Abstracts

Presidential Address 2018: Aspirations, Social Norms and Development
Eliana La Ferrara, Bocconi University, IGIER and LEAP

I study the role of aspirations in economic development drawing on the existing theoretical and empirical literature and provide some new empirical findings using individual level data on aspirations across countries. After discussing the relationship between aspirations and individual investments, I present estimates on the correlates and determinants of students’ aspirations in the OECD’s Programme for International Student Assessment data. I focus in particular on socioeconomic status, inequality, and institutional features that lead to horizontal segregation of education systems. I then address the question of whether and how aspirations can be changed, covering recent policy interventions that leverage psychological factors, stereotypes and norms, and material endowments. (JEL: O15, I24)

Schumpeter Lecture 2018: Sharing a Government
Jaume Ventura, CREI, Universitat Pompeu Fabra and Barcelona GSE

This paper develops a simple theoretical framework to study a set of regions, each with its own regional government, who share a union or central government. These governments must decide whether to implement or discard a large number of projects that produce local benefits for the region that implements them, and externalities for the rest of the regions. Conflict or disagreement arises since different regions value projects differently. The classic assignment problem consists of deciding who decides these projects, either the union or the regional governments. It is well known that regional governments are insensitive to externalities. The key observation here is that the union government is insensitive to local benefits. Thus, each government maximizes only a piece of the value of projects, and disregards the other one. This observation leads to simple and clear rules for solving the assignment problem. (JEL: D72, D79, F15, F55, H77)

Banking and Industrialization
Stephan Heblich, University of Bristol; Alex Trew, University of St Andrews

We establish a causal role for banking access in the spread of the Industrial Revolution over the period 1817–1881 by exploiting unique employment data from 10,528 parishes across England and Wales and a novel instrument. We estimate that a one standard deviation increase in 1817 finance employment increases annualized industrial employment growth by 0.93 percentage points. We establish the role of structural transformation as an underlying growth mechanism and show that banking access: (i) increases the industrial employment share; (ii) stimulates urbanization; and (iii) fosters inter-industry transition to high TFP, intermediate and capital-intensive sub-sectors. (JEL: O10, N23, R11)

Microcredit Contracts, Risk Diversification and Loan Take-up
Orazio Attanasio, Institute for Fiscal Studies; Britta Augsburg, University College London; Ralph De Haas, European Bank for Reconstruction and Development and Tilburg University

We study theoretically and empirically the demand for microcredit under different liability arrangements and risk environments. A theoretical model shows that the demand for joint-liability
loans can exceed that for individual-liability loans when risk-averse borrowers value their long-term relationship with the lender. Joint liability then offers a way to diversify risk and reduce the chance of losing access to future loans. We also show that the demand for loans depends negatively on the riskiness of projects. Using data from a randomised controlled trial in Mongolia we find that these model predictions hold true empirically. In particular, we use innovative data on subjective risk perceptions to show that expected project risk negatively affects the demand for loans. In line with an insurance role of joint-liability contracts, this effect is muted in villages where joint-liability loans are available. (JEL: D14, D81, D86, G21, O16)

The Intergenerational Causal Effect of Tax Evasion: Evidence From the Commuter Tax Allowance in Austria

Wolfgang Frimmel, Johannes Kepler University Linz, Christian Doppler Laboratory Aging, Health and the Labor Market; Martin Halla, Johannes Kepler University Linz, Christian Doppler Laboratory Aging, Health and the Labor Market, Austrian Public Health Institute (GÖG); Jörg Paetzold, University of Salzburg

Does tax evasion run in the family? To answer this question, we study the case of the commuter tax allowance in Austria. This allowance is designed as a step function of the distance between the residence and the workplace, creating sharp discontinuities at each bracket threshold. It turns out that the distance to the next higher bracket is a strong determinant of compliance. The match of different administrative data sources allows us to observe actual compliance behavior with little error at the individual level across two generations. To identify the intergenerational causal effect in tax evasion behavior, we use the paternal distance to next higher bracket as an instrumental variable for paternal compliance. We find that paternal noncompliance increases children’s noncompliance by about 23%. (JEL: H26, A13, H24, J62, D14)

Competition And The Welfare Gains From Transportation Infrastructure: Evidence From The Golden Quadrilateral Of India

Jose Asturias, Georgetown University Qatar; Manuel García-Santana, UPF, Barcelona GSE; Roberto Ramos Bank of Spain

A significant amount of resources is spent every year on the improvement of transportation infrastructure in developing countries. In this paper, we investigate the effects of one such large project, the Golden Quadrilateral in India. We do so using a model of internal trade with variable markups. In contrast to the previous literature, our model incorporates several channels through which transportation infrastructure affects welfare. In particular, the model accounts for gains stemming from improvements in the allocative efficiency of the economy. We calibrate the model to the Indian manufacturing sector and find real income gains of 2.7%. We also find that allocative efficiency accounts for 7.4% of these gains. The importance of allocative efficiency varies greatly across states, and can account for up to 18% of the overall gains in some states. The remaining welfare gains are accounted for by changes in labor income, productive efficiency, and average markups that affect states’ terms of trade. (JEL: F15, H54, O18, O22, R42)
Efficiency Versus Equality in Bargaining

Fabio Galeotti, University of Lyon; Maria Montero, School of Economics, University of Nottingham; Anders Poulsen, School of Economics and CBESS, University of East Anglia

We consider how the outcome of bargaining varies with changes in the trade-off between equality, efficiency, and total-earnings maximization. We observe that subjects avoid an equal-earning outcome if it is Pareto inefficient; a large proportion of bargaining pairs avoids an equal and Pareto efficient outcome in favor of one giving unequal and total-earnings maximizing payoffs, and this proportion increases when unequal outcomes imply larger earnings to one of the players, even though this also implies higher inequality; finally, we document a compromise effect that violates the independence of irrelevant alternatives condition. (JEL: C70, C72, C92)

Path Dependency in Jury Decision Making

Anna Bindler, University of Gothenburg; Randi Hjalmarsson, University of Gothenburg

A large behavioral economics literature is concerned with cognitive biases in individual and group decisions, including sequential decisions. These studies often find a negative path-dependency consistent with mechanisms such as the gambler’s fallacy or contrast effects. We provide the first test for such biases in group decision making using observational data. Specifically, we study more than 27,000 verdicts adjudicated sequentially by over 900 juries for high-stake criminal cases at London’s Old Bailey Criminal Court in the 18th and 19th centuries. Using jury fixed effects to account for heterogeneity in their baseline propensity to convict, we find that a previous guilty verdict significantly increases the chance of a subsequent guilty verdict by 6.7%–14.1%. This positive autocorrelation is robust to alternative estimation strategies, independent of jury experience and driven by the most recent lag and pairs of similar cases. Such positive path dependency may be explained by sequential assimilation effects, which may reflect a jury’s desire to be internally consistent, and short-term “emotional” impacts of the characteristics and/or outcome of one case on another. As in modern-day jury studies, our results highlight that factors independent of the facts and evidence of the current case might affect jury behavior. (D7, K4, N43)