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Program Report

Political Economy

Francesco Trebbi and Ebonya Washington*

The mission of the NBER’s Political Economy Program is to provide a forum for the discussion and distribution of theoretical and empirical research that identifies and addresses political constraints on economic problems. The program flourished under the vision and leadership of founding director Alberto Alesina from its launch in 2006 until his untimely death in 2020. As codirectors, we are grateful to him for shaping it into the active research hub it is today. The program currently has 95 affiliates, who have produced more than 1,000 working papers since the last program report, in 2013.

Political Economy is a broad-tent program in terms of methodology, geography, time period, and topics covered. Members study not only what might be thought of as traditional political economy — the links between economics and politics, such as the study by Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James Robinson of how elections and institutions impact growth1 — but also investigate how forces like moral values and behavioral impulses impact politics and economics. Benjamin Enke’s investigation of morality and voting2 and Pietro Ortoleva and Erik Snowberg’s exploration of the role of overconfidence in political behavior3 are but two examples of the latter.

We cannot cover the full breadth of program affiliates’ output in the decade since the last report. We therefore will not revisit the four topics — institutions, diversity, US elections, and culture — that it highlighted, except to say that they are still highly researched. As one illustration, Alberto Bisin and Paola Giuliano convene a full-day meeting on cultural economics adjacent to the spring program meeting. We highlight instead three different topics on which program affiliates have focused their efforts: political polarization, state capacity, and conflict. All have large welfare significance.

* Francesco Trebbi is the B.T. Rocca Jr. Chair of International Trade at the Haas School of Business, University of California, Berkeley. Ebonya Washington is the Laurans A. and Arlene Mendelson Professor of Economics and a professor of international and public affairs at Columbia University. They are codirectors of the NBER’s Political Economy Program.
Polarization

Extreme popular parties have gained strength across advanced democracies in the years following the 2008-09 financial crisis, and alongside this phenomenon has grown researchers’ interest in polarization. In addition to studying divergent political views, Levi Boval, Matthew Gentzkow, and Jesse Shapiro document a rise in affective polarization—negative-attitude toward one’s political party—in six of 12 OECD countries investigated, with the greatest increase in the United States.1 In Figure 1 Party identification now seems to operate as a key dimension of individual identity, with research documenting a connection between partisanship and a range of nonpolitical behaviors, from Gordon Dahl, Ruiqing Lu, and William Mullins’s study of fertility2 to Emanuele Colonnelli, Valdermo Pinho Neto, and Levi Teso’s look at hiring in Brazil.3

The central concern of the research on polarization is understanding the causes of its rise and underlying drivers. The bulk of the empirical analysis supports a role for three major causes: trade and globalization, ethnic and religious conflict, and the media. Regarding trade, Cevat Akson, Martina Gusenbauer, and Daniel Teisl demonstrate that, across 118 countries, opinions of the incumbent politician diminish as imports increase.4 Moderates are driven out of office in the face of rising Chinese trade exposure, Christian Dippel, Robert Gold, and Stephan Helbig show for Germany5 and David Autor, David Dorn, Gordon Hanson, and Kaveh Majlesi document for the US.6 Evidence of a role for ethnic and religious conflict in the rise of populism is provided by, among others, Simone Moriconi, Giovanni Peri, and Raffaello Turti, who show that low-skilled immigration has driven nationalistic preferences across 12 European nations from Cambridge, MA 02138-5398. All contributions to the NBER are tax-deductible.

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Outsides of the connection with polarization, program affiliates remain interested in how racial, ethnic, religious, and gender identity impact political preferences, behavior, and, most of all, treatment received in the political sphere. Elizabeth Cascio and Na’ima Shenhav analyze 100 years of women’s voting in the political behavior.6 Nor are they the only two explanations explored for increased polarization. Political economists have for quite some time been asking questions around how our biases impact how we take in media and how media affect our biases. (See also articles by Patrick Baker, Patricia Jones, Tate Twinam, and Daniel B. Jones, on California.)6

Over the past decade, program affiliates have sought to understand the emergence of weak versus capable states. Studies by Timothy Besley, Roger Buegges, Adrian Khan, and Guo Xiu,28 who examine the cross-national relationship between per capita income and the level of government bureaucracy [Figure 2], and Acemoglu, Carmen Fung, Luis Gaete, and James Angrist have demonstrated the role of new media in campaigns, information acquisition, and political movements will be exciting areas of future inquiry, both in relation to and outside of the impact on political polarization. The same is true of other potential drivers of polarization, such as income and wealth inequality. State (In)Capacity

Over the past decade, program affiliates have sought to understand the emergence of weak versus capable states. Studies by Timothy Besley, Roger Buegges, Adrian Khan, and Guo Xiu, who examine the cross-national relationship between per capita income and the level of government bureaucracy, have shown that higher levels of income and wealth inequality are associated with lower levels of state capacity.28 Other studies have explored how voter ID laws29 and gerrymandering30 contribute to the consolidation of political power. A growing body of work has focused on the role of social media in shaping political preferences and behavior, particularly in the context of political polarization.31 The field has reached something of a consensus on the importance of strong states in long-run development, as Melissa Dell, Nathaniel Sailer, and Pablo Querubin show for northern Vietnam.32 and Charles Anglin, Simone Margelia, and Nico Voigtlander demonstrate for England.33

A strong state, however, is not necessarily a driver of welfare gains, particularly if the state is in the hands of powerful elites. State capture is therefore another important, with empirical investigations ranging from Claudio Ferraz, Frederico Finan, and Monica Martinez-Bravo’s work on traditional elites and political movements in sub-Saharan Africa.34

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Saharan Africa.\(^{33}\) Another factor that can weaken state capacity is the misalignment of incentives of government officials. Raymond Fisman and Yongxiang Wang find heavy manipulation of accidental death data in China due precisely to this cause.\(^{34}\) Acemoglu, Leopoldo Fergusson, Robinson, Dario Romero, and Juan F. Vargas point to the perils of the lack of state capacity along critical dimensions when the incentives for representatives of the state are highpowered.\(^{35}\)

In addition to moral hazard, asymmetric information within the government can be a cause of weakness. Ernesto Dal Bó, Finan, Nicholas Li, and Laura Schechter provide experimental evidence of this issue for agricultural inspectors in Paraguay.\(^{36}\) Oriana Bandiera, Michael Carlos Best, Adrian Qadir Khan, and Andrea Prat show how improvements in efficiency arise from the delegation of authority to procurement officers in Pakistan.\(^{37}\)

A final factor that can hobble state capacity is corruption, a huge topic of investigation. To provide two examples of its documentation, Fisman and Wang show that politically connected firms in China are allowed to get away with two to three times higher workplace fatality rates than unconnected firms.\(^{38}\) In the US, Felipe R. Campanete and Quoc-Anh Do demonstrate that corruption tends to be higher among criminal gangs increased extortion.\(^{39}\) Similarly, Ying Bai, Ruixue Jia, and Shuvra Jha’s work on the role of Zeng Guofan in the Taiping Rebellion in nineteenth century China connects to both fields.\(^{40}\) Leeran Heldring, Robinson, and Parker Whittfield’s study of the political consequences of World War II bombings makes clear the link between political economy and economic history. Several of the studies cited above focus on developing countries.\(^{41}\)

Since 2013 the world has seen the rise and fall of the Islamic State in the Middle East, heightened conflict in Syria in the aftermath of the Arab Spring, insurgencies in Yemen, Afghanistan, and Nigeria, and Russian invasions of Ukraine, first in 2014 and then on a larger scale in 2022. All these conflicts have far-flung economic, social, and political consequences. Program affiliates have increasingly turned their attention to conflict, beginning with its origins. Acemoglu, Fergusson, and Simon Johnson\(^{42}\) and Cemal Eren Arbatli, Quamrul Ashraf, Oded Galor, and Marc Klein\(^{43}\) investigate anthropological, historical, and economic origins from a broad historical perspective. Other researchers consider cultural origins, including Erin McGuirk and Matthew Buehler in the context of Africa,\(^{44}\) or institutional constraints, like Ondrila Dube and Naidu\(^{45}\) and Antonella Bandiera, Lyle Dinarte Diaz, Joseph Gold, Sandra Rozo, and Maria Micaela Sviatschi in Latin America.\(^{46}\)

Researchers also seek to understand the incentives and strategies of the actors. Studies by Erfraim Benmelech and Esteban Kő Funck\(^{47}\) and Trebbi, Eric Weese, Austin L. Wright, and Andrew Shaver\(^{48}\) focus on the role of insurgent groups in Asia. Veli Andirin, Yusuf Cesmun, Mehdi Shadmehr, and Shapiro estimate various regimes’ tolerance for citizen action by studying the frequency of political protests.\(^{49}\) Burke, Solomon Hsiang, and Edward Miguel outline the role of climate change in the case study of the internal organization of the Democratic Republic of the Congo, where the effects of anti-corruption efforts are ambiguous and depend on the transfer schemes and proximity facilitates political capture of the state are highpowered.\(^{50}\)

Another consequence of this issue for political economy to international relations. We explore the trade-off between predation and production in pro-corporate elections, the sort of interdisciplinary and cross-field conversations that the Political Economy Program has fostered since its launch.\(^{51}\)
The COVID-19 mRNA vaccine was a result of the joint efforts of three types of organization. University of Pennsylvania researchers, notably Karl Krko and Drew Weissman, performed some of the foundational research. Startups, including BioNTech, Moderna, and Arbutus, among others, developed key elements of the technology required to safely deliver the vaccine. Established pharmaceutical firms, notably Pfizer, were responsible for testing, production, and distribution. Pfizer and its partner BioNTech developed the vaccine internally, whereas Moderna, the other major supplier of COVID vaccines in the United States, benefited from significant government research funding. This division of labor in innovation, which allowed multiple firms to contribute, is a notable component of the US innovation ecosystem.

Together with our collaborators, we have studied the evolving specialization of US innovation and the rise and fall of industrial research. Though it still flourishes in fields such as artificial intelligence, the corporate lab’s heyday was from the 1930s until the 1980s. Many leading US firms have withdrawn from scientific research, closing their labs or reorienting investments in the United States, benefited from significant government research funding. This division of labor in innovation, which allowed multiple firms to contribute, is a notable component of the US innovation ecosystem. From 1985 through 2015, spillovers to rivals appear to have increased faster than internal benefits, pointing to one possible reason for the decline of industrial research. [Figure 3, next page] It firms invest in scientific research not only as a perk for talented inventors with a taste for science or as a signal to investors, regulators, or customers, but also as an investment to their own inventions, then protection for inventions would encourage investment in research. We find that, consistent with this, weakening patent protection for inventions tied to corporate research reduces follow-on investment.

Research & Development organization was merged with the company’s engineering division. Consistent with this, National Science Foundation data show that the share of basic and applied research in total business R&D expenditures in the United States fell from around 30 percent in 1985 to less than 20 percent in 2015. Simply put, corporate R&D became less “R” and more “D.”

The Rise of Industrial Research

The leading US companies of the 1870s and 1880s largely relied on external inventions. They acquired inventions in an active market for technology. Large companies established labs to evaluate the quality of external inventions and other inputs, test materials, control quality, and troubleshoot production-related issues. By World War I, some leading firms recognized they could no longer rely on borrowed technologies or individual inventions. Innovation was reliant on scientific knowledge, but university research was limited. General Electric, AT&T, DuPont, and Eastman Kodak led the way by investing in scientific research to fill the gap, and the US corporate lab emerged.

Using newly developed firm-level data from the 1920s and 1930s, we show that the companies most inclined to invest were those using frontier technology in fields where US university research lagged, such as electronics, physics, and polymer chemistry. In ongoing work, we are examining the different ways the expansion of university research affects private research, including through production of new scientific knowledge, new human capital, and university inventions available through licensing and university spinoffs.

Corporate scientific research paid off in breakthrough innovations and high market valuations. DuPont, initially a producer of explosives, lacquers, and rayon, invested in development of polymer chemistry, which became the basis for new products, most notably nylon and polyester. It helped that DuPont had ample resources to develop and commercialize these products and faced little competition. Many labs belonged to large companies operating in concentrated industries, which helped insulate them against spillovers.

Research is typically disclosed in scientific publications, and hence upstream research is more likely than downstream development to result in knowledge spillovers. In work with Lia Sheer, we show that corporate investment in research trades off the cost of spillovers to rivals against the benefits to the discovering firm of the use of science in its own inventions. From 1985 through 2015, spillovers to rivals appear to have increased faster than internal benefits, pointing to one possible reason for the decline of industrial research.
ment in that research stream.9

Knowledge spillovers have tended to focus discussions of innovation policy on government support for research, neglecting the potential role of procurement policies. Though the COVID-19 mRNA vaccine was based on years of federally funded research, federal procurement contracts were vital to the final stages of vaccine development. Belenzon and Larisa Cioaca document changes in government procurement policies that may have contributed to the decline in corporate science.10

In addition to funding R&D activities directly, government procurement provides incentives to businesses to invest in R&D by rewarding firms that demonstrate technological superiority in R&D races with downstream procurement contracts. Such “guaranteed demand” was particularly popular during the Cold War (1948–89) but has since diminished. R&D contracts are increasingly decoupled from downstream procurement. [Figure 4] Beginning in the 1980s, the rise of Japan and the end of the Cold War shifted attention away from national security and government procurement contracts. The growing use of full and open competition in government contracting reduced the government’s ability to take the risk out of upstream corporate R&D investments.

American Innovation and the Loss of Corporate Research

Corporate research projects are difficult to replicate in universities and startups: they are larger in scale, combine scientific and engineering disciplines, and are mission-oriented. The synergy between science and its application finds its natural expression in industrial research. Significant discoveries are often made while solving specific problems. Louis Pasteur, in studying how to prevent wine from spoiling, developed the germ theory of fermentation as well as the technique of pasteurization. His discovery, in addition to being an extremely valuable industrial innovation, led to the modern sciences of bacteriology, immunology, and microbiology, and to the development of vaccines.

Close collaboration between science and engineering is much easier inside an industrial lab. The Google Translate project is a case in point. Google’s software engineers converted the code created by its computer scientists into the company’s TensorFlow language, hardware engineers modified semiconductor chips originally custom built by Google for neural networks, and database engineers dealt with the copious amounts of data required by the algorithms.

The machine translation example also highlights the multidisciplinary nature of mission-oriented research. The transistor, for instance, would not have been possible without the interdisciplinarity of work by physicists, chemists, and engineers. Startups are less likely to succeed in pulling off large-scale or multidisciplinary innovations. Sectors where both scientific research and technical and commercial development are intertwined are more likely to be neglected by venture capitalists. These gaps may lower the social return to investment in scientific research.

CEOs and Firm Performance

Raffaella Sadun

CEOs have become a topic of increasing scrutiny in economic research. Early studies on this topic aimed to conduct a detailed differentiation in CEOs’ abilities and management styles indirectly, examining changes in firm performance after exogenous events such as deaths or movements of managers across different firms affected their ability to manage.1 This summary describes recent empirical work that I have conducted to generate direct evidence on what top managers do, how they differ from one another, and whether these differences matter for firms’ performance.

The research touches upon different aspects of what CEOs do — ranging from day-to-day activities to strategy setting. Ultimately, it strives to build new measurements of CEOs’ activities that are at the same time fine grained and scalable within and across countries. Given the intangible nature of leadership, this requires embracing explicit and implicit empirical methods, including developing new survey instruments, exploring previously unquipped quantitative and textual data sources, and adopting machine learning methods to leveraging rich and at times unstructured data.

This research has led to three broad findings. First, top managers vary considerably in what they do, both in terms of day-to-day behaviors (effort on the job, allocation of time across activities) and decision-making approaches (specifically, the formulation and execution of firm strategies). Second, CEOs also differ in terms of what they do not do, that is, the extent to which they allocate decision-making authority to other individuals in their organizations. Third, differences across CEOs in both activities and delegation are related to organizational performance, primarily due to matching effects. There isn’t one optimal way to be a CEO. What matters is the fit between what CEOs do (or do not do, in the case of delegation) and the specific needs of the firms that they run. This latter finding points to the importance of studying frictions in the market for CEOs, starting with imperfections in the selection of CEOs and in the way in which CEO activity is monitored and rewarded within firms. What Do CEOs Do? Time Use

In a series of papers, Oriana Bandiera, Renata Lemos, Stephen Haasen, Andrea Pratt, and I measured in detail differences in CEO behavior, looking at both hours spent working and time allocation across different activities.2 The notion that actual behavior could be an important factor of differentiation across managers is well accepted in the management literature,3 but the empirical estimation of managerial time use has been somewhat elusive. To provide direct evidence on managerial behavior, we developed a new methodology to measure with unprecedented detail the time use of 1,114 CEOs in six countries. We scaled up traditional shadowing approaches — detailed observations of CEOs in action — by measuring CEOs’ diaries data daily with executives or their personal assistants during a random workweek. Overall, we collected data on 42,233 activities covering an average of 50 working hours per CEO. For each activity, we recorded the same five features: type (for example, finance, marketing, client, or supplier), the method allowed us to build a bottom-up measure of CEO effort by gauging the time spent on work-related activities during the week. The data show wide variation in both CEO effort and time allocation and figure 1 shows the distribution of hours worked across CEOs. Hours recorded vary from about 20 to nearly 100. Figure 2 provides a snapshot of differences in CEO activities. The work of CEOs mostly goes into meetings — more than 50 percent of working time at the median, involving both employees and outsiders. Even in routine behaviors across CEOs vary markedly.

What explains these differences? Some of the variation in CEO labor supply is accounted for by differences in firm governance: family-business CEOs work 9 percent fewer hours than other firms’ CEOs, even conditional on formal qualifications and firm characteristics such as size and industry. Additionally, family-firm CEOs appear to be more likely to take time off when popular sporting events are being broadcast, and are less likely to work their usual schedules when snowstorms or other weather shocks make it more difficult to reach the office. Since differences in effort are correlated with firm performance — 18 percent of the performance gap between family and nonfamily firms is accounted for by differences in CEO effort, since the wealth of information contained in the time diaries is too extensive to be easily compared across CEOs or CEOs. The first of the two pure behaviors is associated with more time spent with employees involved in production activities and in one-on-one meetings with firm employees. The second pure behavior is associated with more time spent with C-suite executives and in solving several participants and multiple functions inside and outside the firm. To fix ideas, we label the first type of pure behavior as “inside” and the second “leader,” following a popular distinction described by John Kotter.4 Armel with a one-dimensional behavior index that represents each CEO as a convex combination of the two pure behaviors, we are able to control for the correlation between CEO behavior, firm characteristics, and firm performance. We find that leader behavior is more common in large firms, multi-nationals, listed firms, and in sectors with high R&D intensity.
and production processes denoted by a higher incidence of abstract, rather than routine, tasks. We also find that leader behavior is more likely to be found in more productive and profitable firms. The correlation is economically and statistically significant. In other standard deviation in the CEO behavior index is associated with an increase of 7 percent in sales, controlling for labor, and other standard firm-level covariates. In the absence of exogenous variation in CEOs’ assignment to firms, we cannot assume a causal relationship — for example, CEOs may simply adapt their behavior to firms’ needs, and more productive firms may hire more leaders. However, two pieces of evidence go against this interpretation. First, pre-appointment trends in performance do not predict the appointment of a leader CEO; second, firms that do not experience a significant increase in productivity only after the CEO appointment, and this effect emerges gradually over time. That is, CEO behavior does not seem to be a mere reflection of differential pre-appointment trends or firm-level, time-invariant differences in performance.

The association between the CEO behavioral index and firm performance does not necessarily imply that all firms would benefit from hiring a leader CEO. There are significant differences in performance, and the incentive to monitor fit and, if needed, to change the CEO-firm relationship, which is essential to adapt to the specific needs of the firm. Phillips Aghion, Bloom, and Lucking, Van Reenen, and I study the performance effects of decentralization during the Great Recession, a time that coincided with a sudden increase in uncertainty in demand. Using two large microdata sets on decentralization in firms in the US and 10 OECD countries, we find that firms that decentralized more power to the central headquarters to local plant managers prior to the Great Recession and retained their centralized counterparts in sectors that were hardest hit by the subsequent crisis, as measured by the exogenous component of export growth and product durability. We interpret these results through the lens of a simple model of delegation, which provides support to the idea that decentralization provides firms with the necessary flexibility and local perceptions needed to respond to turbulent business conditions.

Strategy

A key prerogative of CEOs is setting firm strategy. Direct evidence on whether CEOs vary in their strategy practices is scant. To make progress on this topic, Bloom, Michael J. Christensen, Jan Rivkin, M. J. Yang, and I examine how chief executives formalize strategy in a sample of 262 Harvard Business School-educated CEOs. In spite of their common graduate education, there is tremendous variation in how strategy is approached — specifically how structured versus extemporaneous strategy practices are used by CEOs, both between and within industries. CEOs who use more-structured processes tend to lead larger and faster-growing firms. The incentives for making approaches, and skill requirements needed to succeed in these top managerial positions using a large corpus of detailed and previously unexplored job descriptions for C-suite positions spanning 17 years, we classify the information contained in these documents using methods borrowed from machine learning, which allows us to map unstructured, free-text data into distinct clusters of skill requirements. We use the data to examine the variation in the demand for different managerial skills, which provides, to the best of our knowledge, the first direct evidence of C-suite skill requirements across countries. In our analysis, we use data with firm and job postings for other occupations within the same firm and analyze the extent to which demand for social skills — a cluster that experienced sustained growth over time in CEO job descriptions — varies across countries. These results suggest that social skills are in especially high demand in larger, more complex, more IT-intensive organizations, consistent with the idea that social skills may facilitate the trading of expertise in the firm.

Conclusions

CEOs play an increasingly important role in modern organizations, yet our understanding of the mechanisms through which they may be able to affect firm performance often escape rigorous empirical investigation. The results that we report over the past few years show that our model of strategy implementation among CEOs is broadly applicable and robust to many different specifications of the model. The evidence suggests that CEOs who were trained just before the change in curriculum to formalize their positionings against competitors. We also find that the more intense focus on strategy formalization may have crowded out attention to organizational practices related to strategy implementation.

Skills

In a separate line of research, Hansen, Tejas Ramdas, Joe Fuller, and I investigate how skill requirements needed to succeed in these top managerial positions using a large corpus of detailed and previously unexplored job descriptions for C-suite positions spanning 17 years. We classify the information contained in these documents using methods borrowed from machine learning, which allows us to map unstructured, free-text data into distinct clusters of skill requirements. We use the data to examine the variation in the demand for different managerial skills, which provides, to the best of our knowledge, the first direct evidence of C-suite skill requirements across countries. In our analysis, we use data with firm and job postings for other occupations within the same firm and analyze the extent to which demand for social skills — a cluster that experienced sustained growth over time in CEO job descriptions — varies across countries. These results suggest that social skills are in especially high demand in larger, more complex, more IT-intensive organizations, consistent with the idea that social skills may facilitate the trading of expertise in the firm.
Life-Cycle Impacts of Graduating in a Recession

Hannes Schwandt and Till von Wachter

Young adults who enter the labor market during recessions can experience negative impacts to their economic, family, and health outcomes that endure into middle age and beyond. Those who join the workforce in a downturn have lower long-term earnings, higher rates of disability, fewer marriages, less successful spouses, and fewer children. In middle age they also have higher mortality due to lung, liver, and heart disease. The long-lasting effects of labor market shocks to young adults have important implications for assessing the costs of recessions and government interventions.

Young adulthood—the period from age 18 to 25—is a time of profound changes that affect the entire life cycle. During this time, the vast majority of people transition from adolescent dependence to adult independence. They complete their education or training, enter the labor market, and start families. Economic theory and casual observation suggest that their early life-cycle decisions are highly interdependent and vulnerable to economic shocks. An increasing number of studies in medicine and psychology also show that early adulthood is a critical phase for neurological, social, and psychological development.

Large and recurring shocks like recessions can affect a significant share of young adults who are in this critical phase. A staggering 30 percent—46 million—of prime-age workers in the US labor force in 2019 entered the market for the first time during a recession year. Business cycles are known to have strong contemporaneous impacts on young adults and their household decisions, including marriage, fertility, and homeownership.

A growing body of research has shown that entering the labor market in a recession leads to losses in earnings, wages, and employment that persist for about 10 years, and that these losses are larger for less advantaged labor market entrants. Yet, recent analysis suggests that an unlucky start could have longer-term consequences. For example, Anna Aizer and coauthors suggest that the effect of economic interventions may last into middle age. A small number of studies indicate that some impacts on earnings and health can persist until age 40, and that economic conditions in youth and early adulthood may even affect mortality in middle age. Hence, it is important to extend the follow-up period of studying the effect of adverse labor market entry into middle age, and to analyze the effect on non-economic outcomes.

Studying life-cycle and midlife effects comes with some challenges, however. It requires long follow-up periods and data on a broad range of economic, family, and health outcomes, as well as knowing where and when an individual entered the labor market. To be able to study a range of outcomes over the life cycle with sufficient precision, we develop a new method for harnessing large, repeated cross-sectional survey and vital statistics data. To analyze effects in middle age, we can focus on cohorts entering the labor market in US states before, during, and after the 1982 recession—the largest postwar downturn before the Great Recession—from labor market entry until age 50.

Evidence from Recession Graduates

Economic models of career progression, family formation, and health predict that even short-term economic shocks can affect the entire life cycle into middle age. The theory also high-
lights how family, economic, and health outcomes can influence one another over the life cycle, and helps us understand which socio-economic groups may respond differently than others to an initial shock. While standard models of career progression suggest that entering the labor market in a recession has only temporary effects, models in which job search and hiring are costly post-recession, in sequence can imply lasting-long, especially if workers’ ability to adjust declines with age.

Models of marriage and fertility suggest that having fewer labor market opportunities may lead some individuals to start families earlier, especially if income losses are moderate. Marriages induced by unfavorable labor market conditions may be less stable, and persistently lower income or jobless states. In parallel, economic stress, family disinstabili-

Our analysis focuses on the impact of fluctuations in the state-level unemployment rate. This provides us with exogenous variation in local labor market conditions and allows us to net out ongoing trends for all cohorts at the national level. To further ensure that we are excluding various initial conditions and not the ensuing evolu-

Figure 1

Unemployment Rate at Labor Market Entry and Mortality

Effect on mortality of a percentage point increase in the state unemployment rate in year of labor market entry.

Unemployment Rate at Labor Market Entry and Mortality by Cause

Effective mortality of a percentage point increase in the state unemployment rate in year of labor market entry.

Till von Wachter is a professor of eco-

nomics, faculty director of the California Labor and Workforce Studies Programs. He is also Research Professor at the German Social Security Agency.

 Von Wachter’s publications span numerous topics in labor economics and the economics of aging. He has written extensively about how labor market conditions, institutions, and firms affect the careers and well-being of workers throughout the life cycle. This includes analyses of how unemployment and job loss affect health and life expectancy, and the role of unemployment insurance and disability insurance in buffering such shocks. Von Wachter also has studied the role of firms in explaining increasing earnings inequality, how lack of competition in the labor market affects the impact of minimum wages, and how firms are impacted by policies increasing retirement ages.

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 Von Wachter’s publications span numerous topics in labor economics and the economics of aging. He has written extensively about how labor market conditions, institutions, and firms affect the careers and well-being of workers throughout the life cycle. This includes analyses of how unemployment and job loss affect health and life expectancy, and the role of unemployment insurance and disability insurance in buffering such shocks. Von Wachter also has studied the role of firms in explaining increasing earnings inequality, how lack of competition in the labor market affects the impact of minimum wages, and how firms are impacted by policies increasing retirement ages.

 Von Wachter’s research has been pub-

lished in leading journals, such as the American Economic Review, the Quarterly Journal of Economics, and the Journal of the American Medical Association. He has been an advisor to the US Department of Labor, the International Monetary Fund, the Organization for Economic Cooperation and Development, the World Bank, the Government of Canada, the California Labor and Workforce Development Agency, and the City of Los Angeles, among others.

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in the long term.

Life-Cycle Impacts of Recessions Occur in Three Phases

Our results imply that the life-cycle impacts of adverse labor market entry occur in three phases. Shortly after the end of the recession, when the economy and employment have returned to normal for most workers, we see persistent but declining earnings reductions as predicted by most career models. In this phase, a rise in family formation and child-rearing occur in three of recessions leading to mortality. People’s health is far from the threshold that the life-cycle impacts of adverse labor market entry. Mortality is a significant factor, as most young individuals have some ability to recover their earnings losses through higher labor supply, but this ability is limited by several factors. On average, only those not already working full time—namely women or those with no children—have lower mean employment rates in the cohort we study—can substantially offset these through increased work. Yet even then the earnings gap is only closed temporarily, and initial and late-life earnings losses are never recovered. Furthermore, we find that this increased labor supply may come at a cost in terms of health. More generally, the fact that an early shock has a comprehensive effect on economic, family, and health outcomes may mean it is hard to avoid these impacts with-}

out affecting some other dimension of lifetime outcomes. Our finding that unlucky individuals marry unlucky spouses within their cohort implies that within-family insurance may not be as effective in offsetting the effect of a weak labor market as it may be for buffering the effect of an individual job loss. These findings put a spotlight on public social insurance mechanisms and the role of government interventions during recessions. Government programs targeted at lower-income people play some role in buffering these losses, mostly initially, but are unable to prevent long-lasting losses. Currently, only Social Security benefits and the progressive nature of income taxation are likely to help buffer some of the cross-cohort earnings variation due to recessions. New government programs keeping young people in education or employment could help to improve career outcomes and to prevent the potentially destabilizing impacts of anticipated family formation. Similarly, workers are only indirectly and imperfectly insured against adverse life-cycle effects on health. The increase in take-up of Social Security Disability Insurance benefits we find reflects one mechanism providing partial insurance. General health insurance such as Medicare or public funding of unpaid emergency room care could be another.

Our results imply that despite some available social insurance mechanisms, recessions lead to lasting and broader impacts on young workers than previously thought. This implies that non-}

etary and fiscal policies aimed at avoiding or dampening downturns can play an important role in averting the long-term effects of adverse labor market entry.


Figure 3

Unemployment Rate at Labor Market Entry and Family Formation

Effect of a percentage point increase in the state unemployment rate in year of labor market entry

Figure 4

Unemployment Rate at Labor Market Entry and Earnings

Effect of an earnings of a percentage point increase in the state unemployment rate in year of labor market entry.
Sin Taxes: Good, Better, Best

Hunt Allcott, Benjamin Lockwood, and Dmitry Taubinsky

Economists have long recognized that when consuming a good produces externalities, welfare can be raised by imposing corrective taxes. More recently, there has been a growing belief that some goods should be taxed because of internalities — harms that people might impose on themselves due to limited attention, misconceptions, or lack of self-control. One of the agendas that we have pursued in the intersection of public economics and behavioral economics is the optimal design of corrective taxes and subsidies to mitigate both externalities and internalities. Relative to externalities, internalities have received much less attention from economists, but they are as significant as externalities. Taxes addressing externalities and internalities are sometimes referred to colloquially as “sin taxes.”

There are several domains where economists and policymakers worry about both externalities and internalities. One concerns goods that are ostensibly harmful to health, such as cigarettes, alcohol, and sugary drinks. The externalities include burdens on the health system, and the internalities may range from incorrect beliefs about harmful health effects to lapses of self-control. Another domain concerns appliances and automobiles that vary in energy or fuel efficiency. Purchasing less-efficient goods increases environmental externalities and may also harm consumers themselves if they misperceive or are inattentive to the energy or fuel costs.

An additional consideration in these domains is that “sin goods” are more heavily consumed by low-income people. Thus, if the sin tax is not combined with some form of progressive redistribution of its revenues, the tax will impose more financial weight on the poor.

This summary draws together our research, involving both theory and measurement, which provides a reasonably holistic framework for designing and evaluating sin taxes. This research program takes into account both the difficult task of incorporating internalities and the additional question of optimal redistribution of tax revenue.

A Framework for Optimal Sin Taxes

As laid out by Arthur Pigou in the case of externalities, if consuming a good harms others, then people will consume too much in an unregulated market. Thus, taxing a good with negative externalities will raise welfare by reducing consumption toward the efficient level at which marginal social cost equals marginal social benefits.

A similar logic applies to markets with internalities. If behavioral biases cause an individual to ignore some harms caused by their good, then judicial or economic incentives for reducing consumption are necessary. To what extent does it make sense to distribute the tax revenues progressively? A corollary of a classic result from public finance — the Atkinson-Stiglitz theorem — is that optimal progressive redistribution of the sin tax revenue must fully offset the regressive incidence of the sin tax when the only reason that lower-income people consume more of the sin good is that they have less income. Meanwhile, some of the across-income consumption patterns can be explained by differences in internalities or preferences, so that optimal redistribution of tax revenue will be less progressive because it will be more distortionary of labor supply. Thus, the optimal sin tax will be lower because on net it will increase financial inequality. Our analysis provides a quantitative result about the optimal degree of redistribution, which we show can be computed by comparing the correlation of income and sin consumption to the causal effect of income on sin good consumption.

While the above analysis focuses on linear sin taxes, some taxes/subsides — such as those on energy use or savings — are nonlinear, means-tested, or both. We have extended our analysis to these more-flexible tax policies, including nonlinear taxes on sin goods.

In this setting, the extent to which it makes sense to offset the regressive of the commodity tax through other pol icy channels is again determined by the difference between the correlational and causal associations of income and the taxed good.

We have applied these conceptual insights in three areas.

Application: Taxes on Sweetened Beverages

Taxes on sweetened beverages are motivated by reducing both externalities (in this case, health care costs not paid by the individual) and internalities (such as self-control problems or lack of information about health harms). We have collected the necessary empirical parameters to quantify the welfare-maximizing tax level on sugar drinks.

Figure 1 shows a key fact: lower-income people drink more sugary drinks. This might suggest that sugary drink taxes are financially regressive. However, Figure 2 demonstrates an offsetting fact: lower-income households will pay more of these taxes. However, Figure 2 demonstrates an offsetting fact: lower-income people have less nutrition knowledge, which if they report having less self-control over sugary drink consumption. They are more likely to say that they drink more sugary drinks than they should.

Quantitatively, we find that the lowest-income households overestimate total utility from sugary drinks by about 1.1 cents per ounce, while the highest-income households underestimate utility by about 0.8 cents per ounce.
Figure 4 presents our estimates of bias across the income distribution. We also estimate that consumer demand is relatively elastic to sugary drink prices (and thus taxes) but that this elasticity does not vary significantly by income. The fact that lower-income households are more biased but not less elastic implies that the corrective benefits from sugary drinks taxes are progressive.

Finally, we estimate that sugary drinks are a normal good: the causal effect of income on their consumption is positive. This implies that the negative health effects of sugary drinks consumption and income is due to differences in preferences and biases. Thus, it is not optimal to fully offset the regressivity of the sugary drinks tax, which lowers its optimal size because of its impact on financial inequality.

We use our theoretical model to take into account all of the empirical facts to determine the optimal sugary drink tax. In our model, the welfare-maximizing tax on sugary drinks in the US is 1 to 2 cents per ounce, which is similar to current tax rates in the seven US cities that have such taxes. If, however, taxes were optimized at a more local level and thus were to lead to some cross-border shopping, their optimal size would be somewhat smaller. We find that the average household at all income levels benefits from a sugary drink tax, although higher-income households may benefit more dependently on how we quantify behavioral bias.

Application: Energy Efficiency

A second application is to energy efficiency policies such as subsidies for energy-saving appliances and corporate average fuel economy standards. One justification for these policies is that they are second-best substitutes when demand is relatively elastic to sugary drinks taxes. Another is that they generate an increase in social surplus from banishing incandescent lightbulbs. We found qualitatively analogous results in work on fuel economy standards. Consumers do not appear to pay full attention to gasoline costs, and in our field experiment we found that providing fuel economy information had no effect on vehicle purchases. A large body of excellent work by other scholars finds similarly mixed results. In one model we developed, the estimated impacts of fuel economy standards are not large enough to increase social surplus.

Application: State-Run Lotteries

A final application is to state-run lotteries. Such lotteries are subject to an implicit tax because a portion of each ticket’s purchase price is retained by the government rather than being distributed to consumers through prizes. The economic principles are thus similar to those of other sin tax applications but they are applied to the general case where the government can differ tax various characteristics of the sin good.

Do these revenue-generating lotteries raise total welfare? As with other applications, there are two sides to the debate. On the one hand, state-run lotteries might be a “win-win” that increases both state budgets and consumer surplus if consumers’ decisions to buy lottery tickets are not affected by behavioral biases. Although these lotteries typically have negative expected monetary value, consumers might still rationally buy them either for entertainment value or because they generate anticipatory utility from the possibility of winning. On the other hand, if consumer demand is primarily driven by behavioral biases such as overconfidence, self-control problems, or innumeracy, then these lotteries may be welfare reducing, particularly if both lottery demand and biases are disproportionately concentrated among lower-income people.

Empirically, we find that purchasing lottery tickets is associated with survey measures of innumeracy, poor statistical reasoning, and other proxies for behavioral biases. Collective, these proxies explain 43 percent of lottery purchases. As with sugary drinks, these biases seem to be concentrated among lower-income people. However, since lottery tickets are cheap — the administrative costs are modest and about 30 percent of proceeds go to states for education and other programs — there is a trade-off between overconsumption due to bias, normatively respectable consumer surplus, and government revenues. In our model, the current designs of the large multistate lottery games increase welfare overall although they may harm heavy spenders.
Alberto Abadie, Sherry Glied, and Jon Steinsson were elected to the American Academy of Arts and Sciences.

John M. Abowd received the inaugural Edward Lazear Prize from the Society of Labor Economists for excellence in research, service to the field, and contributions to civil society, as well as a 2022 Champions of Freedom Award from the Electronic Privacy Information Center for his role in modernizing the US Census Bureau’s confidentiality protection systems.

Katharine Abraham and Matthew Gentzkow were elected to the National Academy of Sciences.

Viral Acharya was awarded a 2022 Jack Treynor Prize by the Institute for Quantitative Research in Finance for “Is Physical Climate Risk Priced? Evidence from Regional Variation in Exposure to Heat Stress,” coauthored with Tim Johnson, Tuomas Tomunen, and Suresh Sundaresan.

Elizabeth Ananat and Anna Gassman-Pines won the Rosabeth Moss Kanter Award for Excellence in Work-Family Research from the Purdue University Center for Families and the Boston College Center for Work & Family.

Adrien Auclert, David Baqaee, Natalie Bau, Peter Ganong, Simon Jager, and David Yang were named Sloan Research Fellows.

Martha J. Bailey won the Carolyn Shaw Bell Award, given annually by the American Economic Association to an emerging scholar. The award recognizes Bailey for her contributions to regional science.

Robert Barro received an honorary degree from the University of Athens.

Andrew B. Bernard presented the Ohlin Lecture at the Stockholm School of Economics.

Eric Bettinger was awarded an honorary doctorate from the University of Zurich.

Christopher Blattman, Leah Platt Boustan, Seema Jayachandran, and Ahmed Mushfiq Mobarak were named to Vox’s inaugural Future Perfect 50 list, which honors “scientists, thinkers, scholars, writers, and activists building a more perfect future.”

Nicholas A. Bloom was awarded a Guggenheim Fellowship and elected to the Bloomberg 50 for research on working from home.

Judson Boomhower and Matteo Maggiori received Andrew Carnegie Fellowships.

Severin Borensztein and Catherine Wolfteam received Adelman-Frankel Awards from the United States Association for Energy Economics for outstanding contributions to the field of energy economics.

Leah Platt Boustan, Fatih Guvenen, Chang-Tai Hsieh, Oleg Itskhoki, Dean Karlan, Hyuna Kuziemko, Ricardo Lagos, Thomas Lemieux, Guido Menzio, Giuseppe Moscarini, Benjamin Olken, Giorgio Primiceri, Nancy Qian, Jon Steinsson, Amir Sufi, Laura Veldkamp, and Alessandra Voena were named Fellows of the Econometric Society.

Giulia Brancaccio, Myrto Kalouptsidi and Theodore Papageorgiou were awarded the Econometric Society’s Frisch Medal for their paper “Geography, Transportation, and Endogenous Trade Costs.”

Judith Chevalier won the 2022 Industrial Organization Society Distinguished Fellow Award for excellence in research, education, and leadership.

Norma Coe and Rachel Werner’s paper “Informal Caregivers Provide Considerable Front-Line Support in Residential Care Facilities and Nursing Homes” was selected as a top 10 editor’s pick for 2022 by Health Affairs.

William J. Collins was elected a Fellow of the Cliometric Society.

Lin William Cong was named a Fellow of the Asian Bureau of Finance and Economic Research. His work with Zhiheng He, Andrew Karolyi, Ke Tang, and Weiyi Zhao received best paper awards at the EFMA-WRDS Conference and the 19th Chinese Finance Annual Meeting.

Janet Currie was elected president-elect of the American Economic Association.

Donald R. Davis and Jonathan I. Dingel received the 2022 Bhagwati Award from the Journal of International Economics for “The Comparative Advantage of Cities.”

David Deming was awarded the 2022 Shefrin Rosen Prize by the Society of Labor Economists for outstanding contributions to labor economics.

Ian Dew-Becker received the SCOR-PSE Chair on Macroeconomic Risk Junior Research Prize from the Paris School of Economics for the paper “Tail Risk in Production Networks.”

Douglas W. Diamond shared the 2022 Nobel Memorial Prize in Economic Sciences for research on banks and financial crises with Ben Bernanke and Philip Dybvig.

Francis X. Diebold won the Isaac Kertzenenzy Scholarly Achievement Award of the Centre for International Research on Economic Tendency Surveys.

Jonathan I. Dingel received the 2022 August Lösch Prize from the Institute for Environmental, Resource, and Spatial Economics of Kiel University for outstanding research in regional science.

Florian Ederer, Song Ma, and Collene Cunningham won the Best Paper on Competition Economics Prize from the Association of Competition

### NBER News

**Annual Report of Awards to NBER Affiliates**

NBER News
Economics and the Jerry S. Cohen Award for Antitrust Scholarship from the American Antitrust Institute for “Killer Acquisitions.” Ederer and Bruno Pellegrino received a Best Paper Award at the Econometric Society European Meeting for “A Tale of Two Networks: Common Ownership and Product Market Rivalry.”

David Card, Barry Eichengreen, James Poterba, and Daniel Reinhart were named Distinguished Fellows of the American Economic Association. Eichengreen also received the Nessim Habib Prize for Contributions to Science and Industry from the University of Geneva and was made a Corresponding Fellow of the British Academy. Andrea Eisfeldt and Andrew Demers received the American Real Estate and Urban Economics Association’s award for best paper in Real Estate Economics for “Total Returns to Single-Family Rentals.”

Hülya Eraslan was named an Economic Theory Fellow by the Society for the Advancement of Economic Theory.

Robert Fairlie, David Robinson, and Alicia Robb won the Bradford-Osborne Research Award for their paper “Black and White: Access to Capital among Minorities and Migrants.”


Maryam Farboodi, Laura Veldkamp, Venky Venkateswaran, and Dheeraj Singal won the Swiss Finance Institute’s Outstanding Paper Award of 2022 for “Valuing Financial Data.”

Robert C. Feenstra and Charles Hulten were awarded the Shiskin Memorial Award for Economic Statistics, which is awarded by the Business and Economic Statistics Section of the American Statistical Association.

Claudia Goldin was named a Distinguished Fellow of the Center for Economic Studies at Ludwig-Maximilians-Universität München, received the Richard A. Lester Book Award from the Industrial Relations Section at Princeton University, and was honored with a Visionary Award from the Council for Economic Education.

Paul Goldsmith-Pinkham, Andreas Fuster, Tarun Ramadorai, and Aniko Fathaler won the Brattle Group Prize in Corporate Finance for their Journal of Finance paper “Predictably Unequal? The Effects of Machine Learning on Credit Markets.”


Daniel Hanzaunickel and Rodrigo R. Soares jointly received the Haralambos Simeonis Prize for best papers written by economists with ties to岭南 research institutions.

Samuel Hartmark and David Solomon won the FESE De la Vega Prize, given to young scholars for an outstanding research paper on financial markets, for “Predictable Price Pressure.”

Jennifer Hunt was named a Fellow of the Society of Labor Economists.

Douglas Irwin was elected president of the Economic History Association.

Zhengyang Jiang and coauthor Robert Richmond and Tony Zhang won the NASDAQ Award for Best Paper on Asset Pricing at the annual Western Finance Association conference for “A Portfolio Approach to Global Imbalances.”

Ginger Zhe Jin, Michael Luca, and Daniel Martin won the American Economic Journal: Macroeconomics Best Paper Award for “Is No News (Perceived As) Bad News? An Experimental Investigation of Information Dislosures.”

B. Zorina Khan’s book Inventing Ideas: Patents, Prizes, and the Knowledge Economy received the 2022 Alice Hanson Jones Biennial Prize from the Economic History Association.

Mervyn King won the inaugural Bancor Prize for international leadership in economic thought and practice.

Matthew Kraft received the Outstanding Public Communication of Education Research Award from the American Educational Research Association.

Kevin Lang and Lisa Lynch were elected to the American Economic Association Executive Committee.

Josh Lerner, Antoinette Schoar and coauthor Jason Miao and Nan Zhang received the 2022 Doriot Award for Best Private Equity Research Paper from the HHL Leipzig Graduate School of Management for “Investing Outside the Box: Evidence from Alternative Vehicles in Private Equity.”

Christian Leuz received the ACA Prize in Financial Governance CAREER Award to study the consequences for families of prenatal screening technologies and assisted reproductive technologies.

Robert Pindyck won the John Kenneth Galbraith Award for breakthrough discoveries in economics and finance by a European economist under age 40.

Costas Meghir was the Fisher-Schultz lecturer at the Econometric Society European Meeting.

Olivia S. Mitchell won the American Risk and Insurance Association Kulp-Wight Book Award for Remaking Retirement: Debt in an Aging Economy.

Fiona Murray was named Dame Commander of the Order of St. Michael and St. George by King Charles for her service to science, technology, and diversity.

Kevin O’Rourke was awarded an honorary doctorate by the University of Southern Denmark.

Ariel Pakes received the Erwin Plein Nemmers Prize in Economics, awarded by Northwestern University.


Petra Persson received a National Science Foundation CAREER Award for research on primate aging.

Stefanie Stantcheva was awarded an Econometrica Fellowship.

Nancy Stokey won the CME Group-Mathematical Sciences Research Institute Prize in Innovative Quantitative Applications recognizing originality and innovation in the use of mathematical, statistical, or computational methods to study the behavior of markets and economies.

Johannes Stroebel won the 2023 Fischer Black Prize, given biannually by the American Finance Association to the top financial economics scholar under the age of 40.

Eric T. Swanson received the Best Paper Award from the Journal of Monetary Economics for “Measuring the Effects of Federal Reserve Forward Guidance and Asset Purchases on Financial Markets.”

Alan M. Taylor received the Economic History Association’s Engerman-Goldin Prize for his work with Oscar Jordi and Moritz Schularick in developing the Macrohistory Database.

Francesco Trebbi and Federico Ricca won the MinF Best Paper Award from the European Economic Association for “Minority Underrepresentation in US Cities.”

John Van Reenen was named a Foreign Honorary Member of the American Economic Association.

Stijn Van Nieuwerburgh served as president of the American Real Estate and Urban Economics Association.

Angelinia C. G. Viceisza was elected president of the National Economic Association and served as second vice president of the Midwest Economics Association.
Program on Children Meeting  
Organizers: Anna Aizer and Janet Currie  
March 2–3

Workshop of Digital Economics  
Organizers: Avi Goldfarb, Catherine Tucker, and Pinar Yildirim  
March 3

Monetary Economics Program Meeting  
Organizers: Christina Patterson and Johannes Wieland  
March 3

TRIO Conference on Digital Economy and Finance  
Organizers: Shin-ichi Fukuda, Joshua K. Hausman, and Kenichi Ueda  
March 4–5

Immigrants and the US Economy  
Organizers: Aimee Chin and Kalena Cortes  
March 9–10

Law and Economics Program Meeting  
Organizer: Christine Jolls  
March 10

Productivity, Innovation, and Entrepreneurship Program Meeting  
Organizers: Nicholas Bloom, Serguey Braguinsky, Sabrina T. Howell, and Josh Lerner  
March 10

Policy Responses to Tax Competition  
Organizers: David R. Agrawal, James M. Poterba, and Owen M. Zidar  
March 16–17

CRIW Measuring and Accounting for Environmental Public Goods: A National Accounts Perspective  
Organizers: Mary Bohman, Eli Fenichel, and Nicholas Z. Muller  
March 16–17