

March 11, 2016

To the NBER Household Finance Small Grants Review Committee:

It is a pleasure to write on behalf of Peter Ganong, a PhD student in the Harvard Economics Department who will be defending his thesis in April. Peter is one of Harvard's top applied micro students this year. He has an exciting research agenda on household finance with another graduate student, Pascal Noel, using linked bank account and credit card data from a large financial institution. They have already used these data to produce a fascinating paper on how consumer spending responds to a spell of unemployment. Their new project to examine how out of pocket health care spending responds to liquidity constraints strikes me as very promising and worthy of support.

Below I reproduce my job market letter for Peter in case you would like a more detailed assessment of his strength as a researcher:

Peter has produced five interesting papers, all of high quality. Two are R&R at *AEJ: Policy*, and one is R&R at *JASA*. The other two, including his job market paper, are likely to do at least as well. His papers span a range of interesting and important topics: consumption responses to unemployment, permutation tests for regression kink designs, the incidence of housing vouchers, the relationship between unemployment and SNAP (Food Stamp) enrollment, and regional income convergence. It is quite unusual for a student this early in his career to have so many good papers that are as polished as these.

Peter has a very quick mind, is well trained in both Labor and PF, and is extremely high in energy. His research is characterized by asking big questions, doggedly pursuing new administrative data sets capable of answering the questions, and embedding his quantitative analysis within theoretical frameworks that yield understanding about the underlying economic processes producing the results. Peter is also a very effective seminar presenter, so I expect he will be a success in the classroom from day one.

His job market paper, “How Does Unemployment Affect Consumer Spending,” (coauthored with another graduate student, Pascal Noel) comes from an extraordinary project he has recently begun that uses data from one of the largest commercial banks. He has access to data on flows into and out of bank accounts as well as debit and credit card transactions for all of the bank’s customers. He studies a sample of individuals who have experienced a spell of unemployment (identified by the receipt of unemployment insurance benefits) to try to distinguish among three models of consumption behavior – the buffer stock model, the permanent income model, and the hand-to-mouth model. Because unemployment is such a large shock to income, he has more power to distinguish among these models than most prior work that has examined how consumption responds to fluctuations in income. Peter finds that the buffer stock model best fits the data on consumption responses to the loss of income from unemployment. People smooth consumption more than would be implied by the hand-to-mouth model, but less than would be implied by the permanent income model. However, consumers deviate from the predictions of a calibrated buffer stock model in two ways. First, they don’t build up enough of a buffer prior to the spell of unemployment. Second, they reduce consumption by too little while receiving UI benefits and then cut consumption excessively when benefits are (predictably) exhausted. In addition to their contribution to the literature on consumption behavior, Peter and Pascal use their extraordinary data to produce a bunch of new facts about the income and consumption paths of people who become unemployed. For example, before seeing Peter’s work, I was familiar with the Jacobson et al (1993) result that people experiencing unemployment spells from mass layoffs had earnings that were persistently 30 percent lower for many years thereafter. However, it turns out that this pattern does not hold for the broader population receiving UI benefits. Peter and Pascal show that, on average, household earnings return to 90 percent of their pre-unemployment level within 24 months. Peter and Pascal have several additional papers in the works using these data.

Peter’s most technically sophisticated paper is “A Permutation Test for the Regression Kink Design” (coauthored with another graduate student, Simon Jager). A regression kink (RK) design is an increasingly popular approach to causal inference in which a discontinuous change in the slope of a policy variable is used to identify the impact of the change of the policy variable on the change in the outcome variable. Ganong and Jager show that common methods of performing RK estimation can yield spurious findings of significant results even when there is no true impact of the policy on the outcome. They develop a permutation test in which placebo kink points are drawn randomly; the distribution of placebo kink estimates can be used to test the real kink against the null. The

paper is R&R at *JASA*, and their test is already being used by researchers – including in recent papers by David Card and by Caroline Hoxby.

My favorite of Peter's papers is "The Incidence of Housing Voucher Generosity" (joint with Robert Collinson). He examines policy changes that differentially raised the value of Section 8 housing vouchers in different communities. In order to interpret the results, Ganong and Collinson develop a housing search model and use it to predict how housing market outcomes will respond to two policies: first, an across the board increase in the rent ceiling and, second, setting separate rent levels in different zip codes within a metropolitan area. They find that an increase in the rent ceiling primarily benefits landlords. For a \$1 increase in the ceiling, rents rise by 41 cents while housing quality rises by only 5 cents. However, switching to a system in which the rent ceiling is higher in high cost zip codes than in low cost zip codes yields significant benefits to voucher recipients because they become more likely to live in high quality neighborhoods. Remarkably, these gains occur even though the policy change is cost neutral to the government. The reason I like this paper so much is that its theoretical model taught me how to think clearly about the incidence of different housing voucher policies. This paper is R&R at *AEJ-Policy*.

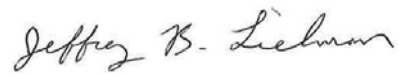
Peter and I have coauthored a paper, "The Decline, Rebound, and Further Rise in SNAP Enrollment: Disentangling Business Cycle Fluctuations and Policy Changes." SNAP enrollment rose from 9 percent of the U.S. population in 2007 to 15 percent in 2011. There has been a debate about this increase in enrollment – with some experts attributing it to policy changes that expanded eligibility and others attributing it to the economic consequences of the 2007-2009 recession. Using new county level data on unemployment and SNAP enrollment, we show that changes in local unemployment rates can explain most of the increase in enrollment. Permanent policy changes were responsible for only about 8 percent of the increase in enrollment. This paper is R&R at *AEJ: Policy*. Peter did significantly more than 50 percent of the work on this paper. He identified and tracked down the data sets we used in our analysis, came up with the identification strategies, and implemented all of the empirical models. He also wrote the entire first draft of the paper.

Peter's final paper, "Why Has Regional Income Convergence in the U.S. Declined?" is coauthored with my Kennedy School colleague, Danny Shoag. The paper attempts to explain why the rate of income convergence across states and the rate of population flows to wealthy places has slowed. The authors develop a model in which rising housing prices in wealthy areas deter unskilled migration and slow income convergence. They also develop a new panel measure of housing supply regulations and demonstrate that income

convergence continues in less regulated places but has stopped in areas with more regulation (and therefore supply constraints that lead to rising prices).

Peter has already produced five really good papers. Given his energy level and creativity, I have no doubt that he will continue to be very productive.

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey B. Liebman".

Jeffrey Liebman