
Income Hiding and Informal Redistribution: A Lab-in-the-Field Experiment in Senegal

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Abstract

This paper estimates the hidden cost of informal redistribution in economies where people heavily rely on their social networks and have limited access to financial markets. It is based on a lab-in-the-field experiment conducted in Senegal which uniquely combines a small-scale randomized controlled trial (RCT) and a lab experiment. The lab component allows us to estimate the cost of this informal redistribution, by eliciting the willingness-to-pay to hide income, and to identify the relevant population: two-thirds of the experiment participants are ready to forgo up to 14% of their gains to keep them private. Based on the RCT component, we find that giving people fearing the redistributive pressure the opportunity to hide allows them to decrease by 27% the share of gains they to kin as measured out of the lab. They reallocate this extra money to health and personal expenses. This is the first paper to both identify the individual cost of this informal redistribution and to relate it to real-life resource-allocation decisions in a controlled setting.

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