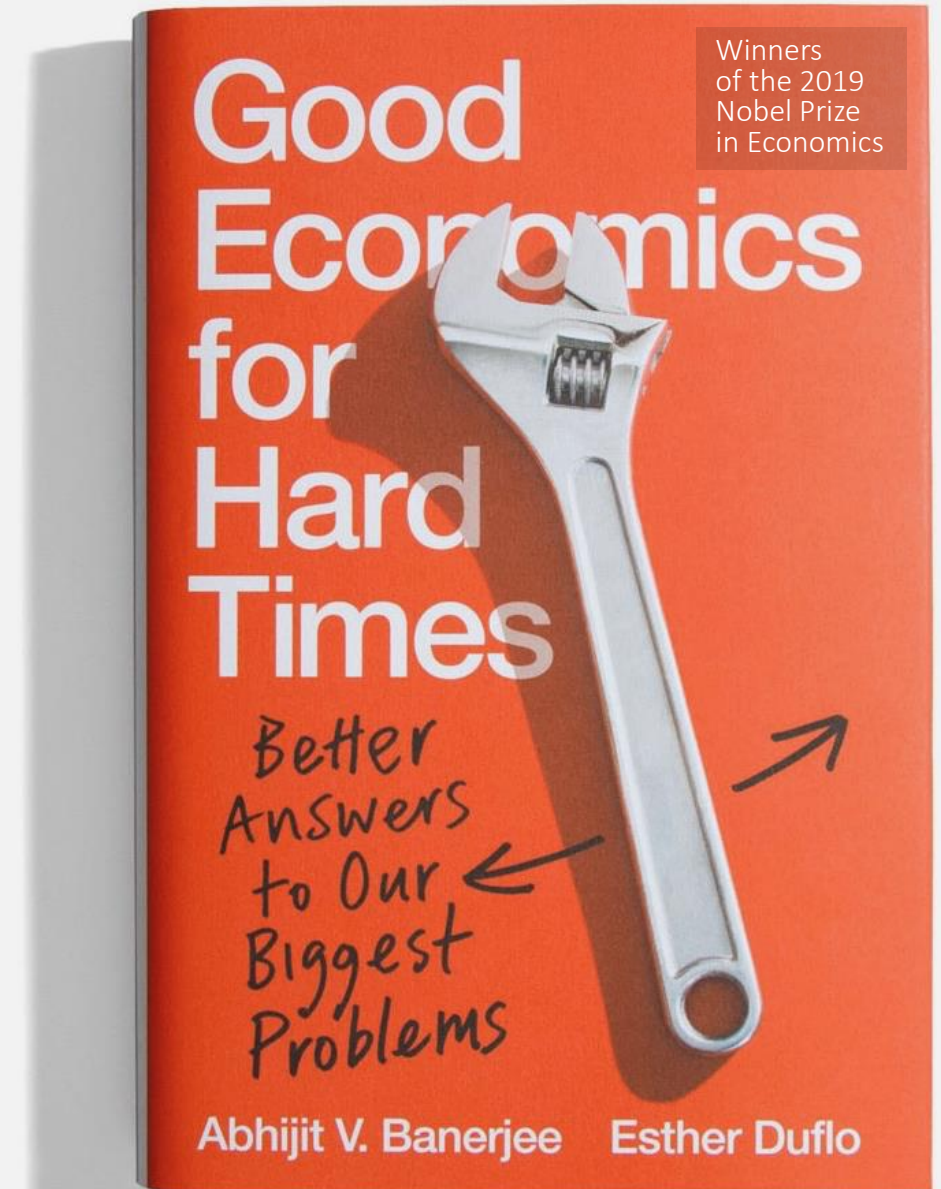


Good Economics For ~~Hard Times~~ ~~Harder Times~~ More Hopeful(?) Times

A course by Abhijit Banerjee
and Esther Duflo



Lecture 18 and 19: Cash and Care

What kind of redistribution?

The Bara Imambara

A massive building in the middle of Lucknow in India.

Many myths about why it was built.

It was built as a part of a famine relief effort in 1780 to provide employment to the starving population (crops had failed).



Photo: Prabhat1729, [CC BY-SA 4.0](#), via Wikimedia Commons

The Bara Imambara

There is a story that the building of it took much longer than it should have because

- The poor built it during the day.
- And the elites (who were also starving) were employed to destroy it during the night.

To protect the dignity of the elites.



Photo: Jagannath Saragadam, [CC BY-SA 4.0](#), via Wikimedia Commons

Universal Basic Income (UBI)

Universal: As against targeted to specific groups.

Basic: Focused on providing a basic living.

Income: Not a handout.



Photo: Gage Skidmore, [CC BY-SA 3.0](https://creativecommons.org/licenses/by-sa/3.0/), via Wikimedia Commons

The case for UBI: Respect



Photo: Mother and son at home in Indonesia. Photo: Stephane Bidouze | Shutterstock.com

Respects the dignity of the beneficiaries—not a handout

- The earnings from contributing to a positive social environment?

Allows the beneficiaries to choose how to spend the money

- Many transfer programs involve conditional transfers.
 - Require sending children to school or getting health checkup.
 - The human capital gains seem to be real and potentially durable.
 - But enforcing this requirement is costly (in Mexico 10 cents/dollar transferred).
 - And leads to exclusion of some of the poorest and most dysfunctional families.

The case for UBI: Respect



Photo: Mother and son at home in Indonesia. Photo: Stephane Bidouze | Shutterstock.com

Other programs try to constrain what it can be used for

- Transfers in kind or vouchers for specific products (e.g. rice and eggs in Indonesia)
 - Tend to be costly and wasteful to implement
 - Seem to have no effect on nutrition (unless the supply situation is really dire)

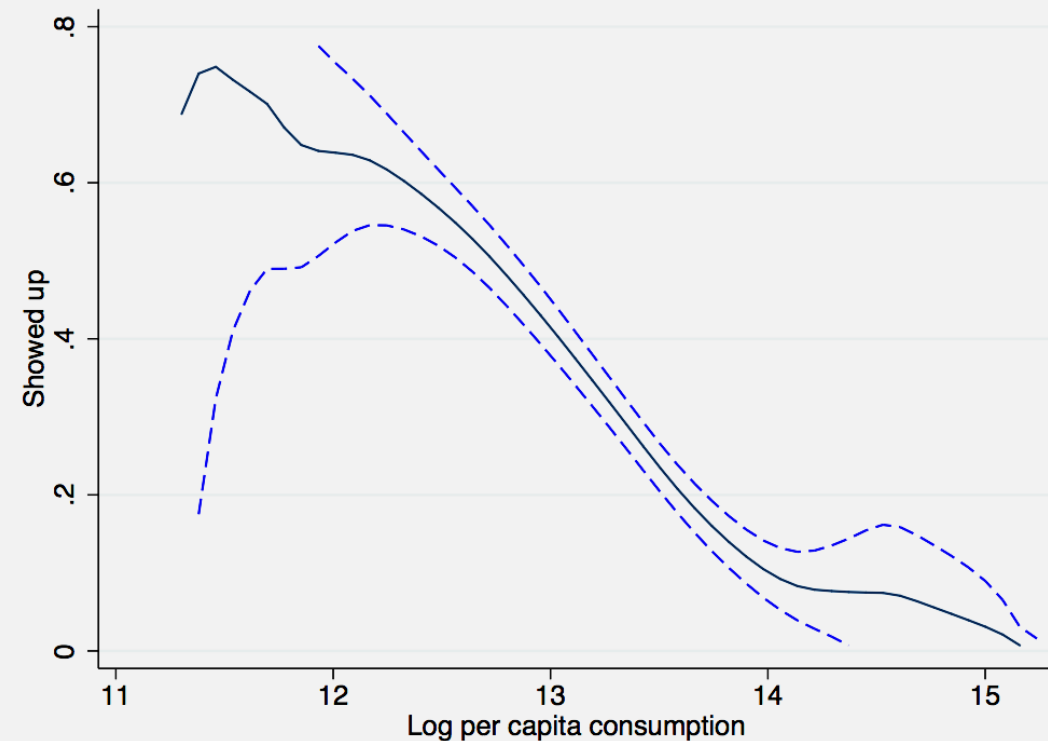
The case for UBI: Inclusion

Poor people are often excluded from **targeted** government programs they are entitled to.

In Delhi, only one-third of eligible women received a government pension.

In Indonesia even among the poorest, only two-thirds applied for generous cash-transfer program (PKH) which would give them up to 13% annual PCE for 6 years

Show Up Rates Versus Log Per Capita Consumption



Note: Figure provides a non-parametric fan regression of the probability of applying for PKE against baseline log per capita consumption in the 200 self-targeting villages. Bootstrapped standard errors bounds, clustered at the village level, are shown in dashes.

Source: Alatas, V., Purnamasari, R., Wai-Poi, M., Banerjee, A., Olken, B. A., & Hanna, R. Self-targeting: Evidence from a field experiment in Indonesia.

Reasons for exclusion

Information: Potential beneficiaries do not know about the existence of the program or understand who is entitled.

- In Delhi, women who were (randomly) chosen to receive information about a program were more likely to start the application process.

Distorted Beliefs: Concern that somehow you will get excluded.

- In Delhi, many women thought they would need to pay a bribe...
- But it turns out that was not true.

Reasons for exclusion, continued

Inability to deal with application process

- In Delhi, most women who started applications after getting information about their entitlement gave up.
 - Unless they were also helped to apply (e.g. by taking them to the office).
 - Even with the maximal help only 26% of those entitled ended up getting it.

Process is often unnecessarily complicated

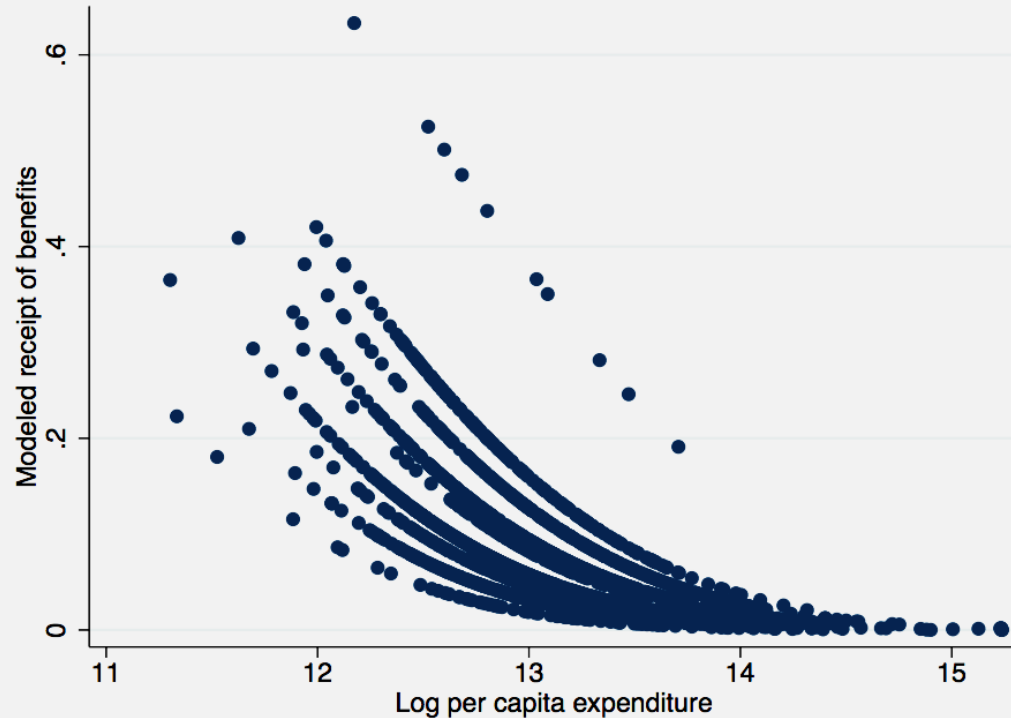
- In Morocco, most poor households entitled to a loan for water connection did not know how to apply.
 - They had to identify a set of documents showing ownership of their home and bring those to an office (and then follow up).
 - Having someone come to their home to help them complete the process increased participation seven-fold.

Reasons for exclusion, continued

Rejection rates are often high

- The government's own data for checking eligibility is faulty or dated.
- There is corruption.

Probability of Obtaining Benefits vs. Log Per Capita Consumption



Note: This figure shows the predicted probability of receiving the benefit, conditional on applying, from a probit model of receiving a benefit as a function of Log PCE. We include urban/rural interacted with district fixed effects in the probit, since PMT cutoff for inclusion varies slightly for each urban/rural times district cell. These predicted values are the $\mu(y_i)$ that we use in the model.

Source: Alatas, V., Purnamasari, R., Wai-Poi, M., Banerjee, A., Olken, B. A., & Hanna, R. Self-targeting: Evidence from a field experiment in Indonesia.

Reasons for exclusion, continued

Stigma: Especially in the US, welfare programs can be associated with a loss of dignity.

- Programs described as “food stamps,” even though now there are no stamps involved.
- Outdated vision of counting out stamps at the grocery counter.



Photo: United States Department of Agriculture, Public domain, via Wikimedia Commons

Reasons for exclusion, continued

People who seemed eligible for a food assistance program were encouraged to apply.

They were more likely to do so if it was presented as a card to help working families get more out of their grocery money, rather than “food stamps.”



Photo: Jeff Bukowski | Shutterstock.com

UBI includes better

Avoids all these reasons for exclusion

- Especially if it is packaged as "Freedom Dividend"

No one is excluded so no one needs to fear exclusion

There will still be those who are misinformed or simply unbelieving

- Often the most vulnerable.
- Still need for active outreach.

The case for UBI: Investment effect

In Indonesia beneficiaries of an (effectively) unconditional transfer have 23% less stunted children.

In Kenya, after two years, UBI beneficiaries are substantially more likely to have started a business.



Photo: pxhere.com

The case for UBI: Labor supply response

Incentive effect: As you work hard and get richer, you risk losing the subsidy.

Income effect: Feeling richer and therefore lazier.

UBI does not have an incentive effect, only an income effect.

Often at the heart of the economist's case for UBI.



Meme: imgur

Does welfare make people lazy?

Looking first at the **incentive effect** of welfare: does it actually matter in practice? (if yes, this is a valid argument in favor of UBI)

Not much evidence for important incentive effect.

For example, the CARES act in the US has been extensively studied.

- Even workers who would have earned much more by quitting don't quit.



Photo: Michael Evans, NARA/Reagan Library, Public Domain

Does welfare make people lazy?

More evidence against the incentive effect:

Between 1999 and 2001 different Swiss cantons changed the way they collected taxes.

- To allow for an easier transition the two pre-transition years were tax holidays.

Two-year tax holiday had no effect on labor supply.

- Theory says people should work harder to take advantage of the low taxes.



Photo: Shutterstock.com

How about an incentive effect for the poorest?

Negative income tax experiments

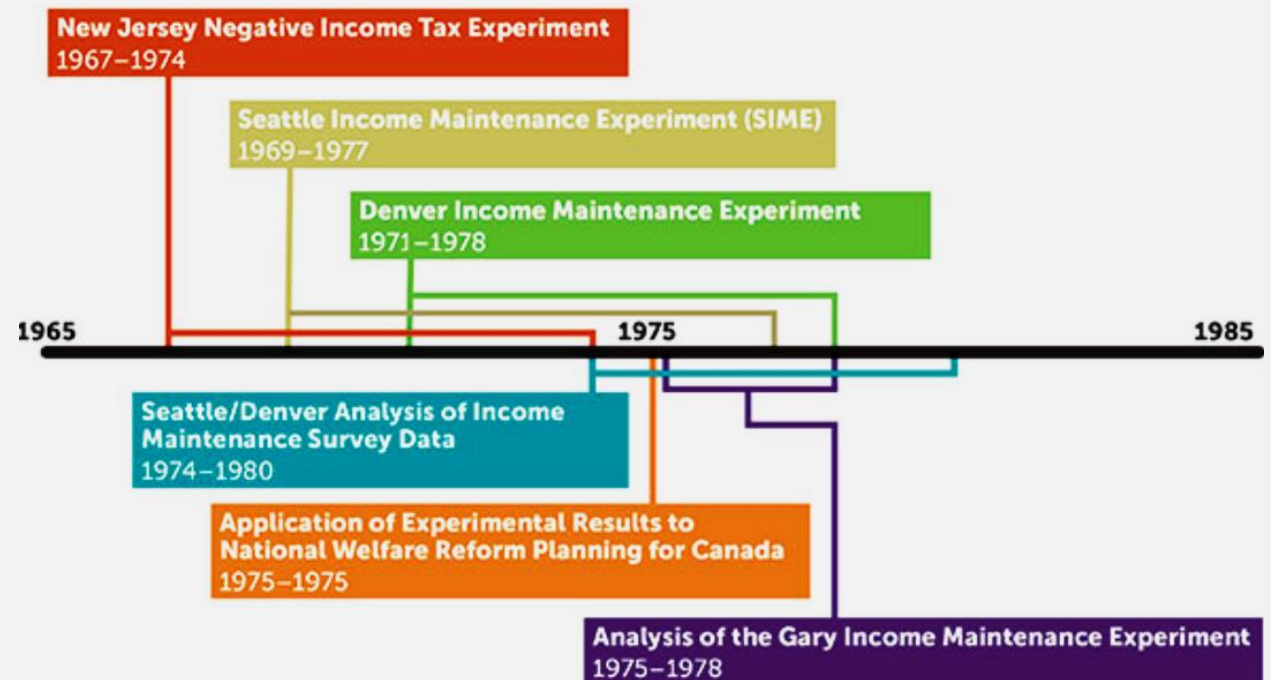
Poorest often in occupations with limited psychic rewards of working; may be more inclined to quit.

First major RCT in public policy in the late 1960s.

Offered different types of subsidies to low-income workers.

Experimental evidence was used to estimate labor supply responses.

Mathematica's Early Income Maintenance Experiments



How about an incentive effect for the poorest?

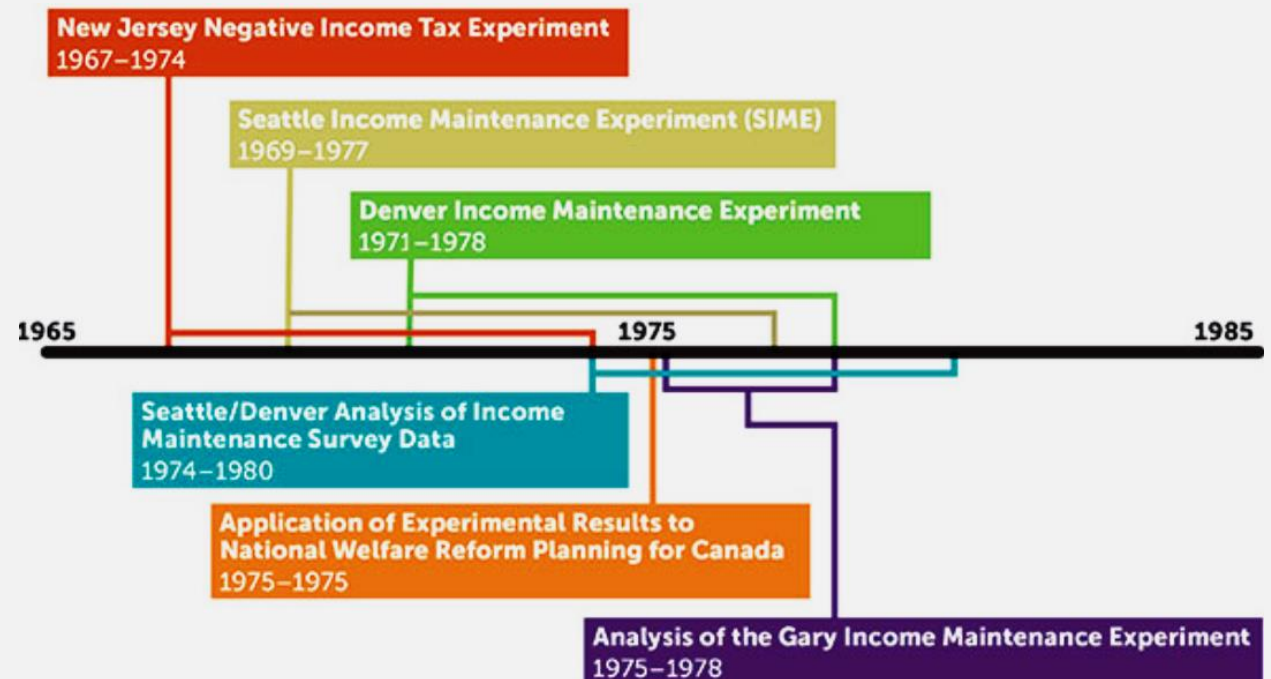
Negative income tax experiments

10% increase in wage/hr decreased labor supply of primary worker in a family by 1%.

Bigger effect (5%) on secondary workers (married women mainly), but has fallen sharply since.

Small incentive effect.

Mathematica's Early Income Maintenance Experiments



The case for UBI: A reverse income effect?

Now looking at the **income** effect
(which also applies to UBI):

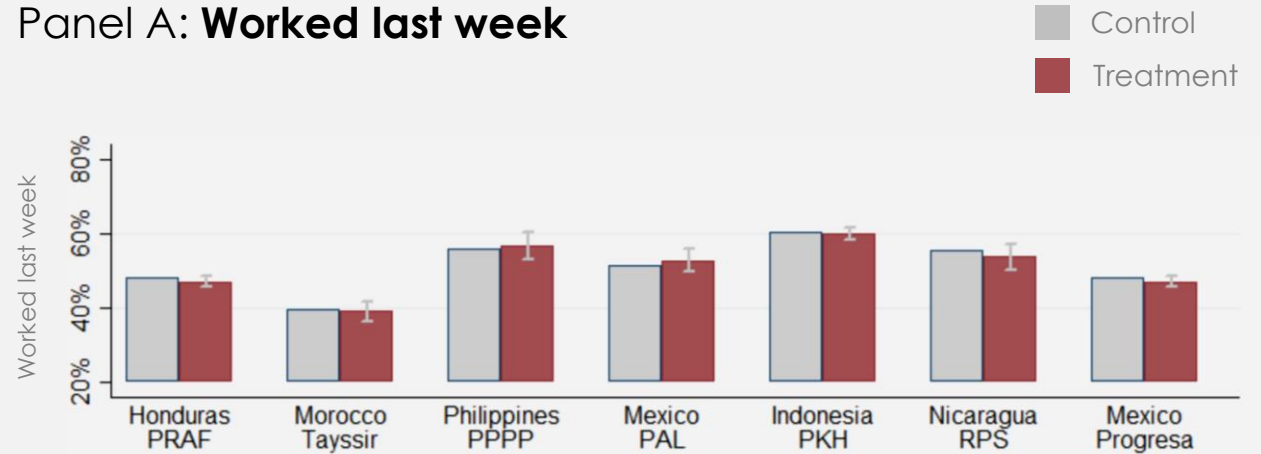
Getting richer does not seem to
make people lazier.

Perhaps a combination of some
who have difficult jobs (e.g. women
working while doing housework/
childcare) who stop working...

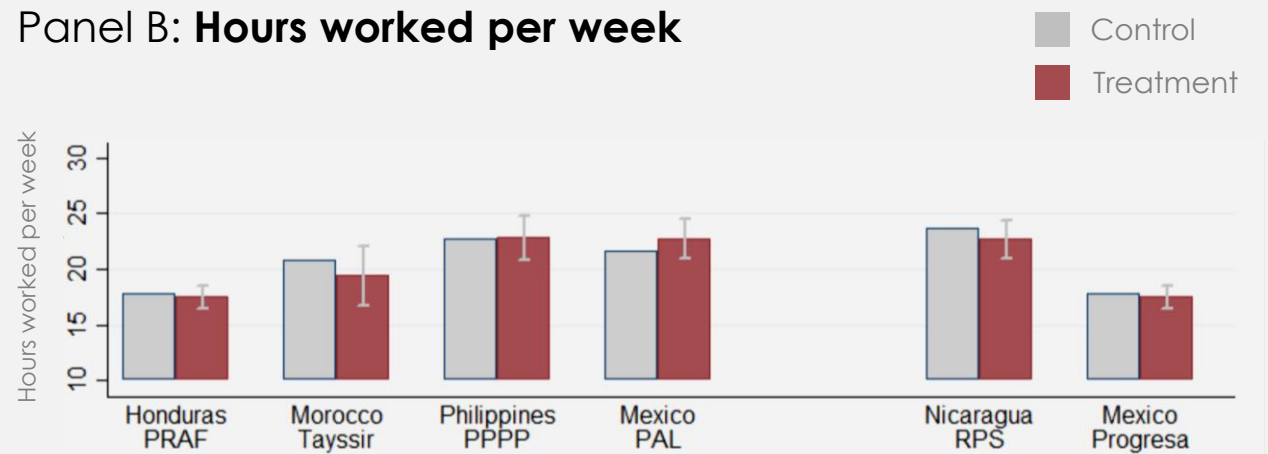
And others who work more:

- Because they have the money to start something/invest in a machine.
- They can take more risk.
- They might feel more positive.

Panel A: **Worked last week**



Panel B: **Hours worked per week**



The case against UBI

Expensive: if you want to be generous.

- Andrew Yang's plan of \$1,000 for every adult would cost ~12-13% of GDP.
- How much from cuts in existing government programs?
- Affects how generous it ultimately turns out to be.

Not targeted

- Easier in a country such as the US where a lot of information about families is available.
- Social support can compensate losers.
 - E.g. target benefits to those who were hurt by trade.

May be cheaper to reduce stigma by changing the rhetoric.

Perhaps most importantly

UBI does not solve the problem of loss of meaning.

If automation drives the next wave of job displacement, there will be many more such people.

Slightly more than half of Americans say that they get meaning from their jobs.

- Job loss is therefore associated with loss of income and loss of meaning.
- Might explain why those hit by losses for reasons beyond their control (e.g. the China shock) fall into “deaths of despair.”

The idea that money solves the problem of meaning seems unlikely

- Not easy for a metalworker of 50 to turn himself into a painter or musician.

Our bottom line

UUBI (Universal Ultra-Basic Income) for poor countries.

- A little of money can make a big difference, especially in emergencies.
- Targeting is a huge problem.
- Can combine with more targeted subsidies.

Targeted in richer countries, at least until we figure out how to make leisure more meaningful.

- Information to target is available.
- A UUBI equivalent already exists..
- Need an effective way to compensate losers.
- And protect the dignity of recipients.

Political support for redistribution

Is it politically feasible to redistribute more?

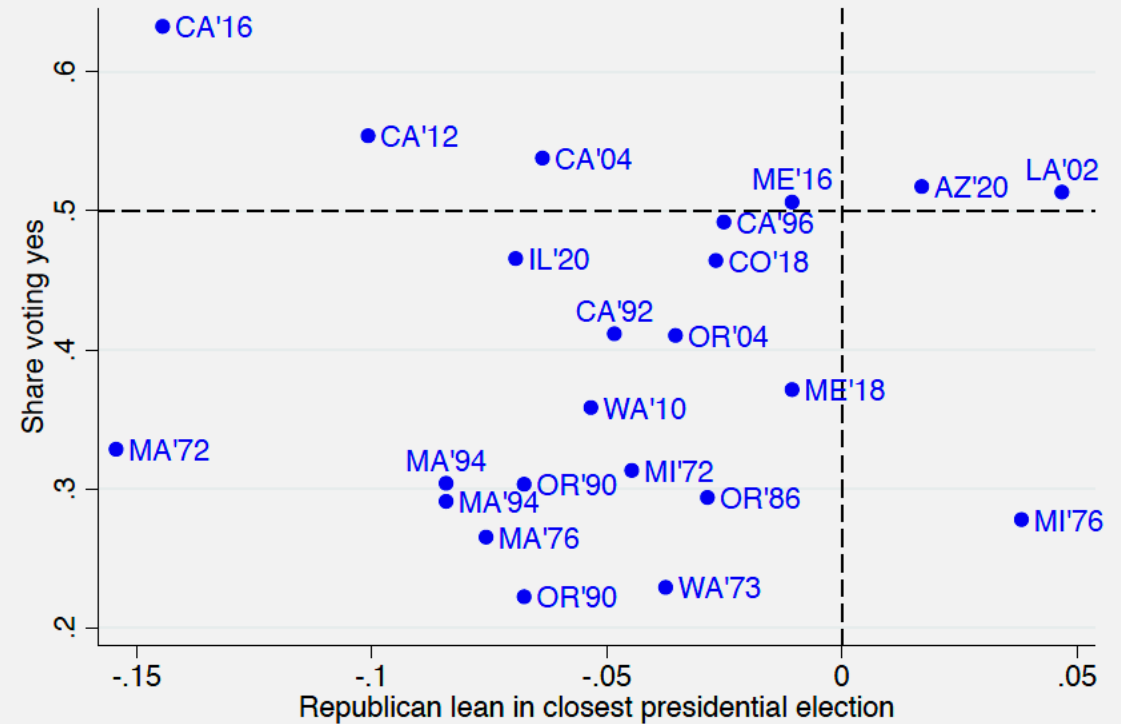
Citizen United legitimized unlimited power of money in influencing elections.

That does not make it easy to raise taxes.

But even the not-so-rich are suspicious of redistribution.

And more redistribution requires taxing the average person more.

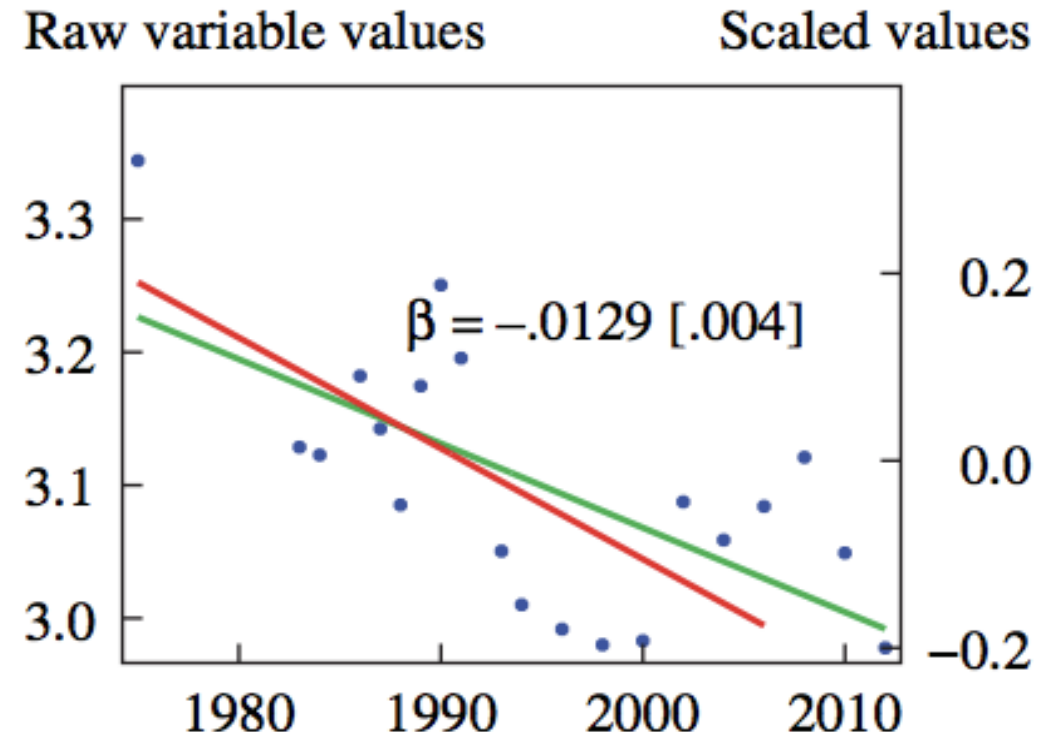
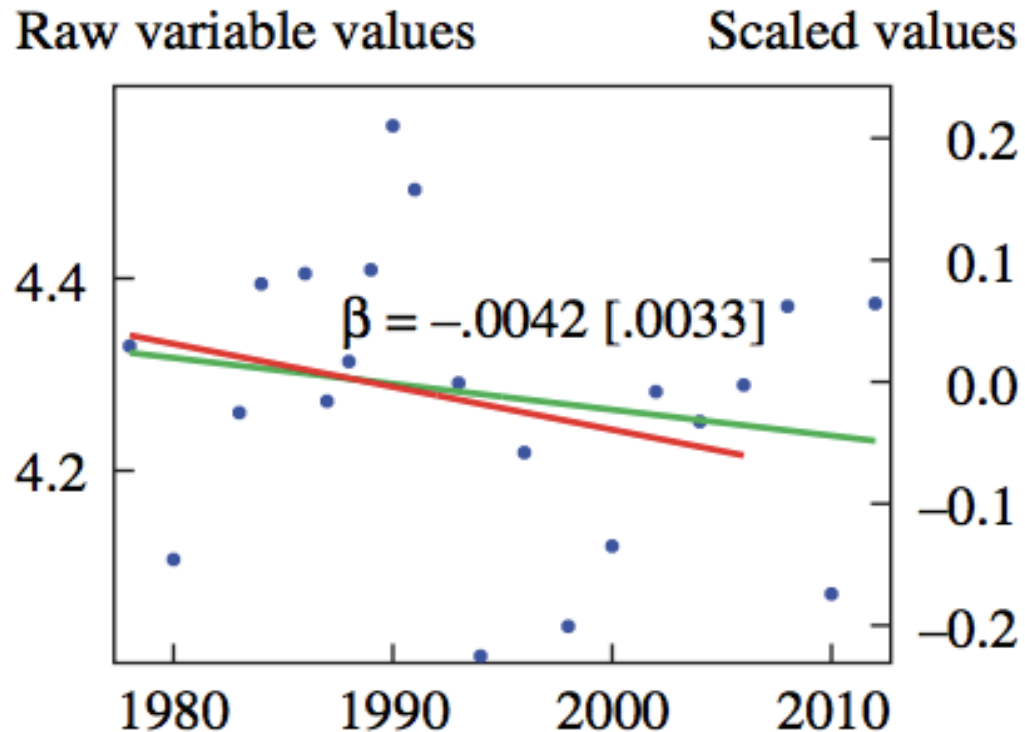
Minimax Rich vs. Poor (since 1972) 1996



Support for redistribution has been falling in the US despite rising inequality

Government should reduce income differences (1 to 7)

Government should help the poor (1 to 5)



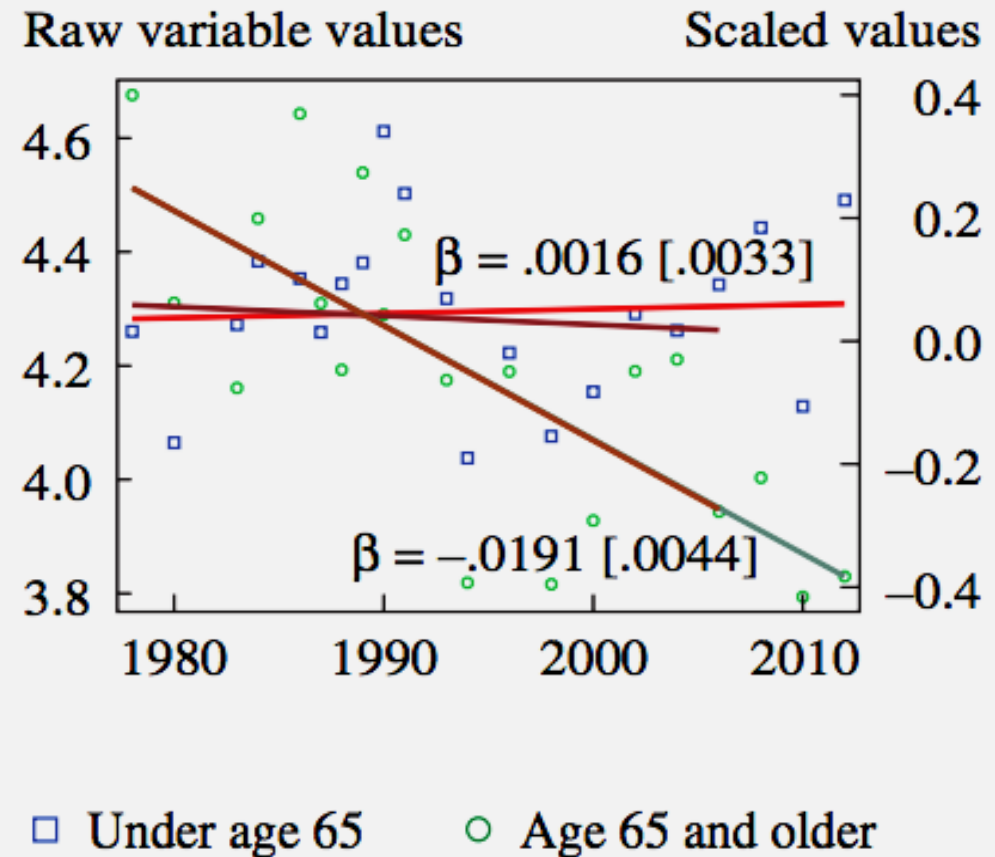
Especially among the elderly

And by now is very low.

Not just because of economic differences between the elderly and others.

What explains the lack of support?

Government should reduce income differences: age trends



Source: Ashok, Kuziemko, Washington (2015)

Moral opposition to being too soft on the poor



Photo: My Fair Lady, Stanley Holloway

“ I ask you, what am I? I'm one of the undeserving poor: that's what I am. Think of what that means to a man. It means that he's up against middle class morality all the time. If there's anything going, and I put in for a bit of it, it's always the same story: “You're undeserving; so you can't have it.” But my needs is as great as the most deserving widow's that ever got money out of six different charities in one week for the death of the same husband. I don't need less than a deserving man: I need more. I don't eat less hearty than him; and I drink a lot more. I want a bit of amusement, 'cause I'm a thinking man. I want cheerfulness and a song and a band when I feel low. Well, they charge me just the same for everything as they charge the deserving. What is middle class morality? Just an excuse for never giving me anything.

Belief in the incentive effect (but not for myself)

By The New York Times | Source: Abhijit Banerjee and Esther Duflo, M.I.T, and Stefanie Stantcheva, Harvard; data from a nationally representative survey of 10,000 American adults conducted by the authors.

I'm not budging (but other people will)

UNIVERSAL BASIC INCOME: If there was a universal basic income of \$13,000 a year, with no strings attached, would many people/would you stop working or stop looking for work? Percentage saying yes:



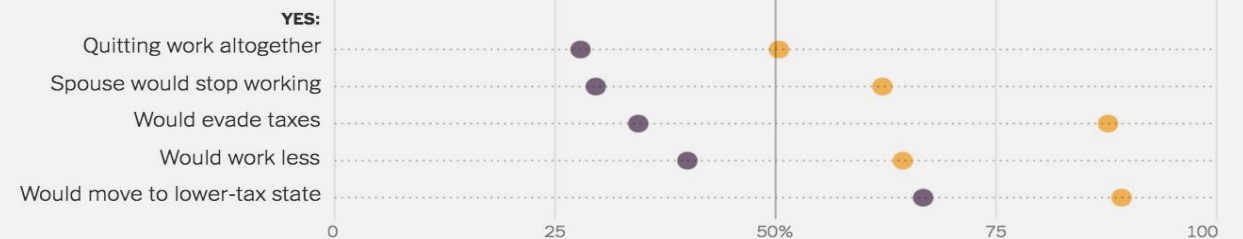
MEDICAID: Does a Medicaid program with no work requirement discourage beneficiaries from finding work?



JOB LOSS: If a person (or you) lost their job and was unable to find one in their area, but was offered a similar job 200 miles away, should they take it? Answers by those who were unemployed but looking for work:



RISING TAXES: If the tax rate were to increase for the middle class/you, would it encourage the following?

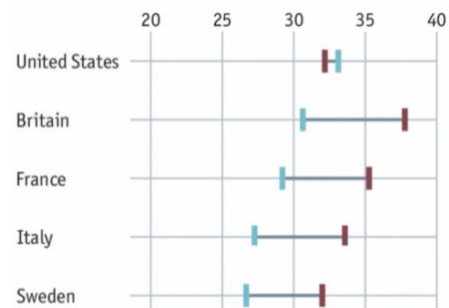


The American illusion

Perceived vs Actual Social Mobility Across Countries

Actual and perceived social mobility of children, 2016

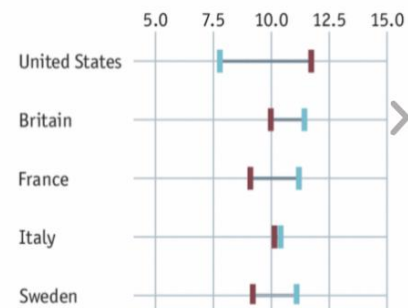
Probability of remaining in the bottom quintile of earnings, %



Source: "Intergenerational Mobility and Preferences for Redistribution" by A. Alesina, St. Stantcheva and E. Teso

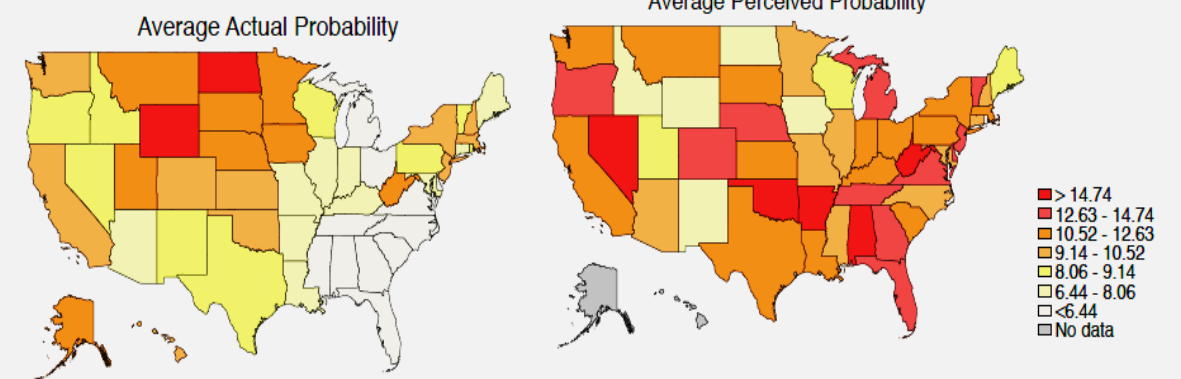
Actual Perceived*

Probability of moving from bottom to top quintile of earnings, %



*Surveyed Feb-Oct 2016

The American Dream



Correlation between perceived probability to make it from the bottom to the top quintile and actual state-level probability is -0.29

Source: Alesina, Stantcheva and Teso (2018)

Becoming aware of inequality does not imply supporting redistribution

Alesina, Stantcheva, Teso:
experiment that “debiases”
people’s perception of social
mobility.

	Budget Opp. (1)	Support Estate Tax (2)	Support Equality Opp. Policies (3)	Government Interv. (4)	Unequal Opp. Very Serious Problem (5)	Budget Safety Net (6)	Tax Rate Top 1 (7)	Tax Rate Bottom 50 (8)	Govt. Tools (9)	Redistribution Index (10)
<i>A. Treatment Effects</i>										
Treated	0.108 (0.227)	0.002 (0.010)	0.010 (0.022)	-0.020 (0.030)	0.046*** (0.013)	0.225 (0.160)	0.357 (0.398)	0.155 (0.226)	-0.017 (0.013)	0.013 (0.009)
<i>B. Treatment Effects for Left and Right Wing</i>										
Treated X Left-Wing	0.823** (0.398)	0.032* (0.017)	0.078** (0.039)	0.124** (0.053)	0.103*** (0.022)	0.111 (0.281)	0.551 (0.686)	0.257 (0.389)	-0.008 (0.023)	0.052*** (0.015)
Treated X Right-Wing	0.031 (0.397)	-0.001 (0.017)	-0.025 (0.039)	-0.020 (0.053)	0.018 (0.022)	0.200 (0.281)	0.661 (0.691)	-0.386 (0.392)	-0.049** (0.023)	0.006 (0.015)
p-value diff.	0.159	0.164	0.061	0.056	0.007	0.823	0.910	0.245	0.211	0.030
Observations	8585	8584	8585	8585	4281	8585	6851	6851	4281	8585

The left wing people become
more pro-redistribution.

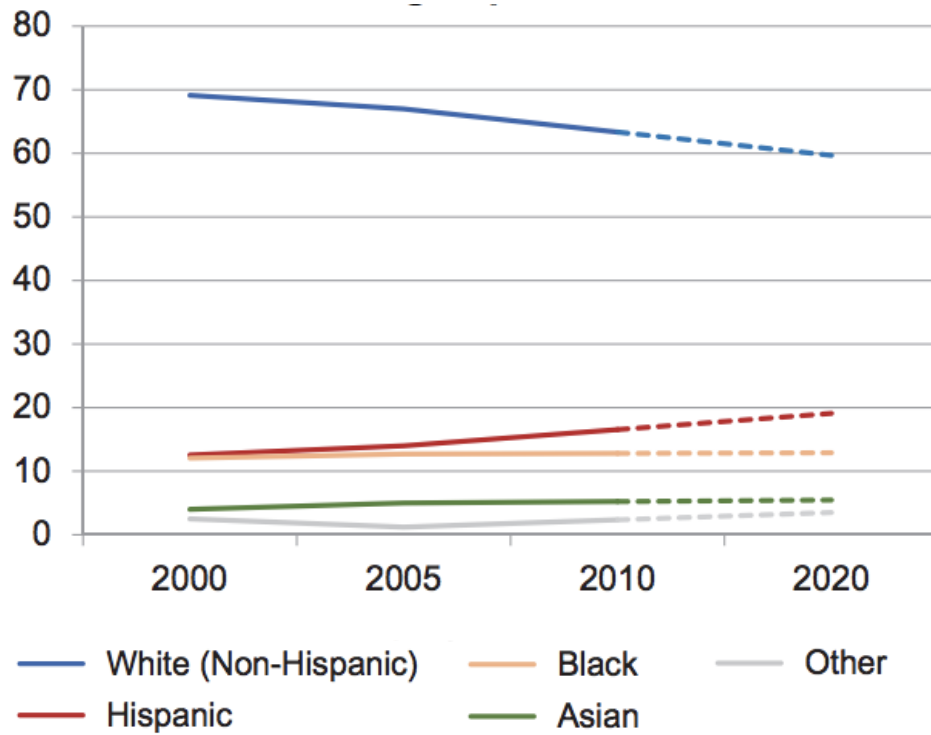
But the right wing people become more
pessimistic about the government and
do not support redistribution.

Ethnic biases and opposition to welfare

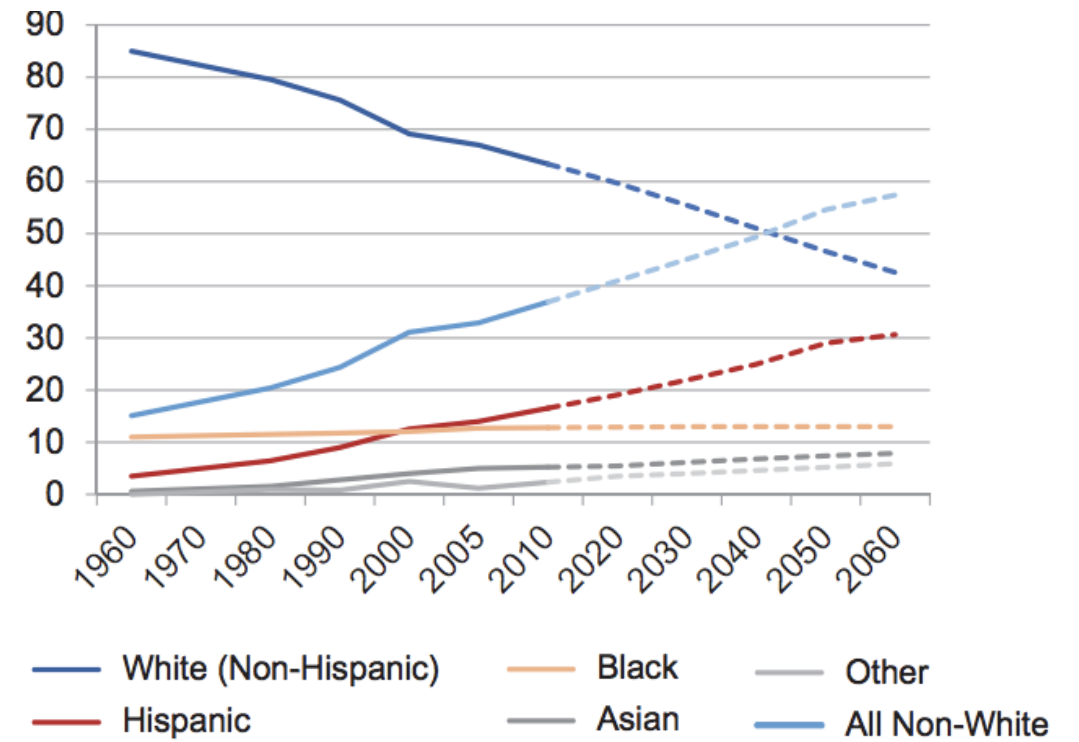
- White people in the US are more opposed to welfare than everyone else.
- This is true after controlling for education, income quintile, and general political bias (conservative or not).
- Wetts and Willer (2018) carried out a survey experiment on M-Turk showing US participants two different views of ethnic trends in America: Long-term decline in white share; and short-term relative stability.
- Then they asked questions about racial prejudice and views on welfare cuts.

Participants were shown one of these trends

Proportion of US population by racial/ethnic group, 2000-2020



Proportion of US population by racial/ethnic group, 1960-2060



Impact on preferences about welfare

- White respondents favored cutting welfare if they are led to think that the white population is falling.
 - Measured by asking how to cut total government spending by \$500m.
 - Reduced welfare allocation by 40%.
 - More likely to say that they cared about their racial identity.
 - Neither effect was present for minorities.
- Possible explanations?

Investigating the source of this reaction: the perception that welfare is “captured”?

- **Another experiment:** Randomized news about trends in relative incomes, as well as benefits from welfare programs across races.
 - How do they do that? Should we worry about it?
- Neither news of racial income gap closing, nor news of large fraction of minority beneficiaries, has any effect on views on welfare in any racial group.
 - Among whites, insignificant positive effect of learning of higher fraction of minority beneficiaries.
- News of income gap **combined** with minorities benefitting made whites anti-welfare.
 - Suggests that white fear that welfare helps minorities catch up with them.
 - Strangely, also affected minorities (large but not significant effect).

Echoes an interesting piece of US history

- During the First World War and its aftermath there were major shifts in US immigration patterns.
 - Germans were cut off during the war.
 - South Europeans flooded in, but that led to policies restricting them.
- Migrants follow other migrants from their home; created major shifts in geographical patterns of migration.
- Positive spillovers on native labor market outcomes:
 - 5% increase in in-migration raised the employment of natives by 1.6%.
 - But ...

Political reaction was negative

- Democrats (pro-immigration) lost support in cities with more immigrants.
- Lower total public spending and tax revenues in those cities.
- Decline in public goods provision in categories
 - With inter-ethnic contact (e.g. education).
 - Where benefits to new immigrants were larger (e.g. sewerage, garbage collection).

- Prescott Hall, one of the leaders of an influential anti-immigration movement, the Immigration Restriction League:
 - "receiving a great many immigrants who are not only worth nothing to the country, but are a positive [public] expense."

Is this changing?

Post COVID (April 21), support for wealth tax somewhat more partisan:

- 56% on average.
- 77% among Democrats.
- 35% of Republicans.

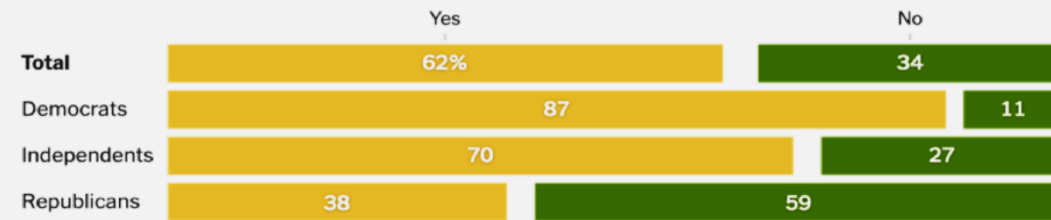
57% of Americans support 3 trillion infrastructure plan financed with tax hike for those making over \$400k.

By The New York Times | Source: SurveyMonkey February 4-11, 2019

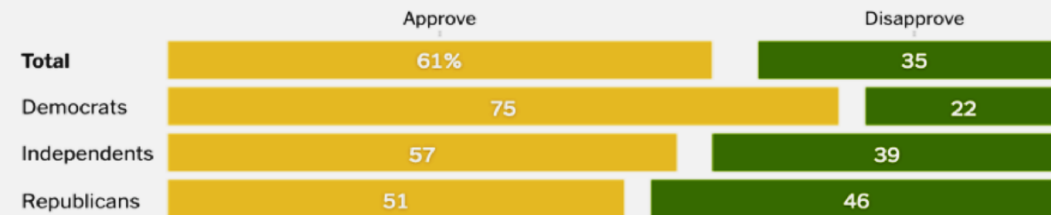
Taxing the Rich is Popular (in theory)

Most Americans think the government should try to reduce inequality. Specific policies, however aren't always popular.

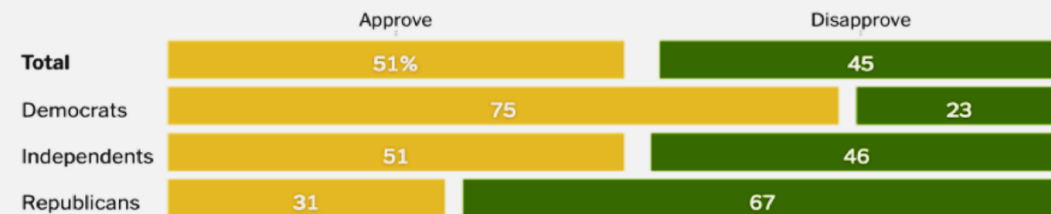
Should the government pursue policies to reduce the wealth gap?



Do you support a 2 percent tax on wealth above \$50 million?



Do you support a 70 percent marginal rate on incomes above \$10 million per year?



In conclusion

Reimagining social policy

Key lessons so far

No great recipes for faster growth, at least in rich countries.

Moreover, not clear that we need more growth in rich countries.

- Especially with climate change.
- In US and UK, and increasingly in rest of OECD, benefits of growth accrue disproportionately to the rich.

Much inequality is regional.

- Industries tend to be clustered; when trade or new technologies “kill” an industry, area unravels due to demand shortage.
- Loss persists, because who wants to move to a place without amenities?

People are slow to move—partly driven by concentration of success in certain areas and consequently high real estate prices.

Same GDP, better distributed, potentially offers huge opportunity to increase welfare of the less well-off, especially in US and UK.

Redistribution

Is both a moral imperative and urgent political necessity?

Rage of those mostly excluded from benefits of growth is driving a populist upsurge that is anti-democratic, anti-globalist, and ultimately anti-market.

All the more because automation is likely to destroy more good jobs than it creates, at least in the shorter run.

Expanding redistribution will not be easy.

- Many low-income voters (especially white blue-collar workers) skeptical of government's ability to redistribute; fear of becoming welfare recipients.
- Partly because they associate welfare with social groups (mostly nonwhite) that they look down upon—perhaps to preserve their fraying self-regard.

How to redesign social support in this context

1. Normalizing job loss.

Reduce the trauma and loss of self-worth from job loss: more generous unemployment benefits; more financial and other help with retraining, job search (modeled on Flexicurity).

2. Protect regional economies.

Avoid vicious cycle of job loss and hollowing out (like the French farm subsidies).



Photo: Shutterstock.com

How to redesign social support in this context

3. Subsidize job creation in the private and public sector.

Increase supply of "meaningful jobs"—in elderly care, health care, child care.

- Large economic/social returns to higher-quality child care (e.g. Headstart).

4. Help people move.

Restore geographic mobility—real estate, child care, etc.



Photo: Shutterstock.com

And finally: Together in dignity

Employment programs that restore self-confidence and self-respect, often battered by trauma of job loss and its consequences.

- Like Travailler et Apprendre Ensemble (TAE): Work and Learn Together.

Job placement programs that treat job-seekers as creative beings with ideas of their own.

- Like the Sénart program in France.

“All Together in Dignity to Overcome Poverty”