

MICHAEL CARLOS BEST

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EMPLOYMENT

2017-	Department of Economics, Columbia University	Assistant Professor
2014-2017	Stanford Institute for Economic Policy Research, Stanford University	Postdoctoral Fellow

OTHER PROFESSIONAL ACTIVITIES

2018-	National Bureau of Economic Research, Public Economics	Faculty Research Fellow
2018-	National Bureau of Economic Research, Development Economics	Faculty Research Fellow
2018-	Center for Development Economics and Policy	Affiliate
2017-	Bureau for Research and Economic Analysis of Development (BREAD)	Affiliate
2015-	Institute for Fiscal Studies (IFS)	International Research Fellow
2015-	Centre for Economic Policy Research (CEPR), Development Economics	Research Affiliate
2014-	Centre for Economic Policy Research (CEPR), Public Economics	Research Affiliate

EDUCATION

2009-2014	London School of Economics	PhD Economics
2011-2012	UC Berkeley Economics, Center for Equitable Growth	Visiting PhD Student
2008-2009	London School of Economics	MRes Economics (distinction)
2006-2008	University of Oxford	MPhil Economics (distinction)
2003-2006	London School of Economics	BSc Government & Economics

RESEARCH AND TEACHING FIELDS

Public Economics and Development Economics

PUBLICATIONS

[Estimating the Elasticity of Intertemporal Substitution Using Mortgage Notches](#) (with James Cloyne, Ethan Ilzetzki and Henrik Kleven) Forthcoming, *Review of Economic Studies*

Using a novel source of quasi-experimental variation in interest rates, we develop a new approach to estimating the Elasticity of Intertemporal Substitution (EIS). In the UK, the mortgage interest rate features discrete jumps — notches — at thresholds for the loan-to-value (LTV) ratio. These notches generate large bunching below the critical LTV thresholds and missing mass above them. We develop a dynamic model that links these empirical moments to the underlying structural EIS. The average EIS is small, around 0.1, and quite homogeneous in the population. This finding is robust to structural assumptions and can allow for uncertainty, a wide range of risk preferences, portfolio reallocation, liquidity constraints, and optimization frictions. We also use our model to characterize the link between the EIS and the reduced-form borrowing elasticities often estimated in the literature. This analysis demonstrates that reduced-form elasticities are in general not informative of the underlying structural parameter as the translation between the two is mediated by endogenous variables that can vary widely across borrowers.

[Housing Market Responses to Transaction Taxes: Evidence from Notches and Stimulus in the UK](#) (with Henrik Kleven) *Review of Economic Studies*, 85(1), 157–193, 2018

We investigate housing market responses to transaction taxes using administrative data on all property transactions in the UK from 2004-2012 combined with quasi-experimental variation from tax notches and tax stimulus. We present two main findings. First, transaction taxes are highly distortionary across a range of margins, causing large distortions to the price, volume and timing of property transactions. Second, temporary transaction tax cuts are an enormously effective form of fiscal stimulus. A temporary elimination of a 1% transaction tax increased housing market activity by 20% in the short run (due to both timing and extensive responses) and less than half of the stimulus effect was reversed after the tax was reintroduced (due to re-timing). Because of the complementarities between moving house and consumer spending, these stimulus effects translate into extra spending per dollar of tax cut equal to about 1. We interpret our empirical findings in the context of a housing model with downpayment constraints in which leverage amplifies the effects of transaction taxes.

[Production vs Revenue Efficiency With Limited Tax Capacity: Theory and Evidence From Pakistan](#) (with Anne Brockmeyer, Henrik Kleven, Johannes Spinnewijn and Mazhar Waseem) *Journal of Political Economy*, 123(6), 1311–1355, 2015

To fight evasion, many developing countries resort to production-inefficient tax policies. This includes minimum tax schemes whereby firms are taxed on either profits or turnover, depending on which tax liability is larger. Such schemes create non-standard kink points, which allow for eliciting evasion responses to switches between profit and turnover taxes using a bunching approach. Using administrative tax records on corporations in Pakistan, we estimate that turnover taxes reduce evasion by up to 60-70% of corporate income. Incorporating this in a calibrated optimal tax model, we find that switching from profit to turnover taxation increases revenue by 74% without reducing aggregate profits, despite the production inefficiency that it introduces.

WORKING PAPERS

[Individuals and Organizations as Sources of State Effectiveness, and Consequences for Policy Design](#) (with Jonas Hjort, and David Szakonyi) December 2018

Policymakers do not implement states' policies-bureaucrats do. How important are bureaucrats in determining the productivity of the state enterprise? To what extent do the tradeoffs between different policies-and hence optimal policy design-depend on the effectiveness of the bureaucracy tasked with implementation? We investigate these questions in the context of public procurement. Using data on 16 million purchases in Russia during 2011–2016, we first show that over 40 percent of the variation in quality-adjusted prices paid-our measure of performance-is due to the individual bureaucrats and organizations that manage procurement processes. Our estimates imply that ineffective bureaucracies massively reduce public sector output: moving the least effective quartile of procurers to 75th percentile effectiveness would save the Russian government USD 13 billion each year. To explore the implications of bureaucratic effectiveness for policy design, we analyze Russia's adoption of a ubiquitous procurement policy-bid preferences for domestic suppliers. Using a generalized difference-in-differences strategy, we estimate the impact of the policy separately for procurers of different effectiveness. Consistent with a simple endogenous-entry auction model, we find that bid preferences save the government 17.5 percent when implemented by the least effective quartile of bureaucrats, but only 0.7 percent when implemented by the most effective quartile. Overall, our results demonstrate that the often overlooked bureaucratic apparatus is

critical for state effectiveness, which helps to explain why many policies work well only in some settings; and that policy designed with bureaucratic context in mind can partially offset the cost of bureaucratic ineffectiveness.

Salary Misreporting and the Role of Firms in Workers' Responses to Taxes: Evidence from Pakistan May 2014

This paper exploits employee-employer matched administrative tax data on firms and salaried workers in Pakistan to explore the underappreciated role of firms in determining how workers' taxable earnings respond to taxation. I present evidence on three ways in which firms affect workers' earnings responses. First, third-party reporting of salaries by employers makes underreporting taxable income more costly for workers and reduces evasion of the income tax. Second, firms' equilibrium salary-hours offers respond endogenously to the presence of adjustment costs in the labour market by tailoring offers to aggregate worker preferences. Third, workers learn about the tax schedule from firms' salary offers, making them more responsive to taxation both contemporaneously (by 130%) and in subsequent years (by 100%). However, while third-party reporting makes misreporting more costly, it does not eliminate it in a low tax-capacity setting: 19% of workers still underreport their salaries, leading to a loss of about 5% of tax revenue, and indicating high returns to investments in improving enforcement capacity. The large role played by firms in determining workers' earnings implies that firms need to play a central role in our analysis of income taxation in lower income countries.

Optimal Income Taxation with Career Effects of Work Effort (with Henrik Kleven) February 2013. Revise and Resubmit, *American Economic Journal: Economic Policy*

The literature on optimal income taxation assumes that wage rates are generated exogenously by innate ability and therefore do not respond to behavior and taxation. This is in stark contrast to a large empirical literature documenting a strong effect of current work effort on future wage rates. We extend the canonical Mirrleesian optimal tax framework to incorporate such career effects and provide analytical characterizations that depend on estimable entities. Besides the standard static earnings elasticity with respect to the marginal tax rate, the optimal tax schedule also depends on the elasticity of future wages with respect to current work effort. We explore the empirical magnitude of this "career elasticity" in a meta-analysis of the literature on the returns to work experience and tenure, concluding that a reasonable value for this elasticity lies between 0.2 and 0.4. Calibrating the model to US micro data (under reasonable values of the career elasticity), we present numerical simulations of optimal nonlinear tax schedules that depend on per-period earnings and potentially on age. In the case of age-independent taxation, the presence of career effects make the tax schedule substantially less progressive than in standard models with exogenous wage rates. In the case of age-dependent taxation, career effects create a strong argument for lower taxes on the old, opposite the recommendation in the recent literature on age-dependent taxation. This result reflects both a career incentive effect and an equity effect, where the latter effect arises because increasing earnings over the career path for each ability level imply that, *conditional on earnings*, age and ability are negatively correlated.

SELECTED WORK IN PROGRESS

The Allocation of Authority in Organizations: A Field Experiment with Bureaucrats (with [Oriana Bandiera](#), [Adnan Khan](#) and [Andrea Prat](#))

Research Question: How can governments motivate bureaucrats to perform better?

We design a field experiment to study how the allocation of authority affects performance in public procurement. A simple model illustrates that the optimal allocation of authority depends on the trade-off between the incentive effect of monitoring and the inefficiency this creates. The experiment, run with the government of Punjab, Pakistan, creates exogenous variation in the autonomy and incentives of 600 procurement officers. We find that increasing procurement officers' autonomy vis-à-vis their auditors reduces prices by 9% without reducing quality and the effect is stronger when the auditor is more inefficient. In contrast, the average effect of performance pay is close to zero on average. This has implications for organizational design and anti-corruption policies.

Greener on the Other Side? Spatial Discontinuities in Property Tax Rates and their Effects on Tax Morale (with [François Gerard](#), [Joana Naritomi](#), [Evan Plous](#) and [Laura Zoratto](#))

Research Question: Do perceptions of unfairness and inequality in property tax liabilities contribute to delinquency?

We study the urban property tax in Manaus, Brazil, one of the city's main revenue sources. Households' tax liability depends on which sector of the city they live in, but this can lead neighbors on opposite sides of a street, but who are in different sectors, to owe wildly different taxes, which is widely perceived as unfair. Combining administrative data on tax liabilities, payments and property transfers; reforms to the tax liabilities in the different sectors, and an experiment informing households of the tax liabilities of other sectors, we study whether perceived unfairness affects tax payments.

REFEREEING SERVICE

American Economic Review, American Economic Review: Insights, American Economic Journal: Applied, American Economic Journal: Economic Policy, Econometrica, Economic Development and Cultural Change, Economic Journal, Economica, Economie et Statistique, J-PAL, Journal of Development Economics, Journal of the European Economic Association, Journal of Political Economy, Journal of Public Economics, Journal of Public Economics Theory, International Tax and Public Finance, Journal of Urban Economics, Labour Economics, National Science Foundation, National Tax Journal, Quarterly Journal of Economics, Rand Journal of Economics, Review of Economic Studies, Review of Economics and Statistics, Review of International Organizations, World Bank Economic Review, World Bank DIME

TEACHING EXPERIENCE

Spring 2018, 2019	ECON GR GR6307: Public Economics & Development (PhD level), instructor, Columbia University
2017-2019	UG 499: Undergraduate Honors Seminar, instructor, Columbia University
Winter 2016, Fall 2016	Economics 241: Public Finance and Taxation I (PhD level), lecturer, Stanford University
Spring 2015	Economics 102C: Advanced Topics in Econometrics (undergraduate level), lecturer, Stanford University
Summer 2009, 2010, 2011	EC270 Public Finance (undergraduate level), Class Teacher, Summer School, London School of Economics
Fall 2009 – Spring 2011	EC426 Public Economics (masters level), Graduate Teaching Assistant, London School of Economics
Fall 2009 – Spring 2011	EC307 Development Economics (undergraduate level), Graduate Teaching Assistant, London School of Economics
Fall 2010 – Spring 2011	EC307 Extension course on Empirical Methods, Instructor and co-designer of course, London School of Economics
Fall 2008 – Spring 2009	EC201 Microeconomic Principles (undergraduate level), Graduate Teaching Assistant, London School of Economics

AWARDS AND PRIZES

2011	Outstanding Teaching Commendation, Economics Network of the Higher Education Academy
2009 & 2011	Teaching Prize, LSE Economics & Teaching and Learning Centre
2008 – 2011	Economic & Social Research Council Quota Award, LSE, Economics
2008	George Webb Medley Prize Proxime Accessit for the best thesis, University of Oxford, Department of Economics
2007 – 2008	David Walton Distinguished Doctoral Scholarship, University of Oxford, Department of Economics

OTHER INFORMATION

Software:	Stata, R, L ^A T _E X, L ^A T _E X, Matlab, Maple, Mathematica, basic HTML
Languages:	English (native), Spanish (bilingual), Dutch (excellent), French (very good)
Professional:	Member of the European Economic Association, the American Economic Association, the National Tax Association and the International Institute of Public Finance
Citizenship:	El Salvador and United Kingdom
Sport:	LSE squash team 2003–2006 & 2008–2011