

Slides:

<http://scholar.harvard.edu/files/kasy/files/wagedistributionmetrics.pdf>

"Who wins, who loses? Tools for distributional policy evaluation"

<http://scholar.harvard.edu/files/kasy/files/whowinswholoses.pdf>

Abstract:

Most policy changes generate winners and losers. Political economy and optimal policy suggest questions such as: Who wins, who loses? How much? Given a choice of welfare weights, what is the impact of the policy change on social welfare? This paper proposes a framework to empirically answer such questions. The framework is grounded in welfare economics and allows for arbitrary heterogeneity across individuals as well as for endogenous prices and wages (general equilibrium effects). The proposed methods are based on imputation of money-metric welfare impacts for every individual in the data.

The key technical contribution of this paper are new identification results for marginal causal effects conditional on a vector of endogenous outcomes. These identification results are required for imputation of individual welfare effects. Based on these identification results, we propose methods for estimation and inference on disaggregated welfare effects, sets of winners and losers, and social welfare effects. We furthermore provide results relating aggregation with social welfare weights to the distributional decomposition literature.

We apply our methods to analyze the distributional impact of the expansion of the Earned Income Tax Credit (EITC), using variation in state supplements to the federal EITC and the CPS-IPUMS data. We find large negative effects of depressed wages as a consequence of increased labor supply. The estimated effects are largest for those earning around 20,000 US\$ per year, as well as for high school dropouts.

"Labor demand and wage inequality in Europe - an empirical Bayes approach"

<http://scholar.harvard.edu/files/kasy/files/wagesineurope.pdf>

Abstract:

To what extent can changes in the distribution of wages be explained by changes in labor supply of various groups (due to demographic change, migration, or expanded access to education), and to what extent are other factors (technical and institutional change) at work? We develop a flexible methodology for answering this central question of labor economics, using an empirical Bayes approach, without imposing the restrictions on heterogeneity and on cross-elasticities of labor demand assumed by the literature.

Our approach allows to reduce the variance of estimates by exploiting the information embodied in economic structural models, while avoiding the inconsistency and non-robustness of misspecified structural models. This approach also allows to overcome the issues associated with pretesting and the conventional duality of testing theories / imposing theories. Simulations suggest our estimator uniformly dominates unrestricted estimation. In our empirical application, we analyze changes since 2003 of the wage distribution in the countries of the European Union, using the EU-SILC data.