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

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May 14, 2020

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.

Keywords: poverty, labor supply, income elasticity
JEL Classification: H01, J22, O12

*Approval from the Yale University Human Subjects Committee, IRB 07090206, 08200006, 08060706, and 01080706, and from the Innovations for Poverty Action Human Subjects Committee, IRB Protocol 0403January-05, 08December-05, 0110January-06, and 05November-03-04. Thanks to the Ford Foundation, and its for funding. Thanks to Nathan Butler, Celine Brown, Abubakar Bukari, David Dallas Patton, Sebastian Fotsome, Angelo Garcia, Nana Ogi, Samuel Hens, Sam Khan, Biddu-Bidduan, Matthew Lewis, Elizabeth Nash, Michael Otsu, Elean Sabun, Susko Stephen, Rachel Strahan, and Stella Uddin for outstanding research assistance and project management, and in particular Brian Thurlbent for collaboration. The authors would like to thank the leadership and staff at Presbyterian Agricultural Services (PAS) for their partnership. Thanks to Frank Deaton and the Ford Foundation, Stef Haggard of IFPRI University, and Anke Hurnig and Alicia Lleras of CEPR for their support and encouragement of the research. No authors have any real or apparent conflicts of interest, except Karlan is on the Board of Directors of Innovations for Poverty Action, which participated in oversight of the implementation. All data and code will be available upon publication at the IFA Database (link pending).
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