Discussion of Jones & Marinescu (2018)

The Labor Market Impacts of Universal and Permanent Cash Transfers

Lorenz Kueng

Northwestern University and NBER

AEA Philadelphia, January 7, 2018

Very interesting paper! Lots to think about…

Outline of Discussion

1. The Alaska Permanent Fund Dividend (PFD)
2. Discussion of methodology and main results
3. Questions & suggestions for further/future research

Alaska Permanent Fund Dividend (PFD) = annual payments from state's broadly-diversified wealth fund

- dividend size is independent of local economy

Important characteristics of PFD for excess sensitivity tests:

1. *nominally large* and *lump-sum*
   - eligibility predetermined by presence during *previous* year
   - dividend is \$1,700 on average per person! (in real \$ of 2014)
     - avg family size = 2.8 $\Rightarrow$ \$4,800 every October
2. *predetermined, regular*, and *salient*
   - based on June numbers, announced in Sept., paid in October
   - *highly predictable*: 5-year moving-average of fund's income
   - well covered by local media during the year & fund's website

Independence from Local Economy: **Portfolio allocation** from Alaska Permanent Fund's website

APFC

ALASKA PERMANENT FUND CORPORATION

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Alaska Permanent Fund Returns Stellar FY17 Performance Results

Juneau – The Alaska Permanent Fund's (Fund) investments gained 12.57% in fiscal year 2017 (FY17) and the Fund ended June 30, 2017 with a total record value of $59.8 billion, comprised of $47.0 billion in the Principal of the Fund and $12.8 billion in the Earnings Reserve Account.

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Alaska Permanent Fund's Total Value Exceeds $60 billion

Juneau – The Alaska Permanent Fund (Fund) has reached an unaudited value of over $60 billion, a new milestone of achievement and noteworthy result based on 40 years of successful Alaskan stewardship.

fund market value

unaudited, as of Sep 8, 2017

US Bonds	$9,407,000,000
US Stocks	$7,161,600,000
Non US Stocks	$10,154,100,000
Global Stocks	$9,581,100,000
Non-US Bonds	$1,540,100,000
Real Estate	$6,892,200,000
Cash	$737,000,000
Alternatives	$15,405,000,000
TOTAL	**$60,878,100,000**

current reports

- Monthly financial statement
- Monthly performance
- Annual report
- History & projections
- Historical returns
- Newspaper insert

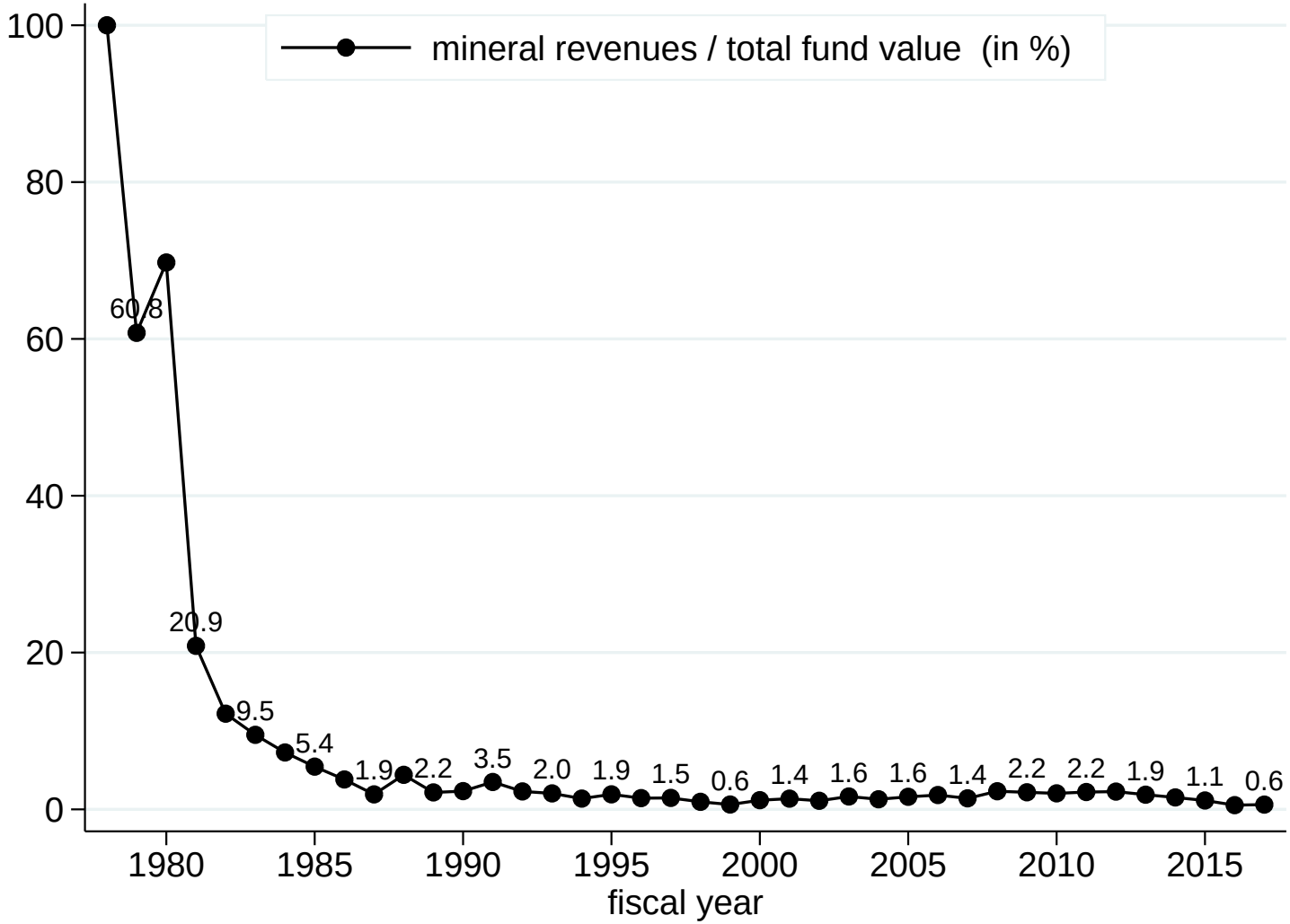
target asset allocation

click image for more information

board meetings

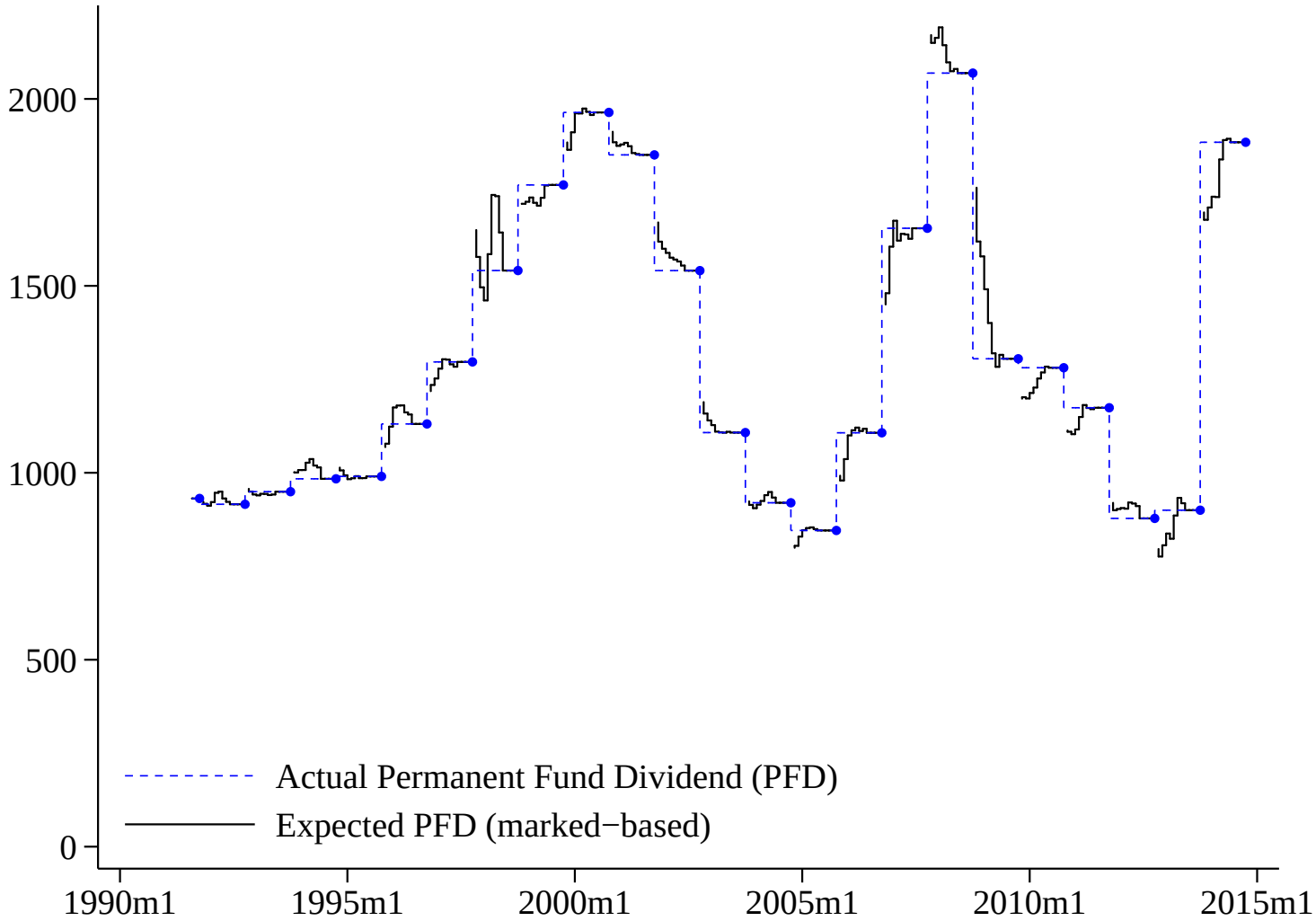
Sep	27-28, 2017	Juneau
Dec	12-13, 2017	Anchorage
Feb	21-22, 2018	Juneau
May	23-24, 2018	Anchorage
Sep	26-27, 2018	Juneau
Dec	11-12, 2018	Anchorage

Independence from Local Economy: **Oil Revenue** is only small fraction of fund's market value

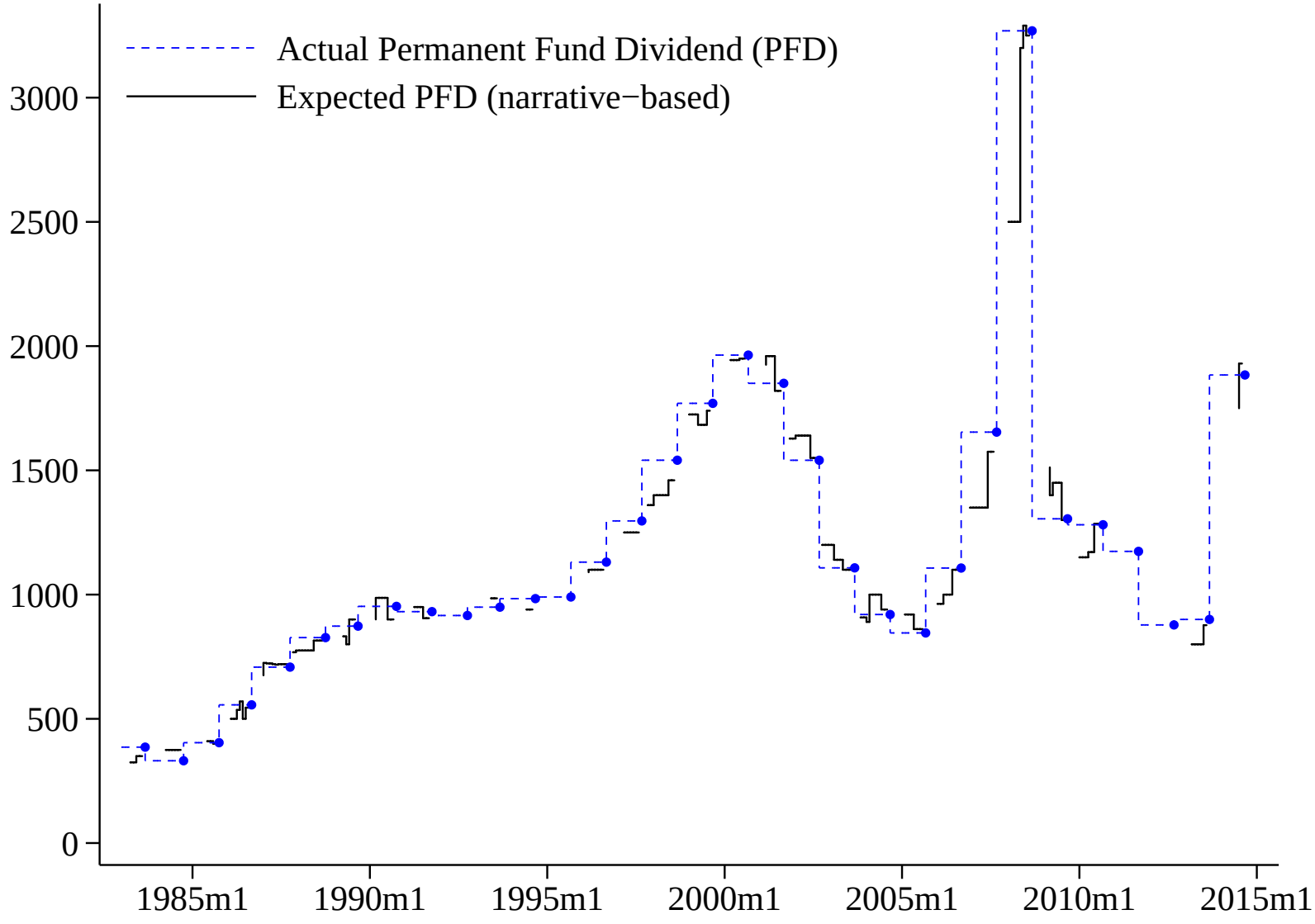


Size & Predictability: **Divided Forecast** using dividend rule set in state law based on APF's 'income from assets'

$$PFD_t = \frac{0.5 \times 0.21 \times \sum_{s=t-4}^{t} (\text{Income from Assets})_s}{\text{Number of Eligible Applications}}$$



Salience: Dividend forecast by **Local Newspapers** (narratives)



Methodology – Synthetic Control

Potential outcome framework:

$$y_{T,t}(\tau) = \alpha_{T,t} + y_{T,t}(c) \quad \text{if } t > T_0$$

$y_{T,t}(d_{T,t})$: observed outcome for Treated state (Alaska)

treatment (dosage): $d_{s,t} = \begin{cases} \tau, & \text{if state} = \text{Alaska} \ \& \ t > T_0 \\ c, & \text{if state} \neq \text{Alaska} \mid t \leq T_0 \end{cases}$

$\alpha_{T,t}$: time-varying treatment effect

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Step 1: Find weights of C-states that best match T in $t<T_0$

$$\hat{w} = \underset{w \geq 0, \sum w_s = 1}{\operatorname{argmax}} (X_T - w' X_C)' V (X_T - w' X_C)$$

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$$\Rightarrow \hat{\alpha}_{T,t} = y_{T,t}\,(\tau) - \hat{y}_{T,t}(c) \quad \text{if } t > T_0$$

Main Results

Two main findings:

1. Fairly tight non-result for extensive margin: ER, LFP
2. Large effect on intensive margin: part-time rate

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Statistically and economically insignificant effect on employment rate

- 95%-CI rules out effects larger than 5% of ER mean (64% ± 3%)
- Point estimates are positive → no slacking off with permanent transfers (external validity: *Also true for universal basic income?*)
- Survey in 2017 finds that "majority of Alaskans report that the PFD has little to no effect on work." (→ *Is asking people underrated in econ?*)

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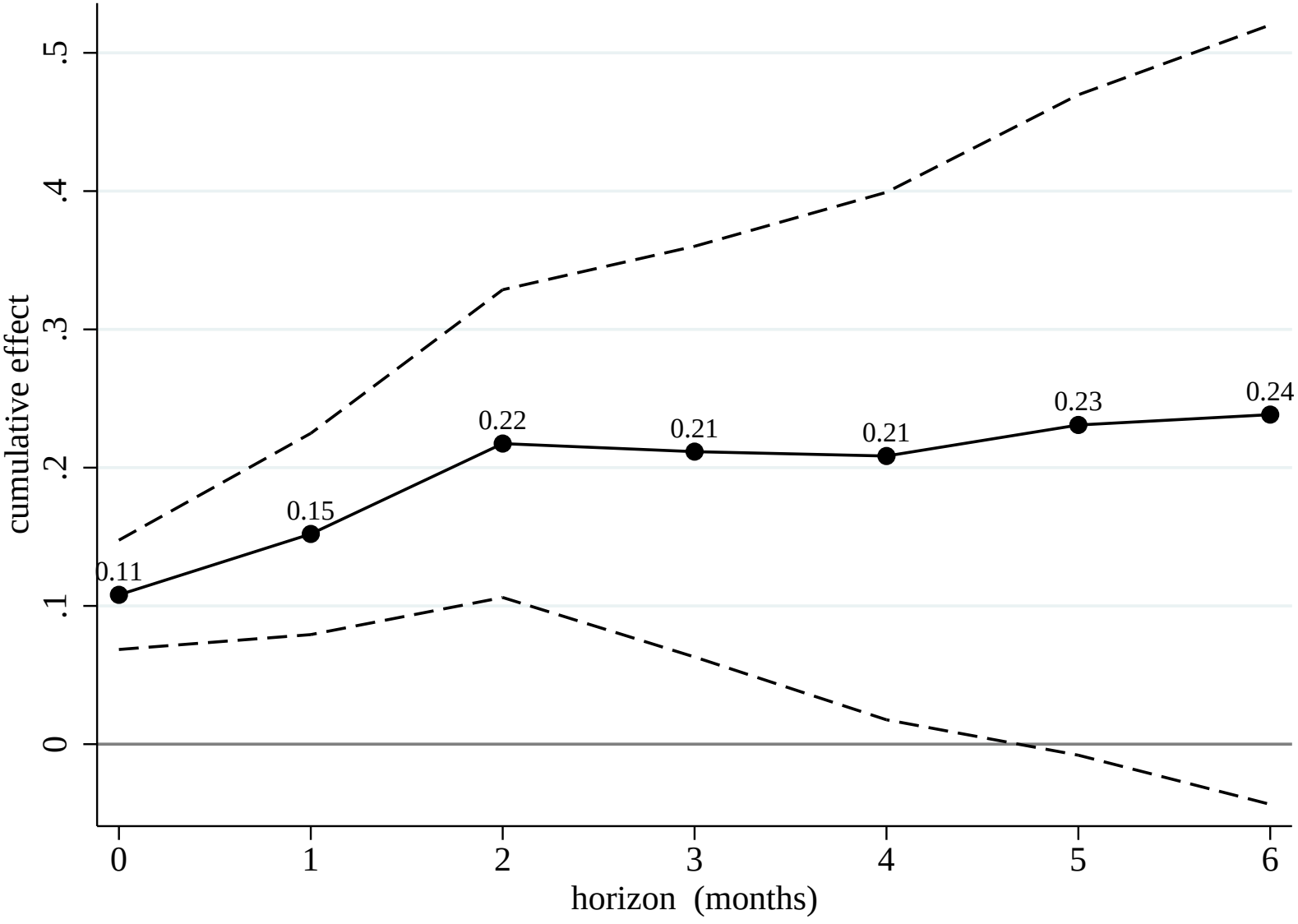
1. Fairly tight non-result for extensive margin: ER, LFP
2. Large effect on intensive margin: part-time rate

Statistically and economically significant effect on part-time employment

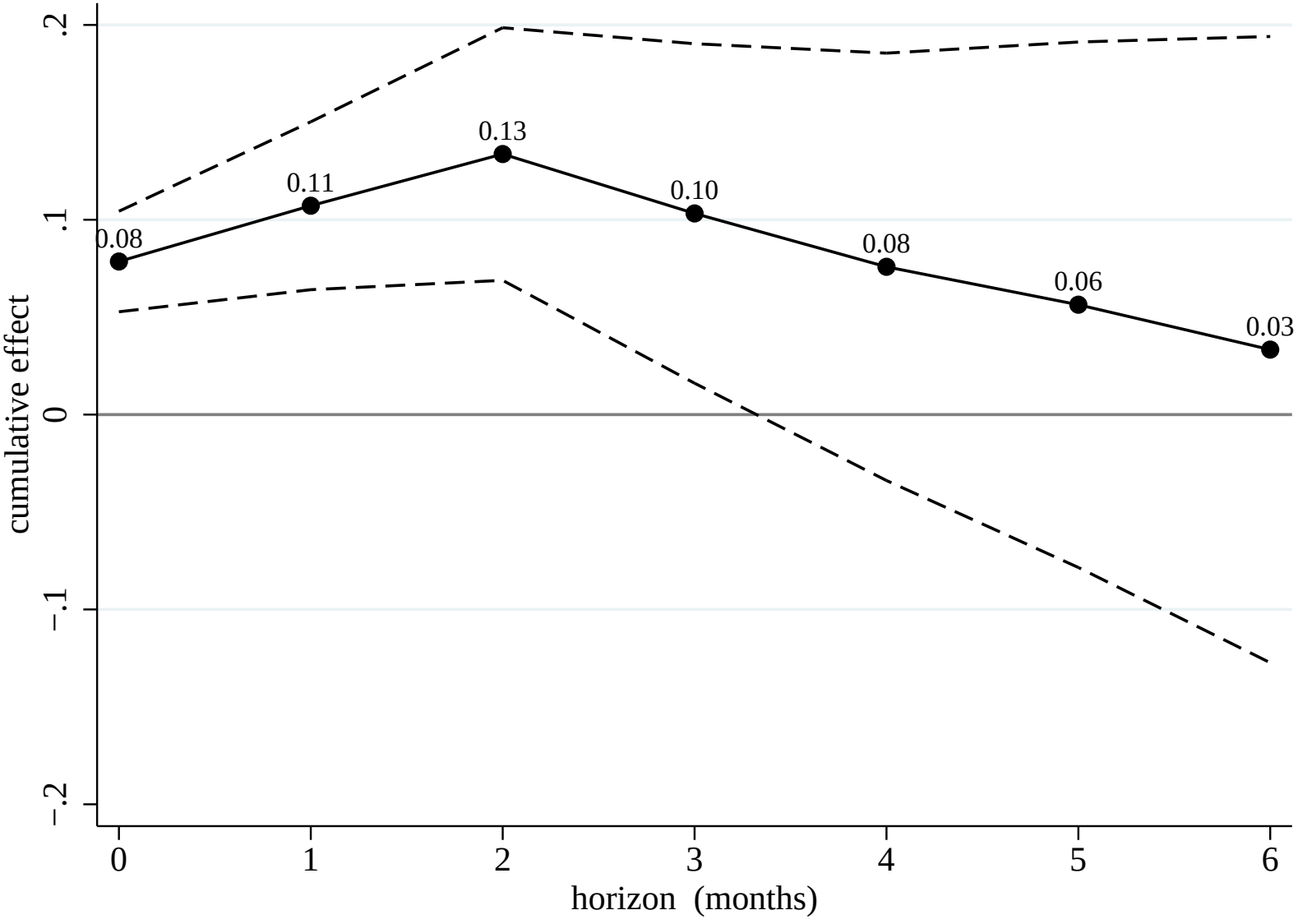
- 18% increase in part-time employment (from 10.3% to 12.1%)!
- *What are the potential mechanisms?*

Labor demand response to temporary peak-consumption (eg retail sales) or persistent reductions in labor supply (e.g. secondary earners, mothers)?

Excess Sensitivity: Cumulative MPC ∼25%, stable after 1 quarter



Durables: Cumulative MPC – strong intertemporal substitution



Questions & Suggestions

Could you look for non-linearities?

- Extensive margin non-results might disappear for larger transfers such as universal basic income

  - e.g. 20-30k allows for labor force exit, but 5k doesn't

- Could scale transfers by income, since income effect is larger for low-income people

Questions & Suggestions

Could you look for heterogeneous effects?

- Maybe larger effects on marginally attached workers:

  1) secondary earners

  2) new mothers
  (1& 2 might explain in female/male difference)

  3) teenagers

  4) ‘enterpreneurs’, newly self-employed

  5) by sector: retail sector to satisfy peak demand?