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THE SMUGGLER'S THRESHOLD

Locating India's Gold Import Duty Inflection Point

This brief examines how India's gold import duty influences smuggling, treating duty revisions since 2012 as natural experiments. Using episode-level customs seizure data, a cross-episode OLS regression of seizure intensity on the duty rate ($n=6$, $r=0.60$, $R^2=0.37$) and a log-log specification following Fisman and Wei (2004) yield an estimated evasion elasticity of approximately 1.0. Given the limited statistical power of this panel, the analysis isolates the clearest episode: the duty increase from 6 to 15 per cent on 13 May 2026. A two-sample Poisson rate-ratio test using daily seizure counts from Lok Sabha data indicates a statistically significant 49 per cent increase in seizures (rate ratio 1.49, 95% CI 1.23–1.81, $p<0.0001$). This finding aligns with World Gold Council estimates, showing correlations of 0.52 with unofficial imports and −0.17 with official import volumes. Together, these patterns suggest that higher duties primarily redirect gold imports towards illicit channels rather than suppressing overall demand. The evidence points to a potential inflection zone between 6 and 9 per cent, beyond which smuggling incentives may intensify. Monthly enforcement data could help identify this threshold more precisely and inform evidence-based duty calibration.

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Keywords: gold import duty, tariff evasion, smuggling, India, current account deficit, Poisson rate-ratio test

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A Policy Without an Anchor

Since January 2012, the Government of India has adjusted the basic customs duty on gold nine times, with the headline rate fluctuating through 2, 6, 8, 10, 12.5, 10.75, 15, and 6 before returning to 15 per cent (Bhattacharya 2026). Each of these eight adjustments was presented as a deliberate response to specific issues, such as a widening current account deficit, a depreciating rupee, increased jewellery-sector imports, or, in the two reductions, a significant rise in smuggling. However, none of the notifications issued since 2012 has articulated a definitive stance on the optimal permanent rate or explained why the selected rate was expected to address the immediate issue without reintroducing previously resolved problems.

This omission is significant because the gold duty serves dual functions that are inherently contradictory. As a tool of macroeconomic management, a higher duty aims to deter imports, conserve foreign exchange, and reduce the current account deficit. Conversely, as a trade enforcement mechanism, a higher duty increases the price disparity between legally and illegally imported gold, thereby boosting the profitability of smuggling relative to its risks. A rate determined without considering the second function risks undermining the first: gold that bypasses customs still enters the country, impacting the economic conditions the duty is meant to regulate, while the government loses potential revenue and the ability to monitor gold flows.

This analysis poses a more focused question than 'what should the gold duty be': is there a specific rate, or range of rates, at which empirical evidence indicates an acceleration in smuggling, and below which legal imports recover without a corresponding increase in illicit trade? Fourteen years of duty modifications, viewed as a series of natural experiments, provide a partial answer, offering insights more precise than the trial-and-error approach that generated them.

The Economics of the Smuggler's Margin

The foundational theoretical framework is both longstanding and well established. Jagdish Bhagwati's 1964 examination of import under-invoicing elucidated the fundamental mechanics: an importer subject to a duty evaluates the savings from evasion against the anticipated cost of detection, adjusted by the probability of apprehension (Bhagwati 1964). An increase in the duty, assuming constant enforcement, mechanically elevates the savings from evasion while the expected cost of detection remains unchanged. Within this framework, legal import volumes and smuggled volumes are interdependent, sharing the duty rate as a common instrument and moving inversely as the rate increases.

The empirical counterpart to this argument emerged four decades later through Raymond Fisman and Shang-Jin Wei's investigation of the 'missing imports' discrepancy between Hong Kong's recorded exports to China and China's recorded imports from Hong Kong. Their findings indicated that, on average, a one-percentage-point increase in the tax rate on a product correlated with a 3 per cent increase in the evasion gap. Crucially, for the inquiry at hand, this relationship is nonlinear: evasion elasticity is more pronounced at higher tax levels (Fisman and Wei 2004, 472–74). In simpler terms, the incentive to evade does not increase linearly with the duty; rather, it accelerates. A duty increase from 6 to 10 per cent is unlikely to have the same evasion impact as an equivalent increase from 10 to 15 per cent. If this finding, established for Chinese trade in general, applies to Indian gold, it directly influences the design question here: the 'inflection point' is more likely to manifest as a range beyond which the marginal cost of each additional

percentage point of duty, measured in illicit flows, escalates sharply.

The unique characteristics of gold intensify this dynamic compared with most traded goods. Gold possesses an exceptionally high value-to-weight ratio, minimising the logistics cost of concealment relative to the smuggled value: a kilogram can be concealed within hollowed household items, vehicle parts, or, as recent Directorate of Revenue Intelligence (DRI) seizures have demonstrated, the human body (Open Bureau 2026). Gold is fungible and requires no further processing before entering the domestic bullion market. Furthermore, Indian household demand for gold, while price-sensitive, is not so elastic that a duty-induced price increase completely suppresses demand: Mukherjee, Mukherjee, and Das estimate the price elasticity of Indian gold imports to range between -0.87 and -1.94, depending on the form, with jewellery proving significantly less elastic than bars (Mukherjee, Mukherjee, and Das 2017, 188–90). Consequently, a duty increase only partially reduces legal demand, leaving residual demand that the illegal channel is well positioned to satisfy.

Fourteen Years as a Natural Experiment

India has effectively run this experiment on nine occasions without explicitly designing it as such. Table 1 presents each rate change, alongside its stated rationale and the corresponding enforcement response observed.

Two episodes warrant particular attention because they isolate the duty variable with relative clarity. The increase in July 2022, from 10.75 to 15 per cent, was followed by a 47 per cent year-on-year rise in gold seizures, from 2,383.38 kilograms in 2021 to 3,502.16 kilograms in 2022 across 3,982 cases, as reported in finance ministry data presented to Parliament at the time. Conversely, the reduction in July 2024, from 15 back to 6 per cent, resulted in a mirrored effect: seizures fell by approximately 48 per cent, from 4,971.68 kilograms across 6,599 cases in 2023–24 to 2,600.40 kilograms across 3,005 cases in 2024–25, while legal gold imports increased by an estimated 24 per cent, elevating India's gold import bill to a record $71.98 billion in 2025–26.

The most methodologically robust evidence, however, emerges from the most recent change. Following the government's increase of the duty from 6 to 15 per cent on 13 May 2026, Parliament was informed that customs seizures rose from 86.16 kilograms across 165 cases in the six weeks preceding the hike (1 April–12 May) to 160.91 kilograms across 287 cases in the seven weeks following it (13 May–30 June), representing increases of 87 per cent by weight and 74 per cent by case count, alongside a rise in arrests from 67 to 116 and a more pronounced increase in silver seizures, from 49.53 to 535.95 kilograms. Given the unequal length of the two windows (42 versus 49 days), the raw percentage changes exaggerate the underlying rate of increase; Annex A provides the corresponding day-adjusted rate-ratio test. As this comparison encompasses a single, precisely dated policy change with no intervening rate adjustment, it offers the closest approximation to a controlled before-and-after comparison available in the Indian gold-policy record.

In contrast, the 2013 episode resists interpretation as a clear test of the duty rate alone. The three hikes that elevated the rate from 4 to 10 per cent between January and August 2013 coincided with the Reserve Bank of India's (RBI's) 80:20 scheme, which required importers to re-export a fifth of incoming gold: a quantitative restriction layered atop the price instrument. Consequently, the smuggling surge widely reported through 2013–14 cannot be attributed solely to the duty rate, and this brief does not consider it as evidence for a specific numerical threshold, but rather as confirmation of the general direction of the relationship (Mukherjee, Mukherjee, and Das 2017).

Table 1: India's Gold Import Duty Changes, 2012–2026, and the Associated Seizure Record

Date	Rate Change	Stated Rationale	Observed Response
Jan 2012–Aug 2013	% to 10% (via 4%, 6%, 8%; three hikes within eight months of 2013)	Record current account deficit (4.8% of GDP, 2012–13); rupee depreciation	Reserve Bank of India's (RBI's) 80:20 re-export scheme layered on the duty rise; widely reported surge in unofficial gold flows
2014–2018	Held at 10%	Post-crisis stabilisation	Relatively quiet period for reported seizures
Jul 2019	10% to 12.5%	Revenue mobilisation amid a falling tax-to-GDP ratio	Industry and officials later cited a smuggling revival at this rate, with detection estimated at 6–7%
Feb 2021	12.5% to 10.75%	Explicitly framed as an anti-smuggling measure	Seizures of 2,383.38 kg in 2021, lower than the 2020 pandemic-suppressed base but the calmest pre-2022 reading
Jul 2022	10.75% to 15%	Widening current account deficit; global commodity shock	Seizures rose 47% year-on-year to 3,502.16 kg in 3,982 cases
Jul 2024	15% to 6%	Support jewellery exports; curb smuggling	Seizures fell from 4,971.68 kg (2023–24, 6,599 cases) to 2,600.40 kg (2024–25, 3,005 cases); legal imports rose 24%
May 2026	6% to 15%	Rupee depreciation; West Asia oil shock widening the trade deficit	Seizures nearly doubled within seven weeks: 86.16 kg/165 cases (1 Apr–12 May) to 160.91 kg/287 cases (13 May–30 Jun); arrests rose from 67 to 116

Sources: Bhattacharya (2026); Press Trust of India (2023); Open Bureau (2026); ANI (2026); Chacko (2024); and Chacko (2026b)

Locating the Inflection Point

When examining these episodes collectively, a discernible pattern emerges that proves more informative than any isolated data point. The two rate reductions in this historical context (to 10.75 per cent in 2021 and to 6 per cent in 2024) were explicitly characterised by both government and industry as measures against smuggling, and both were followed by a decline in seizure activities. Conversely, rate increases beyond approximately 11 per cent (to 15 per cent in 2022 and again in 2026) were each followed, within months, by a notable increase in seizures and arrests. The 2019 adjustment to 12.5 per cent occupies an intermediate position: it was not associated with the most pronounced spikes in seizures within this record, yet, within two years, officials and industry cited it as having sufficiently revived smuggling to warrant consideration of a reduction, with detection rates as low as 6–7 per cent.



The WGC's analysis, published shortly after the May 2026 increase, offers an independent, aggregated perspective on the same observation: from 2013 to 2026, excluding the pandemic years when travel restrictions curtailed all cross-border flows, the correlation between India's gold import duty and estimated unofficial imports was 0.52, which the WGC describes as 'a meaningful' positive relationship (Chacko 2026b). While a correlation of this magnitude does not establish a threshold on its own, it supports the pattern discerned from the individual episodes: over an extended period and across various policy regimes, higher duties have frequently coincided with increased unofficial flows. The same analysis reveals a significantly different correlation between the duty rate and official import volumes during the same period: a weak, negative correlation of 0.17. Quarterly official imports varied narrowly between 175 and 236 tonnes across duty regimes ranging from 6 to 15 per cent, with the highest quarterly volume recorded under a 10.75 per cent regime, and stable volumes persisting even at 15 per cent (Chacko 2026b). Together, these two correlations reinforce the argument presented in Section I: gold duty serves less as a mechanism for influencing the total quantity of gold entering the country and more as a redistributive tool, reallocating a relatively stable total flow between official and unofficial channels according to the duty rate.

The evidence collectively suggests that the inflection point lies within a range rather than at a specific point. The two rates associated with the decline in illicit flows, 6 and 10.75 per cent, define the zone where the duty appears to be below the level at which the smuggler's margin becomes structurally appealing compared with the risk of detection. The three instances of rising illicit flows all occur at 12.5 per cent or higher. Based on the data compiled here, the most defensible interpretation is that India's gold duty inflection point currently lies between approximately 6 and 9 per cent. There is reasonable confidence that it is below 10.75 per cent, the rate at which smuggling last fell sharply, and considerably more confidence that it is below the 12.5 to 15 per cent range, which has twice reignited smuggling.

Robustness and the Limits of Precision

Four qualifications prevent the estimates above from being interpreted as a precisely identified coefficient, each indicating the need for further refinement.

First, the smuggler's margin is determined by the duty rate multiplied by the gold price, rather than the rate alone. At the record global prices anticipated through 2025–26, even a modest percentage duty results in a substantial absolute margin in rupee terms. This suggests that the 'safe' rate is not fixed but falls as the gold price rises and the rupee depreciates, making it a variable target rather than a constant. This point is implicit in the WGC's tracking of the price gap that emerged after May 2026 (Chacko 2026b).

Second, enforcement capacity has not remained constant over the fourteen-year period. The current coordination among the DRI, the Border Security Force, and airport intelligence units, evident in the multi-city operations following the 2026 duty hike, has likely improved since 2013. This improvement would elevate the empirical threshold over time, independently of the duty rate itself, complicating any analysis that treats the fourteen years as a single, stable relationship. Annex A.3 directly illustrates this point: during a five-year period in which the duty rate remained relatively unchanged, airport seizures alone varied more than threefold. This variation most plausibly reflects the impact of the 2016 demonetisation shock and its aftermath, rather than any alteration in the duty rate.

Third, the demand side complicates the interpretation of 'success'. Two decades of first-quarter gold demand data indicate that tonnage purchased has been below its long-term average for most of the past decade, even as total expenditure surged in 2025–26 without a corresponding increase in quantity bought. This suggests an affordability constraint operating alongside, and partly independent of, the duty rate. Some of the apparent success of the 2024 cut in boosting legal imports may reflect this broader demand cycle rather than the duty change alone.

Fourth, the observation windows are brief. Seven weeks of post-hike seizure data and a single fiscal year of post-cut data are both susceptible to seasonal effects (such as the wedding season, Akshaya Tritiya, Dhanteras, and Diwali) that could independently influence gold demand and bias either comparison. A defensible point estimate of the inflection point would require an event-study or regression-discontinuity design using monthly DRI seizure micro-data, the price-implied smuggling margin, and controls for season and enforcement intensity. Such an analysis is beyond the scope of this brief and the data currently available; the range provided above should be read as a bounded, evidence-based estimate derived from natural experiments, rather than a modelled coefficient.

The Institutional Cost of an Unanchored Rate

Douglass North's conception of institutions as the 'rules of the game' that influence the transaction costs of economic exchange is often cited to elucidate how credible and stable rules can reduce business costs (North 1990). However, a duty rate that is adjusted eight times over fourteen years, including twice within an eight-month period, cannot serve as one of North's stabilising rules; instead, it adds to the transaction costs it is intended to mitigate. These costs are distributed unevenly. Bullion banks and large refiners can adjust their procurement timing in anticipation of changes, whereas small jewellers with physical inventory and households purchasing gold for fixed wedding dates cannot. The volatility documented through seizure data captures only the enforcement aspect of the issue; the other is a planning tax borne by those least able to mitigate it.

Policy Recommendations

Anchor the duty within a predetermined corridor. Based on the evidence presented, a corridor ranging from approximately 6 to 9 per cent, reviewed at fixed intervals, such as alongside the Union Budget, rather than adjusted in response to weekly rupee fluctuations, would maintain the rate within the band historically associated with declining illicit flows. This approach draws on the pre-commitment logic already employed in Indian macroeconomic policy.

In cases where a genuine shock necessitates deviation from the corridor, gradual adjustments should be preferred over a single large step. The

findings of Fisman and Wei (2004) show that evasion elasticity increases at high tax levels, suggesting that a phased approach to a higher rate, if unavoidable, is likely to divert less trade into illicit channels than the single nine-point increase implemented in May 2026.

Enforcement capacity should be treated as an independent instrument rather than a residual factor. As the smuggler's decision-making is influenced by both the price gap and the probability of detection, enhancing the capabilities of the DRI and airport intelligence reduces the 'safe' margin at any given duty rate. This expansion of the government's capacity allows for the use of duty for current-account management without incurring the full cost of smuggling.

A formal econometric estimate of the duty-smuggling relationship should be commissioned. The monthly seizure and case data currently presented to Parliament, which is unusually detailed by Indian trade-enforcement standards, could support an event-study or regression-discontinuity design. This brief has deliberately refrained from attempting such an analysis, but it would enable the proposed band to be replaced with an estimated coefficient.

Publish a quarterly duty-enforcement dashboard. By tracking the duty rate against seizure volumes and estimated unofficial flows, modelled on the WGC's tracking system (Chacko 2026b), India's next duty decision (the inevitable ninth change) would be informed by a visible evidence base rather than the reactive approach of the previous eight changes.

Conclusion

The data presented in this brief do not provide a precise, decimal-point estimate of India's optimal gold import duty. Instead, they offer a bounded, evidence-based range and demonstrate that every instance of India raising the rate above approximately 11 per cent has been followed by increased smuggling within months. Conversely, reducing the rate to 6 to 7 per cent has led to a comparable decline in smuggling. A policy that has changed direction eight times without acknowledging this threshold has effectively rediscovered it through trial and error, incurring costs for households, jewellers, and customs officers who endure the resulting volatility.

This situation need not continue. Unlike many policy issues constrained by a lack of data, India's challenge is primarily a lack of synthesis. The DRI already compiles seizure and case data with a level of detail, available weekly and increasingly at the case level, that many customs administrations would envy. The Lok Sabha record provides a publicly disclosed series extending back several years, and the WGC independently tracks similar relationships through its quarterly estimates of official and unofficial flows. The missing element is not information but the relatively modest step of formally integrating these series, an exercise well within the analytical capacity that institutions already apply to other trade issues. The event-study design outlined in Section VII is neither novel nor resource-intensive relative to the scale of the decision it would inform: a nine-percentage-point swing in a duty rate that influences tens of billions of dollars in trade and, according to this brief, determines the balance between a formal and an illicit gold market.

Moreover, the broader solution is not without precedent. India has demonstrated in other areas, such as fiscal deficit targeting and inflation targeting, that a pre-committed, rule-based corridor can replace reactive, crisis-driven revisions without sacrificing the flexibility to respond to genuine shocks. Gold duty is a comparatively contained case in which to apply the same discipline: the evidence base to define a corridor already exists in outline, the institutional support for rule-based macroeconomic management is well established, and the ninth revision, whenever it occurs, offers a realistic, near-term opportunity to be the first one grounded in evidence rather than reaction. •

By Dr Bidisha Bhattacharya

Annex A. A Regression Note on Duty and Seizure Intensity

This annex provides a transparent account of the two quantitative exercises detailed in Sections IV and V. These exercises comprise an illustrative cross-episode regression and a rigorous rate-ratio test of the most unambiguous natural experiment in the series.

A.1 The Six-Episode Panel

Table A1 presents the conversion of each episode in Table 1 into a daily seizure rate, facilitating the comparison of periods of varying length. In instances where the duty rate was altered mid-period (2021, 2022), the figure provided represents a days-weighted average of the two rates in effect. All other periods display a single rate consistently applied throughout.

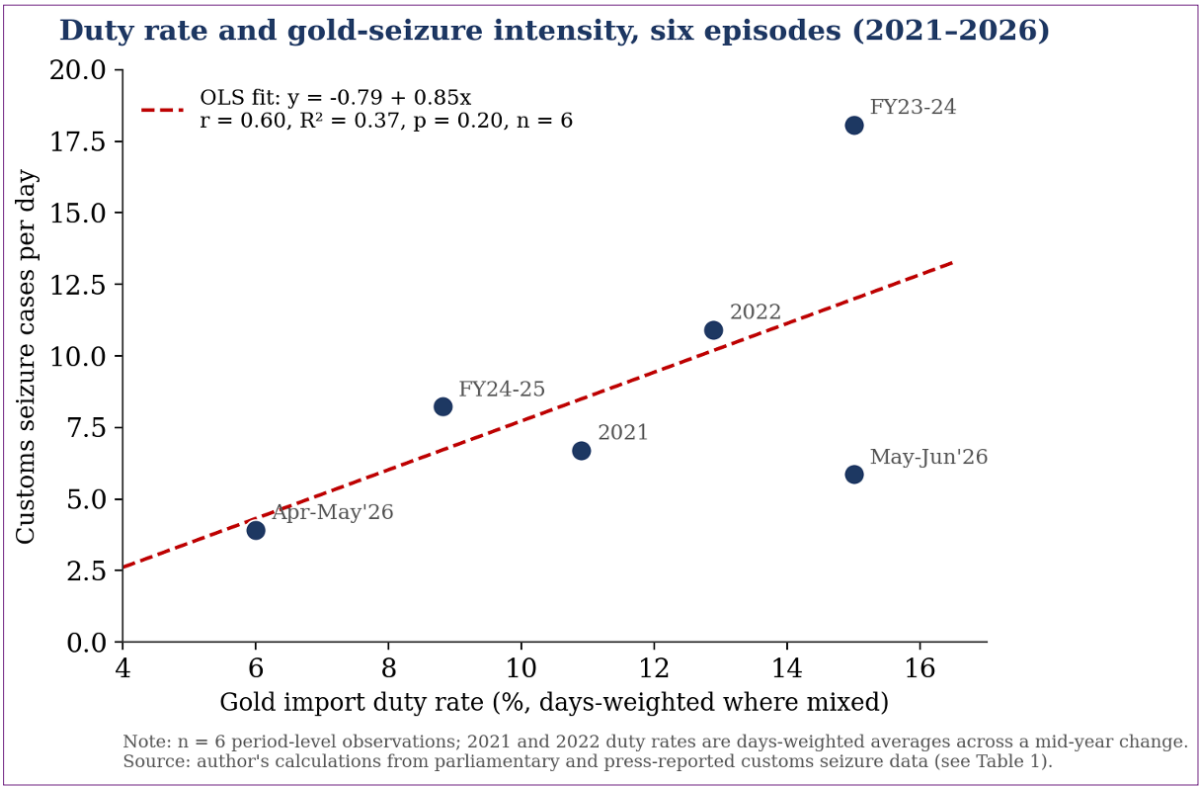
Table A1: Duty-Weighted Seizure Intensity by Episode

Episode	Duty (%)	Days	Seizures (kg)	Cases	kg/day	Cases/day
2021 (cal. yr, days-weighted)	10.90	365	2,383.38	2,445	6.53	6.70
2022 (cal. yr, days-weighted)	12.89	365	3,502.16	3,982	9.59	10.91
FY2023–24 (15% throughout)	15.00	365	4,971.68	6,599	13.62	18.08
FY2024–25 (days-weighted)	8.81	365	2,600.40	3,005	7.12	8.23
1 April–12 May 2026 (6% clean)	6.00	42	86.16	165	2.05	3.93
13 May–30 Jun 2026 (15% clean)	15.00	49	160.91	287	3.28	5.86

Source: Author's calculations from the sources cited in Table 1.

A linear ordinary least squares (OLS) regression of the case rate against the duty rate across six data points yields the equation: cases/day = -0.79 + 0.85 × duty% ($r = 0.60$, $R^2 = 0.37$, $p = 0.20$). Employing a log-log specification, as used by Fisman and Wei (2004), where ln(cases/day) is regressed on ln(duty%), results in an elasticity of approximately 1.0 ($r = 0.67$, $R^2 = 0.45$, $p = 0.14$, slope standard error [SE] = 0.55). This indicates that a one per cent increase in the duty rate correlates with an approximate one per cent increase in the seizure rate. This elasticity is smaller than the three per cent evasion elasticity estimated by Fisman and Wei for misreported Chinese trade. However, the two measures are not directly comparable: the former assesses a value-reporting gap, while the latter pertains to physical interception events. Figure A1 plots the six data points against the fitted OLS line.

Figure A1: Gold Import Duty Rate and Daily Customs Seizure Rate, Six Episodes, 2021–2026, with Fitted OLS Line

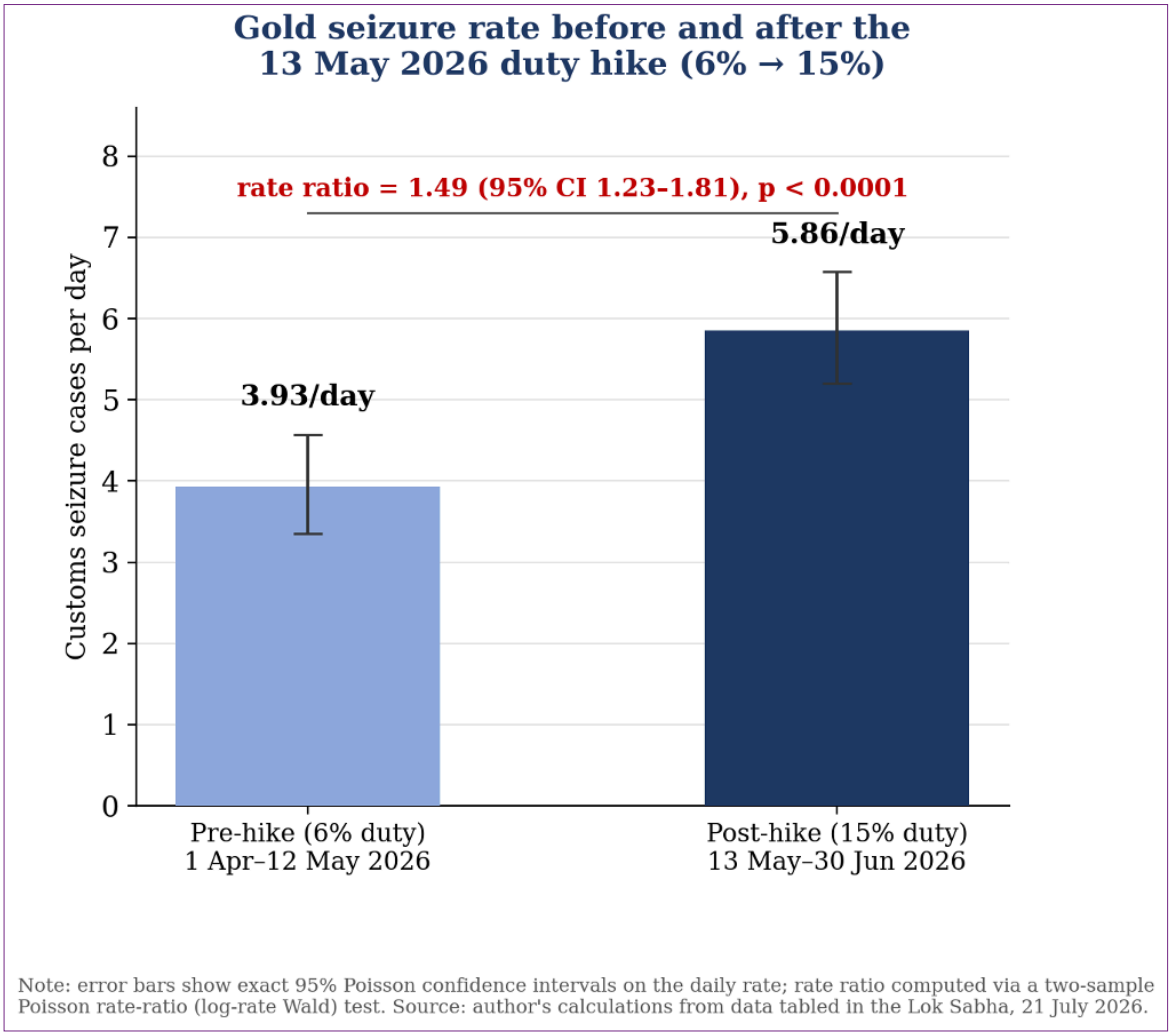


Neither coefficient achieves conventional significance thresholds, and this should be interpreted as supporting the qualitative argument presented in Sections III and IV, rather than as independent evidence. Given that n = 6, and considering that two of the six points are based on a days-weighted average duty rate that was never the actual rate in effect, this analysis cannot replace the monthly, regime-clean series recommended in Section VII.

A.2 The May 2026 Natural Experiment: A Rate-Ratio Test

The duty change implemented on 13 May 2026 is more amenable to formal inference than the preceding panel, as it represents a singular, precisely dated policy modification with documented seizure-case counts on both sides and no intervening rate adjustments. By modelling the case counts as a Poisson process, it is observed that the daily seizure rate rose from 3.93 cases per day in the six weeks preceding the policy change (165 cases over 42 days, from 1 April to 12 May 2026) to 5.86 cases per day in the seven weeks following it (287 cases over 49 days, from 13 May to 30 June 2026). The calculated rate ratio is 1.49, with a 95% confidence interval (CI) of 1.23 to 1.81. A two-sample log-rate Wald test yields a z-value of 4.09 and a p-value of less than 0.0001 (Lok Sabha 2026). Figure A2 plots the two rates along with their exact 95% Poisson CIs.

Figure A2: Daily Gold-Seizure Case Rate Before and After the 13 May 2026 Duty Hike, with 95% Poisson Confidence Intervals



Note: error bars show exact 95% Poisson confidence intervals on the daily rate; rate ratio computed via a two-sample Poisson rate-ratio (log-rate Wald) test. Source: author's calculations from data tabled in the Lok Sabha, 21 July 2026.

This figure is the sole statistically robust element in the brief, indicating a 49 per cent increase in the interception rate, with a CI distinctly above zero. However, it should not be interpreted as definitively identifying the inflection point; it merely confirms that 15 per cent lies above this point, as qualitatively argued in Section IV. The figure's significance lies in its methodological contribution: it illustrates that the DRI's case-level data, collected monthly or weekly over the entire fourteen-year period rather than during two six-week intervals surrounding a single policy change, is likely to corroborate the more precise regression-discontinuity estimate that Section VII recommends pursuing.

A.3 A Longer-Run Check: Airport Seizures, 2015–16 to 2019–20

The panel in Section A.1 begins in 2021 because public reports for earlier years lack consistently scoped, combined Customs-and-DRI figures. However, the peer-reviewed literature documents a narrower but longer series. Susai and Daniel (2024) compile data from a Lok Sabha reply to Unstarred Question No. 28, detailing airport-only gold seizures over five consecutive years during which the duty rate remained largely unchanged. Table A2 lists these figures.

Table A2: Airport-Only Gold Seizures, 2015–16 to 2019–20

Year	Cases	Seized (kg)	Duty in force
2015–16	2,696	2,452.15	10%
2016–17	1,453	921.81	10%
2017–18	2,911	1,996.93	10%
2018–19	4,855	2,946.10	10%
2019–20	4,444	2,629.55	10% to Jul 2019, then 12.5%

Source: Susai and Daniel (2024, Table 1), citing Government of India, Ministry of Finance, Department of Revenue, Lok Sabha Unstarred Question No. 28.

This series cannot be integrated with Table A1, as it exclusively measures seizures at airports, presenting a more limited scope compared with the combined Customs-and-DRI figures utilised elsewhere in this brief. Mixing these datasets would result in an understatement of the actual seizure levels during the years covered. The series' significance lies in its distinct insights. Over four of the five years depicted, the duty rate remained constant, yet the seizure rate exhibited more than a threefold variation, ranging from 3.98 cases per day in 2016–17 to 13.30 cases per day in 2018–19. Given the lack of variation in duty rates during most of this period, they cannot account for this fluctuation. The most plausible factor contributing to the 2016–17 decline is the November 2016 demonetisation of high-value currency notes, which is widely credited with temporarily disrupting cash-dependent smuggling networks. The subsequent recovery through 2017–19 aligns with the re-establishment of these networks following the initial shock. This episode is presented not as evidence of the inflection point itself but as a direct, data-based illustration of the second and fourth qualifications outlined in Section V: enforcement conditions and non-duty shocks can significantly influence the seizure rate independently of the duty rate. This is precisely why the estimates in this brief are presented as a range derived from natural experiments rather than as a precisely modelled coefficient.

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