low-skilled individuals, which is contrary to standard results. Also, I find that a reform to the optimal system in the calibrated model would significantly improve the U.S. system. The welfare gains amount to a 3.48 percent increase in consumption with a utilitarian social welfare function, which might be larger with a non-utilitarian function. Better insurance for people in bad states and reduced intratemporal distortions account for almost all the welfare gains. However, intertemporal distortions do not appear to play a major role.

Housing markets and residential segregation: Impacts of the Michigan school finance reform on inter- and intra-district sorting

- Journal of Public Economics---2015---Rajashri Chakrabarti,Joydeep Roy

Local financing of public schools in the U.S. leads to a bundling of two distinct choices – residential choice and school choice – and has been argued to increase the degree of socioeconomic segregation across school districts. A school finance reform, aimed at equalization of school finances, can in principle weaken this link between housing choice and choice of schools. In this paper, we study the impacts of the Michigan school finance reform of 1994 (Proposal A) on spatial segregation. The reform was a state initiative intended to equalize per pupil expenditures between Michigan school districts and reduce the role of local financing. We find that Proposal A led to a decline in neighborhood sorting within education markets, as measured by changes in the value of housing stock and several socioeconomic indicators. We also find that the reform affected the dispersion of incomes and educational attainment within school districts, increasing within-district heterogeneity in the lowest spending school districts, while decreasing the same in the highest spending districts. However, there is a continued high demand for residence in the highest spending communities. These findings are robust to various

alternative definitions of “education market” , and survive several sensitivity checks. These spatial segregation patterns are not replicated in neighboring Ohio that did not face similar school finance equalization.

Optimal higher education enrollment and productivity externalities in a two-sector model

- Journal of Public Economics---2015---Volker Meier, Ioana Schiopu

We analyze the optimal share of the skilled workforce over the course of development with two sectors using skilled and unskilled labor respectively, and technological spillovers from higher education enrollment. Productivity in each sector depends on the average quality of workers and the size of the workforce. When skill-biased technological change prevails, this structure of externalities coupled with the endogenous ability sorting of workers may well produce a pattern of overenrollment in early and late stages of development and underenrollment in between. Our normative analysis is followed by a positive analysis exploring how policy would differ under alternative political objectives.