The Social Tax
Redistributive Pressure and Labor Supply

Do informal redistributive arrangements distort labor supply, output and earnings?

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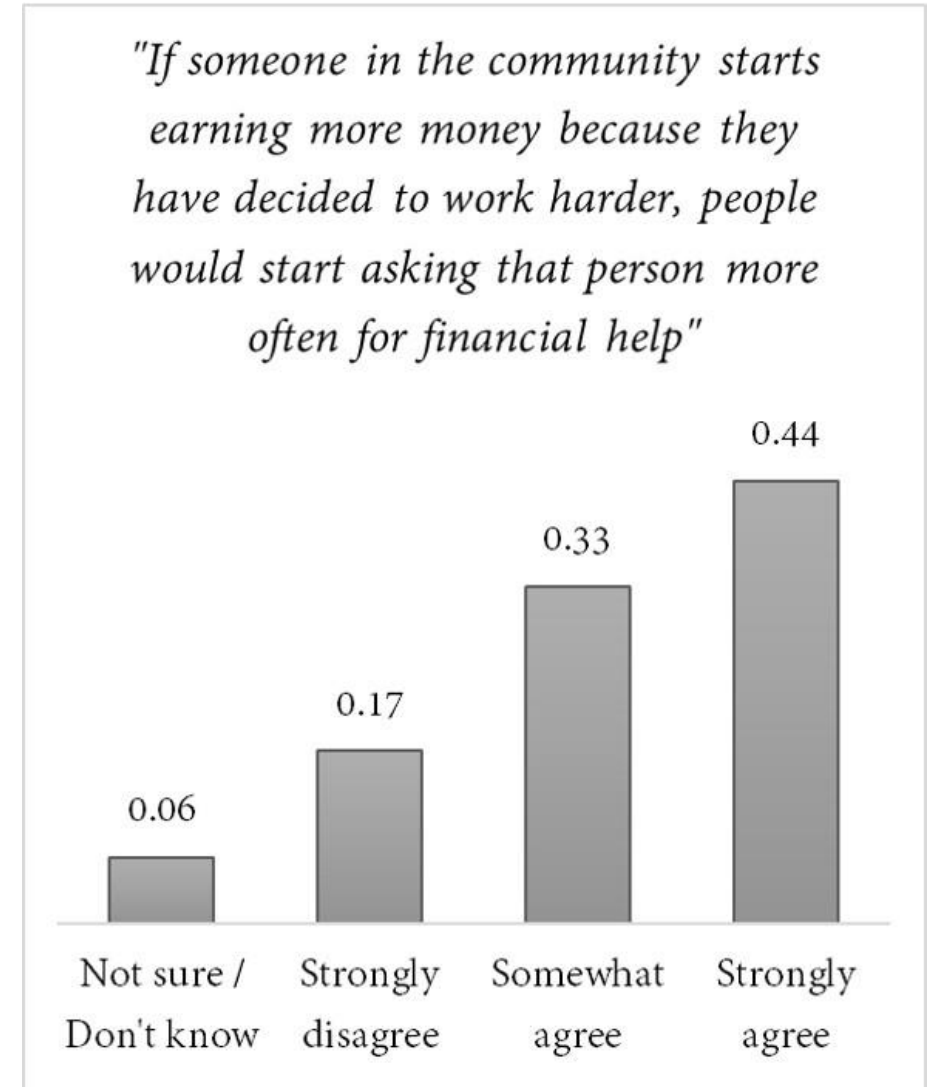
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Context

Motivation: Welfare benefits of redistributive arrangements could come at an efficiency cost (Lewis 1955, Hoff and Sen 2011)

- A "social tax"

Sample: full-time piece rate factory workers in Cote d'Ivoire

"If someone in the community starts earning more money because they have decided to work harder, people would start asking that person more often for financial help"

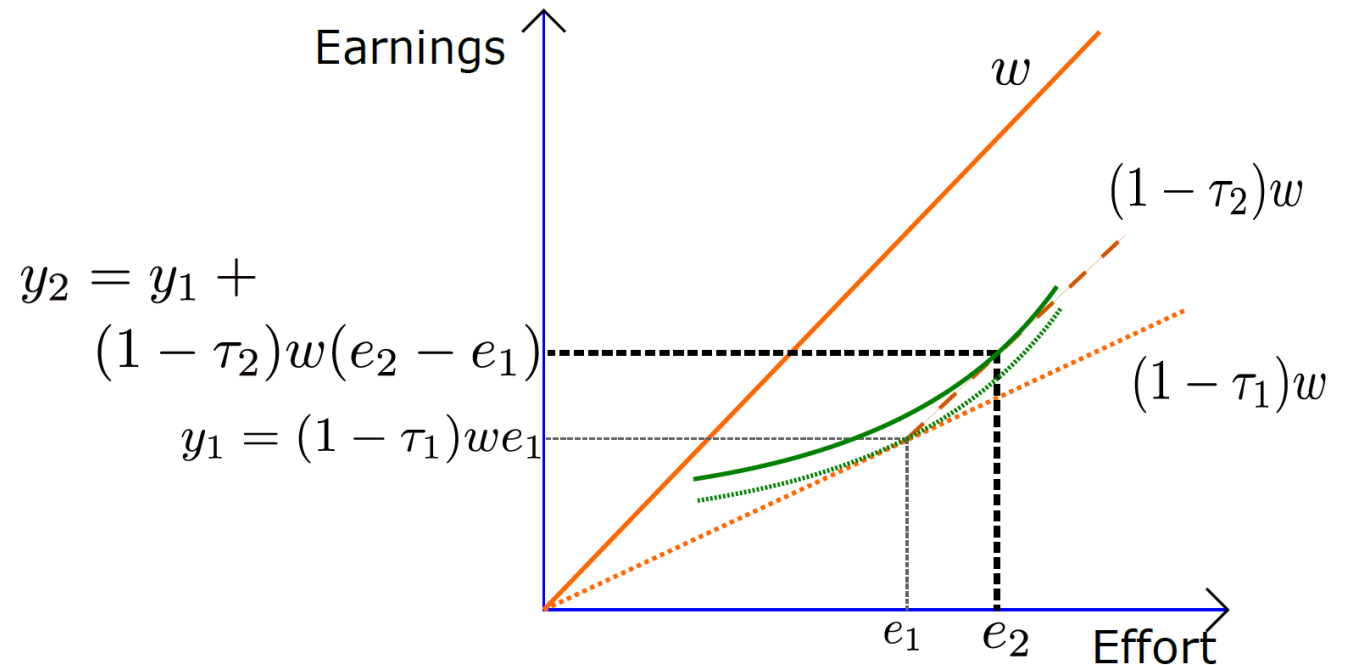|			
0.06	0.17	0.33	0.44
Not sure / Don't know	Strongly disagree	Somewhat agree	Strongly agree

Notes: N=420 cashew factory workers

Design

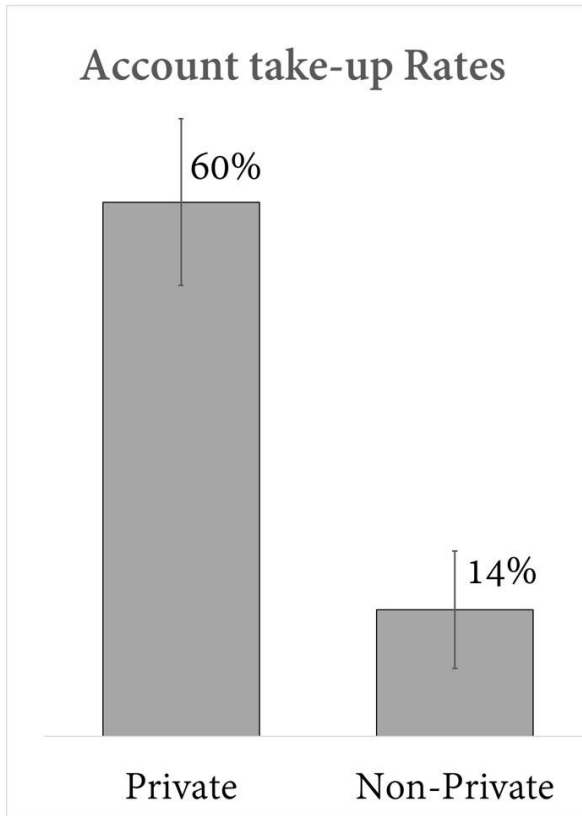**Approach**: Lower "social tax" on earnings increases
→ Pure substitution effect

Tool: Blocked savings account

Key variation: whether existence of account is private or known to worker's network

Results

Account take-up Rates

60%

14%

Private   Non-Private

Means and 95% CIs. N = 317 workers.

SEs clustered at the worker level.

	Earnings	Attendance
Private (vs. Non-Private)	227.9***	0.0553**
	(60.39)	(0.0251)
Control mean	1570	0.60
N: worker-days	38222	38222
N: workers	317	317

Note: Regressions include worker and strata-by-paycycle FE. Standard errors clustered by worker.

- 14.5% ITT effect
- Cost of foregoing accounts under non-private: ~2.3 days of earnings per paycycle
- No reduction in transfers to kin
→ Implied social tax rate: 26%

Confounds

✓**Privacy concerns:** SMS placebo exercises show high acceptance of transmitting <u>other</u> messages to kin (including that worker saved in the past)

✓**Morale effects:** no evidence for positive treatment effects during announcement period

✓**Self-control:** very few workers opt out of blocked savings when surprised with the chance (no difference before vs. on payday)

Thank you!