In developing countries, informal financial transfers within social and kin networks are ubiquitous and frequent [4, 11]. Such transfers have traditionally been understood as reflecting informal community support, improving welfare by substituting for missing insurance markets [7, 12, 17, 14, 19]. This project asks whether these potential welfare benefits come at an important efficiency cost. We conceptualize redistributive arrangements as a tax on earnings. By exerting costly effort, an agent can increase her income (mechanically also increasing her relative income in the network). Because some portion of this income increase gets redistributed to others, she only retains a fraction of the benefits from her effort. This marginal tax on earnings could dampen the incentive to exert effort and accumulate wealth.

A long literature in development presents descriptive evidence that individuals perceive redistributive pressure as costly. A fraction of their earnings could be redistributed to others, and they only retain a fraction of their effort. This implies that the incentive to exert costly effort is reduced, impacting income and savings behavior. The poor tax, a concept often explored in development economics, describes how individuals perceive redistributive pressure on their earnings as costly and may decrease their willingness to exert effort and accumulate savings.

Identification strategy

Intervention Phase 1:
- Examine effects of private illiquid savings accounts on labor supply
- Build trust towards financial product and field partners (bank, IPA)

Intervention Phase 2:
- Demonstrate that a redistributive pressure is necessary for Phase 1 effects
- Under other potential mechanisms (self-control), public should have no effect

Potential confounders:
- Any potential confound should rationalize both Phase 1 and Phase 2 results
- Redistributive pressure seems the most plausible explanation
- We directly rule out alternative explanations for public vs. private differences (e.g., privacy concerns; WTA exercise)
- We also directly test for self-control in consumption (opt-out test)

Context

Data collected by the authors in 2 cashew-processing plants in Côte d’Ivoire.

Formal cashew-processing factories in central Côte d’Ivoire:
- 463 full-time female workers across two plants
- 38% work only at the factory
- Individual production (measured)
- Piece-rate wages for amounts of nuts peeled
- Paid every fortnight in cash

Prevalent redistributive pressure

Transfer requests occur for various reasons:
- 20% of earnings redistributed on average
- Workers express desire to avoid many (but not all) requests
- Refusal is perceived as costly

<table>
<thead>
<tr>
<th>Dep. var.</th>
<th>Phase 1 (%)</th>
<th>Phase 2 (%)</th>
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<tr>
<td>Daily earnings</td>
<td>176.40</td>
<td>200.14</td>
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<tr>
<td>N (worker)</td>
<td>90215</td>
<td>90215</td>
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<tr>
<td>N (worker-day)</td>
<td>353</td>
<td>353</td>
</tr>
</tbody>
</table>

Private vs. control

- Paycheck FE
- Paycheck SE
- Paycheck Strata SE

Workers FE

- Paycheck SE
- Paycheck Strata SE

Worker FE

- Yes
- Yes
- No
- Yes

Paycheck FE

- Yes
- Yes
- Yes
- Yes

Strata SE

- Yes
- Yes
- Yes
- Yes

Discussion

Block grants as policy tool
- Potentially potent tool regardless of mechanism
- Some lessons
- Trust in institutions is a major issue for take-up
- Take-up cropped when accounts were offered
- Virtually everyone who took up account once did so again when offered a 2nd or 3rd time

Key results

- Workers demand private and illiquid savings account
- Allows savings without cash on hand
- Enables refusal of transfer requests without cost
- Accounts strongly raise individual labor supply
- IT effect: 11% (daily earnings, Phase 1)
- ATE: 29% (daily earnings, Phase 1)
- Consistent with kin taxation as impediment to labor supply
- But only when others do not know of their existence

Additional results

- Labor supply changes alongside both margins
- 30-40% of treatment effects from increased attendance
- 30-50% of treatment effects from increased productivity while attending
- Baseline social tax rate: 21% (conservative estimate)

References