EQUALITY • SOCIAL ORGANIZATION • PERFORMANCE

ESOP

ANNUAL REPORT 2012
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THE YEAR 2012

We gradually broaden the scope of ESOP's projects. In 2012 we recruited two new PhD fellows and one postdoc. The study of the egalitarian lessons from the Nordic countries is the single most important research theme. Our research is in demand from several parts of the world. It has, for example, implications for the evaluation of social reforms in growing economies like India and Brazil. In the last couple of years we have extended our collaboration with Indian researchers. The last employed postdoc is an Indian and we have also hired a young female India researcher in a part time position.

It is ESOP’s ambition to participate in the public debate and to publish results in popular media from the important topics we study. ESOP researchers have several hundred popular-science articles and media appearances per year. We have also participated in a large number of public debates and contributed to several governmental committees. ESOP also holds meetings with government officials and official delegations from around the globe. ESOP's publication list reflects that much of our research focuses on inequality. Many of the articles show how, and why, inequality is rising in so many countries, and in the world as a whole - but less in the Scandinavian countries.

In the recent years the financial crisis and the debt crisis in Europe has lead to alternative society models, like the Nordic, getting more attention. In February 2013, for example, The Economist published a several page report titled "Northern lights" where they in one introduction wrote: "The next supermodel - Politicians from both right and left could learn from the Nordic countries." This is an example of how the interest in ESOPs research issues extends far beyond traditional social democratic circles. The renewed international interest in different societal models is inspiring ESOP’s research.

Prof. Kalle Moene        Prof. Halvor Mehlum    Johannes Elgvin
Centre director          Deputy director            Head of administration
RESEARCH AREAS

We structure our research around six subareas:

- The Welfare State
- Social Organization
- Development and Globalization
- Income and Social Mobility
- Institutions and Society Models
- Foundational issues

With a flexible interpretation these areas cover most of the research at ESOP.

The Welfare State

It is ESOP’s ambition to explore the sustainability of generous welfare states. What determines their performance and their economic and political feasibility?
Welfare states provide valuable safety nets, insurance, and redistribution, but these policies also affect people’s incentive to work, save, and invest. The political support for the welfare state depends, among other things, on the distribution of income. Gender also plays an important role as women are strong supporters of the welfare state. The willingness to pay taxes may in turn depend on what the welfare state provides and to whom it provides it. These interdependencies must be accounted for.

**Social Organization**

It is ESOP’s ambition to explore the interaction between markets, social equality and worker security. Do market forces erode social reforms? Do social reforms erode market efficiency?

There is a strong interdependence between how the economy is organized, how the workplace is organized, and what culture of trust and cooperation that prevails in a society. Egalitarian societies usually have less hierarchical firms. This work organization in return reinforces the mechanisms that sustain egalitarian features. Small social differences in society and at the workplace may also produce less social conflict, more cohesion, and hence more smoothly functioning societies with more cooperation. The importance of feed-back mechanisms and consistency is often emphasized in Economics, but the framework is usually limited to the market mechanism. The interconnections between the economic, social, and political forces should be captured within similar frameworks.
Development and Globalization

It is ESOP’s ambition to understand the viability of egalitarian market economies. What are the impacts of global competition for the distribution of income and prosperity?

Questions concerning the viability of egalitarian societies are relevant for all countries, rich or poor, egalitarian or inegalitarian. In all countries there are linkages between equality, social organization, and economic performance. These linkages are as important for the survival of the European welfare states as for the feasibility of an equitable society in general. Can Nordic-style welfare arrangements be introduced in all types of societies? Or are they only feasible in consensual, homogeneous and affluent societies with an extraordinary commitment to equality? Do the Nordic lessons have any relevance for countries that are conflict-ridden, heterogeneous, and poor? We study the feasibility of implementing welfare state arrangements in poor countries and to what extent the Scandinavian model can be understood as a development strategy. Can there be a welfare state for the poor? Welfare state arrangements are most needed where they are least developed. Welfare state arrangements in extremely poor countries could perhaps play an essential role for economic growth, social fairness, and gender equality.

Income and Social Mobility
It is ESOP’s ambition to understand the linkages between economic performance, distribution, and social disparities. What are the costs and benefits of more equality?

Over the last 30 years, social equality and worker security have persisted in the Nordic countries and economic growth has been at par with the US. In the US, rising inequality has gone hand in hand with social cleavages and lower welfare. In contrast, most of Europe has experienced only a modest rise in inequality, but a sharp rise in unemployment. The Nordic countries, however, have in the same period combined social equality with good macroeconomic performance and full employment. To study the role of inequality, we must first derive what economic theory predicts for these societies. We can then confront the theoretical hypotheses with the observed patterns and draw valid conclusions.

**Institutions and Society Models**

It is ESOP’s ambition to understand the interaction between policies, institutions, and long term development. What set of policies and institutions may generate an egalitarian development path within a consistent arrangement?

Institutional complementarities and social spillovers are important to understand modern societies and the Nordic experience. Certain policies, institutions and behaviours fit together and strengthen each other. In the long run, the outcomes may look as if societal arrangements come in certain social and economic organization packages. What are the mechanisms behind this clustering around certain institutional equilibria? Is there a universal relationship between equality and economic performance, or do equality and prosperity go together only under some institutional arrangements?
Foundational issues

The last category of our research consists of an overarching category that spans all the others. Typically it covers theoretical and empirical method developments, clarifications of concepts and terms, and overviews.
A QUICK TOUR OF SOME PROJECTS

Below we present some of ESOP’s projects related to each category. The projects listed represent examples of the on-going research. The list does not cover projects that were adequately covered in previous years’ reports. Some of the projects have just been started and have not yet resulted in published research while others are closer to completion and are also found in the list of Publications or Working Papers later in this report.

Disclaimer: We define an ESOP project as a research project where at least one author (names in parenthesis) is part of ESOP’s research team. Some of the projects below have funding from other sources than the Department or the Research Council’s ESOP research grant.

The Welfare State

The functioning of the welfare state depends on how the individuals behave given the welfare arrangements and how they might change behaviour when welfare arrangements changes. There is a heated debate in many European countries about a move towards a welfare system that increases the incentives for lone mothers to move off welfare and into work. Magne Mogstad (together with C. Pronzato) has studied lone mothers’ response to changing incentives. They have analysed the consequences of a major Norwegian workfare reform of the generous welfare system for lone mothers. They show that the policy changes were successful in improving labour market attachment and increasing disposable income of new lone mothers. By contrast, the reform led to a substantial decrease in disposable income and a significant increase in poverty among persistent lone mothers, because a sizeable group was unable to offset the loss of out-of-work welfare benefits with gains in earnings. This suggests that the desired effects of the workfare reform were associated with the side-effects of income loss and increased poverty among a substantial number of lone mothers with insurmountable employment barriers. This finding stands in stark contrast to evidence from similar policy changes in Canada, the UK, and the US, and underscores that policymakers from other developed countries should be cautious when drawing lessons from the successful welfare reforms implemented in Anglo-Saxon countries.

The incentives generated by the welfare state are also the topic of much of Knut Røeds work. He has (together with Simen Gaure and Lars Westlie) studied Norway’s sickness insurance program and ask whether activation requirement can accelerate recovery. Based on empirical analysis of Norwegian data, they show that it can. Activation requirements not only bring down benefit claims, they also reduce the likelihood that long-term sickness absence leads to inactivity. The findings show that
Absentees who are issued graded (partial) absence certificates by their physician have shorter absences and higher subsequent employment rates than they would have had on regular sick leave.

**Social Organization**

By “Social Organizations” we mean how different parts of society are organized. Obvious themes relates to the organization of the family or the workplace. An important part of our research that also falls under this heading relates to the understanding of the organization of crime.

Andreas Kotsadam (together with Niklas Jakobsson) has produced two papers related to the economics of international sex slavery and prostitution. He starts from the premises that 1) international trafficking in humans for sexual exploitation is an economic activity driven by profit motives and 2) that laws regarding commercial sex influence the profitability of trafficking and may thus affect the inflow of trafficking to a country. Using two recent sources of European cross country data he show that trafficking of persons for commercial sexual exploitation is least prevalent in countries where prostitution is illegal while it is most prevalent in countries where prostitution is legalized. Case studies of Norway and Sweden, that have criminalized buying sex, support the possibility of a causal link from harsher prostitution laws to reduced trafficking. Although the data do not allow for robust causal inference, the results suggest that criminalizing buying and/or selling sex, may in fact reduce the amount of trafficking to a country.

Tarjei Havnes, Edwin Leuven, and Magne Mogstad (together with Manudeep Bhuller) has studied the mechanism behind serious sex crimes. They ask the question: Does internet use trigger sex crime? They use a Norwegian dataset on crime and internet adoption to shed light on this question. A public program with limited funding rolled out broadband access points in 2000-2008. Therefore internet coverage expanded at different times in different parts of the country. By comparing regions that expanded later to regions that expanded earlier, they find that internet use is associated with a substantial increase in reported incidences of rape and other sex crimes. They also discuss possible explanations behind this result and highlight three mechanisms for how internet use may affect reported sex crime.

Mari Rege has also studied crime (together with Torbjørn Skardhamar, Kjetil Telle and Mark Votruba). She looks at the effect of exposure to plant closure on crime using Norwegian data on criminal charges. They find that men originally employed in plants that subsequently closed are 14 percent more likely to be charged of a crime than comparable men in stable plants. There is no difference in charge rates prior to closure, supporting the hypothesis that there is causal connection between plant closure and subsequent crime. Surprisingly they find no effect of plant closure on
property crime, perhaps because closure has a small effect on subsequent earnings. They interpret this as suggesting a role for mental distress or idleness. A role for idleness is supported by evidence that the effects of plant closure on crime tend to be more pronounced for crimes committed during the week than on weekends.

Finally, Eva Kløve and Halvor Mehlum have studied organized crime in South Africa. Organised crime is a major threat to security and development. They model how the massive expansion in private security of the last two decades can give rise to a spiral of violent organised crime and find a “violence multiplier”. In environments where state authority is weak, violent entrepreneurs can thrive both as those who commit crime and those who protect from crime. With one of the largest private security industries in the world, South Africa is a case in point, offering a wide range of protection providers, from organized crime groups, to vigilante groups, to large legal private security providers. Within this landscape there are private security companies violently demanding protection fees from businesses in addition to offering regular security services. This phenomenon is not restricted to Africa: In Russia legal businesses pay for being brought under the roof of local gangsters, and in Jamaica neighbourhood leaders, or dons, are both the source of violence and the only form of protection available to the urban poor.

**Development and Globalization**

Savings, capital accumulation and the mechanisms of economic growth is one of the classical themes of economics. In the past 40 years the growth experiences across the globe has been strikingly diverse with many Asian economies growing out of poverty while other developing countries experienced worsening of living conditions. China’s tremendous growth is a particularly important case. Will it continue so that poverty eventually is eradicated in China?

Halvor Mehlum and Ragnar Torvik (together with Simone Valente) try to understand the mechanisms behind China’s savings and growth. Production in China has grown by almost ten per cent annually since 1978. More than forty per cent of GDP has been invested over the last years. The high savings rate is the sum of high corporate savings and high household savings. High corporate savings can be explained by capital market imperfections, as Storesletten and Zilibotti (with Song) does. At present, household savings is the single largest component of total savings and has been studied in a large number of papers. Although these papers put different weight on different mechanisms, there seems to be some consensus in the literature that the high and increasing savings reflects precautionary motives, and that these are strengthened by the sharp decrease in state enterprises, the missing welfare system, the one-child policy, and the increased need to provide for own retirement and old-age care.
Mehlum and Torvik put these mechanisms into a standard growth model. They show that with welfare for the old missing the need for savings go up in anticipation of expensive care. Therefore as wages grow the needs for savings go up and therefore increased savings and capital accumulation stimulates further savings and capital accumulation. This *multiplier mechanism* can explain part of the extraordinary high savings in China. It also suggests that the savings may drop dramatically if and when China establishes a welfare state.

China’s growth and development is also the subject of a study of Ingvild Almås (with Åshild Auglænd Johnsen). Almås study the cost of living in China by calculating regional prices that make incomes comparable across both time and space using the Engel-curve approach. Incomes are adjusted using these price indices, providing new estimates of inequality and poverty development. The findings are in contrast to findings based on the official consumer price indices. First, prices have increased more in rural areas and less in urban areas than what the official price indices suggest. Second, whereas measures based on official indices suggest that inequality has declined in the period under study, their new real income measures show an increase in inequality in this period. Third, income measures based on these prices indicate a substantially more moderate poverty reduction than both the official measures and the World Bank numbers. They find that in a time characterized by high economic growth, China has experienced larger increase in inequality and a more moderate poverty reduction than what is indicated by standard measures.

Climate issues also figures prominently on ESOPs research on global issues. Bård Harstad explores the case for supply-side based environmental policy in his article “Buy coal”. Free-riding is at the core of environmental problems. If a climate coalition reduces its emissions, world prices change and nonparticipants typically emit more; they may also extract the dirtiest type of fossil fuel and invest too little in green technology. The coalition’s second-best policy distorts trade and is not time consistent. However, suppose that the countries can trade the rights to exploit fossil-fuel deposits: As soon as the market clears, the above-mentioned problems vanish and the first-best is implemented. In short, the coalition’s best policy is to simply buy foreign deposits and conserve them.

**Income and social mobility**

Our research on the Norwegian educational system and its effect on social mobility continue. Nina Drange, Tarjei Havnes and Astrid M. J. Sandsor investigate the effects of kindergarten. Theory and evidence points towards particularly positive effects of high-quality child care for disadvantaged children. At the same time, disadvantaged families often drop out of existing programs. To counter differences in learning outcomes between children from different socioeconomic backgrounds, European governments are pushing for universal child care. However, empirical evidence on the
effects of universal programs is scarce. Using register data the authors provide evidence on the long run effect on schooling of mandating kindergarten at age 5–6. The results suggest that extending the reach of kindergarten in the general population by making it compulsory, does little to counter differences in learning outcomes between children from different socioeconomic backgrounds when access to kindergarten is substantial.

How do migrants fare in the Norwegian labor market? This is the question that Erling Barth, Bernt Bratsberg, Oda Bjorn Raaum and Knut Røed want to answer. They start by looking at life cycle wages of immigrants from developing countries that fall short of catching up with wages of natives. Using linked employer–employee data, they show that 40% of the native–immigrant wage gap is explained by differential sorting across establishments. They also find that returns to experience and seniority are similar for immigrant and native workers. Disparities in lifetime wage growth are explained by differences in job mobility and intermittent spells of unemployment. The inferior wage growth of immigrants primarily results from failure to advance to higher paying establishments over time. In another paper they combine the topics of education and migration. Children of immigrant parents constitute a growing share of school cohorts in many countries, and their educational performance is vital for long-term integration. They examine educational outcomes of first and second generation immigrants from poor countries in Norway. Children of immigrants, and particularly those born outside Norway, are much more likely to leave school early than native children. Importantly, this gap shrunk sharply over the past two decades and second generation immigrants are now approaching the educational performance of natives. For childhood immigrants, upper secondary completion rates decline with age at arrival, with a steep gradient after age seven. Finally, they find that immigrant-native attainment gaps disappear when conditioning on grade points from compulsory school.

**Institutions and Society Models**

As the name “Equality, Social Organization and Performance” suggest the relationship between equality and the functioning of the society is a core topic for ESOP. Erling Barth and Kalle Moene ask whether employment is a price of or the prize for equality. In particular they ask whether Scandinavian wage compression hampers employment rates, or not. They answer by reviewing the most important theoretical arguments and the most informative regularities across countries with different wage distributions. The pattern seems to be that countries with compressed wage distributions tend to have higher employment, and countries with higher wage inequality tend to have lower employment. This also holds when considering the rate of labor force participation. In line with the theoretical arguments, coordination in wage bargaining seems to contribute to both employment expansion and wage compression.
The same authors have also (together with Henning Finseraas) studied how inequality affects welfare generosity via the political process. They propose a political reinforcement hypothesis, suggesting that rising inequality moves party politics to the right on welfare state issues, strengthening the impact of inequality rather than modifying it. To establish the hypothesis they model policy platforms by incorporating ideology and opportunism of party members, and interests and sympathies of voters. If welfare spending, such as social insurance, is a normal good within each income class, a majority of the electorate moves to the right when wage inequality increases. As a response the left bloc, and to a lesser extent the right bloc, shift their welfare policy platform towards less generosity. Confronting their arguments with data on the welfare policy platforms of political parties in 22 OECD countries prior to 120 elections they find strong support for a rightward shift of the left bloc, while the shift is less clear for the right bloc.

Our political scientist Carl Henrik Knutsen studies the relationship between democracy and economic growth. He evaluates five central arguments on democracy and growth, before surveying empirical studies on the relationship. He highlights critical methodological challenges, and draws implications for constructing valid models for empirical research on the topic. He shows that there is still disagreement over whether democracy enhances growth or not. Nevertheless, in the light of more recent studies, using better methodological approaches and more data than previous studies, two trends are recognizable: first, the hypothesis that democracy reduces economic growth is refuted by recent studies; second, the hypothesis that democracy has no effect on growth, although still widespread in the academic community, seems less plausible today than it did 10 or 20 years ago. Several recent studies show that democracy has positive effects on growth, although these effects are ‘indirect’ in the sense that democracy affects growth through, for example, enhancing human capital or strengthening the protection of property rights.

**Foundational issues**

The foundational issues we research overarch and are the basis of our other research. One particular group of research papers relates to the development and refinement of theoretical concepts. Geir Asheim and Bertil Tungodden (together with T. Mitra) have contributed to the literature on welfare functions. They start from Koopmans’ axiomatization of discounted utilitarianism that is based on seemingly compelling conditions. Yet this axiomatization leads to outcomes that are hard-to-justify. Their analysis considers a class of sustainable recursive social welfare functions within Koopmans’ general framework. This class is axiomatized by means of a weak new equity condition (“Hammond Equity for the Future”) and general existence is established. Any member of the class satisfies the key axioms of Chichilnisky’s “sustainable preferences”. The analysis singles out one of Koopmans’s original conditions as particularly questionable from an ethical perspective.
ESOP LUNCH SEMINARS

Since the beginning, the weekly ESOP Lunch seminars has been an important part of ESOP’s activities. ESOP Lunch is an informal, high-quality series of seminars on the range of topics covered by ESOPs research agenda. In 2012, we hosted a total of 33 ESOP Lunch seminars with lecturers representing 24 different institutions from Norway and abroad. The lecturers present some of their research and usually discuss an upcoming paper. The seminars are well attended, averaging about 30 visitors per seminar.

ESOP Lunch seminars 2012

[Images of lecturers]

[Diagram showing presenters by main affiliation, 2012]
Jan 23rd: Julia Lane (AIR)
"New Data to Examine R&D Investments, LEHD on Steroids?"

Jan 30th: John Dagsvik (Statistics Norway)
"Making Sen's Capability Approach Operational: A Random Scale Framework"

Feb 6th: Andreas Kostøl (SSB)
"How Financial Incentives Induce Disability Insurance Recipients to Return to Work"

Feb 13th: Ola Kvaløy (UiS)
"Myopic risk-taking in tournaments"

Feb 20th: Anirban Mitra (ESOP)
"Do the Poor Gain from Mandated Political Representation? Theory and Evidence from India"

Feb 27th: Per Botolf Maurseth (NUPI)
"Market specific fixed and sunk export costs - Learning and spillovers"

March 5th: Patricia Funk (UPF)
"Citizen Preferences in Private and Public: Evidence From a Large Number of Votes"

March 12th: Ola Vestad (SSB)
"Who Pays for Occupational Pensions?"

March 19th: Kai Liu (UC Davis)
"Good Skills in Bad Times: Cyclical Skill Mismatch and the Long-term Effects of Graduating in a Recession"

March 26th: Lars Kirkebøen (SSB)
"Preferences for lifetime earnings, earnings risk and nonpecuniary attributes in choice of higher education"

April 16th: Kevin Sheedy (LSE)
"A Model of Equilibrium Institutions"

April 23rd: Eshita Gupta (Indian Statistical Ins.)
"Climate Change, Food Prices and Welfare in India"

April 30th: Kristine von Simson (ISF)
"Pathways to the Labor Market for High School Dropouts. Temporary Help Agencies vs. Active Labor Market Programs"

May 7th: Fred Schrozen (NHH)
"Mapping risk aversion in Norway using hypothetical income gambles"

May 14th: Linda Nøstbakken (U. of Alberta)
"Formal and informal quota enforcement"

May 21st: Jesper Roine (SITE)
"Intergenerational Top Income Mobility in Sweden - A Combination of Equal Opportunity and Capitalistic Dynasties"

June 4th: James Fenske (University of Oxford)
"African Polygamy: Past and Present"

June 12th: Gerd Gigerenzer (Max Planck)
"Simple Heuristics That Make Us Smart"

Aug 20th: Jens F. Skogstrøm (Frisch Centre)
"Entrepreneurial School Dropouts."

Aug 27th: Massimo Morelli (Columbia)
"Natural Resource Distribution and Multiple Forms of Civil War"

Sep 3rd: Krzysztof Szczygielski (ESOP)
"Incentives and Voting in Boundary Organizations"

Sep 10th: Anirban Mitra (ESOP)
"Electoral Uncertainty and the Size of the Middle-Class"

Sep 17th: Sigurd Galaasen (ESOP)
"Disability insurance, pension reforms and retirement behavior"

Sep 24th: Vincent Somville (Chr. Michelsen)
"Informal Savings and Intra-Household Strategies: Theory & Evidence from Urban Benin"
Gerd Gigerenzer
Jens F. Skogstrom
Massimo Morelli
K. Szczygielski
Sigurd Galaasen
Vincent Somville
Rocco Machiaccio
Kjersti Missie Nilsen
Lars Lochstoer
S. Nageeb Ali
Kjetil Storesletten
Rolf Aaberge
Shachar Shariv
Jon Fiva
Imran Rasul
Plamen Nenov
Alessia Russo
Oct 1st: Rocco Macchiavello (Warwick)
"Tropical Lending: Moral Hazard, Price Volatility and Default of Coffee Stations around the World"

Oct 8th: Kjersti Misje Nilsen (ISF)
"The importance of workplaces: a panel data study of sickness absence."

Oct 15th: Lars Lochstoer (Colombia B.)
"Parameter Learning in General Equilibrium: The Asset Pricing Implications".

Oct 22nd: S. Nageeb Ali (UC San Diego)
"Enforcing Cooperation in Networked Societies"

Oct 29th: Kjetil Storesletten (ESOP)
"Sharing high growth across generations: pensions and demographic"

Nov 5th: Rolf Aaberge (SSB)
"US versus Sweden: The Effects of Alternative

In-Work Tax Credit Policies on Labour Supply of Single Mothers”

Nov 12th: Shachar Shariv (UC Berkeley)
"Who is (More) Rational?”

Nov 19th: Jon Fiva (BI)
"Access to Treatment and Educational Inequalities in Cancer Survival"

Nov 26th: Imran Rasul (London U. College)
"Mass Migration and the Development of the American Schooling System"

Dec 3rd: Plamen Nenov (MIT)
"Labor Market and Regional Reallocation Effects of Housing Busts".

Dec 10th: Alessia Russo (ESOP)
"A Dynamic Politico-Economic Model of Intergenerational Contracts"
ESOP’S STAFF AND RESEARCH ACTIVITY IN NUMBERS

Staff in numbers

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<td>Person years (årsverk)</td>
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International Visitors

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Research stays abroad

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Workshops

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Research activity in numbers

This table represents ESOP’s research activity in numbers, according to the categories chosen by The Research Council of Norway. The Research Council made a categorical change in 2011. We have tried to put our publications in the new categories all the way back to 2007.

The figures are based on what the ESOP researchers have reported themselves.

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<th>Vitenskapelige/ faglige publikasjoner</th>
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EXTENDED LIST OF PUBLICATIONS 2012

Disclaimer: For all these publications at least one author is part of ESOP’s research team. This (these) author(s) are in bold face. Some of the papers below are based on projects with funding from other sources than the Department or ESOP’s research grant from the Research Council of Norway.

Updated April 1st, 2013
Publications forthcoming 2013


Abstract:
The purpose of this paper is to present an exercise where we identify optimal income tax rules under the constraint of fixed tax revenue. To this end, we estimate a microeconomic model with 78 parameters that capture heterogeneity in consumption-leisure preferences for singles and couples as well as job opportunities across individuals based on detailed Norwegian household data for 1994. For any given tax rule, the estimated model can be used to simulate the choices made by single individuals and couples. Those choices are therefore generated by preferences and opportunities that vary across the decision units. Differently from what is common in the literature, we do not rely on a priori theoretical optimal taxation results, but instead we identify optimal tax rules – within a class of 6-parameter piece-wise linear rules - by iteratively running the model until a given social welfare function attains its maximum under the constraint of keeping constant the total net tax revenue. We explore a variety of social welfare functions with differing degree of inequality aversion and also two alternative social welfare principles, namely equality of outcome and equality of opportunity. All the social welfare functions turn out to imply an average tax rate lower than the current 1994 one. Moreover, all the optimal rules imply – with respect to the current rule – lower marginal rates on low and/or average income levels and higher marginal rates on relatively high income levels. These results are partially at odds with the tax reforms that took place in many countries during the last decades. While those reforms embodied the idea of lowering average tax rates, the way to implement it has typically consisted in reducing the top marginal rates. Our results instead suggest to lower average tax rates by reducing marginal rates on low and average income levels and increasing marginal rates on very high income levels.


Abstract
Various extensions of the leximin order to the infinite dimensional setting have been suggested. They relax completeness and strong anonymity. Instead, by removing sensitivity to generations at infinite rank this paper defines a complete and strongly anonymous leximin relation on infinite streams. The order is axiomatized, and it is shown to be the limit of extended rank-discounted utilitarianism for any utility function, as the discount factor approaches zero.


Abstract:
This paper presents a distributional argument for the use of supply-side climate policies whereby carbon emissions are controlled through (i) depletion quotas or (ii) permanent confiscation of a fraction of the in situ carbon stocks. The modeling considers intertemporal competitive equilibria in the Cobb-Douglas version of the Dasgupta- Heal-Solow-Stiglitz model of capital accumulation and costless resource extraction. It is shown how policies (i) and (ii) preserve the functional distribution of income between capital owners and resource owners, compared to the case where no climate policy is needed, while suggested demand-side policies do not. Such observations are of interest as avoiding functional redistribution may facilitate climate change negotiations. The paper discusses policy implications of the analysis outside the simplified setting of the stylized model.

Abstract:
Bivariate measures of health inequality are influenced by changes in two variables: health and a socioeconomic variable, such as income. For these measures, what is reported as an increase in health inequality might just as well be a reduction in income inequality. In particular, several papers have found that socioeconomic health inequalities in Nordic countries are no less than in other European countries. The correct interpretation could just be that income inequality is no higher in Nordic countries than in the rest of Europe. The problem is especially profound when the causality is running from health to income.

Cappelen, A., Sørensen, E. and Tungodden, B. (2013): "When do we lie?". Forthcoming in *Journal of Economic Behavior & Organizations*.

Abstract:
The paper reports from an experiment studying how the aversion to lying is affected by non-economic dimensions of the choice situation. Specifically, we study whether people are more or less likely to lie when the content of the lie is personal, when they base decisions on intuition, and when they are in a market context. We also study how aversion to lying depends on personal characteristics, including age, gender, cognitive ability, personality and social preferences. Our main finding is that non-economic aspects of the choice situation are crucial in understanding aversion to lying. In particular, we find that people are less likely to lie when the content of the message is personal. We also find large effects from priming the participants to rely on intuition, but, interestingly, in this case the effect only applies to males. Finally, we find that people who are highly motivated by social preferences are more averse to lying, but there is no significant relationship between lying behavior and other personal characteristics.


Abstract:
Choices involving risk significantly affect the distribution of income and wealth in society. This paper reports the results of the first experiment, to our knowledge, to study fairness views about risk-taking, specifically whether such views are based chiefly on ex ante opportunities or on ex post outcomes. We find that, even though many participants focus exclusively on ex ante opportunities, most favor some redistribution ex post. Many participants also make a distinction between ex post inequalities that reflect differences in luck and ex post inequalities that reflect differences in choices. These findings apply to both stakeholders and impartial spectators.


Abstract:
It has been shown that participants in the dictator game are less willing to give money to the other participant when their choice set also includes the option to take money. We examine whether this effect is due to the choice set providing a signal about entitlements in a setting where entitlements initially may be considered unclear. We find that the share of positive transfers depends on the choice set even when there is no uncertainty about entitlements, and that this choice-set effect is robust across a heterogenous group of participants recruited from the general adult population in Denmark. The findings are consistent with dictator giving partly being motivated by a desire to signal that one is not entirely selfish or by a desire to follow a social norm that is choice-set dependent.


Abstract:
This commentary argues that the observed heterogeneity in fairness views, documented in many economic experiments, poses a challenge to the partner choice theory developed by Baumard, André and Sperber. It also discusses the extent to which their theory can explain how people consider inequalities due to pure luck.


Abstract:
Why do people in rich countries not transfer more of their income to people in the world's poorest countries? To study this question and the relative importance of needs, entitlements, and nationality in people's social preferences, we conducted a real effort fairness experiment where people in two of the world's richest countries, Norway and Germany, interacted directly with people in Uganda and Tanzania, two of the world's poorest countries. In this experiment, the participants were given the opportunity to transfer money to poor persons with whom they were matched. The study provides four main findings. First, entitlement considerations are crucial in explaining the distributive behavior of rich people in the experiment; second, needs considerations matter a lot for some participants; third, the participants acted as moral cosmopolitans; and finally, the participants' choices are consistent with a self-serving bias in their social preferences.


Abstract:
This paper studies how individual behavior is affected by moral reflection in a dictator game with production, and the informational value of self-reported data on fairness. We find that making individuals reflect on fairness before they play the dictator game has a moderate effect on the weight attached to fairness in distributive choices, and a strong effect on what people consider fair. Furthermore, we find that self-reported data have substantial informational value, but still do not add explanatory power to a random utility model estimated on purely behavioral data. Finally, by studying the behavior of individuals who deviate from their self-reported fairness ideal, we do not find much support for the hypothesis that people are self-serving in their choice of fairness ideal.


Abstract:
This paper investigates the role of changes in culture in generating the dramatic increase in married women's labor force participation over the last century. It develops a dynamic model of culture in which individuals hold heterogeneous beliefs regarding the relative long-run payoffs for women who work in the market versus the home. These beliefs evolve endogenously via an intergenerational learning process. Women are assumed to learn about the long-term payoffs of working by observing (noisy) private and public signals. This process generically generates the S-shaped figure for female labor force participation found in the data. I calibrate the model to several key statistics and show that it does a good job in replicating the quantitative evolution of female LFP in the US over the last 120 years. I also examine the model's cross-sectional and intergenerational implications. The model highlights a new dynamic role for changes in wages via their effect on intergenerational learning. The calibration shows that this role was quantitatively important in several decades.


Abstract:
An insight from dynamic political economy is that elected officials may use state variables to affect
the choices of their successors. We exploit the staggered timing of local and national elections in Norway to investigate how politicians’ re-election probabilities affect their investments in physical capital. Because popularity is endogenous to politics, we use an instrumental variable approach based on regional movements in ideological sentiment. We find that higher re-election probabilities stimulate investments, particularly in programs preferred more strongly by the incumbent parties. This aligns with theory where capital and current expenditures are considered complementary inputs to government production.


Abstract:
Agenda 21 required countries to develop and regularly update a national set of indicators for sustainable development. Several countries now have such sets also including separate indicators for climate change. Some of these indicators typically report global concentration of green house gases in the atmosphere or time series for global temperatures. While such indicators may give the public information about the state of the global climate, they do not provide a benchmark which makes it possible for the public to evaluate the climate policy of their government. With Kantian ethics as our point of departure, we propose a benchmark for national climate policy. The benchmark is that each nation state should act as if a global treaty on climate change were in place. This would require each nation state to carry out all green house gas mitigation projects below a certain cost. Furthermore, it would require each nation to keep their national green house gas emissions including acquisitions of emission permits from other countries within a certain limit. Both measures are relatively easy to track and can thus serve as indicators.


Abstract:
We study the possible existence of downward nominal wage rigidity (dnwr) at wage growth rates rates different from zero in aggregate data. Even if dnwr prevails at zero for individual workers, compositional effects may lead to falling aggregate wages, while changes in relative wages combined with dnwr may lead to positive aggregate wage growth. We explore industry data for 19 oecd countries, over the 1971–2006 period. We find evidence for a floor on nominal wage growth at 6 percent in the 1970s and 1980s, at 1 percent in the 1990s, and at 0.5 percent in the 2000s. Furthermore, we find that dnwr is stronger in country-years with strict employment protection legislation, high union density, centralized wage setting, and high inflation.


Abstract:
In two recent papers, Asante and Armstrong (2012) and Asante et al. (2011) considered the question of optimal harvest ages. They found that the larger are the initial pools of dead organic matter (DOM) and wood products, the shorter is the optimal rotation period. In this note, it is found that this conclusion follows from the fact that the authors ignored all release of carbon from decomposition of DOM and wood products after the time of the first harvest. When this is corrected for, the sizes of the initial stocks of DOM and wood products do not influence the optimal rotation period. Moreover, in contrast to the conclusions in the two mentioned papers, our numerical analysis indicates that inclusion of DOM in the model leads to longer, not shorter, rotation periods.

Abstract: In a widely cited study, Collier, Hoeffler & Söderbom show that economic growth reduces the risk of post-conflict peace collapse – particularly when the UN is present with a peace mission. These findings are encouraging for interventionist international policymakers. We replicate their study using data from the UCDP/PRIO Armed Conflict Database instead of the Correlates of War database. We generate a series of different datasets on the basis of different coding criteria commonly used in the literature, and rerun a simplified version of their model. Our results do not support their findings regarding the risk-reducing effect of economic growth and UN involvement. At best, the results are mixed. Some of the models even suggest that economic growth may increase the risk of post-conflict peace collapse. Overall, we are forced to conclude that the impacts of economic growth and UN involvement on the risk of post-conflict peace collapse are neither clear nor simple. The differences in the results seem to be driven by two sources: the conflicts included in the original datasets and the coding of the start and end dates of the conflicts.


Abstract: This paper discusses how regime type and state capacity may interact in affecting economic growth. The empirical analysis finds a positive and robust effect of democracy on growth in Sub-Saharan Africa, a continent historically characterized by weak-capacity states. Furthermore, the paper identifies a robust interaction effect between democracy and state capacity on growth, both in Africa and globally; the effect of democracy on growth increases when state capacity is reduced. Democracy is estimated to have a positive effect on growth in weak-capacity states, but not in high-capacity states. Additionally, the results indicate that state capacity enhances growth only in dictatorships.


Abstract: In this paper, we investigate whether types of dictatorships differ systematically when it comes to the protection of property rights. Separating between monarchies, military regimes, one-party and multiparty autocracies, we argue that different dictatorial institutions create different incentives to protect property and enforce contracts by influencing the time-horizon of the ruling elite. Where the ruler fears losing power and regime insiders are uncertain about their own political survival beyond the dictator we are more likely to see expropriation of property. In line with our expectations we find that monarchic autocracies protect property rights relatively well compared to other types of dictatorships, and even when compared to democracies. In these regimes dynastic succession mechanism and the certainty about future elite composition provide rulers with relatively long time horizons on the part of their dynasty, reducing incentives to expropriate property for short-term gain.


Abstract: International trafficking in humans for sexual exploitation is an economic activity driven by profit motives. Laws regarding commercial sex influence the profitability of trafficking and may thus affect the inflow of trafficking to a country. Using two recent sources of European cross country data we show that trafficking of persons for commercial sexual exploitation (as proxied by the data sets we are using) is least prevalent in countries where prostitution is illegal, most prevalent in countries where
prostitution is legalized, and in between in those countries where prostitution is legal but procuring illegal. Case studies of two countries (Norway and Sweden) that have criminalized buying sex support the possibility of a causal link from harsher prostitution laws to reduced trafficking. Although the data do not allow us to infer robust causal inference, the results suggest that criminalizing procuring, or going further and criminalizing buying and/or selling sex, may reduce the amount of trafficking to a country.


Abstract:
The present article contributes to the literature on prostitution by shedding light on the effects of the criminalization of buying sex on the amount of prostitution bought, as well as on the proposed theoretical mechanisms underlying this change. We find indications that criminalizing the buying of sex may decrease the quantity of sex bought. While we find that stigma influences the demand for sex, we do not find that stigma increases as a result of the law. Therefore, the possible reduced quantity of sex bought is probably due to the more direct risk of getting caught.


Abstract:
Studies from Norway and other countries have shown that the unmarried have poorer cancer survival than the married, given age, tumor site and stage at diagnosis. The objective of this investigation was to assess the importance of comorbidities for this difference, using disease indicators derived from the Norwegian Prescription Database (NoPD) and information on cancer and sociodemographic characteristics from various other registers, all of which cover the entire Norwegian population. Discrete-time hazard models for cancer mortality up to 2007 were estimated for all 22925 men and 21694 women diagnosed with 13 common types of cancer in 2005-7. There were 4898 cancer deaths among men and 4187 among women. Controlling for sociodemographic factors and tumor characteristics, the odds of dying from cancer among never-married men relative to the married was 1.56 (CI 1.41-1.74). The corresponding estimates for widowed and divorced were 1.16 (CI 1.05-1.28) and 1.27 (CI 1.15-1.40). For women, the odds ratios for these three groups were 1.47 (CI 1.29-1.67), 1.10 (CI 1.01-1.20) and 1.14 (CI 1.02-1.27). Several of the 24 indicators of diseases in the year before diagnosis were associated with cancer survival, but their inclusion reduced the excess mortality of the unmarried by only 1-5 percentage points, or about 10% as an overall relative figure. Similar results were found when the four most common cancers were analysed separately, though there were some differences between them in the role played by the comorbidities. It is possible that important comorbidities are inadequately captured by the included indicators, and perhaps especially for the unmarried. Such concerns aside, the results suggest that the marital status differences in cancer survival to little extent are due to comorbidities (and the few disease risk factors that are also captured), but rather to various other “host factors” or to treatment or care.


Abstract:
Does internet use trigger sex crime? We use unique Norwegian data on crime and internet adoption to shed light on this question. A public program with limited funding rolled out broadband access points in 2000-2008, and provides plausibly exogenous variation in internet use. Our instrumental variables and fixed effect estimates show that internet use is associated with a substantial increase in reported incidences of rape and other sex crimes. We present a theoretical framework that highlights three mechanisms for how internet use may affect reported sex crime, namely a reporting effect, a matching effect on potential offenders and victims, and a direct effect on crime propensity. Our results indicate
that the direct effect is non-negligible and positive, plausibly as a result of increased consumption of pornography.


Abstract:
This paper explores the economic impact of natural resource endowment using quantitative comparative case study. Focusing on the Norwegian economy, due to availability of good quality data, the paper thoroughly examines the impact of petroleum endowment. Although the result suggests that the impact varies from year to year, it remains positive and very large. On average, about 20% of the annual GDP per capita increase is due to the endowment of petroleum resources such as oil, natural gas, natural gas liquids, and condensate. Examinations based on sensitivity test, robustness test, dose-response test, and various falsification tests suggest that the finding is robust to alternative explanations.


Abstract:
There is a heated debate in many European countries about a move towards a welfare system that increases the incentives for lone mothers to move off welfare and into work. We analyze the consequences of a major Norwegian workfare reform of the generous welfare system for lone mothers. Our difference-in-differences estimates show that the policy changes were successful in improving labor market attachment and increasing disposable income of new lone mothers. By contrast, the reform led to a substantial decrease in disposable income and a significant increase in poverty among persistent lone mothers, because a sizeable group was unable to offset the loss of out-of-work welfare benefits with gains in earnings. This suggests that the desired effects of the workfare reform were associated with the side-effects of income loss and increased poverty among a substantial number of lone mothers with insurmountable employment barriers. This finding stands in stark contrast to evidence from similar policy changes in Canada, the UK, and the US, and underscores that policymakers from other developed countries should be cautious when drawing lessons from the successful welfare reforms implemented in Anglo-Saxon countries.


Abstract:
Firms with a reputation as socially responsible may have an important cost advantage: If workers prefer their employer to be socially responsible, equilibrium wages may be lower in such firms. We explore this hypothesis, combining Norwegian register data with data on firm reputation collected by an employer branding firm. Adjusting for a large set of background variables, we find that the firm’s social responsibility reputation is significantly associated with lower wages.


Abstract:
We show that the recent rise in Afghan opium production is caused by violent conflicts. Violence destroys roads and irrigation, crucial to alternative crops, and weakens local incentives to rebuild infrastructure and enforce law and order. Exploiting a unique data set, we show that Western hostile casualties, our proxy for conflict, have strong impact on subsequent local opium production. This proxy is shown to be exogenous to opium. We exploit the discontinuity at the end of the planting
season: Conflicts have strong effects before and no effect after planting, assuring causality. Effects are strongest where government law enforcement is weak.

**Publications 2012**


Abstract:
The purpose of this paper is to introduce and adopt a generalised version of Roemer's (1998) Equality of Opportunity (EOp) framework, which we call extended EOp, for analysing second-best optimal income taxation. Unlike the pure EOp criterion of Roemer (1998) the extended EOp criterion allows for alternative weighting profiles in the treatment of income differentials between as well as within types when types are defined by circumstances that are beyond people's control. This study uses parental education as a measure of exogenous circumstances. An empirical microeconometric model of labour supply in Italy is employed to simulate and identify income tax-transfer rules that are optimal according to the extended EOp criterion. We look for second-best optimality, i.e. the tax-transfer rules are not allowed to depend on family background, they only depend on income: family background is taken indirectly into account. The rules are defined by a universal (not individualized) lump-sum transfer (positive or negative) and by one or two marginal tax rates. A rather striking result of the analysis is that the optimal tax-transfer rule turns out to be a universal lump-sum tax (with marginal tax rates equal to zero), under Roemer's pure EOp criterion as well as under the generalised EOp criterion with moderate degrees of aversion to within-type inequality. A higher degree of within-type inequality aversion instead produces EOp-optimal rules with positive marginal tax rates. When the EOp-version of the Gini welfare function is adopted, the optimal tax rule turns out to be close to the actual 1993 Italian tax system, if not for the important difference of prescribing a universal lump-sum positive transfer of 3,500,000 ITL (=1807 Euros), which has no comparable counterpart in the actual system. On the other hand, when using the conventional equality of outcome (EO) criterion, the pure lump-sum tax always turns out to be optimal, at least with respect to the classes of two- and three-parameter rules. We also compute optimal rules under the additional constraint that universal lump-sum taxes are not feasible. Overall, the results do not conform to the perhaps common expectation that the EO criterion is more supportive of "interventionist" (redistributive) policies than an extended EOp approach.


Abstract:
I løpet av perioden 1979 – 2006 har effekten av en lønnsøkning på arbeidstilbudet endret seg fra å være positiv til å bli negativ; dvs at mens en lønnsøkning tidligere ga et økt samlet arbeidstilbud, vil den nå føre til et fall i arbeidstilbudet. Dette kan skyldes at en stor del av potensialet for økt arbeidstilbud allerede var tatt ut i 1994 som følge av den sterke økningen i kvinnenes arbeidstilbud i perioden fram til midt på 90-tallet. Et annet interessant trekke ved resultatene som presenteres i denne artikkelen er at arbeidstilbudsatferden til kvinner og menn blitt mer lik og at fritid gis høyere vekt i dag enn for 30 år siden. For de som allerede bor i Norge kan det derfor vise seg å bli krevende å opprettholde dagens nivå på arbeidstilbudet i en framtid med fortsatt økonomisk vekst, dersom trenden med en større verdsetting av fritid fortsetter.

Abstract:
The effects of a wage increase on labour supply, defined as the number of hours worked, changed from being positive to being negative over the period 1979 – 2006, i.e. while a wage increase gave an increase in overall labour supply earlier, it will now lead to a drop in labour supply.

The aggregate wage elasticity for the Norwegian labour force fell from 0.12 in 1994 to -0.08 in 2006. This implies that the positive overall substitution effect no longer dominates the negative overall income effect. Previous studies have shown positive but declining wage elasticities over the period 1979 - 1994.

The immigrant wage elasticities are remarkably similar to elasticities for the population at large. The total wage elasticities for immigrants from Asia, Africa and South-America, Eastern Europe and other OECD countries are -0.09, -0.09 and -0.05, which along with the total wage elasticity for the population at large of - 0.08, correspond to an overall wage elasticity of -0.08 for the Norwegian labour force in 2006. This implies that labour supply in terms of offered hours of work would decrease by 0.08 percent as a result of an hourly wage increase of 1 percent for all available jobs.

As in previous studies using Norwegian data for the years 1979, 1986 and 1994, we find that the wage elasticities for individuals with low income (and low working hours) are much stronger than for individuals with high income (and high working hours). This is partly because households with low incomes have the greatest potential to increase labour supply.

The introduction of an in-work tax credit at 20 percent will increase employment and working hours for persons/households with low income, and reduce working hours for persons/households with high income. The overall effect on labour supply is thus negative. Income inequality measured by the Gini coefficient would fall by about 4 percent. This is due to an increase in the after-tax income for persons/households with low and medium incomes and a reduction in the after-tax income of the richest persons/households. However, the richest persons/households would have a significant increase in leisure.

The introduction of a flat income tax at 28 percent will help to maintain tax revenue and increase labour supply by about 2 percent. However, income inequality measured by the Gini coefficient will increase by about 10 percent. Even though the after-tax income for the poor household will increase, this will be offset by a significant increase in the after-tax income of the richest and virtually unchanged incomes in the central parts of the distribution.

The introduction of a guaranteed minimum income equal to the minimum benefit levels in the National Insurance Scheme will lead to a significant reduction in the labour supply for all groups, as well as a 26 percent reduction in the tax revenue and significant increase in income inequality.


Abstract:

Abstract:
Purchasing power adjusted incomes applied in cross-country comparisons are measured with bias. In this paper, we estimate the purchasing power parity (PPP) bias in Penn World Table incomes and provide corrected incomes. The bias is substantial and systematic: the poorer a country, the more its income tends to be overestimated. Consequently, international income inequality is substantially underestimated. Our methodological contribution is to exploit the analogies between PPP bias and the bias in consumer price index (CPI) numbers. The PPP bias and subsequent corrected incomes are measured by estimating Engel curves for food, which is an established method of measuring CPI bias.


Abstract:
Differences in individual wealth holdings are widely viewed as a driving force of economic inequality. However, as this finding relies on cross-section data, we may confuse older with wealthier. We propose a new method to adjust for age effects in cross-sections, which eliminates transitory wealth inequality due to age, yet preserves inequality arising from other factors. This new method is superior to existing methods, like the much used Paglin-Gini, which is shown to have several problems. A new cross-country comparable database reveals that the choice of method is empirically important: Existing methods yield erroneous wealth inequality rankings of countries.


Abstract:
Som et resultat av en aldrende befolkning, har det i Norge, som i de fleste andre OECD land, tvunget seg fram en reformering av pensjonssystemet. Med bred politisk enighet ble forslaget til modernisert folketrygd vedtatt med virkning fra 1. januar 2011. I tillegg til at den moderniserte folketrygden skal være mer bærekraftig i forhold til den aldrende befolkningen, har det blitt hevdet at den skal føre til større grad av aktuarisk rettferdighet. Denne artikkelen studerer innbetaling og utbetaling over livsløpet for kvinner og menn i tre store yrkesgrupper og viser at systemet verken fører til større grad av aktuarisk eller egalitær rettferdighet over livsløpet.


Abstract:
The discounted utilitarian criterion for infinite horizon social choice has been criticized for treating generations unequally. We propose an extended rank-discounted utilitarian (ERDU) criterion instead. The criterion amounts to discounted utilitarianism on non-decreasing streams, but it treats all generations impartially: discounting becomes the mere expression of intergenerational inequality aversion. We show that more inequality averse ERDU societies have higher social discount rates when future generations are better off. We apply the ERDU approach in two benchmark economic growth models and prove that it promotes sustainable policies that maximize discounted utilitarian welfare.


Abstract:
Empirical evaluation of policies to mitigate climate change has been largely confined to the application of discounted utilitarianism (DU). DU is controversial, both due to the conditions through which it is justified and due to its consequences for climate policies, where the discounting of future utility gains from present abatement efforts makes it harder for such measures to justify their present costs. In this paper, we propose sustainable discounted utilitarianism (SDU) as an alternative principle for evaluation of climate policy. Unlike undiscounted utilitarianism, which always assigns zero
relative weight to present utility, SDU is an axiomatically based criterion, which departs from DU by assigning zero weight to present utility if and only if the present is better off than the future. Using the DICE integrated assessment model to run risk analysis, we show that it is possible for the future to be worse off than the present along a "business as usual" development path. Consequently SDU and DU differ, and willingness to pay for emissions reductions is (sometimes significantly) higher under SDU than under DU. Under SDU, stringent schedules of emissions reductions increase social welfare, even for a relatively high utility discount rate.


Abstract:
Koopmans’s (Econometrica 28, 287–309) axiomatization of discounted utilitarianism is based on seemingly compelling conditions, yet this criterion leads to hard-to-justify outcomes. The present analysis considers a class of sustainable recursive social welfare functions within Koopmans’s general framework. This class is axiomatized by means of a weak new equity condition ("Hammond Equity for the Future") and general existence is established. Any member of the class satisfies the key axioms of Chichilnisky’s (Social Choice and Welfare 13, 231–257) “sustainable preferences”. The analysis singles out one of Koopmans’s original conditions as particularly questionable from an ethical perspective.


Abstract:
To put Scandinavian employment in perspective, we ask whether wage compression hampers employment rates, or not. We answer by reviewing the most important theoretical arguments and the most informative regularities across countries with different wage distributions. The pattern seems to be that countries with compressed wage distributions tend to have higher employment, and countries with higher wage inequality tend to have lower employment. This also holds when we consider the rate of labor force participation. In line with the theoretical arguments, coordination in wage bargaining seems to contribute to both employment expansion and wage compression. There is a clear positive correlation between coordination and employment even when we control for inequality, country, and year-specific effects.


Abstract:
Life cycle wages of immigrants from developing countries fall short of catching up with wages of natives. Using linked employer–employee data, we show that 40% of the native–immigrant wage gap is explained by differential sorting across establishments. We find that returns to experience and seniority are similar for immigrant and native workers, but that differences in job mobility and intermittent spells of unemployment are major sources of disparity in lifetime wage growth. The inferior wage growth of immigrants primarily results from failure to advance to higher paying establishments over time. These empirical patterns are consistent with signaling disadvantages of immigrant job seekers, but not with the explanation that low wage growth follows from inferior information about employers and job opportunities.


Abstract:
This paper examines the impact of performance-related pay on wage differentials within firms. Our theoretical framework predicts that, compared to a fixed pay system, pay schemes based on individual output increase within-firm wage inequality, while group-based bonuses have minor effects on wage dispersion. Theory also predicts an interaction between performance-related pay and union bargaining, where union power reduces the impact of performance pay on wage dispersion. The empirical contribution utilizes two recent Norwegian employer surveys, linked to a full set of individual employee pay records. A longitudinal sub-sample allows for identification based on fixed establishment effects. Introduction of performance-related pay is shown to raise residual wage inequality in nonunion firms, but not in firms with high union density. Our findings suggest that even though performance-related pay appears to be on the rise, the overall impact on wage dispersion is likely to be small, particularly in European countries with strong unions.


Abstract:
Children of immigrant parents constitute a growing share of school cohorts in many OECD countries, and their educational performance is vital for long-term integration. We examine educational outcomes of first and second generation non-OECD immigrants in Norway. Children of immigrants, and particularly those born outside Norway, are much more likely to leave school early than native children. Importantly, this gap shrunk sharply over the past two decades and second generation immigrants are now approaching the educational performance of natives. For childhood immigrants, upper secondary completion rates decline with age at arrival, with a steep gradient after age seven. Finally, we find that immigrant-native attainment gaps disappear when we condition on grade points from compulsory school.


Abstract:
To identify relative wage impacts of immigration, we make use of licensing requirements in the Norwegian construction sector that give rise to exogenous variation in immigrant employment shares across trades. Individual panel data reveal substantially lower wage growth for workers in trades with rising immigrant employment than for other workers. Selective attrition from the sector masks the causal wage impact unless accounted for by individual fixed effects. For low and semi-skilled workers, effects of new immigration are comparable for natives and older immigrant cohorts, consistent with perfect substitutability between native and immigrant labor within trade. Finally, we present evidence that immigration reduces price inflation, as price increases over the sample period were significantly lower in activities with growth in the immigrant share than in activities with no or small change in immigrant employment.


Abstract:
The national Norwegian school reform of 1994, which gave statutory right to at least three years of upper secondary education, had a significant impact on educational attainment among immigrant youth. In particular, we find that the immigrant transition rate from compulsory schooling to completion of the first year of upper secondary education improved from the pre- to the post-reform period. Using a sequential binomial logit framework, we present evidence that the improvement can be attributed to reductions in capacity constraints, rather than cohort heterogeneity. An important implication is that non-targeted educational reforms may have large impacts on the educational attainment of disadvantaged groups in general and ethnic minority youth in particular.

Abstract:
There exists an overall negative assessment of the performance of the simulated maximum likelihood algorithm in the statistics literature, founded on both theoretical and empirical results. At the same time, there also exist a number of highly successful applications. This paper explains the negative assessment by the coupling of the algorithm with “simple importance samplers”, samplers that are not explicitly parameter dependent. The successful applications in the literature are based on explicitly parameter dependent importance samplers. Simple importance samplers may efficiently simulate the likelihood function value, but fail to efficiently simulate the score function, which is the key to efficient simulated maximum likelihood. The theoretical points are illustrated by applying Laplace importance sampling in both variants to the classic salamander mating model.


Abstract:
Although some scholars maintain that education has little effect on intelligence quotient (IQ) scores, others claim that IQ scores are indeed malleable, primarily through intervention in early childhood. The causal effect of education on IQ at later ages is often difficult to uncover because analyses based on observational data are plagued by problems of reverse causation and self-selection into further education. We exploit a reform that increased compulsory schooling from 7 to 9 y in Norway in the 1960s to estimate the effect of education on IQ. We find that this schooling reform, which primarily affected education in the middle teenage years, had a substantial effect on IQ scores measured at the age of 19 y.


Abstract:
Adferdsøkonomi søker å gi økonomifaget et mer realistisk fundament og på den måte forbedre fagets evne til å forklare økonomiske fenomen og økonomisk adferd. Økonomisk teori har tradisjonelt vært basert på et knippe antakelser om hva som motiverer beslutningstakere, og hvordan de tar beslutninger. Adferdsøkonomi modifiserer disse antakelsene og tar høyde for at menneskelig rasjonalitet har sine begrensninger, og at mennesker ofte har komplekse motiver for det de gjør.


Abstract:
I denne artikkelen presenterer vi innsikter fra nyere forskning innen adferdsøkonomi og eksperimentelle økonomi som har dokumentert at forholdet mellom økonomiske insentiver og innsats er mer komplekst enn det økonomisk teori tradisjonelt har antatt. Vi fokuserer på tre typer resultater fra denne typen forskning, som viser at: økonomiske insentiver ikke er det eneste som motiverer innsats, økonomiske insentiver kan svekke moralske og sosiale motiver for innsats, og økonomiske insentiver kan ha effekter på andre enn de som står direkte overfor insentivene. Vi viser også hvordan eksperimentell metode kan benyttes til å belyse disse problemstillingene.


Abstract:
Much of the literature on externalities has considered taxes and direct regulation as alternative policy instruments. Both instruments may in practice be imperfect, reflecting informational deficiencies and other limitations. We analyse the use of taxes and regulation in combination, to control externalities arising from individual consumption behaviour. We consider cases where taxes are either imperfectly differentiated to reflect individual differences in externalities, or where some consumption escapes taxation. In both cases we characterise the optimal instrument mix, and show how changing the level of direct regulation alters the optimal externality tax.


Abstract:
Free-riding is at the core of environmental problems. If a climate coalition reduces its emissions, world prices change and nonparticipants typically emit more; they may also extract the dirtiest type of fossil fuel and invest too little in green technology. The coalition’s second-best policy distorts trade and is not time consistent. However, suppose that the countries can trade the rights to exploit fossil-fuel deposits: As soon as the market clears, the above-mentioned problems vanish and the first-best is implemented. In short, the coalition’s best policy is to simply buy foreign deposits and conserve them.


Abstract:
The paper presents a dynamic game where players contribute to a public bad, invest in technologies, and write incomplete contracts. Despite the n &plus; 1 stocks in the model, the analysis is tractable and the symmetric Markov perfect equilibrium unique. If only the contribution levels are contractible, then investments are suboptimally small if the contract is short term or close to its expiration date. To encourage investments, the optimal contract is more ambitious if it is short term, and it is tougher to satisfy close to its expiration date and for players with small investment costs. If renegotiation is possible, such an incomplete contract implements the first-best. The framework helps to analyse emissions, investments, and international environmental agreements, and the results have important lessons for how to design a climate treaty.


Abstract:
Income and wealth differ over the life cycle. In cross-sectional distributions of income or wealth, classical inequality measures such as the Gini could therefore find substantial inequality even if everyone has the same lifetime income or wealth. We describe the adjusted Gini index (Almås and Mogstad, 2012, Scandinavian Journal of Economics 114: 24–54), which is a generalization of the classical Gini index with attractive properties, and we describe the adgini command, which provides the adjusted Gini index and the classical Gini index. The adgini command also provides options to produce other well-known age-adjusted inequality measures, such as the Paglin–Gini (Paglin, 1975, American Economic Review 65: 598–609) and the Wertz–Gini (Wertz, 1979, American Economic Review 69: 670–672), and provides efficient estimation of the classical Gini coefficient.


Abstract:
Although environmental issues were not the main theme of most of Haavelmo’s writings, issues related to the environment are discussed in many publications with a broader focus. Haavelmo was also concerned about continued rapid population growth, and argued at several occasions that continued rapid population growth would have a detrimental effect on the development of
environmental quality. We show that this concern was well founded; the future population development is extremely important for how the future climate will develop.


**Abstract:**
We use a two-period model to investigate intertemporal effects of cost reductions in climate change mitigation technologies for the power sector. With imperfect climate policies, cost reductions related to carbon capture and storage (CCS) may be more desirable than comparable cost reductions related to renewable energy. The finding rests on the incentives fossil resource owners face. With regulations of emissions only in the future, cheaper renewables speed up extraction (the ‘green paradox’), whereas CCS cost reductions make fossil resources more attractive for future use and lead to postponement of extraction.


**Abstract:**
Vårt sosiale sikkerhetsnett er i hovedsak basert på at personer som på varig basis ikke kan forsørge seg selv gjennom deltakelse i det ordinære arbeidsmarkedet mottar en inntektsoverføring fra fellesskapet. I denne artikkelen tar vi til orde for at velferdsstaten istedenfor «bare» å tilby inntekt gjennom eget arbeid – om nødvendig ved å sørge for at meningsfulle jobber tilrettlegges for personer med nedsatt arbeidsevne. Vi mener at bruken av 100 % uføretrygd bør trappes kraftig ned til fordel for kombinasjoner av arbeid og trygd. Vi er overbeviset om at mange av dem som i dag er parkert helt utenfor arbeidsmarkedet med en trygdeytelse vil kunne fungere godt i jobber der oppgaver og krav er tilpasset begrensninger i arbeidsevnen. En slik utvikling kan oppnås ved å kombinere bruken av graderte trygdeytelser med krav om utnyttelse av gjenværende arbeidsevne og en målrettet strategi for å skaffe til veie egne jobbtilbud. Som «siste utvei» bør offentlig sektor påta seg rollen som «employer of last resort».


**Abstract:**
Despite important policy implications associated with the allocation of education resources, evidence on the effectiveness of school inputs remains inconclusive. In part, this is due to endogenous allocation; families sort themselves non-randomly into school districts and school districts allocate money based in order to compensate (or reinforce) differences in child abilities, which leaves estimates of school input effects likely to be biased. Using variation in education expenditures induced by the location of natural resources in Norway we examine the effect of school resources on pupil outcomes. We find that higher school expenditures, triggered by higher revenues from local taxes on hydropower plants, have a significantly positive effect on pupil performance at age 16. The positive IV estimates contrast with the standard cross-sectional estimates that reveal no effects of extra resources.


**Abstract:**
International index rankings are popular, but perhaps too persuasive. They emphasize country differences where similarity is the dominant feature. Rankings based on Doing Business, the Human Development Index and Freedom House can be misleading, not because of wrong indicators, but
because the estimation of the scores ignores inherent uncertainty. Re-estimated with a method that captures this uncertainty, it becomes clear that ranking every adjacent country is a rather courageous activity.


**Abstract:**
This paper surveys the literature on how democracy affects economic growth. The paper first presents descriptive statistics and brief case-descriptions to illustrate how democracy and dictatorship may affect growth. Thereafter, it evaluates five central arguments on democracy and growth, before surveying empirical studies on the relationship. Furthermore, the paper highlights critical methodological challenges, and draws implications for constructing valid models for empirical research on the topic. The review shows that there is still disagreement over whether democracy enhances growth or not. Nevertheless, in the light of more recent studies, using better methodological approaches and more data than previous studies, two trends are recognizable: first, the hypothesis that democracy reduces economic growth is refuted by recent studies; second, the hypothesis that democracy has no effect on growth, although still widespread in the academic community, seems less plausible today than it did 10 or 20 years ago. Several recent studies show that democracy has positive effects on growth, although these effects are ‘indirect’ in the sense that democracy affects growth through, for example, enhancing human capital or strengthening the protection of property rights.


**Abstract:**
We test for gender, class, and ethnic discrimination in the Norwegian rental housing market by using fake application letters. Females, individuals with high job status, and ethnic Norwegians are more likely to receive positive responses. For example, being an Arabic man and working in a warehouse is associated with a 25 percentage point lower probability of receiving a positive response when showing interest in an apartment, as compared to an ethnically Norwegian female economist. We conclude that gender, class, and ethnic discrimination do exist in the Norwegian housing market, and ethnic discrimination seems to be the most prevalent form of discrimination.


**Abstract:**
A woman's labor market participation and risk of divorce are argued to be important explanatory factors for the gender gap in political preferences. We utilize a Norwegian data set which allows a rigid test of these arguments because it includes information on vote choice, preferences regarding child and elder care spending, and extensive information on the relationship with the current partner. We find a gender gap in political preferences, but no evidence that it can be explained by women's risk of divorce, while the impact of labor market participation is not robust across specifications. To some extent, the gender gap in voting is driven by unmarried women voting left.


**Abstract:**
Det er stor variasjon mellom europeiske land når det gelder eldreomsorg og kjønnssnorer for hvem som tar hånd om familien. Denne studien bruker disse variasjonene til å undersøke betydningen av faktorer på makronivå for relasjonen mellom yrkesdeltakelse og omsorg. Ved å bruke data fra The

Abstract:
I denne artikkelen undersøker vi om omfanget av kommunale omsorgstjenester virker inn på sannsynligheten for å gi uformell omsorg. Vi kontrollerer for omsorgsbehov i kommunene og egenskaper ved omsorgsgivere. Vi finner at folk som bor i kommuner med omfattende formell omsorg er mindre tilbøyelige til å gi uformell omsorg. Den uformelle omsorgen er imidlertid ikke relatert til kommunens driftsutgifter til pleie- og omsorgstjenester. En nærliggende tolkning er at økt pengebruk uten økt mengde omsorgsplasser ikke reduserer mengden uformell omsorg. Ettersom funnene bygger på tverrsnittsdata må resultatene tolkes med forsiktighet, men resultatene tyder på at formell og uformell omsorg i noen grad er substitutiver.


Abstract:
Using data on all Norwegians born 1935–68, we analyze the associations between mortality and a combined indicator of fertility and marital or partnership status and history. The focus is on ages 40–73 and the years 1980–2008 (30 million person-years of observations and 117,000 deaths). Among men in first marriages, the childless have 36 percent higher mortality than those with two or more children. The corresponding figure for women is 61 percent. The never-married have higher mortality and are differentiated even more by parenthood status. Thus, childless never-married men and women have mortality three times as high as those who are married and have two or more children. The apparent advantage associated with having at least two children is smallest among men who divorced before their oldest child's tenth birthday. Having step-children has no association with mortality for those without natural children but is associated with higher mortality among the parous.


Abstract:
The chance of dying within any given year probably depends not only on marital status in that year but also on earlier partnership history. There is still not much knowledge about such effects, however. Our intention is to see how mortality is associated with time since divorce, bereavement and remarriage and time between marital disruption and remarriage. We use register data that include the entire Norwegian population aged 40-89 from 1970 to 2008 (70,701,767 person-years of exposure and 1,484,281 deaths). The excess mortality of divorced men compared to their married counterparts increases with time since divorce, while there is no such trend among divorced women. The pattern is opposite for the widowed, among whom there are indications of a more sharply positive association with time since bereavement for women than for men, though the association is rather weak for both sexes. The remarried have higher mortality than the first-time married, with one surprising exception: men who have remarried after a period of less than 10 years as divorced or widowed have the same mortality as the married. There is no clear association between mortality and time since remarriage. We discuss possible reasons for these patterns.


Abstract:
Earlier investigations have shown associations between a woman’s chance of having a child, or various proximate determinants of her fertility, and the socioeconomic resources in the community in which she lives, net of her own resources.

This study, which is based on DHS surveys from 28 countries in sub-Saharan Africa, adds to the knowledge about this issue. With a focus on first- and higher-order birth rates, four specific questions are addressed.

One result is that the negative associations between a woman’s birth rate and the average education in the census enumeration area in which she lives, net of her own education, have remained stable or become stronger over the last decade. Second, these associations are most pronounced among women who score high on indicators of socioeconomic development which suggests that they may become further strengthened. Third, associations even appear when a fixed-effects approach – based on data from two DHS surveys with GPS coordinates in each country – is employed to control for unobserved constant characteristics of units at a slightly higher level than the census enumeration area. Fourth, local processes seem to be particularly important: education among women in the province or nearest census enumeration areas is not inversely associated with fertility.

Abstract:
Knowledge about educational disparities in deaths from specific cancer sites is incomplete. Even more scant is information about time trends in educational patterns in specific cancer mortality. This study examines educational inequalities in Norway 1971-2002 for mortality in lung and larynx, colorectal, stomach, melanoma, prostate, breast and cervix uteri cancer.

A data file encompassing all Norwegian inhabitants registered some time during 1971-2002 while aged 45-74 was constructed with linked information from administrative registers. During an exposure of more than 40 millions person-years, about 87,000 deaths in the analysed cancer types were registered. Absolute and relative inequalities during three periods were analysed by age-standardized death rates, hazard regression odds ratios and Relative Index of Inequality.

Educational inequalities in lung and related cancer mortality widened considerably from the 1970s to the 1990s for both sexes. The moderate educational gradient for stomach and cervix uteri cancer persisted, as did the weak gradient for colorectal cancer. No educational differences in prostate cancer were observed in any of the time periods. The modest inverse educational gradients in deaths from breast cancer and melanoma remained at the same level.

Among the seven cancer types examined in this study, only lung cancer mortality showed a clear widening in educational disparities. As lung cancer mortality constitutes a large proportion of all cancer deaths, this increase may result in larger disparities for overall cancer mortality. Some explanations for the observed patterns in cancer mortality are suggested.

Abstract:
Policies need not only to be well designed to effectively address market failures, but their parameters also need to be part of agents’ information sets. This is illustrated by government student loans in the Netherlands which are intended to alleviate liquidity constraints. Despite generous loan conditions, take-up rates on these loans are low. Some have argued that this is due to limited knowledge about these conditions. We examine the importance of information constraints through a randomized experiment. Half of the students who responded to an Internet questionnaire were given factual
information on loan conditions, whereas the other half did not receive such information. Six months later, students who received information have better knowledge about the loan conditions. While OLS regressions reveal a large and significantly positive association between knowledge about loan conditions and borrowing, our instrumental variable estimates suggest that this is not a causal effect which would rule out that the low take-up rate is caused by information constraints.


Abstract:


Abstract:
This article presents some of the main efficiency and fairness arguments in favor of open access publishing. It discusses how general open access could affect research and editorial practice. It ends with a discussion of the feasibility of open access and how a move to open access publishing could happen.

This article contains a discussion of some of the core issues related to the economics of open access journal publishing. By “open access,” I refer to full open access, which simply means that all published academic articles of a particular journal are available for download by anyone over the Internet free of charge. In this limited space, I primarily cover issues where I think I have something to say. The article contains a mix of my personal views as an academic, as an economist, and as an editor of a minor open access journal.

The issues I raise relate both to economic efficiency and to fairness. I will point to the general benefits of open access and in particular to the distribution to poor countries. I base the discussion on my own experience in publishing an open access journal. I end the discussion by some thoughts on the realism and feasibility of a general transition to open access. My experience is primarily from economics, but clearly, it has some relevance for other social science disciplines as well as for the humanities. I think, however, that the issue of open access in disciplines such as medicine, where commercial interests are much more important, has to be approached differently. For readers who want to go deeper into the various aspects of the economics of open access publishing, I recommend the two symposia in Economic Analysis and Policy (2009) and in Nature (2004) and a report on the costs and benefits of open access publishing (Houghton et al. 2009). All these are appropriately available online, free of charge.

**Abstract:**
We discuss the relative merits of public and private ownership in an incomplete contract framework developed by Hart, Shleifer and Vishney (HSV). We add two new elements to their model. First, the government may offer cost-sharing contracts when procuring the good. Second, the owner of a private firm may divert resources that increase their own profit/utility but increase total costs. The cost sharing contract allows the government to reduce the private firm's incentives to dump quality in order to save on costs. However, this also leads to resource diversion, which increases total costs. We derive the preferred mode of ownership when the government optimally chooses the power of the cost sharing scheme. We find that the presence of quality-reducing cost reductions only favours government ownership if the scope for resource diversion is substantial. A discussion of when resource diversion is likely to be important is also provided.


**Abstract:**
To explain why some countries are rich and others poor, I provide a brief overview of *A Study in the Theory of Economic Evolution* that Trygve Haavelmo published in 1954, before I elaborate on some features inspired by it. I incorporate grabbing activities into a dynamic development model, emphasizing how small differences in initial resources and institutions may create dissimilarities and big gaps between potentially similar countries, how poverty can arise in the midst of potential affluence, how abundance (of natural resources) and scarcity (of entrepreneurial talents) can be wasteful and harmful to economic growth—in particular when institutions are bad.


**Abstract:**
We examine instrumental variables estimation in situations where the instrument is only observed for a sub-sample, which is fairly common in empirical research. Typically, researchers simply limit the analysis to the sub-sample where the instrument is non-missing. We show that when the instrument is non-randomly missing, standard IV estimators require strong, auxiliary assumptions to be consistent. In many (quasi)natural experiments, the auxiliary assumptions are unlikely to hold. We therefore introduce alternative IV estimators that are robust to non-randomly missing instruments without auxiliary assumptions. A Monte-Carlo study illustrates our results.


**Abstract:**
This paper uses a rich Norwegian dataset to re-examine the causal relationship between family income and child outcomes. Motivated by theoretical predictions and OLS results that suggest a nonlinear relationship, we depart from previous studies in allowing the marginal effects on children’s outcomes of an increase in family income to vary across the income distribution. Our nonlinear IV and fixed-effect estimates show an increasing, concave relationship between family income and children's educational attainment and IQ. The linear estimates, however, suggest small, if any, effect of family income, because they assign little weight to the large marginal effects at the lower part of the income distribution.

Abstract:
Theories based on partial equilibrium reasoning alone cannot explain the widespread negative cross-sectional correlation between parental wages and fertility, without restrictive assumptions on preferences and childcare costs. We argue that incorporating a dynamic general equilibrium analysis of returns to human capital can help explain observed empirical patterns. Other by-products of this theory include explanations for intergenerational mobility without stochastic shocks, connections between mobility and fertility patterns, and locally determinate steady states. Comparative statics exercises on steady states shed light on the effects of education, childcare subsidies, child labor regulations, and income redistribution policy on long run living standards.


Abstract:
Relative to developed countries, there are far fewer women than men in India. Estimates suggest that more than 25 million women are "missing". Sex selection at birth and the mistreatment of young girls are widely regarded as key explanations. A decomposition of missing women by age across the states of India is done. The state-wise variation in the distribution of missing women across the age groups makes it very difficult to draw simple conclusions to explain the missing women phenomenon in India.


Abstract:
Over the second half of the 20th century, conflicts within national boundaries became increasingly dominant. One-third of all countries experienced civil conflict. Many (if not most) such conflicts involved violence along ethnic lines. On the basis of recent theoretical and empirical research, we provide evidence that preexisting ethnic divisions do influence social conflict. Our analysis also points to particular channels of influence. Specifically, we show that two different measures of ethnic division—polarization and fractionalization—jointly influence conflict, the former more so when the winners enjoy a “public” prize (such as political power or religious hegemony), the latter more so when the prize is “private” (such as looted resources, government subsidies, or infrastructures). The available data appear to strongly support existing theories of intergroup conflict. Our argument also provides indirect evidence that ethnic conflicts are likely to be instrumental, rather than driven by primordial hatreds.


Abstract:
This paper examines the impact of ethnic divisions on conflict. The analysis relies on a theoretical model of conflict (Esteban and Ray, 2010) in which equilibrium conflict is shown to be accurately described by a linear function of just three distributional indices of ethnic diversity: the Gini coefficient, the Hirschman-Herfindahl fractionalization index, and a measure of polarization. Based on a dataset constructed by James Fearon and data from Ethnologue on ethno-linguistic groups and the “linguistic distances” between them, we compute the three distribution indices. Our results show that ethnic polarization is a highly significant correlate of conflict. Fractionalization is also significant in some of the statistical exercises, but the Gini coefficient never is. In particular, inter-group distances computed from language and embodied in polarization measures turn out to be extremely important correlates of ethnic conflict.

Abstract:
This paper studies endogenous risk-taking by embedding a concern for status (relative consumption) into an otherwise conventional model of economic growth. We prove that if the intertemporal production function is strictly concave, an equilibrium must converge to a unique steady state in which there is recurrent endogenous risk-taking. (The role played by concavity is clarified by considering a special case in which the production function is instead convex, in which there is no persistent risk-taking.) The steady state is fully characterized. It displays features that are consistent with the stylized facts that individuals both insure downside risk and gamble over upside risk, and it generates similar patterns of risk-taking and avoidance across environments with quite different overall wealth levels. Endogenous risk-taking here is generally Pareto-inefficient. A concern for status thus implies that persistent and inefficient risk-taking hinders the attainment of full equality.


Abstract:
We estimate the magnitude of social interaction effects in disability pension participation among older workers in Norway. The problem of omitted variable bias is addressed using the exposure of an individual's neighbors to plant-downsizing events as an instrument for the disability entry rate among the individual's previously employed neighbors. Our instrumental variable (IV) estimates suggest that an increase of one percentage point in the participation rate of previously employed neighbors increased the subsequent four-year entry rate of older workers by about 0.4 percentage points. Numerous robustness and specification tests appear to support the validity of the identifying assumption in our IV strategy.


Abstract:
The paper argues that a comprehensive activation strategy is called for – in both unemployment and disability insurance – to minimize the conflict between income insurance and work incentives and to prevent the economic crisis from causing a long-lasting decline in labor force participation. A review of recent empirical evidence, particularly from the Scandinavian countries, indicates that “mild” activation requirements effectively counteract moral hazard problems in social insurance. The paper also argues that the distinction between unemployment and disability is blurred, and that both temporary and permanent disability insurance programs should be designed to encourage and support the use of remaining (partial) work capacity.


Abstract:
Can activation requirements control moral hazard problems in public sickness absence insurance and accelerate recovery? Based on empirical analysis of Norwegian data, we show that it can. Activation requirements not only bring down benefit claims, they also reduce the likelihood that long-term sickness absence leads to inactivity. Our findings show that absentees who are issued graded (partial) absence certificates by their physician have shorter absences and higher subsequent employment rates than they would have had on regular sick leave. We conclude that the activation strategies that in recent years have permeated European and US welfare policy may fruitfully be carried over to sick leave insurance.

Abstract:
Based on a sequence of reforms in the Norwegian unemployment insurance (UI) system, we show that activity-oriented UI regimes – i.e., regimes with a high likelihood of required participation in active labor market programs, duration limitations on unconditional UI entitlements, and high sanction probabilities – deliver substantially shorter unemployment spells than pure income-insurance regimes. Soft constraints, in the form of activity requirements or small benefit cuts after a pre-specified UI duration, have many of the same behavioral consequences as threats of complete benefit termination. Early introduction of a soft constraint appears particularly effective; our results show that the expected unemployment duration falls by half a day for each week the soft constraint is moved ahead in the UI spell. Mild sanctions, in the form of temporary benefit terminations in response to inadequate search effort or excess choosiness, cause a significant rise in the job hazard.


Abstract:
We examine the impacts of time-limited unemployment insurance (UI) and active labor market programs (ALMP) on the duration and outcome of job search in Norway. We use a comprehensive simultaneous equations model accounting for i) the duration of unemployment spells; ii) their outcomes, iii) subsequent employment stability; and iv) the earnings level associated with the first job. We find that time invested in job search pays off in form of higher earnings once a job match is formed. ALMP raises the probability of eventually finding a job as well as expected earnings, but at the cost of lengthening job search.


Abstract:
Based on Norwegian register data, we show that having a lone parent in the terminal stage of life affects the offspring’s labor market activity. The employment propensity declines by around 0.5–1 percentage point among sons and 4 percentage points among daughters during the years prior to the parent’s death, ceteris paribus. After the parent’s demise, employment picks up again and earnings rise for both sons and daughters. Reliance on sickness insurance and other social security transfers increases significantly during the terminal stages of the parent’s life. For sons, the claimant rate remains at a higher level long after the parent’s demise.


Abstract:
Administrative registerdata gir tallrike muligheter for forskning av høy kvalitet med stor politikkrelevans. I denne artikken tar vi til orde for at vi i Norge bør satse tungt på å videreutvikle og utnytte det komparative fortrinnet registerdata har gitt oss som empiriske samfunnsforskere. Tross utviklingen av registerdata vil AKU forblie en viktig kilde for internasjonale sammenlikninger og kunnskap om holdninger, verdier og erfaringer, samtidig som undersøkelsens design bør vurderes.


Abstract:
Vi analyserer i denne artikkelen konsekvensene av en regelendring som gjorde dagspengeperioden kortere for arbeidsledige jobbsøkere. Spørsmålene vi stiller er om, og i hvilken grad, dette har virket i tråd med reformens hensikt som var å få arbeidsledige raskere tilbake til jobb, eller om innskjerpingen dyttet folk over på alternative trygdeytelser i stedet. Vi estimerer en modell for ulike overganger ut av
arbeidsledighet, og resultatene våre tyder på at regelendringen har fått betydelige effekter på overgangene tilbake til jobb, og små effekter på overgangene til trygdeytelser.


**Abstract:**
Field experiments documenting positive treatment effects have a strong policy message: scale up! However, such experiments are typically implemented under close supervision of the research group in charge of the study. In contrast, scaling up would typically imply relying on local organisation. It is not obvious that the positive treatment effects identified in the research-driven intervention can be replicated locally. The present study explicitly addresses this challenge by analysing the local version of a research-driven business training programme among microfinance entrepreneurs in Tanzania. Comparing the local programme with the research-led programme in terms of attendance and subjective evaluation, we find that success in local implementation cannot be taken for granted. Moreover, an analysis of long-term outcomes also demonstrates a weaker impact of the local programme. We conclude that the estimated effect of research-led interventions should be interpreted as an upper bound of what can be achieved when scaling up such interventions locally.


**Abstract:**
Karakterene er et uttrykk for undervisningssektorens evaluering av studentene. De fungerer som et insentiv for studentene, og som et signal til samfunnet om hvem som er de beste studentene. I denne artikkelen analyserer vi om dette signalet blir oppfattet som et viktig signal og om det faktisk reflekterer relevante forskjeller for arbeidsmarkedet.

Resultatene fra analysene viser at personer som er i toppen av karakterfordelingen fra utdanningssystemet også er de som har høyest timelønn i arbeidsmarkedet. Dette tyder på at utdanningssystemet sorterer folk etter samme kriterier som arbeidsmarkedet bruker. Resultatene viser også at forskjellene ikke blir borte over tid. Det signalet karakterene gir blir ikke svakere ettersom folk får mer yrkserfaring. Det betyr at karakterer ikke er et «tomt signal», men heller et signal som gir relevant informasjon til arbeidsmarkedet om kandidaten også på lang sikt.

Til slutt, når det gjelder allokering av talent, så viser resultatene at toppstudenter velger akademiske karrierer, og de velger ikke å bli ledere.


**Abstract:**
This paper proposes a dynamic politico-economic theory of debt, government finance and expenditure. Agents have preferences over a private and a government-provided public good, financed through labor taxation. Subsequent generations of voters choose taxation, government expenditure and debt accumulation through repeated elections. Debt introduces a conflict of interest between young and old voters: the young want more fiscal discipline. We characterize the Markov Perfect Equilibrium of the dynamic voting game. If taxes do not distort labor supply, the economy progressively depletes its resources through debt accumulation, leaving future generations “enslaved”. However, if tax distortions are sufficiently large, the economy converges to a stationary debt level which is bounded away from the endogenous debt limit. The current fiscal policy is disciplined by the concern of young voters for the ability of future government to provide public goods. The steady-state and dynamics of debt depend on the voters' taste for public consumption. The stronger the preference for public
consumption, the less debt is accumulates. We extend the analysis to redistributive policies and political shocks. The theory predicts government debt to be mean reverting and debt growth to be larger under right-wing than under left-wing governments. Data from the US and from a panel of 21 OECD countries confirm these theoretical predictions.


**Abstract:**
Par som får barn reduserer samlet sett sitt arbeidstilbud, i Norge, som i de fleste andre land. Et tiltak som nevnes for å øke småbarnsfamiliers arbeidstilbud er å redusere skatter, eventuelt gi skattefritak for vaskehjelp og lignende. For at slike tiltak skal virke, må småbarnsforeldres arbeidstilbud reagere osittvå på en reallønnsøkning. Jeg viser at høyere reallønn har sterkere effekt på kvinners arbeidstilbud etter at de får barn, representert ved en positiv økning i egenlønnselastisiteten. Effekten motsvares imidlertid av en mer negativ krysslønnsøkning for både menn og kvinner. Hvis mor får høyere lønn, vil hun jobbe mer, men mannen hennes vil jobbe mindre. Det er derfor en grense for hvor mye småbarnsfamiliers samlede arbeidstilbud kan økes med økonomiske incentiver.


**Abstract:**
Empirical analyses of the impact of real exchange rate (RER) fluctuations on employment and economic performance do not take heterogeneity with respect to trade exposure into account. In this paper we use detailed Norwegian firm-level data on exports and imports to calculate firm-specific measures of trade exposure. This allows us to provide a more accurate assessment of the adjustment to real exchange rate shocks. We treat the sharp real appreciation of the Norwegian Krone in the early 2000s as a natural experiment to identify firms' response to an RER shock with respect to employment, productivity, and offshoring. We find that the relative cost shock that hit the Norwegian economy led to a significant decline in the more exposed firms' employment. But the RER shock also appears to have contributed to a process of manufacturing restructuring that boosted productivity of firms exposed to foreign markets. A sizable increase in offshoring can also be attributed to the RER shock.


**Abstract:**
15/16-åringar i Norge gør et valg som har store konsekvenser for deres inntekt i arbeidsmarkedet: De velger om de skal ta yrkesfaglig eller allmennfaglig retning på videregåande skole. Disse valgene vil igjen kunne legge tunge føringer for videre utdanningsvalg og yrkesvalg. Et viktig spørsmål er derfor hvor mye denne aldersgruppen vet om arbeidsmarkedet og dermed også mulige konsekvenser av valget de gør. Vi har studert et representativt utvalg ungdom i Bergen året før de gjør dette valget. Vi har spurt dem om hva de vet om inntektsforskjeller i arbeidsmarkedet, samt hvor mye høy inntekt betyr når de tenker på hvilken jobb de skal ønske seg i framtiden. Til tross for at niendeklassingene rapporterer at høy inntekt betyr mye for hvilken jobb de vil ønske seg i framtiden, ser de ut til å vite lite om hvilke utdannings- og yrkesvalg som vil gi dem muligheten til høy inntekt.


**Abstract:**
Verdens handel er i ubalance. Er det grunn til bekymring? Ja, vil de fleste være enige i. Utviklingen er ikke bærekraftig i lengden. Ubalansene karakteriserer en fase av globaliseringen hvor gevinstene ved handel har blitt svært ujevnt fordelt. Men mens det er lett å enes om at ubalansene ikke er ønskelige, er
det atskillig vanskeligere og enes om hvordan vi best reduserer ubalansene og bevarer en fri verdenshandel.


Abstract:
We study a dynamic general equilibrium model where innovation takes the form of the introduction new goods, whose production requires skilled workers. Innovation is followed by a costly process of standardization, whereby these new goods are adapted to be produced using unskilled labor. Our framework highlights a number of novel results. First, standardization is both an engine of growth and a potential barrier to it. As a result, growth in an inverse U-shaped function of the standardization rate (and of competition). Second, we characterize the growth and welfare maximizing speed of standardization. We show how optimal IPR policies affecting the cost of standardization vary with the skill-endowment, the elasticity of substitution between goods and other parameters. Third, we show that the interplay between innovation and standardization may lead to multiple equilibria. Finally, we study the implications of our model for the skill-premium and we illustrate novel reasons for linking North-South trade to intellectual property rights protection.

Books or chapters in books forthcoming 2013


Books or chapters in books 2012


Strøm, Marte (2012): "Double income households - 4 essays on children, votes and parents' labor supply", avhandling for PhD-graden.

Working papers 2012


Work in progress 2012

Lind, Jo Thori (2012): "Rainy day politics. An instrumental variable approach to the effect of parties on political outcomes".


Cools, Sara and Strøm, Marte (2012): "Parenthood wage penalties in a double income society"

Cools, Sara and Strøm, Marte (2012): "Wage elasticities of spouses before and after having children".


Fiva, Jon H. with Andresen, J. and Natvik G. J. (2012): "Voting When Stakes are High".

Fiva, Jon H. with Folke, O. (2012): "Mechanical and Psychological Effects of Electoral Reform".

Fiva, Jon H. with Folke, O. and Sørensen, R. J. (2012): "The Power of Parties".

Harstad, Bård with Battagliani, Marco (2012): "Participation and Duration of Environmental Agreements".


Holden, Steinar with Natvik, Gisle James and Vigier, Adrien (2012): "An equilibrium model of credit rating agencies".

Holden, Steinar (2012): "Implication of insights from behavioral economics for macroeconomic models".

Holden, Steinar and Rosén, Åsa (2012): "Discrimination and employment protection".


Knutsen, Carl Henrik (2012): "Income Growth and Revolutions".


Knutsen, Carl Henrik (2012): "Democracy, Technological Change and Economic Growth".

Kotsadam, Andreas and Cools, Sara (2012): "Violence against women in Sub-Saharan Africa".

Kotsadam, Andreas and Flato, Martin (2012): "Droughts and gender bias in infant mortality".

Kotsadam, Andreas with Johnsen, Åshild Auglænd and Almás, Ingvild (2012): "Growth and inequality in China".

Kotsadam, Andreas, Finseraas, Henning and Ugreninov, Elisabeth (2012): "Paternity leave and wages".

Kotsadam, Andreas and Finseraas, Henning (2012): "Paternity leave and household work".

Kotsadam, Andreas with Tolonen, Anja (2012): "Natural resource extraction and women’s labor market".
Kotsadam, Andreas (2012): "Family Law and gender equality in Sub-Saharan Africa".


Mideksa, Torben with Kallbekken, Steffen (2012): "Directed Technical Change and the Political Economy of Environmental Policies".


Mitra, Anirban (2012): "Do the Poor Gain from Mandated Political Representation? Theory and Evidence from India".

Mitra, Anirban and Mitra, Shabana (2012): "Electoral Uncertainty, Income Inequality and the “Middle Class”".

Mitra, Anirban (2012): "Decentralization and Mandated Political Representation".


Mogstad, Magne and R. Aaberge (2012): "Income Mobility as an Equalizer of Permanent Income: Theory and Evidence”.


Nenov, Plamen (2012): "Regional Mismatch and Labor Reallocation in an Equilibrium Model of Migration".

Nenov, Plamen and Iachan, Felipe (2012): "Rollover Crises and Transparency: The Role of Asymmetric Risk Sensitivities".

Nenov, Plamen (2012): "Credit Markets, Asset Prices, and Unconventional Monetary Policy".


Ognedal, Tone (2012): "In the shadow of the labor market".


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Riis, Christian (2012): "Innovation Screening"

Rosén, Åsa and Moen, Espen (2012): "On-the-job search and Moral Hazard".

Rosén, Åsa and Moen, Espen (2012): "Invisible Markets".

Rosén, Åsa and Moen, Espen (2012): "Hyperbolic Discounting in Search Equilibrium".

Tungodden, Bertil, Cappelen, Alexander W, Hagen, Rune J. and Sorensen, Erik Ø. (2012): "Do non-enforceable contracts matter? Evidence from an international lab experiment".


Willumsen, Fredrik (2012): "The value of a political career: Evidence from a regression discontinuity design".

**Master theses 2012**

Flato, Martin (2012): "Conflict, Child Health, and Household Adjustments in Eritrea".


Ødegård, Christiane Marie (2012): "How can future incomes from oil benefit the local population at Madagascar?".
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Giovanni Violante, New York University
Elisabeth Wood, Yale University
Amir Yaron, Wharton
### ACCOUNTS AND REVISED BUDGET

#### Funding

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#### Expenditures

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Comments to the account and budget

Because of delays in recruitment when the centre started, the costs were lower than expected the first year. As a result we had an amount of more than 5,5 MNOK which had to be transferred from one year to the next, every year. From 2010 we also integrated the money from the host institution into ESOP’s accounting. We then had accumulated an amount almost equal to one year’s running budget. In 2010 we therefore made some foundational changes:

1. Instead of transferring the money from one year to next, we asked the RCN to withhold a substantial part of the payment for 2010. The strategy was to spend the accumulated money, so the amount transferred from year to year would come down to a more normal level. We came to an agreement with RCN that we could ask for the withheld money when we needed it in the future. From 2010 we have removed the numbers in the line “funding estimated in contract”, because we have to make a new estimate and a new contract.

2. For the year 2010, and the years to come, the University of Oslo has decided to post the income from the host institution into ESOP’s budget and accounting. We are quite happy for this decision: Firstly it gives a better picture of the amount spent on the centre’s research activity. Secondly it makes it easier to account for all the contributions from the host institution. In the future we therefore have to post the funding from the Department under the label “Host institution (UiO)”.

3. The largest change to the original plan is that from 2010 the host institution is contributing with more than originally budgeted. The major reasons for this change is firstly because the Department contributes with several more PhD students than planned, and secondly because a few more professors at the Department has joined the ESOP staff.
# Resources – Personnel 2012

## Scientific position

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PhD students and research fellows

Research fellows

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Postdoctoral fellows

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<tr>
<td>Kotsadam, Andreas</td>
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<td>01.09.11-31.08.15</td>
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<td>Mitra, Anirban</td>
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<td>13.08.12-12.08.16</td>
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Administration

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<td>Elgvin, Johannes</td>
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<td>Cand.polit</td>
<td>01.01.09-</td>
<td>ESOP</td>
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## Research assistants

<table>
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<td>Andresen, Martin E.</td>
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<td>15.06.12-14.06.13</td>
<td>ESOP/ØI</td>
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## Guest researchers

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<td>India</td>
<td>Ma.</td>
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<td>Torsvik, Gaute</td>
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## Positions displayed in Man-year

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Oslo, April 1st 2013