Grading Governors on Fiscal Policy

Governors across the country have long touted (or disputed) their ranking in Cato’s “Fiscal Policy Report Card on America’s Governors.” In the 2018 edition of the biennial report, Chris Edwards examines state fiscal policy and budget actions to assign a letter grade to the chief executives who have been in office over the past two years. Governors who cut taxes and spending receive the highest grades, while those who have increased taxes and spending receive the lowest. Five governors were awarded an A in the 14th edition of the report: Susana Martinez (R-NM), Henry McMaster (R-SC), Doug Burgum (R-ND), Paul LePage (R-ME), and Greg Abbott (R-TX). Eight governors earned an F: Roy Cooper (D-NC), John Bel Edwards (D-LA), Tom Wolf (D-PA), Jim Justice (R-WV), David Ige (D-HI), Dennis Daugaard (R-SD), Kate Brown (D-OR), and Jay Inslee (D-WA).

Good Intentions, Unintended Consequences

Proponents of a federal mandate for paid parental leave argue that the market does not or cannot provide sufficient paid leave. Moreover, proponents believe government-supported leave would improve labor-market outcomes and reduce gender and labor-market inequality. In “Parental Leave: Is There a Case for Government Action?” (Policy Analysis no. 850), Cato policy analyst Vanessa Brown Calder outlines the evidence against such a policy: Voluntary paid leave is more common than mandate advocates claim, and a mandate could have substantial negative consequences: reducing wages and other benefits as well as increasing sex discrimination and female unemployment.

Check Your Premises

Atul Gawande’s bestselling book Checklist Manifesto argues that dramatic improvements in complex decisions can be achieved by cheap and easy-to-use checklists. The book, which has received considerable positive attention, advocates for implementing more checklists in decisions ranging from financial regulation to criminal justice. In “Do Checklists Make a Difference? A Natural Experiment from Food Safety Enforcement” (Research Briefs in Economic Policy no. 133), Daniel E. Ho and Sam Sherman, both of Stanford Law School, and Phil Wyman of the Snohomish Health District in Washington State, examine an unintentional natural experiment. When the Public Health Department in Seattle and King County, Washington, revised its health code, roughly half of the violations were subjected to a new checklist. Examining the data from 95,087 inspections both before and after the new checklist was adopted, the authors find that there was no appreciable effect on the behavior or effectiveness of inspectors.

Immigrant Wage Convergence

One of the primary economic concerns expressed by opponents of immigration is that immigrants form a low-wage class, dragging down native-born wages and also hindering assimilation into American society. In “Immigrant Wages Converge with Those of Native-Born Americans” (Immigration Research and Policy Brief no. 9), Andrew Forrester and Alex Nowrasteh examine the literature and conclude that immigrant wages tend to converge with those of native-born Americans and that the initial wage gap has narrowed in recent years compared with the 1990s. Furthermore, the main driver of the gap and delayed convergence is the legal barriers affecting illegal immigrants, suggesting that legalization would cause immigrant wages to rise more quickly and converge with native-born wage levels sooner.

Interstate Commerce in Marijuana

As more states legalize the recreational use and possession of marijuana, an increasing concern has been the possibility of spillover effects and smuggling to states that maintain a policy of prohibition. Nebraska and Oklahoma even unsuccessfully sued Colorado over that state’s legalization policy, claiming increased law enforcement costs. In “The Grass Is Greener on the Other Side: How Extensive Is the Interstate Trafficking of Recreational Marijuana?” (Research Briefs in Economic Policy no. 134), Benjamin Hansen, Keaton Miller, and Caroline Weber consider the natural experiment that resulted in two neighboring states when first one, and then the other, adopted legalization. Using administrative data from Washington State, which legalized in 2014, the authors find that the quantity of marijuana sold in counties along the Oregon border fell by 41 percent when Oregon’s own legal market opened in 2015. However, the public health effects and other externalities were minimal. Washington’s legal sales merely crowded out Oregon’s prelegalization black market rather than driving any increase in the use of marijuana by Oregonians.

Public Opinion on Immigrants and Redistribution

Public opinion on immigration is shaped by widespread ignorance on the number of immigrants, affecting support both for immigration and for redistribution programs seen as benefiting immigrants. In “Immigration and Redistribution” (Research Briefs in Economic Policy no. 135), Alberto Alesina, Armando Miano, and Stefanie Stantcheva of Harvard University consider polling data covering 22,500 respondents from six countries: France,
Germany, Italy, Sweden, the United Kingdom, and the United States. They find that the public tends to overestimate the immigrant share of the population in their respective countries and that support for redistributive welfare programs is closely correlated with the perceived characteristics of immigrants as either hard-working or as a cultural threat.

**INDIA’S NEW PROTECTIONISM**

Indian prime minister Narendra Modi has sharply criticized rising U.S. protectionism under the Trump administration. Yet Modi, too, has embarked on measures to protect and support manufacturing jobs in India. In “India’s New Protectionism Threatens Gains from Economic Reform” (Policy Analysis no. 851), Swaminathan S. Anklesaria Aiyar examines the ideological origins and negative economic impact of this resurgence in tariffs and trade barriers.

** LICENSING ACCOUNTANTS**

Over the past four decades, U.S. states have adopted an increase in the education requirement to become a certified professional accountant (CPA). The requirement was increased from 120 hours to 150 hours of education, equivalent to an extra year of schooling, on the theory that it would improve the quality of those engaged in this critical profession. In “Occupational Licensing and Accountant Quality: Evidence from the 150-Hour Rule” (Research Briefs in Economic Policy no. 136), John M. Barrios uses the staggered implementation of this rule across different jurisdictions to see if it did indeed improve the skill level and quality of work done by CPAs. While requiring an extra year of education did reduce the number of people taking CPA licensing exams, the reduction affected both higher-skilled and lower-skilled potential applicants, leaving the pool of CPAs smaller but with no significant increase in quality.

**EFFECTS OF PATENT DISCLOSURE MEASURED**

Patents in the United States work on the basis of what the Supreme Court has called a “quid pro quo” under which patent holders are given temporary monopoly rights in exchange for disclosing to the public the technical information of their invention. Before this information was made available online in 1997, the only way for Americans to obtain it was through a “patent library”—a local library that had been provided with a full copy of the U.S. Patent and Trademark Office’s patent documents. In “Disclosure and Subsequent Innovation: Evidence from the Patent Depository Library Program” (Research Briefs in Economic Policy no. 137), Jeffrey L. Furman, Markus Nagler, and Martin Watzinger find that having this information available locally did cause a significant increase in the number of patents filed by residents of the area. The finding suggests, contrary to persistent skepticism, that the disclosure attached to filing a patent does help boost subsequent innovation.

**WHEN POPULISM ISN’T POPULAR**

The recent implementation of protectionist tariff and trade policies has not been driven by intense public demand for such policies. In “The Protectionist Moment That Wasn’t: American Views on Trade and Globalization” (Free Trade Bulletin no. 72), Scott Lincicome finds that recent public opinion polling shows these policies do not have strong public support and that, in fact, foreign trade and globalization are generally popular among those who have any opinion at all on the matter. These insights provide important guidance for how policymakers and advocates of free trade can overcome the push for increasing trade barriers.

**CIVIL LIBERTIES AND IMMIGRATION ENFORCEMENT**

Enforcing America’s immigration laws requires a vast apparatus to gather information, not just on foreign nationals but on American citizens as well. In “Walling Off Liberty: How Strict Immigration Enforcement Threatens Privacy and Local Policing” (Policy Analysis no. 852), Matthew Feeney examines the impact of immigration enforcement on the Fourth Amendment rights of Americans and the nation’s decentralized model of local policing. To mitigate these harms, Feeney proposes a set of reforms to strengthen privacy protections at the border and to limit federal mandates on state and local law enforcement.

**CREATIVE DESTRUCTION**

The net effect of immigration on economic growth has been one of the most contentious points of debate between advocates of restricting immigration and those who want to liberalize immigration laws. In this debate, one of the neglected effects has been the increase in creative destruction: the pace of reallocating resources from obsolete, lower-value products to newer, higher-value products. In “High-Skill Immigration, Innovation, and Creative Destruction” (Research Briefs in Economic Policy no. 138), Gaurav Khanna and Munseob Lee examine the effect on this rate of firm-level product reallocation in companies that have hired high-skilled immigrants under the H-1B visa program. They find that firms that hire more high-skilled immigrants tend to have a significantly higher rate of product reallocation, boosting both profitability for the firm and overall economic growth.

**THE RISE AND FALL OF PUBLIC TRANSIT**

In spite of high levels of subsidies, the number of riders on America’s public transit has declined substantially in recent years. In
“Charting Public Transit’s Decline” (Policy Analysis no. 853), Randal O’Toole examines this precipitous decline and concludes that America reached “peak transit” in 2014. Since then, low gas prices, increasing automobile ownership, and the rise of ride-hailing services such as Uber and Lyft have resulted in a steady decline in the number of Americans using public transit. Even ample subsidization of these services has not stopped urbanites from increasingly adopting other options that better serve their transportation needs.

**RETHINKING K–12 RANKINGS**

State education rankings, compiled by publications such as U.S. News & World Report and Education Week, play a prominent role in debates over education policy at the state and local levels. In “Fixing the Bias in Current State K–12 Education Rankings” (Policy Analysis no. 854), Stan Liebowitz and Matthew L. Kelly find that the traditional way of compiling these statistics can produce highly misleading results. By accounting for demographic differences and spending levels, the authors produce a set of efficiency rankings that upend the usual trend, in which rankings are led by Northern states with low minority populations and high spending levels. Instead, they find that across all racial and ethnic groups, states in the South and Southwest rise to the top of the rankings, producing better educational outcomes at a lower cost.

**CONNECTIONS PAY OFF**

Financial panics can cause substantial declines in investment and employment, disrupting access to finance and credit. One possible way to moderate these problems is through greater connections between specific firms and the banks that finance them. In “Banks, Insider Connections, and Industrialization in New England: Evidence from the Panic of 1873” (Research Briefs in Economic Policy no. 139), Eric Hilt studies a unique data opportunity available from Massachusetts financial disclosure records during and after the Panic of 1873. Controlling for a number of variables, Hilt finds that bank affiliations such as having a bank director on a corporation’s board substantially ameliorated losses during the economic slump.

**THE CASE FOR CASH**

Around the world, central banks and governments have increasingly been considering, and in some cases adopting, policies to limit the availability and use of physical currency. By forcing transactions out of cash and into more easily monitored and controlled payment systems, policymakers hope to crack down on illicit black markets while also enabling greater flexibility in monetary policy. In “Should Governments Restrict Cash?” (Policy Analysis no. 855), Jeffrey Rogers Hummel outlines the downsides of this policy from both an economic and a civil liberties perspective. He finds that the empirical evidence for the claimed benefits of going cashless are often overstated and unsupported, and that advocates place too much faith in governments to implement such policies benevolently and competently.

**CHINA AND THE WORLD TRADE ORGANIZATION**

The Trump administration has argued that the World Trade Organization (WTO) has failed to address unfair trade practices by China. In “Disciplining China’s Trade Practices at the WTO: How WTO Complaints Can Help Make China More Market-Oriented” (Policy Analysis no. 856), James Bacchus, Simon Lester, and Randal O’Toole examine China’s practices at the WTO. They argue that the WTO, the United States should more rigorously use WTO complaints.

**LABOR MARKET INCENTIVES FOR TEACHERS**

Analysis of different models for paying teachers has been hindered by the lack of variations to study, with most public schools locked into a rigid pay schedule that primarily considers simple seniority. In “The Labor Market for Teachers under Different Pay Schemes” (Research Briefs in Economic Policy no. 140), Barbara Biasi takes a closer look at a rare example of a variation from that norm. In 2011, school districts in Wisconsin were given far greater flexibility to set teachers’ compensation by the passage of Act 10, and about half used that discretion. The findings show that teachers who produced greater value toward educational outcomes did indeed tend to move to districts that had adopted more flexible pay structures.