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Stimulus Payments and Private Transfers

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Abstract

Private transfers can affect the spending response to stimulus payments, as those receiving income windfalls may transfer resources to other households in greater financial need. We report a survey experiment where individuals were asked how they would respond to a £500 payment, with a randomly selected subset of individuals explicitly told that all households would receive the same payments (a ‘public windfall’ scenario). This additional information increased MPCs by 11%. Reported transfer intentions in response to windfalls suggest that public payments crowd out private transfers, partly accounting for the higher MPCs in the public windfall case.

Keywords: spending, transfers, MPCs, survey experiment

JEL codes: D12, D14, E21

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1 Introduction

Knowing the propensity for individuals to spend out of extra resources is crucial for determining when stimulus measures should be deployed and how they should be targeted to achieve maximum impact.

Studies of how households' respond to income windfalls typically focus on the extent to which households use funds to increase spending, increasing savings, or pay down debt (see for example the responses allowed in questions of how individuals responded or would respond to income windfalls in Shapiro and Slemrod (1995, 2003, 2009); Jappelli and Pistaferri (2020); Fuster, Kaplan, and Zafar (2021); Broda and Parker (2014) and others). However, private transfers between households can be significant in times of economic distress (McGarry, 2016; Crossley, Fisher, and Low, 2021), and a non-trivial proportion of households report that they would use income windfalls to either increase the funds they give others or reduce the amount of financial assistance they receive from elsewhere (Crossley et al. (2021)). This implies that the aggregate marginal propensity to consume (MPC) out of a stimulus payment need not equal the population-average MPC, even if all individuals receive the same payment. Further, the extent of transfers may depend on whether income windfalls are common or individual specific.

We provide two new results. First, the extent that households would alter the transfers they make or receive in response to receiving a hypothetical income windfall varies across the COVID-19 pandemic (2020-21). Second, we report on a survey experiment in which a random subset of respondents was additionally provided explicit information on who else would receive the windfall: we show how transfer behaviour and MPCs are affected by this information.

2 Data

We draw on a large-scale, high-quality panel survey of individuals conducted during the COVID pandemic in the United Kingdom, specifically the *Understanding Society* COVID-19 Study (Institute for Social and Economic Research (2020); henceforth COVID-19 Study). This survey was fielded monthly from April 2020 until July 2020; thereafter waves of data were collected in September and November 2020, and then in January, March and September 2021.

The survey included questions about transfers given and received by respondents' households. The first, second, fourth, sixth, eighth and ninth waves included questions on whether individuals made financial transfers to other households, received transfers from other households, or both

since their previous interview.¹ The sixth survey wave (fielded in September 2020) also asked individuals how much they had given or received in transfers since the start of the pandemic (March 1st 2020).

The waves of this study fielded in July and November 2020 and March and September 2021 also included questions that directly elicited individuals' marginal propensities to consume: individuals were asked how they would respond to a hypothetical unanticipated and one-time payment of £500 (\$640). There is a strong tradition of direct elicitation of the MPC using hypothetical scenarios (see Drescher, Fessler, and Lindner (2020); Bunn et al. (2018); Sahm, Shapiro, and Slemrod (2012); Jappelli and Pistaferri (2014); Fuster, Kaplan, and Zafar (2021); Christelis et al. (2019); Jappelli and Pistaferri (2020)). In the COVID-19 Study, respondents were first asked if they would spend more, spend the same, or spend less than they would have had they not received the transfer. Those who reported they would spend more were then asked how much. Those who reported they would not spend the entire windfall were then asked if they would use the funds to increase savings, pay down debts, give more financial help to friends or family, or receive less in help from friends or family. This option to report giving or receiving fewer private transfers in response to a windfall is novel and unique to the COVID study. In other respects, the wording and structure of the question is most similar to that posed in Fuster, Kaplan, and Zafar (2021).

For this paper, we designed a survey experiment that ran from November 2020 onwards within the COVID-19 Study. We randomly assigned households two alternative questions. The first group were allocated the original question from July 2020: *"Now consider a hypothetical situation where you unexpectedly receive a one-time payment of £500 today. We would like to know whether this extra income would cause you to change your spending, borrowing and saving behaviour in any way over the next 3 months."* This provided continuity both with the earlier wave of the COVID-19 survey, and with the prior literature. The second group were given additional information, making the windfall explicitly public. In particular, the first sentence of the question was changed to *"Now consider a hypothetical situation where the government unexpectedly gives everyone a one-time payment of £500 today."* Once assigned one particular question wording, individuals were asked the same question in subsequent survey waves.

A potential issue facing the literature that estimate MPCs from stated responses to hypothetical windfalls is that consumers stated responses may differ from their true spending responses to actual windfalls. Papers that can compare stated and directly measured spending responses to windfalls, notably Parker and Souleles (2019) and Graziani, Van Der Klaauw, and Zafar (2016), find a

¹Or from 1st March 2020 if they had not been interviewed before.

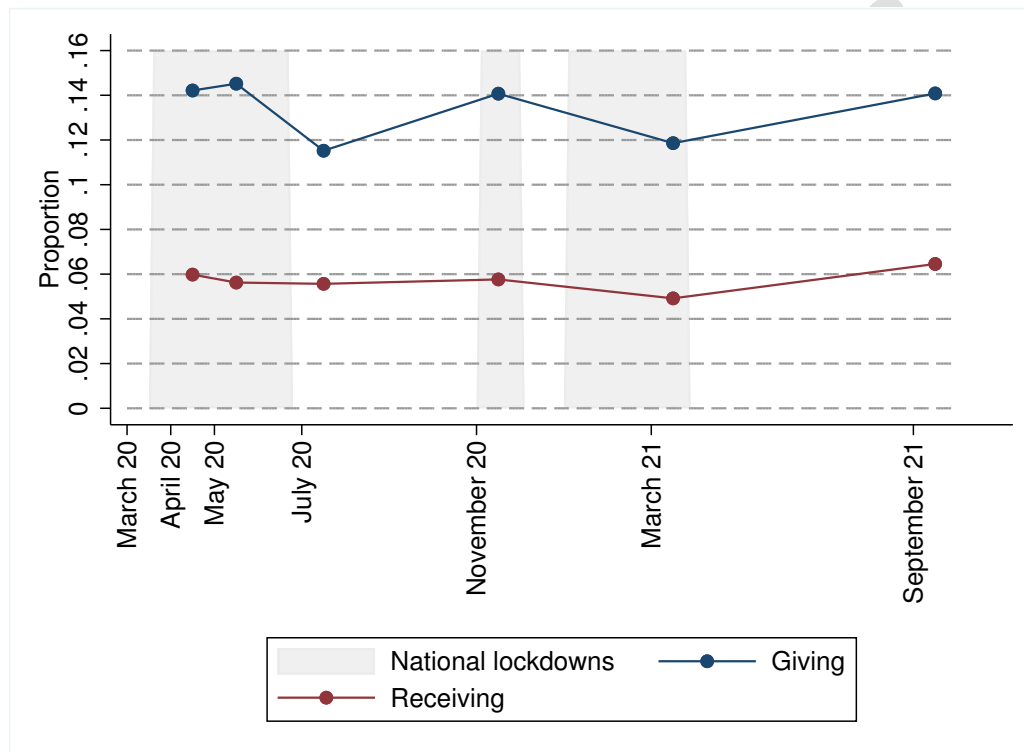
good correspondence. And, of course, studies that study directly measured spending responses to actual windfalls face important challenges around identification and the direct measurement of spending (see the review by Jappelli and Pistaferri (2010)). As a result, a growing number of researchers have studied stated responses to hypothetical windfalls. For further discussion, see Fuster, Kaplan, and Zafar (2021).

The COVID-19 Study is a component of *Understanding Society*: the UK Household Longitudinal Study (UKHLS). *Understanding Society* (University of Essex Institute for Social and Economic Research, NatCen Social Research, and Kantar Public, 2019) is the UK's main longitudinal Household Survey. Data collected in the COVID-19 Study can be linked to data on the same participants, and their households, collected in past waves of the UKHLS. We use this link to obtain individuals' pre-pandemic income levels (taken from the 2017-18 wave of the UKHLS).

2.1 Background: transfer behaviour during the COVID-19 pandemic

Private transfers were common over 2020-21, when the COVID survey was fielded. Figure 1 shows the proportion of individuals reporting giving and receiving financial transfers at different points over the period 2020-21. During 2020, the proportion of individuals making transfers rose and fell with national restrictions on household mixing. The proportion of individuals recorded giving transfers was highest in May, during the first national lockdown (which in England lasted from 16th March to 23rd June 2020). In this month, 14.5% of individuals reported making transfers. This proportion then fell following a loosening of restrictions in the summer of 2020, before rising during the second national lockdown starting in November. In 2021, the proportion fell in March relative to the previous November, before rising in the September 2021 wave of the survey when social distancing restrictions had been lifted. Reported transfer receipt varied much less: fluctuating between 4.9 and 6.5% of individuals over the period.

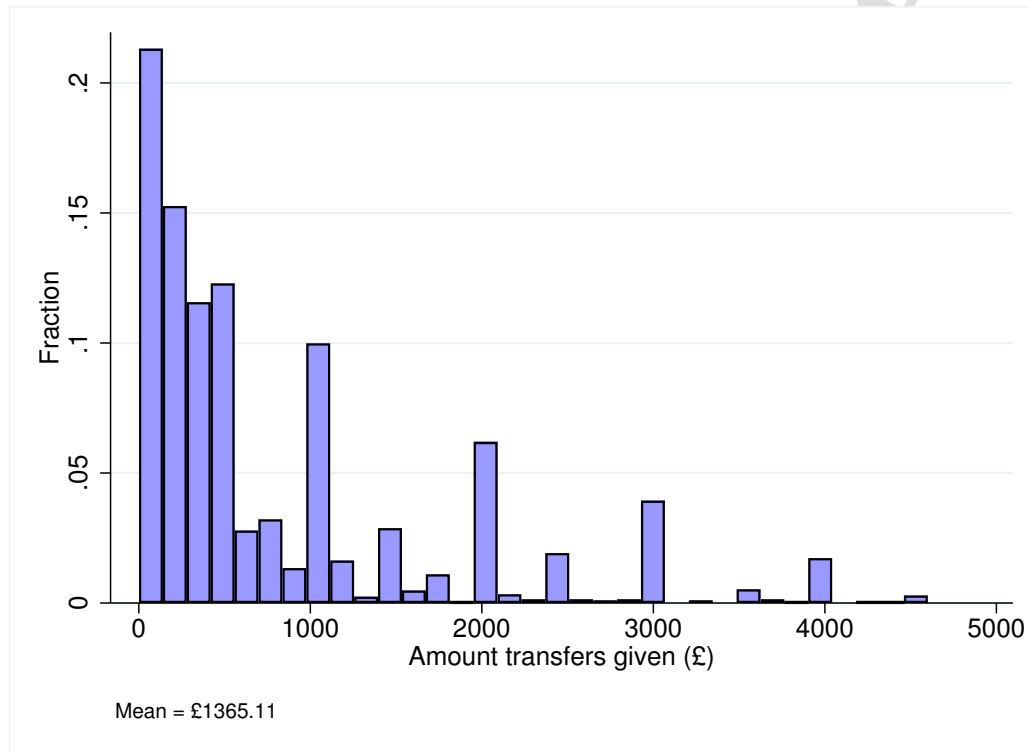
Figure 1: Proportion of individuals giving or receiving transfers



Notes: Statistics are weighted for survey design and nonresponse. Lockdowns are periods when strict restrictions were in place in England (first lockdown 16th March to 23rd June 2020, second lockdown 5th November 2020 to 2nd December 2020, and third lockdown 6th January 2021 to 29th March 2021). Rules differed slightly in other nations of the UK.

Figure 2 shows the distribution of inter-household financial transfers individuals reported making between 1st March 2020 and the date they were surveyed in the sixth wave of the survey, which was fielded in September 2020 (conditional on giving a positive amount). The value of transfers was substantial. The mean amount given over this period was £277 (£1365 conditional on giving a positive amount). This is greater than the mean amount individuals reported receiving (£110) suggesting possible underreporting of transfer receipt.

Figure 2: Value of financial transfers given since March 1st 2020, as recorded in September 2020, conditional on transfers being made

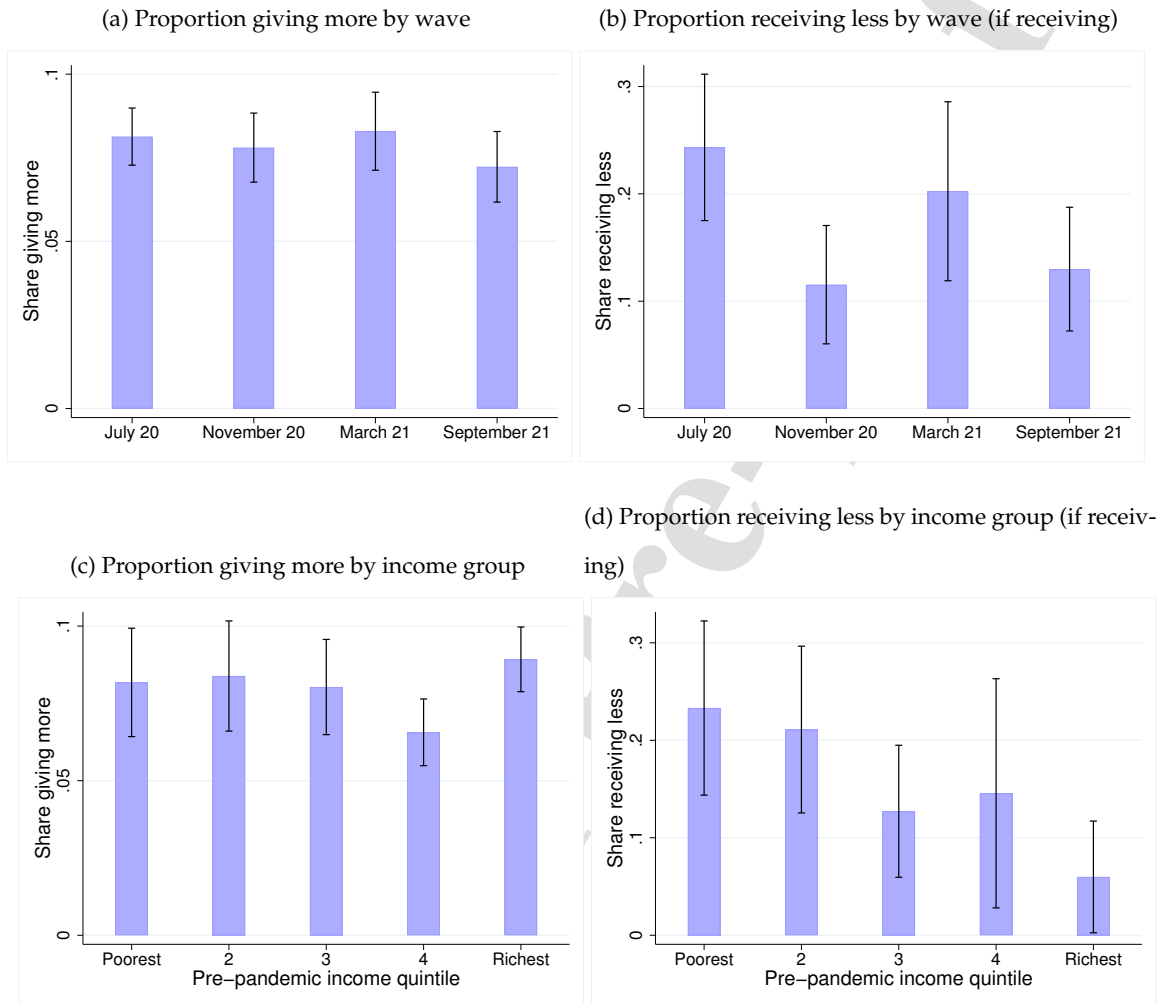


Notes: N=2,280. Mean value is weighted for survey design and non-response.

3 Responses to hypothetical payments

A significant share of responders reported they would change their transfer behaviour if they received an income windfall. Figure 3 shows the proportion of individuals who reported they would give more or receive less in response to receipt of a £500 windfall by wave and pre-pandemic income group (taken from the 2017-18 wave of UKHLS). For comparability across survey waves, we report responses by those asked the original July 2020 question wording only, and exclude responses from those asked about a public windfall. The proportion giving more in response to the windfall remained stable across waves, at roughly 7-8%. Among those actually receiving transfers, the proportion who reported they would receive less was highest in July 2020, when it reached a value of 24%. Those in the poorest pre-pandemic income quintile were much more likely than other groups to report they would receive less. The proportion of individuals that would give more, however, does not vary much across income groups.

Figure 3: Proportion reporting giving more or receiving less in response to a hypothetical windfall of £500 by long-run income group



Note: Figures only include response for the private windfall treatment. Averages are weighted for survey non-response. Income quintiles are of household incomes that were collected in 2017-18 (wave 9) and are equivalised using the OECD modified scale. Error bars denote 95% confidence intervals.

Table 1 reports the average implied MPCs out of the £500 for those who were told all households would receive a windfall, those who were given the original question wording (which is ambiguous about which households receive the windfall) and the difference across the two treatments. It further shows average MPCs by question format and the treatment effect for two sub-groups: individuals who had reported actually having made transfers to other households before the MPC questions were asked (“If giving”), and those who had reported receiving transfers (“If receiving”). Because much of the variation in average MPCs is driven by the “extensive margin”

response (the majority of individuals reported an MPC of 0), the second panel of Table 1 repeats this analysis with the binary outcome (reporting increased spending in response to the windfall, or not). In both panels, we pool responses across waves. Given the randomized treatment, we report permutation-based (Fisher) p-values for the null of no treatment effect, clustering at the individual level (Heß, 2017; Imbens and Rubin, 2015).

Those who were told explicitly that the windfall would be public reported 1.3 percentage points higher MPCs on average, implying that MPCs were around 11% higher in the public windfall case. They were also 3.1 percentage points more likely to report spending more (that is, a positive MPC). The difference in MPCs across the two treatments was greater for those who, in earlier questions in the survey, had reported actually making transfers to other households. Among these individuals, MPCs were 2.7 percentage points (22%) higher in the public windfall case. This points to lower transfers to other households in the public windfall case as a potential explanation for the higher MPCs. There was no significant difference in average reported MPCs amongst individuals receiving transfers from other households in the two treatments.

Table 1: Marginal Propensities to Consume

Average MPC (%)	Explicitly public windfall (treatment)	Standard scenario (control)	Difference	p-value
All	12.39	11.12	1.27	0.01
If giving	14.53	11.85	2.68	0.01
If receiving	16.20	16.07	0.13	0.95
% with MPC > 0				
All	20.46	17.35	3.11	<0.001
If giving	22.77	17.89	4.88	<0.001
If receiving	26.50	24.90	1.60	0.51

Note: Implied marginal propensities to consume in response to a hypothetical windfall of £500 in a scenario where it is explicit that all individuals receive the windfall ('public') and a scenario where this is not specified ('standard'). MPCs are trimmed to be at least zero and at most one. P-values are calculated using randomisation inference, with 1,000 replications and clustering at the level of individuals. Number of clusters (MPC) = 13,721 (All), 3,216 (if giving) and 1,086 (if receiving). Number of clusters (MPC > 0) = 13,996 (All), 3,341 (if giving) and 1,147 (if receiving).

Table 2 shows how the proportion of households who reported giving more or receiving less in response to the windfall varies across the treatments.

Consistent with the hypothesis that individuals would make fewer transfers knowing that other households had received the same windfall, the proportion of those giving more is lower in the public windfall scenario than in the case where it was not specified which households would receive the windfall. The proportion who reported giving more fell by 0.8 percentage points (9%) when it was made explicit that other households would also receive payments. Among those who, in earlier questions in the survey, had reported they had actually given to other households, the proportion making transfers fell by 2.6 percentage points (11%) in the public windfall treatment.

The proportion of those receiving less among those who were already receiving transfers from other households increased by 2.5 percentage points in the public windfall case, although this effect is not statistically significant.

Table 2: Giving more or receiving less in response to windfall

% giving more	Explicitly public windfall	Standard scenario	Difference	p-value
	(treatment)	(control)		
All	8.11	8.96	-0.85	0.02
If giving	22.24	24.88	-2.64	0.05
If receiving	6.88	9.34	-2.46	0.10
<hr/>				
% receiving less				
All	1.68	1.52	0.15	0.35
If giving	1.82	1.38	0.44	0.23
If receiving	17.63	15.18	2.45	0.24

Note: Shares of respondents giving more or receiving less in response to a hypothetical windfall of £500 in a scenario where it is explicit that all individuals receive the windfall ('public') and a scenario where this is not specified ('standard'). P-values are calculated using randomisation inference, with 1,000 replications and clustering at the level of individuals. Number of clusters = 13,996 (All), 3,341 (if giving) and 1,147 (if receiving).

4 Conclusions

Our findings have two key implications for policy and future research.

First, private transfers interact with the response of individuals to income windfalls, such as stimulus payments. This can affect aggregate spending responses to stimulus measures in so far as they lead to resources being transferred between households with different MPCs. In particular, stimulus payments targetted at particular groups - such as low-income households - can potentially crowd out private transfer income from other households. The questions asked in the COVID-19 study only reveal whether individuals would 'give more' or 'receive less' without specifying amounts. Quantifying the extent of this crowd-out is an important question for future work.

Second, our survey experiment shows individuals respond differently to a public windfall compared to a private windfall. The literature has considered MPCs from hypothetical and actual

private windfalls such as lottery winnings (for example, Drescher, Fessler, and Lindner (2020), Fagereng, Holm, and Natvik (2021)), and MPCs from public transfers such as widespread stimulus payments (for example, Sahm, Shapiro, and Slemrod (2012), Johnson, Parker, and Souleles (2006)) without addressing whether those MPCs may differ. Our finding implies that one should be cautious in extrapolating MPCs in response to private windfalls (such as lottery winnings) to situations where transfers are more general (such as stimulus payments).

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Journal Pre-proof

- Private transfers can affect the spending response to stimulus payments, as those receiving income windfalls may transfer resources to other households in greater financial need.
- We elicit marginal propensities to consume out of a hypothetical payment for individuals that were randomly assigned different wordings of the question.
- MPCs were 11% higher when individuals were explicitly told that all households would receive the same payments, suggesting general stimulus payments can crowd out private transfers.