



**NYU**

**ROBERT F. WAGNER GRADUATE  
SCHOOL OF PUBLIC SERVICE**

**PHD-GP 5908.001  
Inequality and Poverty  
Spring 2024**

Jonathan Morduch  
NYU Wagner Graduate School of Public Service

**Overview**

The course focuses on economic inequality and poverty, drawing on research in the social sciences with an emphasis on economics. The aim is to explore research questions, recent empirical approaches, and policy responses. The course draws on international experiences, with a tilt toward the United States, and an emphasis on framing problems comparatively.

**Assignments and organization**

Classes will meet weekly for 2 hours. The first hour will be a traditional lecture followed by a short break. The final hour will be led by students who will describe and frame selected readings for the week.

All students will write queries each week on selected readings, due before class and posted to the class website. Students will write three referee reports during the semester and a final paper that describes a research problem, a possible approach, and the related literature.

**Course topics**

1. January 24. **Why care about inequality? How inequality measures work.  
Inequality and poverty**
2. January 31. **Inequality within and across countries. How to write a referee report.**
3. February 7. **The top 1%: Inequality at the top  
Superstars and industrial concentration**
4. February 14. **Labor markets and monopsony** [Referee report 1 due]
5. February 21. **Inequality and race**
6. February 28. **Trade and inequality**
7. March 6. **Policies: Minimum wages, taxes, redistribution** [Referee report 2 due]
8. March 13. Open questions / constructing a research paper

Week of March 20 – Spring break

9. March 27. **Poverty as measured**
10. April 3. **Poverty at higher frequency** [Draft research idea due]
11. April 10. **Poverty and consumption smoothing**

- 12. April 17. **Behavioral approaches to poverty** [Draft literature review due]
- 13. April 24. **Cash transfers, poverty traps** [Referee report 3 due]
- 14. May 1. **Gender and poverty**
- 15. May 8. **Research proposal presentations** [Research proposal due]

## **Class policies**

### **Grading:**

- 30%: participation, including weekly queries
- 30%: 3 referee reports (10% each)
- 40%: Research proposal (20% literature review, 20% final document and presentation)

## Readings

### 1. January 24. Why care about inequality? How inequality measures work. Inequality and poverty

Galbraith, James K. "Ethics and Inequality: A Strategic and Practical View." *Ethics and International Affairs* 30, no. 3 (2016), pp. 379-389.

Jenkins, Stephen and van Kerm, Philippe (2009). "[The measurement of economic inequality](#)." Ch 3 in Brian Nolan, Wiemer Salverda, and Timothy M. Smeeding (eds.), *The Oxford Handbook of Economic Inequality*. Oxford University Press.

Abstract: This article provides an introduction to methods for the measurement of economic inequality. It reviews the inequality measures that economists have developed, and explains how one might choose between indices or check whether conclusions about inequality difference can be derived without choosing any specific index. It reviews mobility measurement and some fundamental questions about how the distributions of economic interest are defined.

Hoffmann, Florian, David S. Lee, and Thomas Lemieux. 2020. "Growing Income Inequality in the United States and Other Advanced Economies." *Journal of Economic Perspectives*, 34 (4): 52-78.

Abstract: This paper studies the contribution of both labor and non-labor income in the growth in income inequality in the United States and large European economies. The paper first shows that the capital to labor income ratio disproportionately increased among high-earnings individuals, further contributing to the growth in overall income inequality. That said, the magnitude of this effect is modest, and the predominant driver of the growth in income inequality in recent decades is the growth in labor earnings inequality. Far more important than the distinction between total income and labor income, is the way in which educational factors account for the growth in US labor and capital income inequality. Growing income gaps among different education groups as well as composition effects linked to a growing fraction of highly educated workers have been driving these effects, with a noticeable role of occupational and locational factors for women. Findings for large European economies indicate that inequality has been growing fast in Germany, Italy, and the United Kingdom, though not in France. Capital income and education don't play as much as a role in these countries as in the United States.

Bonica, Adam, Nolan McCarty, Keith T. Poole, and Howard Rosenthal. 2013. "Why Hasn't Democracy Slowed Rising Inequality?" *Journal of Economic Perspectives*, 27 (3): 103-24.

Abstract: During the past two generations, democratic forms have coexisted with massive increases in economic inequality in the United States and many other advanced democracies. Moreover, these new inequalities have primarily benefited the top 1 percent and even the top .01 percent. These groups seem sufficiently small that economic inequality could be held in check by political equality in the form of "one person, one vote." In this paper, we explore five possible reasons why the US political system has failed to counterbalance rising inequality. First, both Republicans and many Democrats have experienced an ideological shift toward acceptance of a form of free market capitalism that offers less support for government provision of transfers, lower marginal tax rates for those with high incomes, and deregulation of a number of industries. Second, immigration and low turnout of the poor have combined to make the distribution of voters more weighted to high incomes than is the distribution of households. Third, rising real income and wealth has made a larger fraction of the population less attracted to turning to government for social insurance. Fourth, the rich have been able to use their resources to influence electoral, legislative, and regulatory processes through campaign contributions, lobbying, and revolving door employment of politicians and bureaucrats. Fifth, the political process is distorted by institutions that reduce the accountability of elected officials to the majority and hampered by institutions that combine with political polarization to create policy gridlock.

#### Background reading

Samuel Moyn. 2018. *Not Enough: Human Rights in an Unequal World*. Harvard/Belknap Press.

### 2. January 31. Inequality within and across countries

Branko Milanovic. 2023. [The Great Convergence: Global Equality and Its Discontents](#). *Foreign Affairs*, July/August 2023. Ungated

Abstract: The paper re-estimates global inequality between 1820 and 1980, reappraises the results up to 2013, and presents new inequality estimates for 2018. It shows that historically, global inequality has followed three eras: the first, from 1820 until 1950, characterized by rising between country income differences and increasing within country inequalities; the second, from 1950 to the last decade of the 20th century, with very high global and between-country inequality; and the current one of decreasing inequality

thanks to the rise of Asian incomes, and especially so Chinese. The present era has seen the emergence of the global “median” class, reduced population weighted gaps between nations, and the greatest reshuffling in income positions between the West and China since the Industrial Revolution. Whether global inequality will continue on its downward trend depends now much more on changes in India and large African countries than on China.

Martin Ravallion. [Income inequality in the developing world](#). Science 344 (61862014), May 23 2014.

Abstract: Should income inequality be of concern in developing countries? New data reveal less income inequality in the developing world than 30 years ago. However, this is due to falling inequality between countries. Average inequality within developing countries has been slowly rising, though staying fairly flat since 2000. As a rule, higher rates of growth in average incomes have not put upward pressure on inequality within countries. Growth has generally helped reduce the incidence of absolute poverty, but less so in more unequal countries. High inequality also threatens to stall future progress against poverty by attenuating growth prospects. Perceptions of rising absolute gaps in living standards between the rich and the poor in growing economies are also consistent with the evidence.

Marco Ranaldi and Branko Milanovic. 2022. [Capitalist Systems and Income Inequality](#). Journal of Comparative Economics 50 (1): 20-32.

Abstract: The paper investigates the relationship between compositional inequality (how the shares of capital and labor income vary along income distribution) and inter-personal income inequality. Using a new methodology and data from 47 countries covering the period 1995–2018, we show that higher compositional inequality is associated with higher inter-personal inequality. This is clearly shown by Latin American countries and India. Nordic countries are exceptional because they combine high compositional inequality with low inter-personal inequality. Their exceptionalism is attenuated when pension income received from largely government-mandated accumulated savings is added to capital income. The analysis shows the theoretical possibility of societies where low compositional inequality may be combined with high income inequality. Currently, China and the United States come closest to that position.

Kremer, Michael. 1993. [“The O-Ring Theory of Economic Development.”](#) Quarterly Journal of Economics 108(3): 551-575.

Abstract: This paper proposes a production function describing processes subject to mistakes in any of several tasks. It shows that high-skill workers—those who make few mistakes—will be matched together in equilibrium, and that wages and output will rise steeply in skill. The model is consistent with large income differences between countries, the predominance of small firms in poor countries, and the positive correlation between the wages of workers in different occupations within enterprises. Imperfect observability of skill leads to imperfect matching and thus to spillovers, strategic complementarity, and multiple equilibria in education.

Ahmed Mushfiq Mobarak, Iffath Sharif, and Maheshwor Shrestha. 2023. [“Returns to International Migration: Evidence from a Bangladesh-Malaysia Visa Lottery.”](#) American Economic Journal: Applied Economics 15 (4) October: pp 353-88.

Abstract: This South Asians traveling to richer Asian nations is the world's largest migration corridor. We track down applicants to a government lottery that randomly allocated visas to Bangladeshis for temporary labor contracts in Malaysia, five years later. Most lottery winners migrate, and migrants' earnings triple. Their remittance raises their family's standard of living in Bangladesh. The migrant's absence pauses marriage and childbirth and shifts decision-making power toward females. Migration removes enterprising individuals, lowering household entrepreneurship, but does not crowd out other family members' labor supply. A deferred migration offer never materialized for a subgroup. Their premigration investments in skills generate no returns in the domestic market.

#### Background reading

Roy, A. D. 1951. [“Some Thoughts on the Distribution of Earnings.”](#) Oxford Economic Papers 3 (2): 135–146,

3. February 7. The top 1%: Inequality at the top.

#### **Superstars and industrial concentration**

Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez. 2013. "The Top 1 Percent in International and Historical Perspective." *Journal of Economic Perspectives* 27 (3), Summer: 3-20.

Abstract: The top 1 percent income share has more than doubled in the United States over the last 30 years, drawing much public attention in recent years. While other English-speaking countries have also experienced sharp increases in the top 1 percent income share, many high-income countries such as Japan, France, or Germany have seen much less increase in top income shares. Hence, the explanation cannot rely solely on forces common to advanced countries, such as the impact of new technologies and globalization on the supply and demand for skills. Moreover, the explanations have to accommodate the falls in top income shares earlier in the twentieth century experienced in virtually all high-income countries. We highlight four main factors. The first is the impact of tax policy, which has varied over time and differs across countries. Top tax rates have moved in the opposite direction from top income shares. The effects of top rate cuts can operate in conjunction with other mechanisms. The second factor is a richer view of the labor market, where we contrast the standard supply-side model with one where pay is determined by bargaining and the reactions to top rate cuts may lead simply to a redistribution of surplus. Indeed, top rate cuts may lead managerial energies to be diverted to increasing their remuneration at the expense of enterprise growth and employment. The third factor is capital income. Overall, private wealth (relative to income) has followed a U-shaped path over time, particularly in Europe, where inherited wealth is, in Europe if not in the United States, making a return. The fourth, little investigated, element is the correlation between earned income and capital income, which has substantially increased in recent decades in the United States.

Emmanuel Saez, and Gabriel Zucman. 2020. "The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts." *Journal of Economic Perspectives* 34 (4): 3-26.

Abstract: This paper studies inequality in America through the lens of distributional macroeconomic accounts—comprehensive distributions of the aggregate amount of income and wealth recorded in the official macroeconomic accounts of the United States. We use these distributional macroeconomic accounts to quantify the rise of income and wealth concentration since the late 1970s, the change in tax progressivity, and the direct redistributive effects of government intervention in the economy. Between 1978 and 2018, the share of pre-tax income earned by the top 1 percent rose from 10 percent to about 19 percent, and the share of wealth owned by the top 0.1 percent rose from 7 percent to about 18 percent. In 2018, the tax system was regressive at the top-end; the top 400 wealthiest Americans paid a lower average tax rate than the macroeconomic tax rate of 29 percent. We confront our methods and findings with those of other studies, pinpoint the areas where more research is needed, and describe how additional data collection could improve inequality measurement.

Kopczuk, Wojciech, and Eric Zwick. 2020. "Business Incomes at the Top." *Journal of Economic Perspectives*, 34 (4): 27-51. DOI: 10.1257/jep.34.4.27

Abstract: Business income constitutes a large and increasing share of income and wealth at the top of the distribution. We discuss how tax policy treats and shapes how businesses are organized and how they distribute economic gains to owners, with the focus on closely held and pass-through firms. These considerations influence whether and how labor and capital income is observed in economic data and feed into research controversies regarding the measurement of inequality and the progressivity of the tax code. We discuss the importance of these issues in the United States and highlight that limited evidence from other countries suggests that they are likely to be important elsewhere.

Frank, Robert and Philip Cook. 1995. *The Winner-Take-All Society: Why the Few at the Top Get So Much More than the Rest of Us*. The Free Press.

Philippon, Thomas. 2019. *The Great Reversal: How America Gave Up on Free Markets*. Harvard/Belknap Press.

#### 4. February 14. Labor markets and monopsony

Autor, David, "[Skills, education, and the rise of earnings inequality among the "other 99 percent."](#)" *Science* 344 (61862014), May 23 2014.

Abstract: The singular focus of public debate on the "top 1 percent" of households overlooks the component of earnings inequality that is arguably most consequential for the "other 99 percent" of citizens: the dramatic growth in the wage premium associated with higher education and cognitive ability. This Review documents the central role of both the supply and demand for skills in shaping inequality, discusses why skill demands have persistently risen in industrialized countries, and considers the economic value of

inequality alongside its potential social costs. I conclude by highlighting the constructive role for public policy in fostering skills formation and preserving economic mobility.

Henry Farber, Daniel Herbst, Ilyana Kuziemko, and Suresh Naidu. 2021. "[Unions and Inequality over the Twentieth Century: New Evidence from Survey Data.](#)" *The Quarterly Journal of Economics* 136 (3), August: 1325–1385

Abstract: U.S. income inequality has varied inversely with union density over the past 100 years. But moving beyond this aggregate relationship has proven difficult, in part because of limited microdata on union membership prior to 1973. We develop a new source of microdata on union membership dating back to 1936, survey data primarily from Gallup ( $N \approx 980,000$ ), to examine the long-run relationship between unions and inequality. We document dramatic changes in the demographics of union members: when density was at its mid-century peak, union households were much less educated and more nonwhite than other households, whereas pre-World War II and today they are more similar to nonunion households on these dimensions. However, despite large changes in composition and density since 1936, the household union premium holds relatively steady between 10 and 20 log points. We use our data to examine the effect of unions on income inequality. Using distributional decompositions, time series regressions, state-year regressions, as well as a new instrumental-variable strategy based on the 1935 legalization of unions and the World War II-era War Labor Board, we find consistent evidence that unions reduce inequality, explaining a significant share of the dramatic fall in inequality between the mid-1930s and late 1940s.

Naidu, Suresh, and Eric A. Posner. "[Labor Monopsony and the Limits of the Law.](#)" *Journal of Human Resources* 57, no. 7 (2022): S284-S323.

Abstract: Recent literature has suggested that antitrust regulation is an appropriate response to labor market monopsony. This article qualifies the primacy of antitrust by arguing that a significant degree of labor market power is "frictional," that is, without artificial barriers to entry or excessive concentration of employment. If monopsony is pervasive under conditions of laissez-faire, antitrust is likely to play only a partial role in remedying it, and other legal and policy instruments to intervene in the labor market will be required.

Posner, Eric, Suresh Naidu, and Glen Weyl. "[Antitrust Remedies for Labor Market Power.](#)" *Harvard Law Review* 132 (2), December 2018.

Abstract: Recent research indicates that labor market power has contributed to wage inequality and economic stagnation. Although the antitrust laws prohibit firms from restricting competition in labor markets as in product markets, the government does little to address the labor market problem, and private litigation has been rare and mostly unsuccessful. One reason is that the analytic methods for evaluating labor market power in antitrust contexts are far less sophisticated than the legal rules used to judge product market power. To remedy this asymmetry, we propose methods for judging the effects of mergers on labor markets. We also extend our approach to other forms of anticompetitive practices undertaken by employers against workers. We highlight some arguments and evidence indicating that market power may be even more important in labor markets than in product markets.

Autor, David, Claudia Claudia and Lawrence Katz. 2020. "Extending the Race Between Education and Technology." *American Economic Association Papers and Proceedings* 110: 347–351.

A great economic divide has emerged between college-educated workers and those with less education. Ever since 1980, educational wage differentials have greatly expanded, and soaring income inequality has deeply marked the US economy. But that wasn't the way it always was in America.

## 5. February 21. Inequality and race

Kevin Lang and Ariella Kahn-Lang Spitzer (2020), "Race Discrimination: An Economic Perspective." *Journal of Economic Perspectives* 34(2): 68-89.

Abstract: We review the empirical literature in economics on discrimination in the labor market and criminal justice system, focusing primarily on discrimination by race. We then discuss theoretical models of taste-based discrimination, particularly models of frictional labor markets and models of statistical discrimination, including recent work on invalid statistical discrimination. We explore and evaluate the evidence for and against these theories. Although there is substantial evidence of the existence of discrimination, little is known about the extent to which disparities are driven by discrimination. Finally, we argue that economists miss the important self-enforcing relationship between disparities and discrimination and the effect of disparities in one domain on discrimination in other domains.

Derenoncourt, Ellora, Chi Hyun Kim, Moritz Kuhn, Moritz Schularick. 2023. "Wealth of two nations: The U.S. racial wealth gap, 1860-2020." *Quarterly Journal of Economics*.

Abstract: The racial wealth gap is the largest of the economic disparities between Black and white Americans, with a white-to-Black per capita wealth ratio of 6 to 1. It is also among the most persistent. In this paper, we construct the first continuous series on white-to-Black per capita wealth ratios from 1860 to 2020, drawing on historical census data, early state tax records, and historical waves of the Survey of Consumer Finances, among other sources. Incorporating these data into a parsimonious model of wealth accumulation for each racial group, we document the role played by initial conditions, income growth, savings behavior, and capital returns in the evolution of the gap. Given vastly different starting conditions under slavery, racial wealth convergence would remain a distant scenario, even if wealth-accumulating conditions had been equal across the two groups since Emancipation. Relative to this equal-conditions benchmark, we find that observed convergence has followed an even slower path over the last 150 years, with convergence stalling after 1950. Since the 1980s, the wealth gap has widened again as capital gains have predominantly benefited white households, and convergence via income growth and savings has come to a halt.

Chetty, Raj, Nathan Hendren, Kline, Patrick, and Emmanuel Saez. 2014. "Where is the land of opportunity? The Geography of Intergenerational Opportunity in the United States." *Quarterly Journal of Economics* 129(4): 1553-1623.

Abstract: We use administrative records on the incomes of more than 40 million children and their parents to describe three features of intergenerational mobility in the United States. First, we characterize the joint distribution of parent and child income at the national level. The conditional expectation of child income given parent income is linear in percentile ranks. On average, a 10 percentile increase in parent income is associated with a 3.4 percentile increase in a child's income. Second, intergenerational mobility varies substantially across areas within the United States. For example, the probability that a child reaches the top quintile of the national income distribution starting from a family in the bottom quintile is 4.4% in Charlotte but 12.9% in San Jose. Third, we explore the factors correlated with upward mobility. High mobility areas have (i) less residential segregation, (ii) less income inequality, (iii) better primary schools, (iv) greater social capital, and (v) greater family stability. Although our descriptive analysis does not identify the causal mechanisms that determine upward mobility, the publicly available statistics on intergenerational mobility developed here can facilitate research on such mechanisms.

Raj Chetty, Nathaniel Hendren, Maggie R. Jones, and Sonya R. Porter. 2020. "Race and Economic Opportunity in the United States: An Intergenerational Perspective." *Quarterly Journal of Economics*, 135(2): 711-783.

Abstract: We study the sources of racial disparities in income using anonymized longitudinal data covering nearly the entire U.S. population from 1989-2015. We document three results. First, black Americans and American Indians have much lower rates of upward mobility and higher rates of downward mobility than whites, leading to persistent disparities across generations. Conditional on parent income, the black-white income gap is driven by differences in wages and employment rates between black and white men; there are no such differences between black and white women. Hispanic Americans have rates of intergenerational mobility more similar to whites than blacks, leading the Hispanic-white income gap to shrink across generations. Second, differences in parental marital status, education, and wealth explain little of the black-white income gap conditional on parent income. Third, the black-white gap persists even among boys who grow up in the same neighborhood. Controlling for parental income, black boys have lower incomes in adulthood than white boys in 99% of Census tracts. The few areas with small black-white gaps tend to be low-poverty neighborhoods with low levels of racial bias among whites and high rates of father presence among blacks. Black males who move to such neighborhoods earlier in childhood have significantly better outcomes. However, fewer than 5% of black children grow up in such areas. Our findings suggest that reducing the black-white income gap will require efforts whose impacts cross neighborhood and class lines and increase upward mobility specifically for black men.

William Spriggs. "Is now a teachable moment for economists? An open letter to economists from Bill Spriggs"

I have been warmed by the opening of the hearts of some economists who have displayed a new, and renewed, sense of angst about the racial issues our nation confronts because recent events have moved them. Watching the gut-wrenching brutal murder of George Floyd has gotten them to think about the bigger issue of what is really wrong, because their training as economists has let them silently accept lots of "givens" they now understand should not be presumed, and that "givens" do, in fact, matter. Having come to the realization that one cannot simply assume that all police are there to serve and protect is wrong. Watching the other three police officers sit by and do nothing about the murder means you have to question other assumptions too. But I am not sure if this moment has gotten to economists enough to see their role as economists in perpetuating the very things they wish to recoil from.

Bayer, Patrick and Kerwin Kofi Charles. 2018. "Divergent Paths: A New Perspective on Earnings Differences Between White and Black Men Since 1940." *Quarterly Journal of Economics* 133 (3): 1459-1501.

Abstract: We present new evidence on the evolution of black-white earnings differences among all men, including both workers and nonworkers. We study two measures: (i) the level earnings gap—the racial earnings difference at a given quantile; and (ii) the earnings rank gap—the difference between a black man's percentile in the black earnings distribution and the position he would hold in the white earnings distribution. After narrowing from 1940 to the mid-1970s, the median black-white level earnings gap has



since grown as large as it was in 1950. At the same time, the median black man's relative position in the earnings distribution has remained essentially constant since 1940, so that the improvement then worsening of median relative earnings have come mainly from the stretching and narrowing of the overall earnings distribution. Black men at higher percentiles have experienced significant advances in relative earnings since 1940, due mainly to strong positional gains among those with college educations. Large relative schooling gains by blacks at the median and below have been more than counteracted by rising return to skill in the labor market, which has increasingly penalized remaining racial differences in schooling at the bottom of the distribution.

## 6. February 28. Trade and inequality

Autor, David H., David Dorn, and Gordon H. Hanson. 2013. "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." *American Economic Review*, 103 (6): 2121-68. DOI: 10.1257/aer.103.6.2121

Abstract: We analyze the effect of rising Chinese import competition between 1990 and 2007 on US local labor markets, exploiting cross-market variation in import exposure stemming from initial differences in industry specialization and instrumenting for US imports using changes in Chinese imports by other high-income countries. Rising imports cause higher unemployment, lower labor force participation, and reduced wages in local labor markets that house import-competing manufacturing industries. In our main specification, import competition explains one-quarter of the contemporaneous aggregate decline in US manufacturing employment. Transfer benefits payments for unemployment, disability, retirement, and healthcare also rise sharply in more trade-exposed labor markets.

Joseph Stiglitz. 2008. "Fair Trade." *The National Interest* 95, May/June: 19-24.

More generally, standard economic theory does not say that everyone will be better-off as a result of trade liberalization, only that the winners could compensate the losers. They could take a portion of their gains, give it to the losers and everyone could be better-off. But, of course, the winners, which in much of America are the very well-off, haven't compensated the losers; indeed, some have been arguing that to compete in the new world of globalization requires cutbacks in government spending, including programs for the poor. The losers then lose doubly.

Autor, David, David Dorn, Gordon Hanson, and Kaveh Majlesi. 2020. "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure." *American Economic Review*, 110 (10): 3139-83.

Abstract: Has rising import competition contributed to the polarization of US politics? Analyzing multiple measures of political expression and results of congressional and presidential elections spanning the period 2000 through 2016, we find strong though not definitive evidence of an ideological realignment in trade-exposed local labor markets that commences prior to the divisive 2016 US presidential election. Exploiting the exogenous component of rising import competition by China, we find that trade-exposed electoral districts simultaneously exhibit growing ideological polarization in some domains, meaning expanding support for both strong-left and strong-right views, and pure rightward shifts in others. Specifically, trade-impacted commuting zones or districts saw an increasing market share for the Fox News channel (a rightward shift), stronger ideological polarization in campaign contributions (a polarized shift), and a relative rise in the likelihood of electing a Republican to Congress (a rightward shift). Trade-exposed counties with an initial majority White population became more likely to elect a GOP conservative, while trade-exposed counties with an initial majority-minority population became more likely to elect a liberal Democrat, where in both sets of counties, these gains came at the expense of moderate Democrats (a polarized shift). In presidential elections, counties with greater trade exposure shifted toward the Republican candidate (a rightward shift). These results broadly support an emerging political economy literature that connects adverse economic shocks to sharp ideological realignments that cleave along racial and ethnic lines and induce discrete shifts in political preferences and economic policy.

Dani Rodrik. 2021. "Why Does Globalization Fuel Populism? Economics, Culture, and the Rise of Right-Wing Populism." *Annual Review of Economics* 13 :133-70.

Abstract: There is compelling evidence that globalization shocks, often working through culture and identity, have played an important role in driving up support for populist movements, particularly of the right-wing kind. I start with an empirical analysis of the 2016 presidential election in the United States to show globalization-related attitudinal variables were important correlates of the switch to Trump. I then provide a conceptual framework that identifies four distinct channels through which globalization can stimulate populism, two each on the demand and supply sides of politics. I evaluate the empirical literature with the help of this framework, discussing trade, financial globalization, and immigration separately. I conclude the review by discussing some apparently anomalous cases where populists have been against, rather than in favor of, trade protection.

## 7. March 6. Policies: Minimum wages, taxes, redistribution

Hacker, Jacob. 2004. "Privatizing risk without privatizing the welfare state: The hidden politics of social policy retrenchment in the United States." *American Political Science Review* 98 (02): 243-260.

Abstract: Over the last decade, students of the welfare state have produced an impressive body of research on retrenchment, the dominant thrust of which is that remarkably few welfare states have experienced fundamental shifts. This article questions this now-conventional wisdom by reconsidering the post-1970s trajectory of the American welfare state, long considered the quintessential case of social policy stability. I demonstrate that although most programs have indeed resisted retrenchment, U.S. social policy has also offered increasingly incomplete risk protection in an era of dramatic social change. Although some of this disjuncture is inadvertent—an unintended consequence of the very political stickiness that has stymied retrenchment—I argue that the declining scope of risk protection also reflects deliberate and theoretically explicable strategies of reform adopted by welfare state opponents in the face of popular and change-resistant policies, a finding that has significant implications for the study of institutional change more broadly.

Derenoncourt, Ellora and Claire Montialoux. "Minimum Wages and Racial Inequality." *The Quarterly Journal of Economics* (2021), 169–228. doi:10.1093/qje/qjaa031.

Abstract: The earnings difference between white and black workers fell dramatically in the United States in the late 1960s and early 1970s. This article shows that the expansion of the minimum wage played a critical role in this decline. The 1966 Fair Labor Standards Act extended federal minimum wage coverage to agriculture, restaurants, nursing homes, and other services that were previously uncovered and where nearly a third of black workers were employed. We digitize over 1,000 hourly wage distributions from Bureau of Labor Statistics industry wage reports and use CPS microdata to investigate the effects of this reform on wages, employment, and racial inequality. Using a cross-industry difference-in-differences design, we show that earnings rose sharply for workers in the newly covered industries. The impact was nearly twice as large for black workers as for white workers. Within treated industries, the racial gap adjusted for observables fell from 25 log points pre-reform to 0 afterward. We can rule out significant disemployment effects for black workers. Using a bunching design, we find no aggregate effect of the reform on employment. The 1967 extension of the minimum wage can explain more than 20% of the reduction in the racial earnings and income gap during the civil rights era. Our findings shed new light on the dynamics of labor market inequality in the United States and suggest that minimum wage policy can play a critical role in reducing racial economic disparities.

Cengiz, Doruk, Arindrajit Dube, Attila Lindner, Ben Zipperer. "The Effect of Minimum Wages on Low-Wage Jobs." *The Quarterly Journal of Economics* (2019), 1405–1454. doi:10.1093/qje/qjz014

Abstract: We estimate the effect of minimum wages on low-wage jobs using 138 prominent state-level minimum wage changes between 1979 and 2016 in the United States using a difference-in-differences approach. We first estimate the effect of the minimum wage increase on employment changes by wage bins throughout the hourly wage distribution. We then focus on the bottom part of the wage distribution and compare the number of excess jobs paying at or slightly above the new minimum wage to the missing jobs paying below it to infer the employment effect. We find that the overall number of low-wage jobs remained essentially unchanged over the five years following the increase. At the same time, the direct effect of the minimum wage on average earnings was amplified by modest wage spillovers at the bottom of the wage distribution. Our estimates by detailed demographic groups show that the lack of job loss is not explained by labor-labor substitution at the bottom of the wage distribution. We also find no evidence of disemployment when we consider higher levels of minimum wages. However, we do find some evidence of reduced employment in tradeable sectors. We also show how decomposing the overall employment effect by wage bins allows a transparent way of assessing the plausibility of estimates.

Gornick, Janet C. and Timothy M. Smeeding. 2018. "Redistributional Policy in Rich Countries: Institutions and Impacts in Nonelderly Households" *Annual Review of Sociology*. vol. 44. pp. 441- 468.

Abstract: We review research on institutions of redistribution operating in high-income countries. Focusing on the nonelderly, we invoke the concept of the household income package, which includes income from labor, from related households, and from the state. Accordingly, we assess three institutional arenas: predistribution (rules and regulations that govern paid work), private redistribution (interhousehold transfers), and conventional public redistribution (operating via cash transfers and direct taxes). In each arena, we assess underlying policy logics, identify current policy controversies, summarize contemporary cross-national policy variation, and synthesize existing findings on policy effects. Our assessment of redistributional effects focuses on three core socioeconomic outcomes: low pay, child poverty, and income inequality. We close by assessing how the three institutional arenas perform collectively and by calling for further work on how these institutions change over time and how they affect subgroups differentially.

Brady, David and Amie Bostic. 2015. "[Paradoxes of Social Policy: Welfare Transfers, Relative Poverty, and Redistribution Preferences.](#)" *American Sociological Review*, 80(2), 268-298.

Abstract: Korpi and Palme's (1998) classic "The Paradox of Redistribution and Strategies of Equality" claims that universal social policy better reduces poverty than social policies targeted at the poor. This article revisits Korpi and Palme's classic, and in the process, explores and informs a set of enduring questions about social policy, politics, and social equality. Specifically, we investigate

the relationships between three dimensions of welfare transfers—transfer share (the average share of household income from welfare transfers), low-income targeting, and universalism—and poverty and preferences for redistribution. We analyze rich democracies like Korpi and Palme, but we also generalize to a broader sample of developed and developing countries. Consistent with Korpi and Palme, we show (1) poverty is negatively associated with transfer share and universalism; (2) redistribution preferences are negatively associated with low-income targeting; and (3) universalism is positively associated with transfer share. Contrary to Korpi and Palme, redistribution preferences are not related to transfer share or universalism; and low-income targeting is neither positively associated with poverty nor negatively associated with transfer share. Therefore, instead of the “paradox of redistribution” we propose two new paradoxes of social policy: non-complementarity and undermining. The non-complementarity paradox entails a mismatch between the dimensions that matter to poverty and the dimension that matters to redistribution preferences. The undermining paradox emphasizes that the dimension (transfer share) that most reduces poverty tends to increase with the one dimension (low-income targeting) that reduces support for redistribution.

Bowles, Samuel and Herbert Gintis. 1996. [“Efficient Redistribution: New Rules for Markets, States, and Communities.”](#) *Politics & Society*, 24(4), 307-342.

Economic theory has proven, one hears, that any but cosmetic modifications of capitalism in the direction of equality and democratic control will exact a heavy toll of reduced economic performance. Yet economic theory suggests no such thing. On the contrary, there are compelling economic arguments and ample empirical support for the proposition that there exist changes in the rules of the economic game which can foster both greater economic equality and improved economic performance. Indeed, as we will see, inequality is often an impediment to productivity.

Platteau, Jean-Philippe, [‘Traditional Systems of Social Security and Hunger Insurance: Past Achievements and Modern Challenges’](#), in Ehtisham Ahmad, and others (eds), *Social Security in Developing Countries* (Oxford, 1991; online edn, Oxford Academic, 22 Sept, 2011).

This chapter attempts to assess broadly the performance of traditional systems of social security as they exist or have existed in Third World village societies. It pursues the three following objectives: (1) to identify the main characteristics of the institutions providing social security in the societies under concern; (2) to bring into light the basic principles that their functioning obeys; and (3) to identify the most important problems and limitations to which they are subject. It achieves these objectives adopting the Scott–Popkin controversy as a convenient point of departure for the whole discussion. The chapter further provides a more detailed picture of apparently successful risk-pooling mechanisms as they have been found to prevail in several village societies. It evaluates the adequacy of traditional systems of social security in the light of modern challenges and present circumstances.

#### Background reading

Alesina Alberto, Stefanie Stancheva, and Edoardo Teso. 2018. *Intergenerational mobility and preferences for redistribution.*” *American Economic Review* 108(2): 521–554

Gary Gerstle. 2022. *The Rise and Fall of the Neoliberal Order.* Oxford University Press.

Andrea Fazio, Tommaso Reggiani, Minimum wage and tolerance for high incomes, *European Economic Review*, Volume 155, 2023, 104445, <https://doi.org/10.1016/j.euroecorev.2023.104445>.

Abstract: We suggest that stabilizing the baseline income can make low-wage workers more tolerant towards high income earners. We present evidence of this attitude in the UK by exploiting the introduction of the National Minimum Wage (NMW), which institutionally sets a baseline pay reducing the risk of income losses and providing a clear reference point for British workers at the lower end of the income distribution. Based on data from the British Household Panel Survey (BHPS), we show that workers who benefited from the NMW program became relatively more tolerant of high incomes and more likely to support and vote for the Conservative Party. As far as tolerance for high incomes is related to tolerance of inequality, our results may suggest that people advocate for equality also because they fear income losses below a given reference point.

#### 8. March 13. Open questions / constructing a research paper

March 20 – Spring break

## 9. March 27. Poverty as measured

### Measurement / description

Martin Ravallion. 2009. *The Economics of Poverty: History, Measurement, and Policy*. New York, NY: Oxford University Press.

Sen, Amartya. 1976. "[Poverty: An Ordinal Approach to Measurement](#)." *Econometrica* 44 (2): 219-31.

Foster, J., J. Greer, and E. Thorbecke (1984): "A Class of Decomposable Poverty Measures," *Econometrica*, 52, 761–766.

Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. 2009. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton University Press.

Edin, Kathryn and Luke Shaefer. 2015. *\$2.00 a Day: Living on Almost Nothing in America*. Houghton Mifflin Harcourt.

### Poverty and economic growth

Ravallion, Martin. "[Growth, Inequality, and Poverty](#)." Chapter 8 in *The Economics of Poverty: History, Measurement, and Policy* (New York, 2016; online edn, Oxford Academic, 21 Jan, 2016).

Datt, Gaurav and Ravallion, Martin and Murgai, Rinku. 2020. "[Poverty and Growth in India over Six Decades](#)." *American Journal of Agricultural Economics* 102: 4-27.

Abstract: We study the evolution of consumption-poverty measures for post-independence India, including 20 years since extensive economic reforms began in 1991. Progress against poverty was negligible until the mid-1970s, after which a downward trend in poverty measures emerged. The pace of poverty reduction accelerated in the post-reform period, despite rising inequality amidst faster growth. A key finding is that the relationship to the pattern of growth changed greatly, suggesting stronger intersectoral linkages, with urban consumption growth benefiting both the rural and urban poor. In contrast to the pre-reform period, growth in primary, secondary and tertiary sector outputs yielded similar impacts on poverty.

### Persistence / Transience

Addison, Tony, David Hulme, and Ravi Kanbur, eds. (2009). *Poverty Dynamics: Interdisciplinary Perspectives*. Oxford: Oxford University Press.

Valetta, Robert. 2006. "The ins and outs of poverty in advanced economies: Government policy and poverty dynamics in Canada, Germany, Great Britain, and the United States," *Review of Income and Wealth* 52: 261–284.

Abstract: Comparative analysis of poverty dynamics—transitions and persistence—can yield important insights about the nature of poverty and the effectiveness of alternative policy responses. This manuscript compares poverty dynamics in four advanced industrial countries (Canada, unified Germany, Great Britain, and the United States) for overlapping six-year periods in the 1990s, focusing on the impact of government policies. The data indicate that relative to measured cross-sectional poverty rates, poverty persistence is higher in North America than in Europe. Most poverty transitions, and the prevalence of chronic poverty, are associated with employment instability and family dissolution in all four countries. However, government tax-and-transfer policies are more effective at reducing poverty persistence in Europe than in North America.

Ann Huff Stevens. 1994. "The Dynamics of Poverty Spells: Updating Bane and Ellwood." *The American Economic Review, Papers and Proceedings* 84 (2): 34-37.

From the conclusion: I find that exits from individual spells of poverty often do not imply permanent transitions out of poverty, with half of all those who escape poverty again falling below the poverty line within the next five years. This tendency to experience repeated spells of poverty has increased over the period studied here for persons living in households headed by white females. These findings suggest the importance of further research on the factors associated with more permanent transitions out of poverty, particularly for persons in households headed by women.

## 10. April 3. Poverty at higher frequency

Merfeld, Joshua and Jonathan Morduch. 2023. "Poverty at Higher Frequency." Working paper.

Abstract: Historically, poverty has been defined as an insufficiency of yearly resources. But, through a process that has been largely unrecognized, some national poverty rates turn out to measure a conceptually distinct notion of household well-being. We show that, when following expert guidelines for data collection, national poverty statistics in low- and middle-income countries approximate a measure that we define as the Average of Poverities.

This de facto poverty measure is "time-sensitive" in that it captures variation in household welfare within the year rather than just reflecting total yearly resources. The result transforms the nature of what is understood as "poverty" into a notion that is sensitive to households' exposure to shocks and their ability to smooth consumption within the year. We illustrate the implications with monthly panel data from rural India, showing that time-sensitivity in poverty measurement has quantitatively large impacts on measured poverty, improves predictions of health outcomes, and expands the scope of strategies to reduce global poverty. Recognition of time-sensitivity in de facto measures also raises philosophical questions about the nature of deprivation itself.

## Evidence from the USA

David Card and Rebecca Blank. 2008. "[The Changing Incidence and Severity of Poverty Spells among Female-Headed Families](#)." *American Economic Review: Papers & Proceedings* 98(2): 387–391.

Extract: Policy reforms and labor market changes over the 1990s had a profound effect on families headed by single women. Federal welfare reform, passed in 1996, pushed many more women into the labor force, while expansions in the Earned Income Tax Credit increased their economic returns to work. A booming economy helped assure that jobs were available. Earnings and income among single mothers rose, while poverty rates declined. By 2000, the poverty rate among families headed by single women had fallen to 25 percent, far below the 33 percent rate at the start of the 1990s. While these trends are widely viewed as good news, conventional measures of income and poverty based on annual averages can be misleading. If jobs and earnings become more unstable, or public assistance less accessible, then the within-year variability in income will rise, potentially offsetting the gains in average income... We use data from the 1990 and 2001 Surveys of Income and Program Participation (SIPP). The SIPP collects detailed monthly data on earnings and nonlabor income, enabling us to measure the incidence and duration of poverty spells at a very fine level.

Mohanty, A. 2021: "Dynamics of Economic Well-Being: Poverty, 2013–2016," Report P70BR-172, US Census Bureau, Current Population Reports.

Abstract: This report presents data on poverty based on information collected in the Survey of Income and Program Participation (SIPP). The report focuses on data collected in the 2014 Panel of the SIPP covering January 2013 through December 2016. The report describes patterns of poverty using measures with different time horizons and provides a dynamic view of the duration of poverty spells and the frequency of transitions into and out of poverty. The poverty measures discussed include monthly, annual, episodic, and chronic poverty rates. The report also examines the persistence of annual poverty, the movement of people across income-to-poverty ratio groupings, the duration of poverty spells, and the poverty survival rate. Additionally, estimates are compared across various demographic groups such as sex, race, Hispanic origin, age, family status, and educational attainment.

Jonathan Morduch and Julie Siwicki. 2017. "[In and Out of Poverty: Episodic Poverty and Income Volatility in the US Financial Diaries](#)." *Social Service Review* 91(3).

Abstract: We use data from the US Financial Diaries study to relate episodic poverty to intrayear income volatility and to the availability of government transfers. The US Financial Diaries data track a continuous year's worth of month-to-month income for 235 low- and moderate-income households, each with at least one employed member, in four regions in the United States. The data provide an unusually granular view of household financial transactions, allowing the documentation of episodic poverty and the attribution of a large share of it to fluctuations in earnings within jobs. For households with annual income greater than 150 percent of the poverty line, smoothing within-job income variability reduces the incidence of episodic poverty by roughly half. We decompose how month-to-month income volatility responds to the receipt of eight types of public or private transfers. The transfers assist households mainly by raising the mean of income rather than by dampening intrayear income variability.

11. April 10. Poverty and consumption smoothing

Morduch, Jonathan. 1994. Poverty and Vulnerability. AER [Papers and Proceedings of the 106th Annual Meeting of the American Economic Association], May: 221-225.

Bryan, Gharad, Shyamal Chowdhury, and Ahmed Mushfiq Mobarak (2014): "Underinvestment in a Profitable Technology: The Case of Seasonal Migration in Bangladesh," *Econometrica* 82: 1671– 1758.

Abstract: Hunger during pre-harvest lean seasons is widespread in the agrarian areas of Asia and Sub-Saharan Africa. We randomly assign an \$8.50 incentive to households in rural Bangladesh to temporarily out-migrate during the lean season. The incentive induces 22% of households to send a seasonal migrant, their consumption at the origin increases significantly, and treated households are 8–10 percentage points more likely to re-migrate 1 and 3 years after the incentive is removed. These facts can be explained qualitatively by a model in which migration is risky, mitigating risk requires individual-specific learning, and some migrants are sufficiently close to subsistence that failed migration is very costly. We document evidence consistent with this model using heterogeneity analysis and additional experimental variation, but calibrations with forward-looking households that can save up to migrate suggest that it is difficult for the model to quantitatively match the data. We conclude with extensions to the model that could provide a better quantitative accounting of the behavior.

Ganong, Peter, Damon Jones, Pascal Noel, Fiona Greig, Diana Farrell, and Chris Wheat. 2020. "Wealth, Race, and Consumption Smoothing of Typical Income Shocks," 2023.

Abstract: We study the consumption response to typical labor income shocks and investigate how these vary by wealth and race. First, we develop an instrument based on firm-wide changes in labor income. Household income volatility stems mostly from fluctuations in labor income and this research design therefore studies the sort of income fluctuations that households typically experience from month to month. Using administrative banking data, we find an average elasticity of 0.21, with a much higher elasticity for low-liquidity households and close to zero elasticity for high-liquidity households. In a stylized model calibrated to our estimates, this degree of sensitivity implies that temporary income volatility has a large welfare cost for the average household, and especially large costs for low-liquidity households. Second, we use this instrument to study how wealth shapes racial inequality. Although an extensive body of work documents the long-term persistence of the racial wealth gap, less is known about its consequences on households' lives from month to month. We find that Black and Hispanic households are twice as sensitive to typical income shocks as White households. Nearly all of this difference is explained in a statistical sense by racial wealth inequality. Because of racial disparities in consumption smoothing, the welfare cost of temporary income volatility is twice as high for Black and Hispanic households than for White households.

Breza, Emily, Supreet Kaur, and Yogita Shamdasani (2021): "Labor Rationing," *American Economic Review* 111: 3184–3224.

Abstract: This paper measures excess labor supply in equilibrium. We induce hiring shocks—which employ 24 percent of the labor force in external month-long jobs—in Indian local labor markets. In peak months, wages increase instantaneously and local aggregate employment declines. In lean months, consistent with severe labor rationing, wages and aggregate employment are unchanged, with positive employment spillovers on remaining workers, indicating that over a quarter of labor supply is rationed. At least 24 percent of lean self-employment among casual workers occurs because they cannot find jobs. Consequently, traditional survey approaches mismeasure labor market slack. Rationing has broad implications for labor market analysis.

Fink, Günther, B. Kelsey Jack, and Felix Masiye (2020): "Seasonal Liquidity, Rural Labor Markets, and Agricultural Production," *American Economic Review*, 110 (11), 3351–92.

Abstract: Rural economies in many developing countries are characterized by a lean season in the months preceding harvest, when farmers have depleted their cash and grain savings from the previous year. To identify the impacts of liquidity during the lean season, we offered subsidized loans in randomly selected villages in rural Zambia. Ninety-eight percent of households took up the loan. Loan eligibility led to increases in on-farm labor and agricultural output, driving up wages in local labor markets. Larger effects for poorer households suggest that liquidity constraints contribute to inequality in rural economies.

## 12. April 17. Behavioral approaches to Poverty

### Behavioral approaches to Poverty: Cognition

Anuj K. Shah, Sendhil Mullainathan, Eldar Shafir. 2012. Some Consequences of Having Too Little. *Science* 02 Nov 2012: Vol. 338, Issue 6107, pp. 682-685. DOI: 10.1126/science.1222426

Abstract: Poor individuals often engage in behaviors, such as excessive borrowing, that reinforce the conditions of poverty. Some explanations for these behaviors focus on personality traits of the poor. Others emphasize environmental factors such as housing or financial access. We instead consider how certain behaviors stem simply from having less. We suggest that scarcity changes how people allocate attention: It leads them to engage more deeply in some problems while neglecting others. Across several experiments, we show that scarcity leads to attentional shifts that can help to explain behaviors such as overborrowing. We discuss how this mechanism might also explain other puzzles of poverty.

Anandi Mani, Sendhil Mullainathan, Eldar Shafir, Jiaying Zhao. 2013. Poverty Impedes Cognitive Function. *Science* 30 Aug 2013: Vol. 341, Issue 6149, pp. 976-980. DOI: 10.1126/science.1238041

Abstract: The poor often behave in less capable ways, which can further perpetuate poverty. We hypothesize that poverty directly impedes cognitive function and present two studies that test this hypothesis. First, we experimentally induced thoughts about finances and found that this reduces cognitive performance among poor but not in well-off participants. Second, we examined the cognitive function of farmers over the planting cycle. We found that the same farmer shows diminished cognitive performance before harvest, when poor, as compared with after harvest, when rich. This cannot be explained by differences in time available, nutrition, or work effort. Nor can it be explained with stress: Although farmers do show more stress before harvest, that does not account for diminished cognitive performance. Instead, it appears that poverty itself reduces cognitive capacity. We suggest that this is because poverty-related concerns consume mental resources, leaving less for other tasks. These data provide a previously unexamined perspective and help explain a spectrum of behaviors among the poor. We discuss some implications for poverty policy.

de Bruijn, EJ., Antonides, G. 2022. "[Poverty and economic decision making: a review of scarcity theory.](#)" *Theory and Decision* 92, 5–37 (2022).

Abstract: Poverty is associated with a wide range of counterproductive economic behaviors. Scarcity theory proposes that poverty itself induces a scarcity mindset, which subsequently forces the poor into suboptimal decisions and behaviors. The purpose of our work is to provide an integrated, up-to-date, critical review of this theory. To this end, we reviewed the empirical evidence for three fundamental propositions: (1) Poverty leads to attentional focus and neglect causing over-borrowing, (2) poverty induces trade-off thinking resulting in more consistent consumption decisions, and (3) poverty reduces mental bandwidth and subsequently increases time discounting and risk aversion. Our findings indicate that the current literature predominantly confirms the first and second proposition, although methodological issues prevent a firm conclusion. Evidence for the third proposition was not conclusive. Additionally, we evaluated the overall status of scarcity theory. Although the theory provides an original, coherent, and parsimonious explanation for the relationship between financial scarcity and economic decision making, the theory does not fully accord with the data and lacks some precision. We conclude that both theoretical and empirical work are needed to build a stronger theory.

### Behavioral approaches to Poverty: Depression, sleep, alcohol

Matthew Ridley, Gautam Rao, Frank Schilbach, Vikram Patel. 2020. "Poverty, depression, and anxiety: Causal evidence and mechanisms." *Science* 370(6522):eaay0214. doi: 10.1126/science.aay0214

Abstract: Why are people who live in poverty disproportionately affected by mental illness? We review the interdisciplinary evidence of the bidirectional causal relationship between poverty and common mental illnesses—depression and anxiety—and the underlying mechanisms. Research shows that mental illness reduces employment and therefore income, and that psychological interventions generate economic gains. Similarly, negative economic shocks cause mental illness, and antipoverty programs such as cash transfers improve mental health. A crucial step toward the design of effective policies is to better understand the mechanisms underlying these causal effects.

Pedro Bessone, Gautam Rao, Frank Schilbach, Heather Schofield, Mattie Toma. 2021. "The Economic Consequences of Increasing Sleep among the Urban Poor." *Quarterly Journal of Economics* 136(3):1887- 1941. doi: 10.1093/qje/qjab013

Abstract: The urban poor in developing countries face challenging living environments, which may interfere with good sleep. Using actigraphy to measure sleep objectively, we find that low-income adults in Chennai, India, sleep only 5.5 hours a night on average despite spending 8 hours in bed. Their sleep is highly interrupted, with sleep efficiency—sleep per time in bed—comparable to those with disorders such as sleep apnea or insomnia. A randomized three-week treatment providing information, encouragement, and

improvements to home sleep environments increased sleep duration by 27 minutes a night by inducing more time in bed. Contrary to expert predictions and a large body of sleep research, increased nighttime sleep had no detectable effects on cognition, productivity, decision making, or well being, and led to small decreases in labor supply. In contrast, short afternoon naps at the workplace improved an overall index of outcomes by 0.12 standard deviations, with significant increases in productivity, psychological well-being, and cognition, but a decrease in work time.

Frank Schilbach. 2019. Alcohol and Self-Control: A Field Experiment in India. *American Economic Review* 2019, 109(4): 1290–1322. DOI: 10.1257/aer.20170458

Abstract: This paper studies alcohol consumption among low-income workers in India. In a 3-week field experiment, the majority of 229 cycle-rickshaw drivers were willing to forgo substantial monetary payments in order to set incentives for themselves to remain sober, thus exhibiting demand for commitment to sobriety. Randomly receiving sobriety incentives significantly reduced daytime drinking while leaving overall drinking unchanged. I find no evidence of higher daytime sobriety significantly changing labor supply, productivity, or earnings. In contrast, increasing sobriety raised savings by 50 percent, an effect that does not appear to be solely explained by changes in income net of alcohol expenditures.

Jonathan de Quidt and Johannes Haushofer. 2019. “Depression through the Lens of Economics: A Research Agenda.” Chapter 3 in Christopher B. Barrett, Michael R. Carter, and Jean- Paul Chavas (eds.) *The Economics of Poverty Traps*. Chicago: University of Chicago Press. 127-152.

Extract: Depression is intimately linked to poverty for two reasons: first, prevalence among low- income populations is higher than among high- income populations (Bromet et al. 2011; Lund et al. 2010; Lund et al. 2011). Second, low- income individuals have significantly less access to treatment than high- income populations: the World Health Organization (WHO) reports that low- income countries on average have 2.1 psychiatric beds (a proxy for the capacity of the mental health system as a whole) per 100,000 individuals, while high- income countries have 90.9.

Manuela Angelucci and Daniel Bennett. 2024. “[The Economic Impact of Depression Treatment in India: Evidence from Community-Based Provision of Pharmacotherapy.](#)” *American Economic Review* 114(1): 169–198.

Abstract: This study evaluates the impact of depression treatment on economic behavior in Karnataka, India. We cross-randomize pharmacotherapy and livelihoods assistance among 1,000 depressed adults and evaluate impacts on depression severity, socioeconomic outcomes, and several potential pathways. When combined, the interventions reduce depression severity, with benefits that persist after treatment concludes. Pharmacotherapy alone has a weaker effect that is only marginally significant and dissipates sooner. Depression treatment does not significantly increase earnings, consumption, or human capital investment in children.

13. April 24. Cash transfers, poverty traps

Cash transfers

Haushofer, Johannes, and Jeremy Shapiro. “The Short-Term Impact of Unconditional Cash Transfers to the Poor: Experimental Evidence from Kenya.” *Quarterly Journal of Economics* 131, no. 4 (2016): 1973–2042.

Abstract: We use a randomized controlled trial to study the response of poor households in rural Kenya to unconditional cash transfers from the NGO GiveDirectly. The transfers differ from other programs in that they are explicitly unconditional, large, and concentrated in time. We randomized at both the village and household levels; furthermore, within the treatment group, we randomized recipient gender (wife versus husband), transfer timing (lump-sum transfer versus monthly installments), and transfer magnitude (US\$404 PPP versus US\$1,525 PPP). We find a strong consumption response to transfers, with an increase in household monthly consumption from \$158 PPP to \$193 PPP nine months after the transfer began. Transfer recipients experience large increases in psychological well-being. We find no overall effect on levels of the stress hormone cortisol, although there are differences across some subgroups. Monthly transfers are more likely than lump-sum transfers to improve food security, whereas lump-sum transfers are more likely to be spent on durables, suggesting that households face savings and credit constraints. Together, these results suggest that unconditional cash transfers have significant impacts on economic outcomes and psychological well-being.

Haushofer, Johannes, Robert Mudida, and Jeremy Shapiro. “The Comparative Impact of Cash Transfers and Psychotherapy on Psychological and Economic Well-being.” Working Paper (2023).



Abstract: We study the economic and psychological effects of a USD 1076 PPP unconditional cash transfer, a five-week psychotherapy program, and the combination of both interventions among 5,756 individuals in rural Kenya. One year after the interventions, cash transfer recipients had higher consumption, asset holdings, and revenue, as well as higher levels of psychological well-being than control households. In contrast, the psychotherapy program had no measurable effects on either psychological or economic outcomes, both for individuals with poor mental health at baseline and others. The effects of the combined treatment are similar to those of the cash transfer alone.

## Unintended consequences, general equilibrium

Jesse Cunha, Giacomo De Giorgi, and Seema Jayachandran. 2019. “The Price Effects of Cash Versus In-Kind Transfers” *Review of Economic Studies* 86, 240–281.

Abstract: This article examines the effect of cash versus in-kind transfers on local prices. Both types of transfers increase the demand for normal goods; in-kind transfers also increase supply in recipient communities, which could lead to lower prices than under cash transfers. We test and confirm this prediction using a programme in Mexico that randomly assigned villages to receive boxes of food (trucked into the village), equivalently-valued cash transfers, or no transfers. We find that prices are significantly lower under in-kind transfers compared to cash transfers; relative to the control group, in-kind transfers cause a 4% fall in prices while cash transfers cause a positive but negligible increase in prices. In the more economically developed villages in the sample, households’ purchasing power is only modestly affected by these price effects. In the less developed villages, the price effects are much larger in magnitude, which we show is due to these villages being less tied to the outside economy and having less competition among local suppliers.

Egger, Dennis, Johannes Haushofer, Edward Miguel, Paul Niehaus, and Michael Walker. “General Equilibrium Effects of Unconditional Cash Transfers: Experimental Evidence from Kenya.” *Econometrica* 90, no. 6 (2022): 2603–2643.

Abstract: How large economic stimuli generate individual and aggregate responses is a central question in economics, but has not been studied experimentally. We provided one-time cash transfers of about USD 1000 to over 10,500 poor households across 653 randomized villages in rural Kenya. The implied fiscal shock was over 15 percent of local GDP. We find large impacts on consumption and assets for recipients. Importantly, we document large positive spillovers on non-recipient households and firms, and minimal price inflation. We estimate a local transfer multiplier of 2.5. We interpret welfare implications through the lens of a simple household optimization framework.

Deon Filmer, Jed Friedman, Eeshani Kandpal, Junko Onishi. 2023. [Cash Transfers, Food Prices, and Nutrition Impacts on Ineligible Children](#). *The Review of Economics and Statistics* 105 (2): 327–343.

Abstract: Can cash aid harm non-recipients by raising local prices? We show that a household-targeted cash transfer in the Philippines increases the prices of perishable foods in some markets and raises stunting among non-beneficiary children by 11 percentage points (34%). Impacts increase in the size of the village income shock and remoteness—and are sustained two and a half years after program introduction. Price effects from an experimental sample are confirmed with national expenditure surveys collected during program scale-up. Household-targeted cash transfers can thus generate local spillovers that undermine program goals. Selected geographic targeting may avoid price spillovers at moderate additional cost.

## Poverty traps – need for large transfers, debt

Clare Balboni, Oriana Bandiera, Robin Burgess, Maitreesh Ghatak, Anton Heil, [Why Do People Stay Poor?](#), *The Quarterly Journal of Economics*, Volume 137, Issue 2, May 2022, Pages 785–844

Abstract: There are two broad views as to why people stay poor. One emphasizes differences in fundamentals, such as ability, talent, or motivation. The poverty traps view emphasizes differences in opportunities that stem from access to wealth. To test these views, we exploit a large-scale, randomized asset transfer and an 11-year panel of 6,000 households who begin in extreme poverty. The setting is rural Bangladesh, and the assets are cows. The data support the poverty traps view—we identify a threshold level of initial assets above which households accumulate assets, take on better occupations (from casual labor in agriculture or domestic services to running small livestock businesses), and grow out of poverty. The reverse happens for those below the threshold. Structural estimation of an occupational choice model reveals that almost all beneficiaries are misallocated in the work they do at baseline and that the gains arising from eliminating misallocation would far exceed the program costs. Our findings imply that large transfers, which create better jobs for the poor, are an effective means of getting people out of poverty traps and reducing global poverty.

Dean Karlan, Sendhil Mullainathan, and Benjamin N. Roth. 2019. [Debt Traps? Market Vendors and Moneylender Debt in India and the Philippines](#). *AER: Insights* 2019, 1(1): 27–42

Abstract: A debt trap occurs when someone takes on a high-interest-rate loan and is barely able to pay back the interest, and thus perpetually finds themselves in debt (often by refinancing). Studying such practices is important for understanding financial decision-making of households in dire circumstances, and also for setting appropriate consumer protection policies. We conduct a simple experiment in three sites in which we paid off high-interest moneylender debt of individuals. Most borrowers returned to debt within six weeks. One to two years after intervention, treatment individuals were borrowing at the same rate as control households.

#### 14. May 1. Gender, inequality, and poverty

Blau, Francine and Lawrence Kahn. 2017. "The Gender Wage Gap: Extents, Trends and Explanations." *Journal of Economic Literature* 55(3), 789–865.

Abstract: Using Panel Study of Income Dynamics (PSID) microdata over the 1980–2010 period, we provide new empirical evidence on the extent of and trends in the gender wage gap, which declined considerably during this time. By 2010, conventional human capital variables taken together explained little of the gender wage gap, while gender differences in occupation and industry continued to be important. Moreover, the gender pay gap declined much more slowly at the top of the wage distribution than at the middle or bottom and by 2010 was noticeably higher at the top. We then survey the literature to identify what has been learned about the explanations for the gap. We conclude that many of the traditional explanations continue to have salience. Although human-capital factors are now relatively unimportant in the aggregate, women's work force interruptions and shorter hours remain significant in high-skilled occupations, possibly due to compensating differentials. Gender differences in occupations and industries, as well as differences in gender roles and the gender division of labor remain important, and research based on experimental evidence strongly suggests that discrimination cannot be discounted. Psychological attributes or noncognitive skills comprise one of the newer explanations for gender differences in outcomes. Our effort to assess the quantitative evidence on the importance of these factors suggests that they account for a small to moderate portion of the gender pay gap, considerably smaller than, say, occupation and industry effects, though they appear to modestly contribute to these differences.

World Bank. 2018. "Inside the Household: Poor Children, Women, and Men." Chapter 5 in *Poverty and shared prosperity: piecing together the poverty puzzle*. Washington, DC.

The accumulated evidence of numerous studies and data sources suggests that women and children are often disproportionately affected by poverty albeit with considerable variation across countries and across types of households. Sex differences in poverty are largest during the reproductive years, when care and domestic responsibilities, which are socially assigned to women, overlap and conflict with productive activities. This tension is often most pronounced among the poorest countries and the poorest groups in society.

Agnes R Quisumbing, Lawrence Haddad, Christine Peña. 2001. "[Are women overrepresented among the poor? An analysis of poverty in 10 developing countries](#)." *Journal of Development Economics* 66 (1): 225–269..

Abstract: This paper presents new evidence on the proportion of women in poverty in 10 developing countries. It compares poverty measures for males and females, and for male- and female-headed households, and investigates the sensitivity of these measures to the use of per capita and per adult equivalent units and different definitions of the poverty line. While poverty measures are higher for female-headed households and for females, the differences are significant in only a fifth to a third of the datasets. The contribution of female-headed households to aggregate poverty is less than that of females, due to the low population share of the former. Stochastic dominance analysis reveals that differences between male- and female-headed households, and between males and females, are often insignificant, except for Ghana and Bangladesh, where females are consistently worse-off. These results suggest that cultural and institutional factors may be responsible for higher poverty among women in these countries. Our results point to the need to analyze determinants of household income and consumption using multivariate methods, and to give greater attention to the processes underlying female headship.

Edin, Kathryn and Laura Lein. 1997. *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work*. Russell Sage Foundation.

*Making Ends Meet* demonstrates compellingly why the choice between welfare and work is more complex and risky than is commonly recognized by politicians, the media, or the public. Almost all the welfare-reliant women interviewed by Edin and Lein made repeated efforts to leave welfare for work, only to be forced to return when they lost their jobs, a child became ill, or they could not cover their bills with their wages. Mothers who managed more stable employment usually benefited from a variety of mitigating circumstances such as having a relative willing to watch their children for free, regular child support payments, or very low housing, medical, or commuting costs.

#### 15. May 8. Research proposal presentations