

PAPERS AND PROCEEDINGS

OF THE

One Hundred Sixteenth Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

San Diego, CA, January 3–5, 2004

Program Arranged by Martin S. Feldstein

Papers and Proceedings Edited by J. David Baldwin and Ronald L. Oaxaca

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THE purpose of the American Economic Association, according to its charter, is the encouragement of economic research, the issue of publications on economic subjects, and the encouragement of perfect freedom of economic discussion. The Association as such takes no partisan attitude, nor does it commit its members to any position on practical economic questions. It is the organ of no party, sect, or institution. People of all shades of economic opinion are found among its members, and widely different issues are given a hearing in its annual meetings and through its publications. The Association, therefore, assumes no responsibility for the opinions expressed by those who participate in its meetings. Moreover, the papers presented are the personal opinions of the authors and do not commit the organizations or institutions with which they are associated.

Editors' Introduction

This volume contains the *Papers and Proceedings* of the one hundred and sixteenth annual meeting of the American Economic Association. The *Proceedings* record the business activities of the Association in 2003, the annual membership meetings, and the April (2003) and January (2004) meetings of the Association's officers and committees. The *Papers* constitute the greater part of the volume. They comprise contributions that fill roughly the same number of pages as one and a half regular issues of *The American Economic Review*. We will take this opportunity to answer a number of commonly asked questions about the *Papers*.

Who chooses the authors? About a year in advance, the Association's President-elect, acting as program chairman, decides on the topics for which sessions will be organized. This is done after consultation and comment, both volunteered and solicited, from a wide range of individuals. (A *Call for Papers* appears in the Summer and Fall issues of *The Journal of Economic Perspectives*.)

The President-elect invites some sessions but with the help of a Program Committee selects most of the sessions from the proposals received. Each session organizer in turn invites several persons (usually three or four) to give papers on the theme of the session and asks others to give comments on the papers. The program chairman decides at the time of organization which sessions will be included in this volume. Space limitations restrict the number of printed sessions. This year we are printing 25 sessions, although a total of 138 sessions were sponsored, either solely by the American Economic Association or jointly with other allied societies.

Are discussants' comments published? Comments and discussions usually are not published. For all sessions, names and affiliations of commentators are printed at the start of each session, permitting readers especially interested in particular comments to write to the commentator for a copy of the discussion.

What standards must the papers meet? The *American Economic Review's* policy regarding availability of data also applies to the *Papers and Proceedings*: papers are published only if the data used in the analysis are clearly and precisely documented and are readily available to any re-

searcher for purposes of replication. Otherwise, the guidelines under which papers are published in the *Papers and Proceedings* differ considerably from those governing regular issues of the *Review*. First, the length of papers is strictly controlled. They must be no more than 12 typescript pages in three-paper sessions, and 10 typescript pages in four-paper sessions. Second, papers are not subjected to a formal refereeing process. However, a paper can be rejected if, after reading it, we conclude that it is utterly without merit. Third, the content and range of subject matter reflect the wishes of the President-elect to investigate and expose the current state of economic research and thinking. In most cases, therefore, the papers are exploratory and discursive, rather than formal presentations of original research.

In order to produce this volume by May, strict deadlines must be met, and there is no time for communication with every author about editing changes made in order to improve content and style and to satisfy space restrictions. Every effort is made to notify an author prior to the deadline if the paper is too long or does not satisfy other specifications.

For the most part, authors were quite cooperative this year, and for this we are grateful. We thank them for making our job easier.

Acknowledgments. The extremely tight production schedule of this issue requires a highly coordinated chain of events; every link in the chain must be a strong one. As in the past, we are indebted to a group of highly talented individuals for their help in bringing this project to fruition: Cynthia Cohen in the Princeton *AER* office capably handled the voluminous correspondence associated with this issue, and Laurie Burton served as proofreader extraordinaire. The staff of CPC-Ephrata, our typesetters, met the challenge of keeping the issue on schedule, and we are especially grateful to Sandy Snyder for overseeing the typesetting with diligence and good humor. Finally, as in past years, we thank Kathy Holewinski and the Banta Company for their dependable work in printing and distributing this issue.

J. DAVID BALDWIN
RONALD L. OAXACA

Foreword

Each year the President-elect of the American Economic Association is given the opportunity to shape the program of the annual meeting. It is a somewhat daunting responsibility when one thinks of the wide range of subjects that should be included in the program. In organizing the meeting for January 2004, I tried to include sessions dealing with innovative academic research as well as analyses of current national and global policy problems. The actual selection of papers for all of the sessions and for the Papers and Proceedings volume was done almost completely by the members of the Program Committee. I am grateful to them for their efforts in reviewing hundreds of submissions and in putting together very creative and worthwhile sessions.

The members of the Program Committee were: John Y. Campbell, David Cutler, Jonathan Eaton, Sebastian Edwards, Caroline Minter Hoxby, Christine Jolls, Narayana Kocherlakota, Edward P. Lazear, R. Preston McAfee, Maurice Obstfeld, Christina Paxson, James Poterba, Andrei Shleifer, John B. Shoven, Kenneth Sokoloff, Richard H. Thaler, Michael Waldman, and Michael Woodford.

The key to a successful meeting is the quality of the proposals submitted by members of the Association and of the papers that are subsequently delivered at the meeting. I wish that more of the fine proposals that were submitted

could have been included in the final program and that more of those that were presented could have been published here.

Mervyn King, who delivered this year's Ely Lecture, was recently appointed to be the head of the Bank of England. Governor King was previously a professor at the London School of Economics and a member of the faculty of Cambridge University. He started his academic career with important contributions to public finance before joining the staff of the Bank of England and shifting his interests to monetary economics. There is no one who could better represent the themes of academic research and policy analysis.

Norma McEvoy in my office helped me to handle the hundreds of submissions that came from members, keeping track of the material and answering questions from members who had not yet heard about the disposition of their proposal. Marlene Hight, Gwyn Loftis, and Violet Sikes in the AEA office in Nashville make the job of the President-elect relatively easy and prevent the errors that a novice would inevitably make. John Siegfried was, and still is, a valuable adviser to me about every aspect of being an officer of the Association. Finally, this volume was produced with remarkable speed and efficiency by David Baldwin and Ron Oaxaca. I am grateful to all of them.

MARTIN FELDSTEIN