Do Financial Concerns Make Workers Less Productive?

Research brief summarizing work by Supreet Kaur (UC Berkeley), Sendhil Mullainathan (University of Chicago), Suanna Oh (Paris School of Economics), and Frank Schilbach (MIT)

Full paper here: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3770928

Overview

Building on a growing body of research on the psychological effects of poverty, Supreet Kaur and her colleagues have released new findings into the impact of financial strain on worker productivity. Their study looks at two measures of productivity: output (the actual number of goods produced in a given time) and attentiveness (the number of mistakes a worker makes during the production process). The motivation for this project comes from a 2016 study by Pew Charitable Trusts which found that Americans who reported feeling financial insecurity experienced a drop in that insecurity at the beginning of the month upon the arrival of their paychecks. Kaur's paper tests how this kind of time-based change in feelings of insecurity translates into worker productivity. She and her team leverage new theories on the psychological and economic effects of financial strain to investigate the question of whether workers facing temporary strain become less productive due to a lack of focus.

Research and Findings

The study in this case consisted of over 400 workers in Odisha, India during the agricultural off-season when many people work as casual, short-term laborers in other industries. The workers in this study were hired to build leaf plates, a job which required precision in crafting, and which allowed for a payment structure based on productivity; more productive workers could build more plates per hour, resulting in a higher wage, while less productive workers would take longer to build each plate, resulting in lower wages.

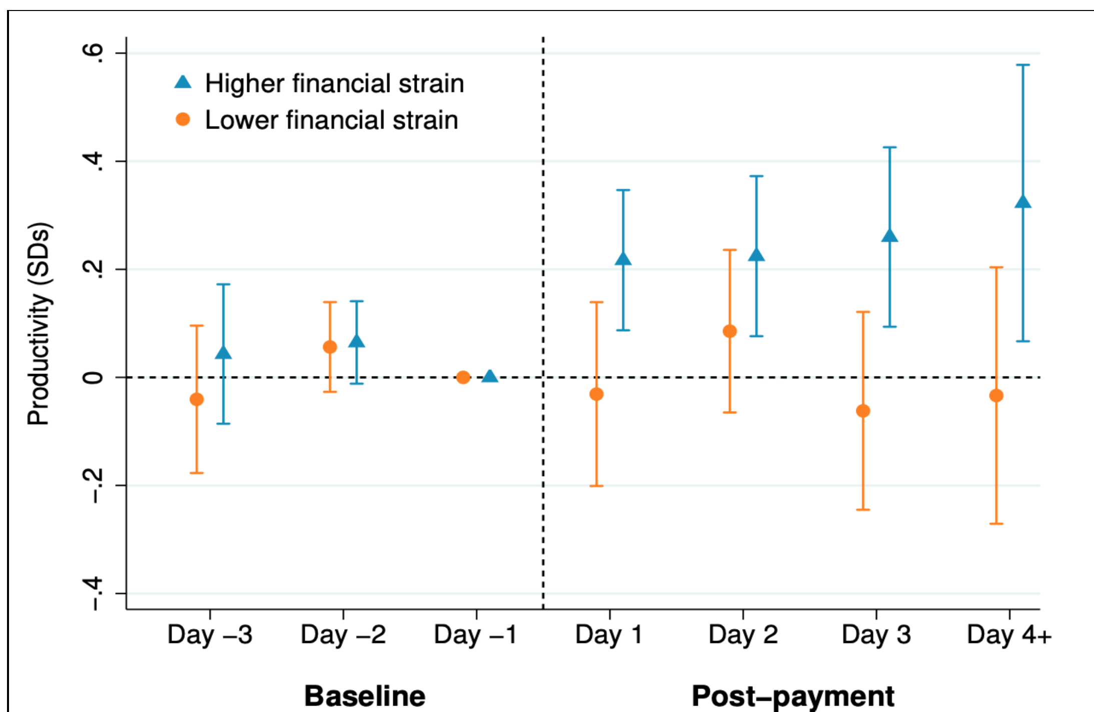
A baseline survey found that 71% of study participants reported having outstanding loans, with 86% reporting that they were either 'very' or 'quite worried' about their personal finances. Furthermore, 43% of the surveyed workers reported thinking about finances for several hours during the work day.

Following the baseline survey, the workers were split into a control group, which received payment for their work at the end of a set period (in this case, 14 days), and a treatment group that had their earnings split into two payments, one payment four days before the end of the pay period, and the remainder of earnings at the end of the period. The 4-day period between the early payment and the end of the pay period was used to measure whether or not there was a boost in productivity after the treatment group received their first payment.

> [A policy to reduce financial strain] is more meaningful for workers with fewer assets and liquidity since it is larger compared to their wealth.

The study found that there was indeed an average of 7.1% increase in the productivity of treatment group workers in the days after the early payment. This impact was driven by those workers who described themselves as 'financially strained' in the baseline survey; those who were in the "financially strained" category at baseline experienced a 13.3% increase in productivity, while workers facing less of a financial strain saw no significant increase in productivity, suggesting that the earlier payment made less of a difference to them.

Figure 1: Impact of Early Payment on Productivity, by Financial Strain Level



Implications for Policy and Research

This study contributes to the emerging body of literature on the far-reaching impact of poverty and financial strain on workers, firms, and social productivity. Its particular findings warrant a deeper dive into several new areas of study. For example, while it highlights the potential benefit from establishing more frequent payment structures to alleviate acute financial stress, the study does not tell us about the optimal frequency of these payments.

Additionally, Kaur's paper offers important new evidence on the ways in which cash transfer programs might have broader social benefits than simply helping financially strained individuals. By increasing the productivity of workers *at work*, the relief provided by the early payments will have the effect of making *the firm* more productive as well. This suggests that, if a whole society relieved the financial strain of those living in poverty, the whole society would experience productivity gains as well.

Transfer programs could have supply-side multiplier effects via higher firm productivity, providing an additional rationale for subsidizing such programs.