

IMPACT

Research from Harvard Kennedy School

INSIDE

- 2 Lerner: *Emotional Policy*
- 3 Pande: *Gender Bias*
- 4 Singhal: *Housing Tax Credits*
- 5 Pittinsky: *Coexistence in Israel*
- 6 Hausmann and Rodrik: *Industrial Policy*

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We cordially welcome you to the first issue of Impact, a quarterly newsletter from Harvard Kennedy School that aims to bring you the full breadth and depth of research from our renowned faculty. You can also visit us online at www.hks.harvard.edu/news-events/publications.

MICROECONOMICS

Price Subsidies May Lead to Poorer Nutrition

Under the law of unintended consequences, ideas with the best intentions can produce unpredictable results. That may be the case with food subsidies meant to improve nutrition among the poor in developing countries, according to research by Nolan Miller, associate professor of public policy at Harvard

Kennedy School, and Robert Jensen of the UCLA School of Public Affairs.

According to their analysis of the data from an experimental program during which they distributed food vouchers in the Chinese provinces of Hunan and Gansu, subsidies may not accomplish what policymakers

GLOBALIZATION

Pilgrimage Promotes Tolerance

The impact of the Hajj

Every year, more than two million Muslim men and women from more than 100 countries gather in Mecca for the annual Hajj pilgrimage. It is one of the five pillars of Islam. An intense, communal



Asim Ijaz Khwaja

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Paper Title
*Estimating the Impact
of the Hajj: Religion and
Tolerance in Islam's
Global Gathering*

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experience, where pilgrims, dressed in the simple white garment known as the ihram, pray together and mix across the lines of ethnicity, nationality, sect, and gender that divide them in everyday life.

But would the Hajj's role in fostering a sense of unity with fellow Muslims also create an antipathy for non-Muslims? Social identity theory would seem to suggest so, arguing that strengthened attachment to a group through interaction may be accompanied by negative feelings toward those outside the group.

It would also be a huge concern in the context of the "global war on terrorism," and one that was underscored by reports that some of the July 7 London bombers had been Hajjis.

But a groundbreaking study of pilgrims from Pakistan by Asim Ijaz Khwaja and two coauthors, David Clingingsmith of Case Western and Michael Kremer of Harvard, has found evidence of the Hajj's positive influence. They conclude that performing the Hajj increased pilgrims' tolerance and a sense of unity both within and without the

(continued on page 8)

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Paper Title
*Do Consumer Price
Subsidies Really
Improve Nutrition?*

Coauthor
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Nolan Miller

(continued on page 7)

DECISION SCIENCE

Examining Emotions Behind Decision Making

Researcher Profile

Faculty Researcher
Jennifer Lerner,
 Professor of Public Policy
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 Harvard Kennedy School



Jennifer Lerner

In classical theories of decisionmaking, people make choices — from buying a pair of sneakers to buying a media campaign — based on rational self-interest. But in the rapidly growing field of behavioral economics — where Professor of Public Policy and Management Jennifer Lerner has broken new ground — it is becoming clear that people make choices for many other reasons as well. Cofounder and director of the Harvard Decision Science Laboratory, Lerner is using her skills as an experimental social psychologist to bring emotional complexity and nuance to an academic domain once in thrall to Homo economicus.

“We’re fundamentally interested in how the mind works, how humans make judgments and decisions,” Lerner says, “and then using what we learned to teach current and future public leaders how to make better judgments and decisions.” Operating at the intersection of psychology, economics, and neuroscience, Lerner is generating research that may help inform both policymaking and enlightened citizenship.

Not surprisingly, her explorations have piqued the interest of the mainstream media. A 2008 study, “Misery Is Not Miserly: Sad and Self-Focused Individuals Spend More,” showed how specific emotions color an individual’s monetary bottom line. Contrary to the prediction that all negative moods cause people to devalue objects, Lerner found that study participants who were randomly assigned to a sadness-inducing condition chose to pay dramatically more to acquire a commodity (in the experiment, a sports water bottle) than did participants who had

been randomly assigned to a neutral-emotion condition. And the more they focused on themselves in the sadness condition, the higher amount they paid. The discovery sheds new light on theories of consumer behavior — a major contribution, given that consumer spending accounts for more than two-thirds of U.S. gross domestic product. The discovery can also ultimately benefit people who must make major financial decisions under emotional duress — as, indeed, many financial decisions are made: while grieving for a loved one, divorcing a spouse, grappling with mortal illness.

Another 2008 paper — “Emotional Policy: Personal Sadness and Anger Shape Judgments About a Welfare Case” — described how feelings tinge social policy decisions. Volunteers experimentally primed to anger through a writing exercise cut the amount of government assistance in a hypothetical case, while those primed to sadness chose to increase aid. Applying her Appraisal-Tendency Framework theory, Lerner and her doctoral student Deborah Small (now a professor at the Wharton School of Business) surmised that sad individuals were less certain, more apt to look at the issue from different angles, and more likely to attribute welfare status to external circumstances as opposed to the individual himself.

Lerner’s national field study soon after the 9/11 attacks, examining Americans’ perceived risks of terrorism, likewise applied psychological research in novel ways to public issues. Volunteers who were experimentally manipulated to feel fearful — through texts, visual images, and audio clips from the attacks — estimated a higher chance of future attacks, but also preferred more conciliatory national policies. By contrast, individuals made to feel angry were comparatively optimistic about the future, but in favor of more punitive national policies.

Lerner hopes that such investigations will translate into practical advice for people in responsible public roles. How can decision makers avoid their own unconscious emotional biases? How can economists predict trends in consumer spending? How can national leaders better read the public mood in times of crisis? And how can academic theories about choice and judgment reflect the full spectrum of the human psyche?

“Emotions are not necessarily an irrational influence — the extent to which they improve or degrade decisions depends on the situation,” Lerner says. “Either way, emotions have profound effects on judgment and decisions — even when people do not recognize those effects.” ❖ MD

ELECTORAL POLITICS

Familiarity Breeds Respect

Women Leaders and Bias in India



Rohini Pande

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Paper Title

*Powerful Women:
Does Exposure
Reduce Bias?*

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To explore this question, Pande and her colleagues surveyed 495 villages in West Bengal, India, where a third of the village council leadership positions in that state have, since 1998, been “reserved” for women. Prior to the introduction of this policy, most villagers in the region — men especially — had a strong preference for male leaders, which barely changed after the quotas were put in place.

What did change, however, were male perceptions regarding the effectiveness of female leaders. At first, men judged the performance of female leaders more harshly than that of their male counterparts, even when they were doing the job as well, if not better. In time, men came to positively update their opinions on the effectiveness of women leaders.

The notion that women cannot lead has been taking a battering for decades now. Yet, across nations and cultures, an ingrained preference for men in positions of power is still unquestionably hard to shake.

As of 2006, women headed the governments of just seven countries worldwide, while holding only about 17 percent of elected political positions. In light of this disparity, more than 100 countries have initiated affirmative action policies to boost the representation of women in public office. While such policies have increased female participation in politics, “little is known about their impact on voter attitudes towards female leaders, despite the obvious importance of this question for evaluating the overall effectiveness of quotas,” writes Rohini Pande, public policy professor at Harvard Kennedy School, with four coauthors.

“Most people view affirmative action as a temporary measure,” Pande explained in an interview. “The goal of our study is to see if there are long-standing effects that extend beyond just getting more women into office.”

Curiously, women villagers, who initially exhibited a weaker negative bias toward female leaders, did not change their views regarding the effectiveness of such leaders to the extent that men did. That unexpected result was attributed to the fact that women in India are not very involved in local politics. Rarely seeing female leaders in action, they therefore had less reason to reassess their views.

The authors found that the first generation of women assuming office faced significant discrimination, which caused them to report lower satisfaction in their jobs and lives in general. But for those women who went on to a second term, after completing their initial five-year term of office, the prejudice largely disappeared and their overall satisfaction grew commensurately.

Many of these effects carried over to the ballot box as well. In elections held in May 2008, more than twice as many women ran for and won “unreserved” village councilor positions in communities that had reserved the chief councilor position in the two previous elections. “Not only are men more willing to vote for women,” Pande notes, “but women appear to be more willing to run.”

The evidence suggests that it takes time — a couple of election cycles — for this effect to set in. “While the first generation of women leaders don’t benefit much, after a couple of terms the discrimination diminishes and women stand a better chance of getting elected,” Pande observes. Eventually, it seems, people are able to set their prejudices aside and vote on the basis of information. ❖ SN

HOUSING

Low Income Housing Tax Credits

Credits May Ensure Level Playing Field

Faculty Researcher

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Paper Title

*Investable Tax Credits:
The Case of the Low Income
Housing Tax Credit*

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Monica Singhal

“More than 1.5 million units have been placed into service under the program since its inception, and it accounts for the majority of new low-income units coming onto the market.”

Since its inception in 1986, the Low Income Housing Tax Credit (LIHTC) program has become the country’s largest and fastest growing source of affordable rental housing. More than 1.5 million units have been placed into service under the program since its inception, and it accounts for the majority of new low-income units coming onto the market.

A departure from the usual “supply-side” approaches, in which the government directly builds or subsidizes the construction of low-income housing, the LIHTC instead allows the government to give developers tax credits, which are then normally sold to investors for financing affordable housing projects. (The authors refer to this class of credits as “investable tax credits.”)

The structure of this program has been copied on the state level and even serves as a model for other programs, such as the New Market Tax Credit program, which encourages investments in low-income communities.

Yet, despite its political popularity, the program has borne a lot of criticism, particularly from academics skeptical of supply-side programs in general and of the complicated structure of the LIHTC in particular. When you subsidize new construction, they ask, to what extent does that add to the housing stock compared with what would have otherwise been built? And who benefits from the LIHTC: the developer, the investor, or the low-income people you’re supposedly trying to help?

This form of subsidy may nevertheless offer some advantages, argues Monica Singhal, public policy professor at Harvard Kennedy School, in a new research paper coauthored with Mihir Desai of the Harvard Business School and Dharmika Dharmapala of the University of Connecticut. Allowing tax credits to be transferable may help ensure “a level playing field” by allowing nonprofit developers, as well as for-profit developers with little or no tax liability, to get into the game, the authors argue.

Furthermore, the tax credit has some built-in incentives for developers not only to complete low-income housing but also to make sure these buildings are maintained. That’s because investors receive the tax credits over a 10-year period and only get them if the developer remains in compliance. Developers who don’t meet their obligations may have a hard time securing financing for future endeavors. The Internal Revenue Service also plays an enforcement role in the program, meting out penalties for noncompliance.

In theory there are built-in incentives for monitoring the program and making sure its goals are achieved, says Singhal. “But we still need more data to see whether these incentives are actually working and whether other potential advantages are being realized as well.” ❖ SN

Sharing More than Land

Views Among Arabs and Jews in Israel

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Paper Title

Coexistence in Israel:
A National Study

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Israel's narrative has arguably largely been one of divisions. Division of land, and division of people. Jews on one side. Arabs on the other. This has been the case both regionally and within Israel's borders, where the country's Jewish majority share citizenship with an Arab minority. But divisions tell only a part of the story.

A new survey of Israeli Jews and Arabs conducted by Todd Pittinsky, research director of the Harvard Kennedy School's Center

for Public Leadership, shows a common thirst for coexistence and a shared interest by each group in the other.

"A growing body of research is showing that it is possible for members of groups who are very different from each other not only to tolerate each other — but to feel positive toward each other despite their differences, even in Israel," Pittinsky writes.

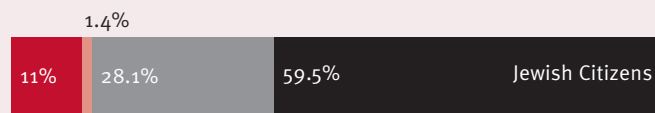
The poll, conducted in late 2007, surveyed 1,000 Jewish and 721 Arab citizens of Israel. It was conducted in both Hebrew and Arabic. It found nearly three-quarters of Jews and nearly 95 percent of Arabs supported a society in which both had mutual respect and equal opportunities. Nearly 77 percent of Arabs said they would prefer to live in Israel than in any other country in the world. At the same time 67.7 percent of Jewish citizens supported teaching conversational Arabic in schools to bring the two communities together.

Arabs and Jews differed on the benefits of coexistence, with Arabs seeing many more benefits. When asked if coexistence would benefit Israel's economy, culture, and security, Arabs agreed emphati-

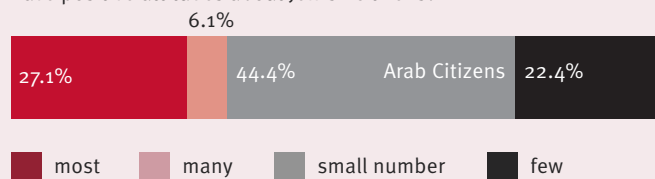
What Constrains
Advances in
Coexistence?

People significantly underestimate the degree of liking their group has for the other group. Specifically, most Jewish and Arab citizens believe that most members of their group do not like the other group. However, a significant majority of both Jewish and Arab citizens reports liking the "other."

Survey Item How many Jewish citizens do you think have positive attitudes about Arab citizens?



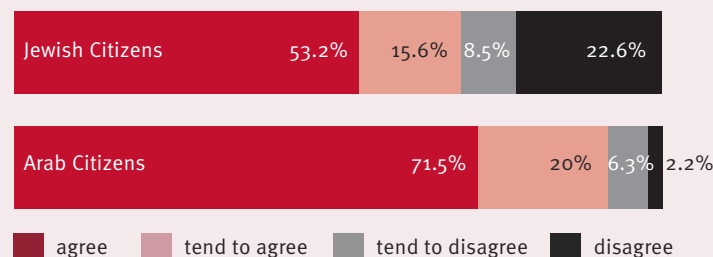
Survey Item How many Arab citizens do you think have positive attitudes about Jewish citizens?



Whose
Responsibility
Is Coexistence?

A statistically significant majority of both Jewish and Arab citizens feels that all citizens have a responsibility to contribute to coexistence.

Survey Item All citizens should act to build a shared society between Arab and Jewish citizens.



cally. Jewish citizens were less enthusiastic, with a large majority, 65.1 percent, believing the nation's security would suffer as a result.

Both groups agreed that the responsibility for coexistence should be assumed by all citizens. But an overwhelming majority of Arabs — 90.6 percent, compared with 58.2 percent of Jewish citizens — believed the Israeli government should appoint a cabinet minister responsible for advancing Arab-Jewish relations in Israel.

The survey also found that while a majority of Arabs and Jewish citizens liked the other group, they significantly underestimated the degree of liking their group has for the other group. The authors describe this as a "problematic misunderstanding that can constrain coexistence progress."

However, both groups — 66 percent of Jewish citizens and 84 percent of Arab citizens — agreed Israeli government investments in coexistence should begin immediately and not wait until the end of the conflict between Israel and the Palestinians.

The survey is part of the Allophilia Project, which examines attitudes beyond tolerance — ways to promote feelings of interest, kinship, comfort, engagement, and affection wherever there is diversity. [RO](#)



Todd Pittinsky

DEVELOPMENT

Charting Path to Growth

Rewriting Industrial Policy in South Africa

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Paper Title

*Reconfiguring Industrial
Policy: A Framework
with an Application
to South Africa*

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Ricardo Hausmann



Dani Rodrik

Coming up with a new industrial policy for South Africa requires not only a departure from business as usual but also a wholesale redefinition of “industrial policy” itself.

In 1994, South Africa transformed itself into a representative democracy after having deprived most citizens of their basic rights for decades. These political advances, however, were not accompanied by comparable economic advances. During South Africa’s first decade of democracy, the economy grew at an average rate of about 1 percent, whereas unemployment nearly doubled.

In the face of that subpar economic performance, the South African government assembled an international panel of advisors, chaired by Kennedy School professor Ricardo Hausmann. “Reconfiguring Industrial Policy: A Framework with an Application to South Africa” — a paper written by Hausmann, fellow Kennedy School professor Dani Rodrik, and Charles Sabel of Columbia Law School — is one of the panel’s studies aimed at identifying barriers to growth and crafting strategies to overcome them.

The main goal of industrial policy, the authors explain, “is to speed up the process of structural change towards higher productivity activities.” While that objective is certainly laudable, the policies typically invoked are focused too often on subsidies and not often enough on overcoming distortions in the market that impede economic growth.

The traditional view of industrial policy holds that market lapses of this sort are the exception rather than the rule, and that private actors have only a nominal role to play in creating public solutions. Hausmann, Rodrik, and Sabel take issue with both assertions. In developing countries, they contend, “market failures are not a rarity but rather a rampant feature of the landscape.” The path

to accelerated growth, they submit, will take a “strategic collaboration” between the government and private industry.

“In the way we conceive of industrial policy, the private sector generates information the government has no access to — information on where the biggest obstacles are and how government programs are contributing to those obstacles,” Hausmann explained in an interview. “In South Africa, the connections between the two sectors are very weak.”

Instead of the government trying to pick winners in advance — selecting industries they consider most likely to succeed — the authors recommend a more “open-minded” approach. “Let society come up with the ideas,” Hausmann urges. “And let’s have a more responsive government with less central planning.”

South Africa, which boasts a large percentage of the world’s ores and minerals, is determined to add value to these commodities through an expanded raw materials processing capability. But the “obsession” with processing, Hausmann claims, overlooks more promising approaches that leverage existing capabilities rather than raw materials. For example, given South Africa’s prowess as a world mining leader, the country might be better off trying to export equipment to the mining and oil industries.

The authors also call for establishing a mechanism for coordinating activities spread throughout various government departments. Promoting tourism, for example, might require a more streamlined process for securing visas, better road signs, and construction permits of luxury hotels — something that, at present, no single agency can take on.

Economic success will not come overnight, they insist: “Industrial policy is a mind-set — one that rejects big-bang, all-at-once reforms in favor of experimentation, gradual but cumulatively transformative change.” ❖ RO

As part of the Accelerated and Shared Growth Initiative, the National Treasury of the Republic of South Africa convened an international panel of economists through Harvard’s Center for International Development. This panel spent two years analyzing the South African economy and its growth prospects and composed 20 papers spanning all aspects of economic policy.

Price Subsidies May Lead to Poorer Nutrition

(continued from page 1)

intended. In fact, they may even lead to worse nutrition.

The households in the study — among the poorest in China and, with income per person well below \$1 a day, in dire poverty by international standards — would be the typical recipient of food subsidies, Jensen and Miller note in the paper.

Households that were part of the study received vouchers offering a significant discount on staple foodstuffs: rice in Hunan and wheat in Gansu. With safeguards in place to ensure the vouchers would be used as they were intended (such as the provision that households could only purchase the staple goods with the vouchers, which they could not sell), the study collected data on everything the participants ate and drank in a typical day before, during, and after the voucher program was in place. It then estimated the program's impact by comparing the behavior of households that received the subsidies to a control group that did not.

The results showed that the subsidy actually led to a lower caloric intake in Hunan while it made a statistically insignificant difference in nutrition in Gansu. When given an opportunity to purchase rice at a lower price, participants in Hunan purchased less of the staple, substituting other foods such

“The consumer price subsidy did not improve nutritional status and may in fact have worsened it. This is despite the fact that the sample households are extremely poor, both by Chinese and international standards, and appear to be undernourished by international standards.”

as fish. But those small amounts of new, perhaps more appetizing food didn't make up for the loss of calories and nutrients from the reduced consumption of rice as well as pulses (bean curd or tofu). In Gansu, which is even poorer, the subsidy led to an increase in oil consumption rather than more expensive fish or meat, with consumption of the staple remaining about the same. The subsidies, particularly in Hunan, “resulted in a substitution away from the subsidized good, in part towards a taste-preferred good, and in doing so reduced nutrition,” Jensen and Miller write.

The paper offers two explanations. One is that consumers feel that they gain more from increased taste even at the expense of calories, which could lead policymakers to “abandon their concerns over nutrition...or take a more paternalistic approach towards nutrition” — although alternative policies may not improve nutrition either, write the authors.

The other possibility is that consumers don't realize they are losing nutrients, and, in that case, providing additional nutritional information may motivate them to make different choices.

Jensen and Miller caution that the study does not mean that subsidies should be eliminated, particularly in the face of rising worldwide food prices that particularly hurt the poor. But while food subsidies may help poor people become a bit wealthier, they may not make them any healthier. ↔ LR

Estimating the Impact of the Hajj

(continued from page 1)

boundaries of their religion, and they suggest these changes may in part be due to exposure to others from different backgrounds.

The authors isolate the impact of the Hajj by taking advantage of Pakistan's Hajj visa allocation lottery. They surveyed more than 1,600 applicants five to eight months after the 2006 Hajj and compared the attitudes of successful applicants to unsuccessful ones.

“Hajjis were more likely to declare that people of different religions are equal and more likely to state that adherents of different religions can live in harmony.”

They found pilgrims adopted a more global approach to Islam, increasing their observance of more universal Muslim religious practices while reducing performance of localized religious practices and beliefs.

At the same time, the results showed that the Hajj increased tolerance towards others, including Pakistani ethnic and Muslim

sectarian groups. Those views extended outwards too. “Hajjis were 22 percent more likely to declare that people of different religions are equal and 11 percent more likely to state that adherents of different religions can live in harmony,” the report found. Pilgrims’ views on gender also changed, with pilgrims more likely to view

women favorably and more predisposed to allowing girls to be educated and women to work.

The Hajj also seemed to moderate views on violence. While slightly more than half of respondents supported Al Qaeda’s goals, pilgrims were almost twice as likely to explicitly declare these goals incorrect. Hajjis were also significantly more likely to support peace with India. They were also 17 percent more likely to declare it incorrect to physically punish someone who has dishonored the family.

“Despite pilgrims being past the age at which belief and identity are considered most malleable, the Hajj has quite a remarkable effect in shaping the views of Pakistani pilgrims,” the paper concludes. “We find no evidence that by raising cohesion within the Muslim community, the Hajj threatens non-Muslims. On the contrary, the Hajj makes pilgrims more peacefully inclined, and increased tolerance extends to adherents of other religions.”

❖ RO

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