

**AIRLEAP Session at the 2024 Society of Government Economists Annual Conference
April 5th, 2024, American University Washington School of Law, Washington, DC**

Session Title: Reality Checks on Conventional Economic Thought

Organizer: Steven Payson, University of Maryland, College Park

Chair: Scott Wentland, Bureau of Economic Analysis

1. The Unintended Consequences of Financial Sanctions

Ritt Keerati, Federal Reserve Board

This paper examines the economic impact of the U.S. financial sanctions against Russian companies in the aftermath of Russia's 2014 annexation of Crimea. It shows that this sanctions program, which primarily cut off sanctioned firms' access to international financial markets, produced the unintended consequence of strengthening the sanctions targets relative to their unsanctioned peers. Specifically, while the policy successfully halted new international borrowings by sanctioned companies, the spillover impact of the policy resulted in these targets shrinking in size by less than unsanctioned Russian firms. To explain these results, I argue that sanctions led to a reallocation of domestic resources in favor of sanctioned firms. I present a heterogeneous firm model with segmented capital markets and a borrowing constraint in which sanctions against international borrowers led to capital crowding out and credit rationing among domestic borrowers. This research highlights the limitation of targeted sanctions, identifies factors for policymakers to consider in calibrating future programs, and analyzes policy alternatives. It also offers insights for the 2022 sanctions and sheds light more broadly on the impact of international financial integration and capital flows on firm size dynamics.

Discussant: Patricia Schouker, PolySwarm

2. Examining Social and Economic Dynamics: A Comparative Analysis of Varna and Ashrama Systems in Ancient India and Adam Smith's Division of Labor

Sushma Shukla, Piedmont Virginia Community College

This research paper presents a comparative analysis of social and economic dynamics, focusing on the Varna and Ashrama systems in ancient India and Adam Smith's theory of the division of labor. Delving into the principles of the ancient Indian systems, namely Varna and Ashrama, the study examines their influence on social structures, labor allocation, and economic roles. Simultaneously, it explores Adam Smith's influential theory on the division of labor during the Enlightenment era, emphasizing its conceptualization and implications for economic development. By comparing these distinct frameworks, the research seeks to unveil commonalities, disparities, and the enduring impact of these historical systems on societal organization, economic efficiency, and individual contributions. Employing a multidisciplinary approach, the paper contributes to a nuanced understanding of the historical roots of economic philosophies and their implications for social and economic dynamics.

Discussant: Victor Agbar, University of Maryland

3. Unraveling the Haiti Paradox: In-Depth Analysis of Economic Stagnation and the Roots of Corruption

Victor Agbar, University of Maryland

This research delves into the enduring roots of corruption in Haiti and aims to unravel the factors, variables, and conditions exacerbating the nation's prolonged economic stagnation. Despite Haiti's remarkable

triumph in achieving independence as the first nation founded by former slaves, its journey towards economic prosperity has been fraught with challenges. By meticulously examining the persistent factors contributing to corruption and economic difficulties, this paper seeks not only to deepen the understanding of Haiti's unique situation but also to inform and shape actionable policy recommendations. These recommendations are designed to address the critical issues at hand and pave the way for meaningful economic advancement in Haiti.

In 1804, Haiti emerged as the first country founded by former slaves after a ferocious struggle for independence from French colonial rule, led by Toussaint Louverture (PBS). Despite its valiant beginnings, Haiti has yet to realize economic prosperity for its citizens. The root of Haiti's contemporary challenges lies in its inception as a nation. Upon independence, Western powers imposed an embargo on Haiti, only lifted upon payment of exorbitant reparations to France (Quigley 2010). This severely impaired the nation's economic development and its ability to forge trade relations. Compounded by environmentally detrimental policies and natural disaster susceptibility, Haiti's path to prosperity has been fraught with obstacles. Moreover, political corruption and the absence of robust institutions have exacerbated the country's plight.

In stark contrast, the Dominican Republic—sharing the same island—has charted a markedly different social, economic, and political trajectory. By benchmarking against the Dominican Republic's successes, we hypothesize that policies and economic decisions beneficial to the Dominican Republic could potentially be adapted to aid Haiti. This study leverages data from the World Bank, focusing on various regional and income groups, to draw comparisons and inform policy recommendations.

Discussant: Sushma Shukla, Piedmont Virginia Community College

4. Scholarship Versus Truthfulness in Economics: How the Euphoria of Publication Recognition Has Obstructed Honesty in Economics

Steven Payson, University of Maryland, College Park

This paper addresses dishonesty in economics: the factors that enable it, and what can be done to stop them. It also discusses various instruments that economists can use to identify and dismantle dishonesty in the profession. These instruments include: (1) the study of how to change the incentives within the economics profession, (2) exposure of the organizations that promote dishonesty in economics, (3) appeals to economics students before they become indoctrinated (or before they self-select out of the economics profession), (4) government responsibility to ensure the elimination of government funding for dishonest economic research, (5) exposure of the authors of dishonest work in economics, and (6) a changes in tone of discourse on the topic, with an emphasis on the need for scientific integrity. The paper argues, however, that scholarly discourse, itself, on the topic may do more harm than good, but drawing attention away from the factors that really matter when it comes to encouraging the profession to be more honest. The study draws upon previous literature on these topics, while also taking a fresh approach to examining some of the psychological and sociological factors that influence the profession's incentive system.

Discussant: Sadhabi Thapa, Johns Hopkins University