

INCOME ELASTICITY OF LABOR SUPPLY

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The loss of SNAP benefits represented about a 20% decrease in income (if SNAP benefits are fully fungible). The change in recidivism for financially motivated crimes was approximately 115%.

If labor supply effort is highly correlated with recidivism probability, these estimates imply an elasticity of labor supply with respect to income of almost 6. In fact, if probability of getting caught increases in criminal effort (illegal labor supply), which is plausible, then the estimate of 6 is too low.

This seems like an order of magnitude too high (see McClelland and Mok, CBO 2012 for a review).

How do we reconcile estimates that seem implausible with the extensive assessment of the validity of the research design presented in the paper that seems to reveal a valid design?