The Social Tax
Redistributive Pressure and Labor Supply

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

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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
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

<table>
<thead>
<tr>
<th>Account take-up Rates</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Non-Private</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>

Means and 95% CIs. N = 317 workers. SEs clustered at the worker level.

### Earnings and Attendance

<table>
<thead>
<tr>
<th></th>
<th>Earnings</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private (vs. Non-Private)</td>
<td>227.9***</td>
<td>0.0553**</td>
</tr>
<tr>
<td></td>
<td>(60.39)</td>
<td>(0.0251)</td>
</tr>
<tr>
<td>Control mean</td>
<td>1570</td>
<td>0.60</td>
</tr>
<tr>
<td>N: worker-days</td>
<td>38222</td>
<td>38222</td>
</tr>
<tr>
<td>N: workers</td>
<td>317</td>
<td>317</td>
</tr>
</tbody>
</table>

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 *other* 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!