ECONOMIC FINDING

Do Financial Concerns Make Workers Less Productive?

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Upon receiving large cash payments, average productivity among poor workers increases while mistakes decline, which suggests that alleviating financial concerns can make workers more attentive and productive.

Of all the challenges that poverty presents, one that is gaining increased attention from researchers is that poverty itself can have psychological effects that lead to decreased earning potential. Living in poverty—with the stresses and traumas that such a state causes—can negatively impact a person’s ability to work productively and earn a high wage.

To test this connection between poverty and productivity, the authors conduct a field experiment with 408 small-scale manufacturing workers in Odisha, India. The workers are employed full-time for a two-week contract job—a typical form of employment. These workers make disposable plates for restaurants, a physical yet cognitively demanding task for which payment is tied to output. The authors’ experiment is set during the lean season when people are typically strapped for cash. For example, at baseline, 71% of workers in their sample have outstanding loans, and 86% report having financial worries. Workers appear to carry their mental burdens to work. On a typical work day, roughly one in two workers reports worrying about finances while at work.

The experiment randomly varies the timing of income receipt so that some workers are paid sooner with an amount roughly equal to one month’s earnings. This large cash infusion appears to immediately reduce financial constraints: within three days, early-payment workers are 40 percentage points (222%) more likely to repay their loans. Only the timing of payment changes; the piece rate and all other aspects of the job are unchanged, meaning that short-term financial concerns are reduced without affecting overall wealth or financial incentives to work. This enables the authors to measure an immediate effect of cash-on-hand on productivity.

The major findings are as follows:

• Alleviating financial constraints boosts worker productivity. The day after receiving a cash infusion, workers are 0.12 standard deviations (SDs) more productive relative to the control group.

• These gains persist throughout the workday and for the remaining days of the treatment period.

• The gains are concentrated among more financially strained workers, measured both by assets and liquidity. Early payment increases productivity for these poorer workers by 0.22 SDs.

• Early payment also improves poorer workers’ attentiveness on the task, as measured by three different markers of inefficient production processes.

For policymakers, this work suggests that programs that reduce financial volatility or vulnerability for poor workers could increase their productivity in addition to improving their welfare.

Note: This figure shows a word cloud representing answers to the question “What makes you worry about money issues?” (N = 402). The font size is proportional to the frequency of terms mentioned by participants.