

Research Statement

Nathaniel Hendren

February, 2016

My research develops theoretical models and empirical methods to advance our understanding of market imperfections and the welfare impact of government intervention. When do markets work well? When they don't, how should the government intervene?

My first line of research studies the role of asymmetric information in limiting the existence of insurance markets. I document that private information prevents individuals with pre-existing conditions from being able to purchase insurance in health-related insurance markets (Hendren (2013)). Using the information contained in subjective probability elicitation, I show that individuals with pre-existing conditions know more than the insurance company about their potential costs; quantifying these frictions suggests that any policy would be too heavily adversely selected to deliver a positive profit – at any price. In ongoing work, I show that private information also prevents the existence of a private unemployment insurance (UI) market (Hendren (2015)). Put simply, the presence of private information determines the existence of private insurance markets.

If private markets are imperfect, how should we measure the welfare impact of government intervention? My second line of research provides new empirical methods for valuing social insurance, such as UI (Hendren (2015)) and Medicaid (Finkelstein et al. (2015)). For example, in Hendren (2015) I show how one can exploit the realization of information about future unemployment to measure individuals' WTP for additional UI. My analysis shows that in response to learning about potential future unemployment, individuals reduce their consumption and their spouses are more likely to enter the labor market – even in cases where unemployment does not subsequently occur. Scaling these responses by the appropriate measure of the amount of information revealed and by standard labor supply elasticities or coefficients of relative risk aversion yields new measures of WTP for additional UI that relax assumptions, such as state-dependence, assumed in previous literature. These benefits can be compared to costs. In Hendren (2014b), I develop a welfare framework in which the relevant cost measure is the causal effect of a policy on the government's budget – one need not decompose those responses into income and substitution effects (which would be required in other welfare frameworks, such as excess burden). I use this framework to translate existing causal estimates of government programs, such as food stamps, housing vouchers, the earned income tax credit, etc., into statements about the welfare impact of those programs.

Policies have winners and losers, and the resolution of such interpersonal comparisons is difficult. While it is common to use a social welfare function, Hendren (2014a) provides a new empirical method to search for potential Pareto improvements that builds on the Kaldor-Hicks compensation principle by forcing transfers to occur through income tax changes as opposed to individual-specific lump-sum transfers. Because empirical evidence suggests it is costly to redistribute from rich to poor, \$1 of surplus to the poor is more valuable than \$1 to the rich because \$1 to the poor can hypothetically be turned into more than \$1 to the rich through reductions in income taxes. Weighting individual WTP for a policy changes by these weights neutralizes interpersonal comparisons by implicitly comparing the policy to an distributionally-equivalent modification to the tax schedule.

My third line of research focuses on incorporating policy impacts on children and the resulting “birth lottery” into policy analysis. There is wide variation in the extent to which children rise out of poverty based on where they grow up (Chetty et al. (2014a)), and this variation has remained largely stable over the past 25 years (Chetty et al. (2014b)). Ongoing work documents that these differences largely reflect

the causal impact of growing up in good versus bad neighborhoods in these areas (Chetty and Hendren (2015)). Moreover, policies such as the Moving to Opportunity experiment that provide subsidies to families to move to better neighborhoods increase children’s earnings in adulthood and likelihood of attending college, increase the likelihood of marriage, decrease the likelihood of out-of-wedlock births, and ultimately generate positive returns to taxpayers through increased tax revenue paid in adulthood (Chetty et al. (2015)). Hence, the welfare analysis of many policies must incorporate the long-run impacts on children. Indeed, the positive fiscal externalities generated by such policies suggest policies targeted towards improving intergenerational mobility may be a more efficient method of accomplishing redistributive aims. This raises many theoretical and empirical issues that I plan to explore in future work.

References

- CHETTY, R. AND N. HENDREN (2015): “The Effects of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County Level Estimates,” *Working Paper*.
- CHETTY, R., N. HENDREN, AND L. F. KATZ (2015): “The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment,” *NBER Working Paper No. 21156*.
- CHETTY, R., N. HENDREN, P. KLINE, AND E. SAEZ (2014a): “Where is the land of Opportunity? The Geography of Intergenerational Mobility in the United States,” *The Quarterly Journal of Economics*, 129, 1553–1623.
- CHETTY, R., N. HENDREN, P. KLINE, E. SAEZ, AND N. TURNER (2014b): “Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility,” *American Economic Review Papers and Proceedings*, 104.
- FINKELSTEIN, A., N. HENDREN, AND E. F. LUTTMER (2015): “The Value of Medicaid: Interpreting Results from the Oregon Health Insurance Experiment,” *NBER Working Paper No. 21308*.
- HENDREN, N. (2013): “Private Information and Insurance Rejections,” *Econometrica*, 81, 1713–1762.
- (2014a): “The Inequality Deflator: Interpersonal Comparisons without a Social Welfare Function,” *NBER Working Paper No. 20351*.
- (2014b): “The Policy Elasticity,” *NBER Working Paper No. 19177*.
- (2015): “Knowledge of Future Job Loss and Implications for Unemployment Insurance,” *Working Paper*.