

Prospectus

AEI V&C 2018-2019 YOUNG SCHOLAR AWARDS PROGRAM

[Proposed Title of Research Paper]

[Full Name]

[Major]

[University Name & Graduation Month, Year (e.g. Jane Doe University - May 2020)]

Thesis Statement & Objectives

- Clearly state the main argument. The thesis should be explained or defended throughout the entire paper.

Significance

- State why this issue is important and relevant to study.

Background

- Provide a brief analysis of any existing academic literature related to your proposed topic. Note how you anticipate your research will contribute to the existing academic literature.

Research Questions

- Highlight a few central [research questions](#) that you hope to address in the study.

Nature of the Study

- Please note the research style i.e. Qualitative, quantitative or both.

Conceptual/Theoretic Framework

- The [theoretical framework](#) includes the existing theories that are used in your particular study. It consists of concepts, with their definitions, and references to relevant scholarly literature. The theoretical framework must demonstrate an understanding of theories and concepts that are relevant to the topic of your research paper and that relate to the broader areas of research being considered.
- Especially if your paper is significantly quantitative, please provide the theoretical framework guiding the proposed study.

Possible Analytic Strategies

- Note any potential information/data sources and methodologies for your analysis. If you will be conducting interviews, note any probable interviewees and how you plan on connecting with them if you don't already have any prior relationship with them.

References/Bibliography (*Note: This section is not included in your total word count.)

- List the references to works you highlighted in the sections above. They should be listed as formal and complete bibliographic endnotes. You can also include other relevant works that were not mentioned. Include links to sources, if available. It is optional to annotate some of these references.

Included below are two sample prospectuses:

Weeded Out:

Analyzing the Labor Market Forces Displacing Rural Farmers in the Midwest

Duncan Voyles

AEI Young Scholars Program: Prospectus

Weeded Out:

Analyzing the Labor Market Forces Displacing Rural Farmers in the Midwest

This paper will analyze the declining condition of rural farmers in the Midwest and propose remedial policy solutions. Particularly, it will hypothesize two things. First, costly government regulations are a greater driver of small-farm displacement than are the commonly cited economies of scale in technology more accessible to large farms. Second, rural farmers' distance from urban job centers is precluding their exit from the agricultural industry. These two issues will constitute the primary subject-matter of the paper. A third, minor theme will be included, namely rural farmers shift into the illicit drug industry due to the unprofitability of agriculture. This tragic consequence will not be emphasized as a research focus as it is well-documented elsewhere (Gundy, 2006; Reding, 2010). Rather, it will be included as an impetus for policy makers. Rural communities are suffering from the impact of the drug trade and while the creative destruction engendered by the market is wholly beneficial long-term, economists must acknowledge and address its unintended, short-run consequences.

Big Agriculture's displacement of small-size farming is well-documented (Ball, 1997; Conklin, 2005; Schweser, 2009; Alston, 2011). There are two competing hypotheses for this. The first posits that technological innovations pioneered by Big Agriculture disadvantage small farms. They do so in two ways. First, they require large economies of scale, to which small farms lack access. Second, they have increased agricultural productivity, thereby driving commodity prices down and lowering small-farm earnings (Schweser, 2009). Given these developments, the agricultural economics literature base includes extensive consideration of policy attempts to prop up commodity prices (Conklin, 2005). Further, market-based solutions are emerging that grant small farms access to new technology and its accompanying economies

of scale (Schwartz, 2013). Despite these remedies, small farms continue to be displaced. An alternative hypothesis is in order.

Costly government regulation favors Big Agriculture, which possesses the legal and political means to cope while small farms do not. Larger farms political advantage is demonstrated in their receipt of public funding: they capture most commodity-specific subsidies (Banker, 2006; Hoppe, 2012) and are favored in obtaining competitive grants allocated through the political process (Alston, 1996). Despite extensive literature on agricultural capture of government benefits, there is little scholarship on agricultural compliance costs. What little exists supports the hypothesis that small firms are displaced, but its approach emphasizes the aggregate effects of legislation rather than the regulatory burden borne by individuals (Anderson, 2007). When this is taken along with the fact that small farms own most farm assets and therefore bear a hefty burden with respect to resource and environmental regulation (Hoppe, 2001), it follows that regulatory costs are substantial. My paper will analyze the magnitude of these costs, farmers' response to them, and their relative importance compared to economies of scale in technology as a determinant of displacement.

Despite being displaced by larger farms, small-size farmers frequently do not migrate out of the industry. This is because rural farmers are isolated from urban job centers due to their remote location. Many studies have measured the impact of proximity on labor migration by including distance variables in their models (Bailey, 2012). However, little work has been done in the context of the Midwest, which presents a particularly excellent case-study due to the economic diversity of its urban centers. For example, Columbus, Ohio's, labor force has grown nearly one-and-a-quarter percent since the beginning of 2017 alone. Conversely, Detroit, Michigan's, labor force has shrunk one-quarter percent. These dramatically different cities

present a unique opportunity to measure the effect that the quality of an urban center has on incentivizing movement out of rural areas.

Throughout the study, research will combine econometric techniques and personal interviews. Interviews will be conducted with farmers throughout the greater Hillsdale, Michigan area. Hillsdale county presents a unique case-study for two reasons. First, its farming population has experienced less than a point-one percentage change – the second smallest in Michigan – over the past five years, making it ideal for labor immobility studies and for questioning those who have witnessed changing conditions. Second, Hillsdale is widely considered the “meth-capital” of Michigan making it suitable for gauging the impact of the drug trade. Econometric techniques will be employed as well. Department of Agriculture employment data and Census Bureau migration data will be used to measure the regulatory burden shouldered by farms of varying size, as well as the magnitude of rural farmers’ migratory response to urban centers of similar proximity but differing wealth. To isolate the impact of urban centers’ differing performances, geographic areas equidistant between major cities will be studied thereby creating a novel statistical model grounded in the natural experiment that geography provides. This research approach balances the broad picture painted by statistical methods with the individual view imparted in interviews. Thus, it enables a thorough understanding of Midwestern farmers’ challenges and paves the way to overcoming them.

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Emma Nyhof

June 30, 2017

Behavioral Economics and Effective Marginal Tax Rates

Means-tested welfare programs and their tendency to provide disincentives for participation in the labor market are well documented. Theorists, economists, and politicians have long worked to explain the factors underlying current policy that encourage these trends. One such issue that has received attention is the idea of the “benefits cliff,” which refers to the high effective marginal tax rates faced by program participants when they increase their work hours (see appendix) (Congressional Budget Office, 2015). My objective in researching this concept is to pinpoint how neoclassical theory may explain some of the decision-making surrounding the benefits cliff, and to explore how the emerging field of behavioral economics may allow us an even deeper understanding.

To reach this objective my study will have three parts:

1. An extensive literature review of the current work surrounding behavioral economic theory and its relationship to neoclassical assumptions of rationality, as well as its specific relationship to decision-making in the context of poverty.
2. An econometric analysis of labor force participation behavior among those enrolled in social welfare programs. Data from the Survey of Income and Program Participation (SIPP) will be used to estimate labor market opportunities and effective marginal tax rates caused by loss of benefits.

3. Suggestions for policy reform based on insight from principles of psychology and behavioral economics.

Rational choice theory is one of the building blocks of neoclassical economic thought and is therefore often used to inform policymaking. The premise that individuals are focused on utility maximization is a good way to attempt to predict people's responses to policy. However, the prevalence of individuals trapped in a cycle of poverty may suggest that rational choice theory doesn't always predict behavior perfectly. The fact that people are making choices that keep them poor may be evidence for the possibility that rational models of decision-making are incomplete. One of these choices may be illustrated by reluctance to join the labor force and take promotions, higher paying jobs, or more hours. In many cases, a career offers more benefits and would be the better choice for an individual acting according to rational self-interest. The disincentives caused by the benefits cliff may explain why many Americans aren't coming to this conclusion.

Concepts based in behavioral economics and psychology, such as prospect theory, loss aversion, hyperbolic discounting, and many others, may help explain the significance of the benefits cliff. One such concept is referred to as bounded rationality. This theory suggests that rational decision-making is limited by the information available and the decision-making capacity. This capacity for decision-making is based in cognitive load theory. When we reach "cognitive capacity" this ability suffers (Kahneman, 2003). This can be due to something as simple as trying to focus on too many tasks at once, as in the case of talking on the phone and

driving. More complexly, the circumstances surrounding poverty, such as scarcity, can create an added stressor that consistently lowers the capacity to make long-term, forward-looking rational decisions.

Hyperbolic discounting is another concept within behavioral economics that could provide insight into decisions surrounding the high effective marginal tax rates. This suggests that people will increasingly discount the value of a reward as the length of the delay increases (Loewenstein & O'Donoghue, 2002). Applied to the benefits cliff, people may discount the benefits of upward movements in a career because they will not occur until the future.

Another more psychologically based principle that may be of importance is the idea of learned helplessness. It helps explain what is known in economics as the "poverty trap." Learned helplessness refers to a state of perceived powerlessness due to repeated failures or feelings of lack of control over a situation. This leaves people discouraged from even attempting to take action towards improving a given situation, and may explain why certain individuals and communities are subject to long-term poverty. Overcoming this is dependent on people's belief that they do, in fact, have the ability to succeed (Baum, Fleming, & Reddy, 1986). Current policy, due to aspects such as the benefits cliff, may lead people to fall into this mindset of learned helplessness through no fault of their own.

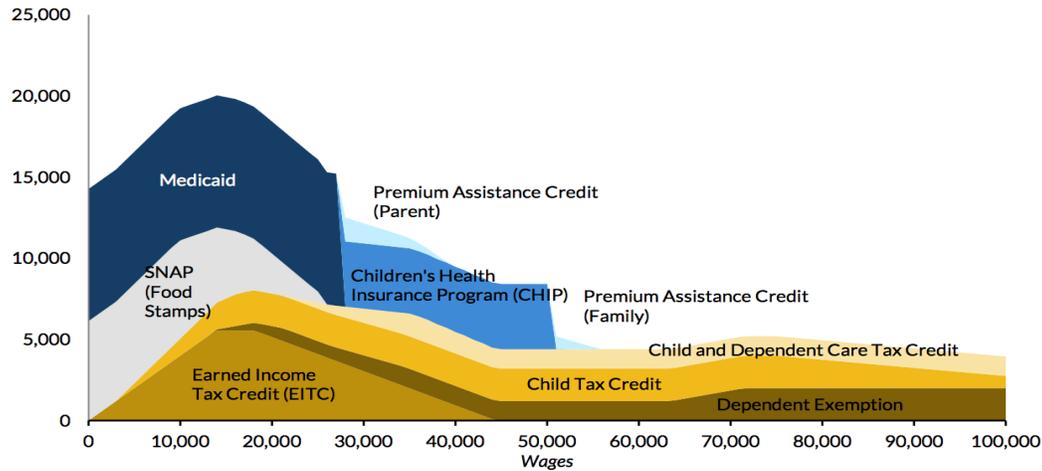
Through this study I hope to suggest specific ways to amend means-tested welfare programs that would smooth out the benefits cliff and ultimately help people avoid falling into poverty traps. I believe behavioral economics is an important tool in constructing policy that people will respond to in the way we

expect, and I anticipate that this study will shed some light on how this can be accomplished.

Appendix: Benefits Cliff Figures

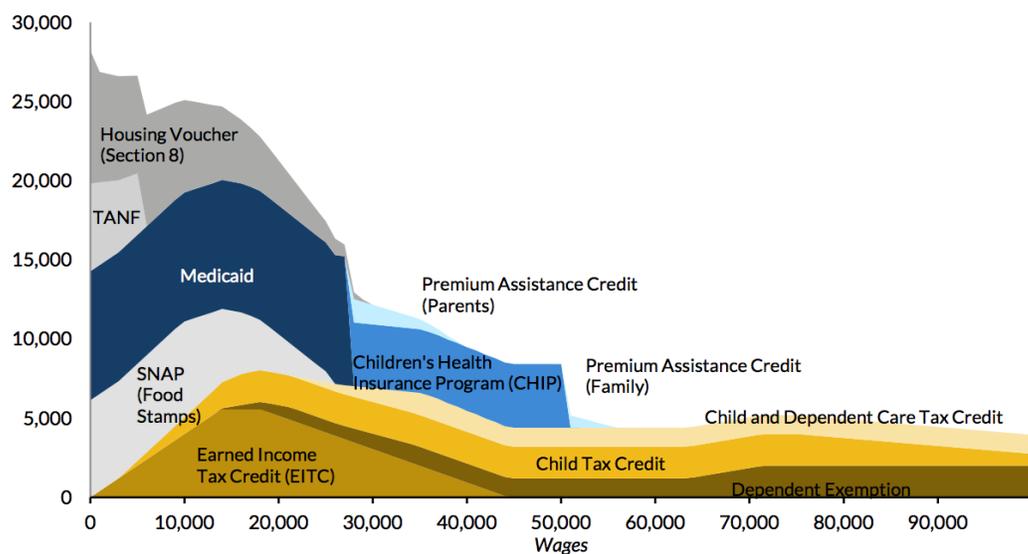
Taken from Steuerle, C. (2015, June 25). Marginal Tax Rates and 21st Century Social Welfare Reform. In *Tax Policy Center*.

FIGURE 1A
Tax and Transfer Benefits for Universally Available Programs
 Single adult with two children, 2015



Source: Eugene Steuerle and Caleb Quakenbush, 2015. Washington, DC: Urban Institute.
 Notes: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

FIGURE 1B
Tax and Transfer Benefits for Universally Available and Additional Programs
 Single adult with two children, 2015



Source: Eugene Steuerle and Caleb Quakenbush, 2014. Washington, DC: Urban Institute.
 Notes: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

Appendix: References

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