

# MICHAEL CARLOS BEST

Department of Economics, Columbia University | [michael.best@columbia.edu](mailto:michael.best@columbia.edu) | [www.columbia.edu/~mcb2270](http://www.columbia.edu/~mcb2270)  
420 West 118th Street, Room 1105A, New York, NY 10027, USA | +1 (415) 316 5006

January 2018

## EMPLOYMENT

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

## OTHER PROFESSIONAL ACTIVITIES

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

[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

[Estimating the Elasticity of Intertemporal Substitution Using Mortgage Notches](#) (with James Cloyne, Ethan Ilzetzki and Henrik Kleven) November 2017

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.

[Individuals and Organizations as Sources of State Effectiveness, and Consequences for Policy Design](#) (with Jonas Hjort, and David Szakonyi) April 2017

How much of the variation in state effectiveness is due to the individuals and organizations responsible for *implementing* policy? We investigate this question and its implications for policy design in the context of public procurement, using a text-based product classification method to measure bureaucratic output. We show that effective procurers lower bid preparation/submission costs, and that 60% of within-product purchase-price variation across 16 million purchases in Russia in 2011-2015 is due to the bureaucrats and organizations administering procurement processes. This has dramatic policy consequences. To illustrate these, we study a ubiquitous procurement policy: bid preferences for favored firms (here domestic manufacturers). The policy decreases overall entry and increases prices when procurers are effective, but has the opposite impact with ineffective procurers, as predicted by a simple endogenous-entry model of procurement. Our results imply that the state's often overlooked bureaucratic tier is critical for effectiveness and the make-up of optimal policies.

[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.

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

Motivating Bureaucrats: Autonomy vs Performance Pay for Public Procurement in Pakistan (with Oriana Bandiera, Adnan Khan and Andrea Prat)

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

We study the impacts of two potential strategies for improving bureaucratic performance, and how they interact. The first is a familiar financial incentive scheme that rewards bureaucrats who achieve the best value for money in procurement. The second strategy provides bureaucrats with greater discretion over how and when they spend, freeing them from some of the pervasive red tape involved in procurement. A third group of bureaucrats received both interventions.

Who Chooses to Sell to the Government? Screening and Barriers to Entry in Brazilian Public Procurement (with [Evan Kresch](#) , [Joana Naritomi](#), [Alexandre Oliveira](#) and [Laura Zoratto](#))

*Research Question: Which potential suppliers are deterred by red tape, and how does this affect prices and quality in procurement?*

We study firms' participation decision in public procurement in Amazonas, Brazil. Using administrative data on all purchases by the government, and invoice data on all sales and purchases of businesses, we study the effects of the randomized rollout of an online government platform to streamline and simplify the bureaucracy and paperwork businesses face when participating in public procurement purchases.

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.

Bunching versus Diff-in-Diff (with [Miguel Almunia](#))

*Research Question: How can we reconcile the wide differences between difference in difference estimates and bunching estimates of taxable income elasticities?*

We provide a simple framework showing how the dynamics of bunching estimates and difference in difference estimates around the time of tax reforms can shed light on the role of optimization frictions in determining taxable income responses. We implement our method on UK data and a reform to the top income tax brackets.

## OLDER PAPERS

Financing Social Policy in the Presence of Informality (with [Ehtisham Ahmad](#)) March 2012

If it Bleeds it Leads: Sensational Reporting, Imperfect Inference and Crime Policy (MRes thesis), April 2009

Two Tales of Petro-Politics: Autocratic Institutions in Oil Rich Countries (MPhil thesis), May 2008

## REFEREEING SERVICE

*American Economic Review, American Economic Journal: Applied, American Economic Journal: Economic Policy, Econometrica, Economic Journal, Economie et Statistique, Journal of Development Economics, Journal of Public Economics, International Tax and Public Finance, Journal of Urban Economics, Labour Economics, National Science Foundation, National Tax Journal, Review of Economic Studies, Review of Economics and Statistics, Review of International Organizations, World Bank Economic Review*

## TEACHING EXPERIENCE

Winter 2018	ECON GR GR6307: Public Economics & Development (PhD level), instructor, Columbia University
Fall 2017	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 <sup>A</sup> T <sub>E</sub> X, L <sup>A</sup> T <sub>E</sub> 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