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Does Poverty Change Labor Supply? Evidence from Multiple Income Effects and 115,579 Bags*

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Abstract

The income elasticity of labor supply is a central parameter of many economic models. We test how labor supply and effort in northern Ghana respond to exogenous changes in income and wages using a randomized evaluation of a multi-faceted grant program combined with a bag-making operation. We find that recipients of the grant program increase, rather than reduce, their supply of labor. We argue that simple models with either labor or capital market frictions are not sufficient to explain the results, whereas a model that allows for a positive psychological productivity effect from higher income does fit our findings.

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JEL Classifications: H31, J22, O12

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