

# **The Micro and Macro Effects of Government Household Transfers**

**By Valerie A. Ramey**

**Hoover Institution, NBER, CEPR**

Asian Bureau of Finance and Economics Research  
Singapore, May 20, 2026

# Outline

1. **Temporary Cash** Transfers and Aggregate Consumption
  - Many estimates of high MPCs at the **household level**
  - Absence of effects at the **macro level** in advanced countries
2. The Macro Effects of Large or **Repeated Transfers**
  - Marginal propensities to consume
  - Marginal propensities to earn
  - Differences across advanced versus developing economies

1. Temporary Cash Transfers

and

Aggregate Consumption

# Micro MPCs from Temporary Transfers

- Many papers have **estimated MPCs** out of temporary income that are higher than those predicted by the **permanent income hypothesis**

e.g. Agarwal, Fagereng, Japelli, Johnson, Kueng, Parker, Pistaferri, Qian, Souleles, Shapiro, Slemrod, Zeldes

- Examples of some of the high estimated MPCs

- 2001 U.S. rebate: Nondurables **MPC = 0.375 - 0.66**
- 2008 U.S rebate: total consumption **MPC = 0.7 - 0.9**  
motor vehicles **MPC = 0.3 to 0.65**
- Singapore 2011: total consumption **MPC = 0.8**
- Norwegian lottery winners: total consumption **MPC = 0.5 - 0.7**



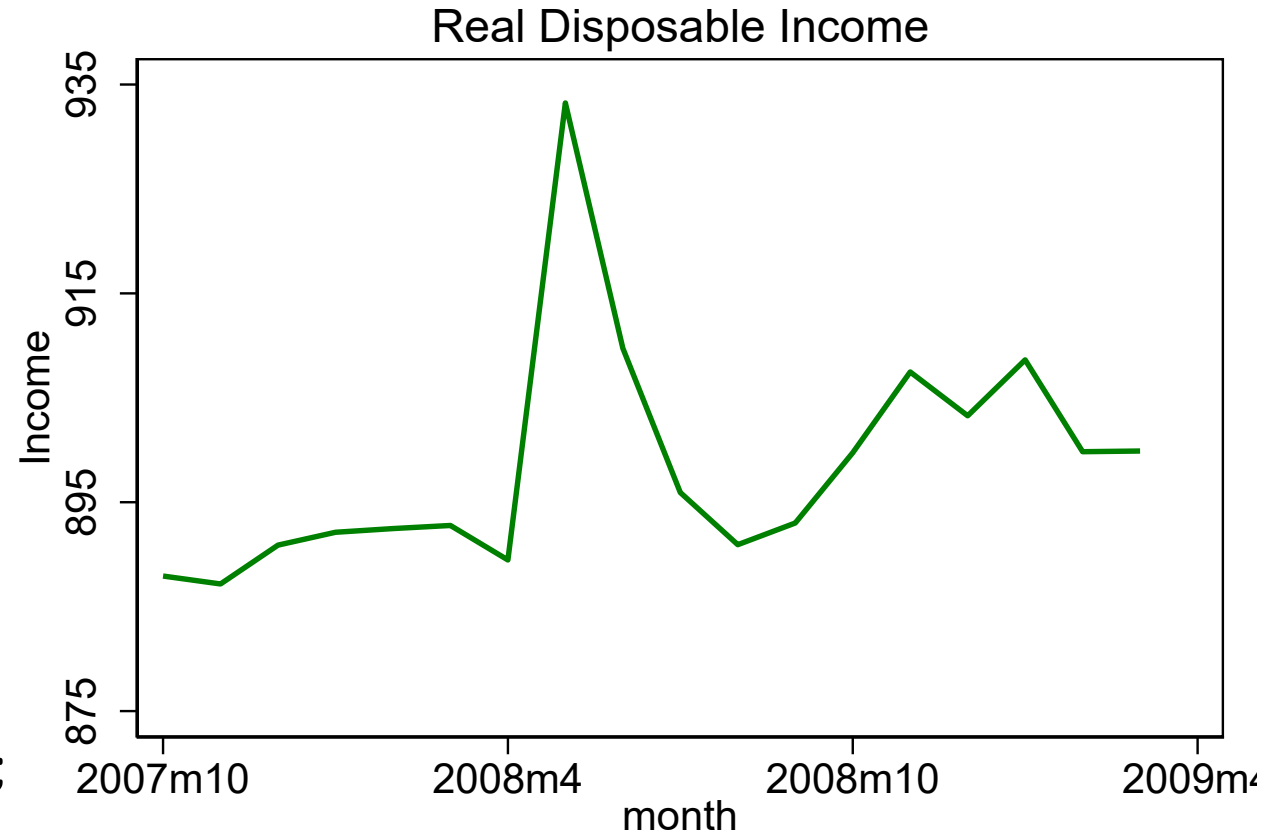
# Historical Plausibility Analysis on Household MPCs

- If the event is big enough, it should show up in the aggregate data
- Are the micro estimates consistent with what we see in the aggregate data?
  - **Historical plausibility analysis** --- Orchard, Ramey, Wieland (2025 QJE, 2025 EJ)
  - Builds on insights of Sahm, Shapiro, Slemrod (2012), Chetty et al. (2015), Ramey (2019a)
- **Method:** Create **historical counterfactuals** implied by macro models calibrated with micro estimates and assess their plausibility in the historical context.

2 Examples:  
2008 U.S. Rebates  
and  
Singapore Growth Dividends

# 2008 U.S. Rebates

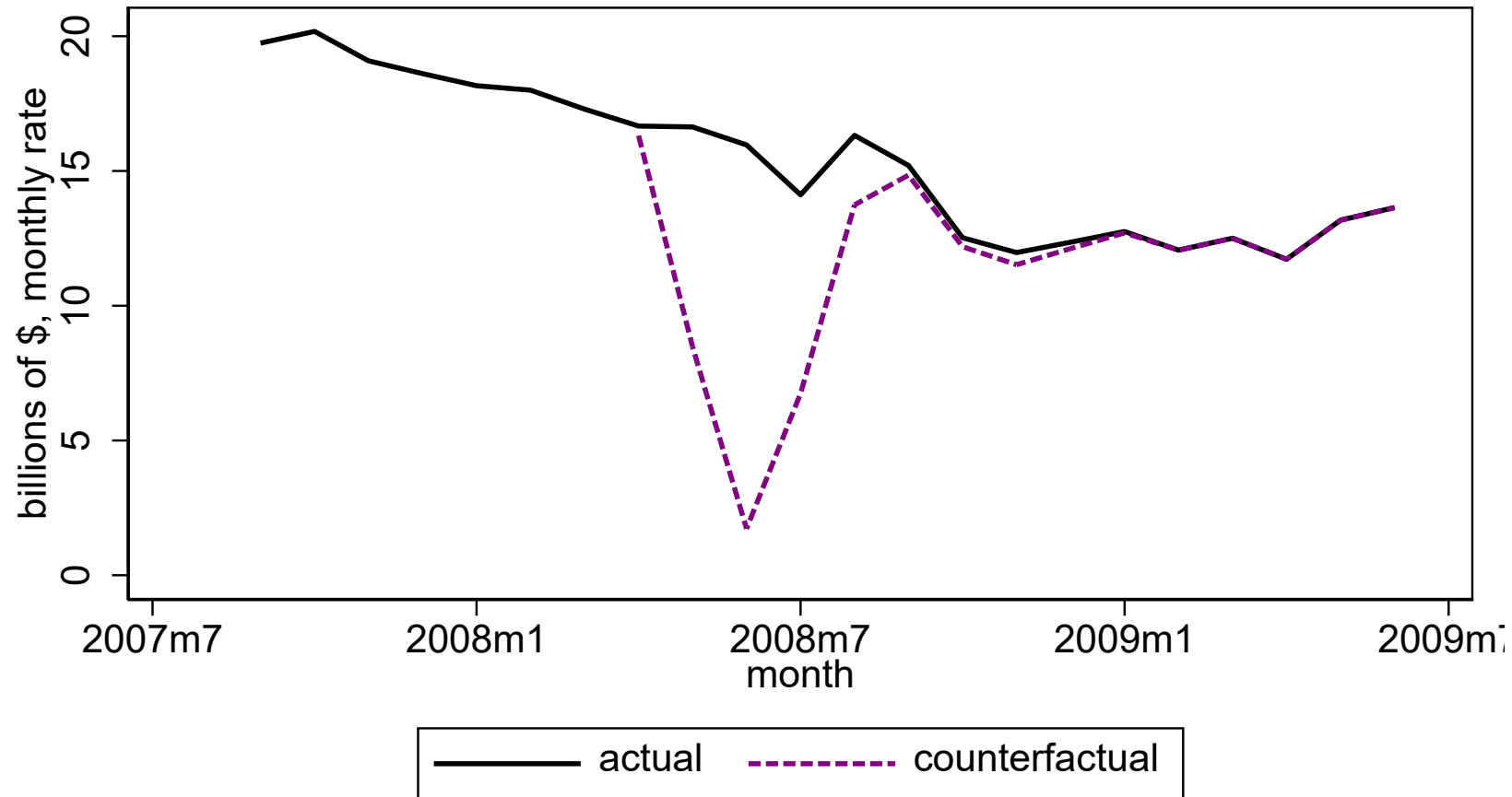
- Enacted Feb. 2008
- **\$100 billion**, equal to 11% of January disposable income (monthly basis)
- **Average check was \$1,000.**
- Paid out from April through August 2008; **50% of total** was distributed in **May**
- Parker et al (AER 2013)– household **MPC = 0.7 - 0.9, 0.36 on new motor vehicles**



# Implied Counterfactual for New Motor Vehicles

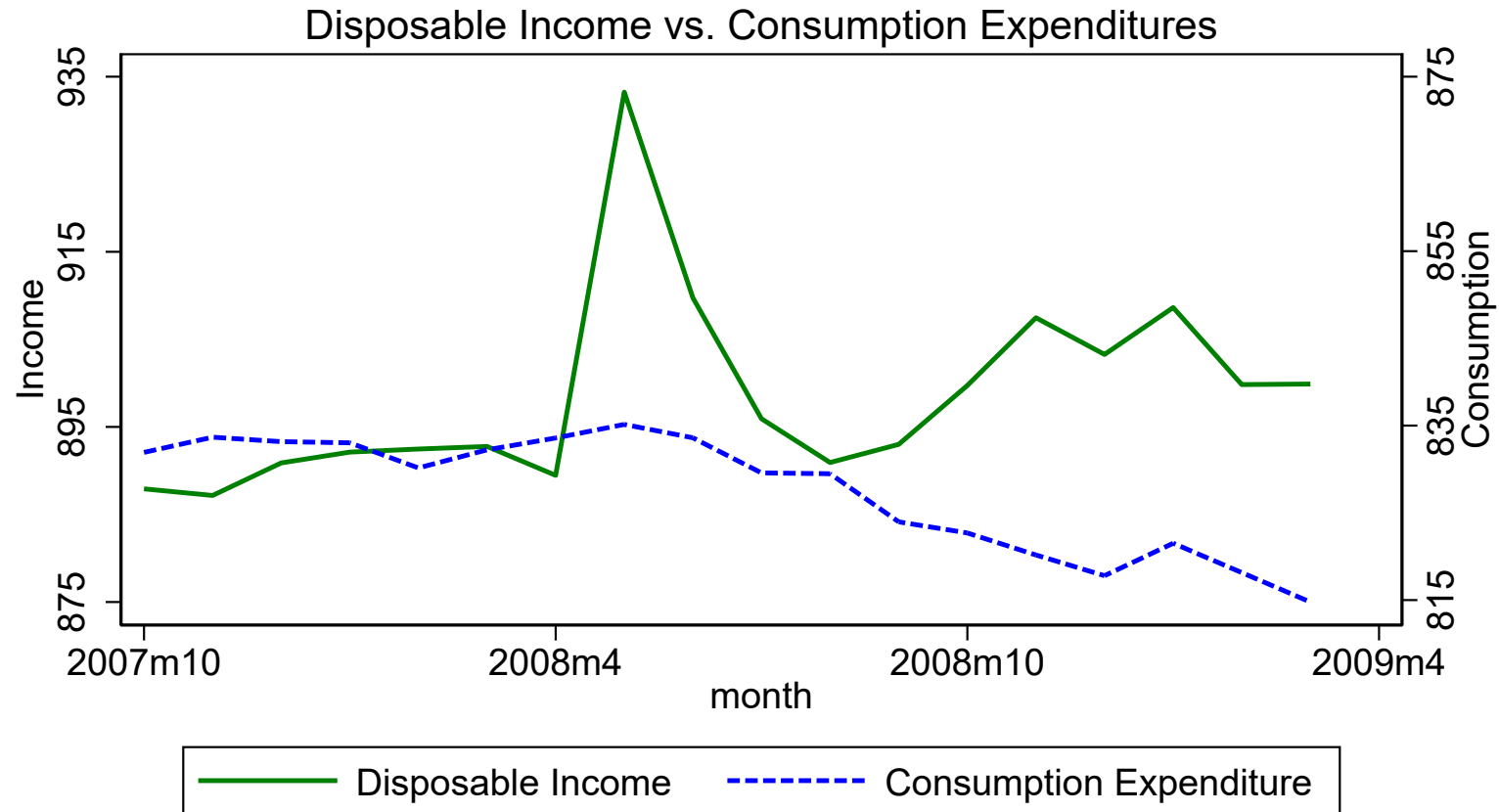
- **Sahm, Shapiro, Slemrod** (AEJ: Macro 2012) calculated induced spending on motor vehicles **implied by Parker et al. estimated MPC** on motor vehicles.
  - Pure accounting exercise, **omits possible price changes or macro amplification**
- In Ramey (2019), I used their calculation to construct a **counterfactual** – omits macro amplification. It answers:
  - What would motor vehicle sales have been in 2008 without the tax rebate?

# Actual and Counterfactual Expenditures on New Motor Vehicles in 2008



- Counterfactual → 85% ↓ if no rebates, recovery in Sept. 2008 – Lehman Bros.
- Doesn't even account for Keynesian amplification --- completely implausible

# 2008 U.S. Rebates and Total Aggregate Consumption



- Big disposable income spike, no consumption spike.

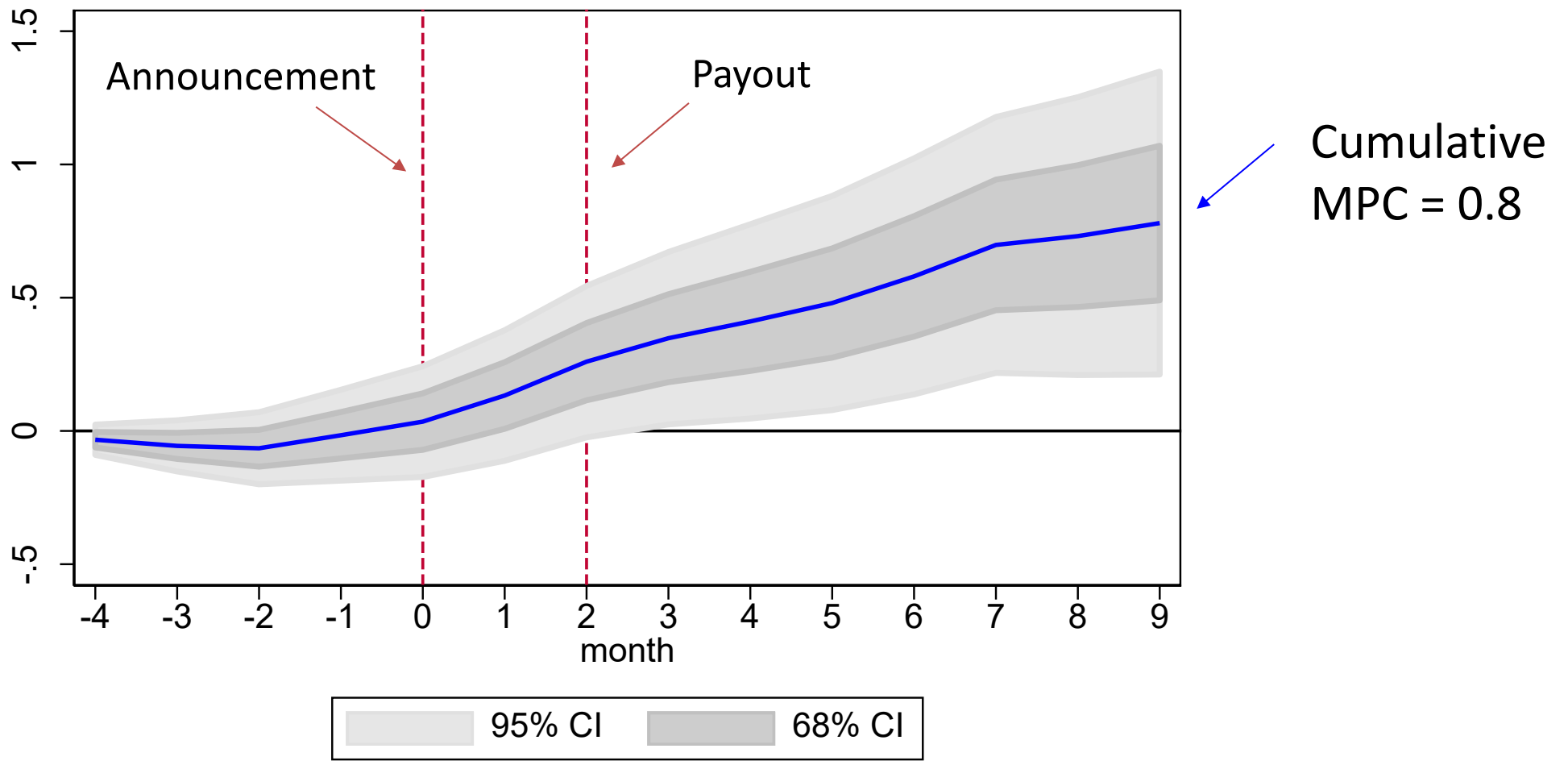
# Orchard, Ramey, Wieland (QJE 2025) Reconciliation

- First showed **total consumption counterfactual** also implausible based on 2-Good-TANK model.
- **Revisited household data** and re-estimated with improved econometric methods.
  - Estimate total **MPC of 0.3**, with all of it on motor vehicles.
- Faced with still-implausible motor vehicle MPC results, we investigated further:
  - **Relative price** of motor vehicles  $\uparrow$  when the rebates were distributed.
  - $\uparrow$  price meant hand-to-mouth rebate recipients **crowded out** price sensitive optimizing households since durables have high intertemporal elasticity.

# Agarwal-Qian (2014 AER) Singapore Natural Experiment

- 2011 growth dividend payments – announced Feb., distributed April
  - Payments were **11%** of monthly personal disposable income
- Perfect **control group**: Foreigners (40% of the population) were ineligible, matched characteristics
- Great data: **proprietary dataset from the largest Singapore bank.**
  - 180,000 consumers, monthly panel, 2010:04 – 2012:03
  - Information on **credit & debit card, bank checking account spending**

# Agarwal-Qian Cumulative MPC Estimates from Debit/Credit Card Spending



Individuals spent 80 ¢ of every \$ of payments within 10 months.

The Strait Times,  
19 February 2011

This article alerted me to the fact that these payments **happened twice before** – always in **election years**.

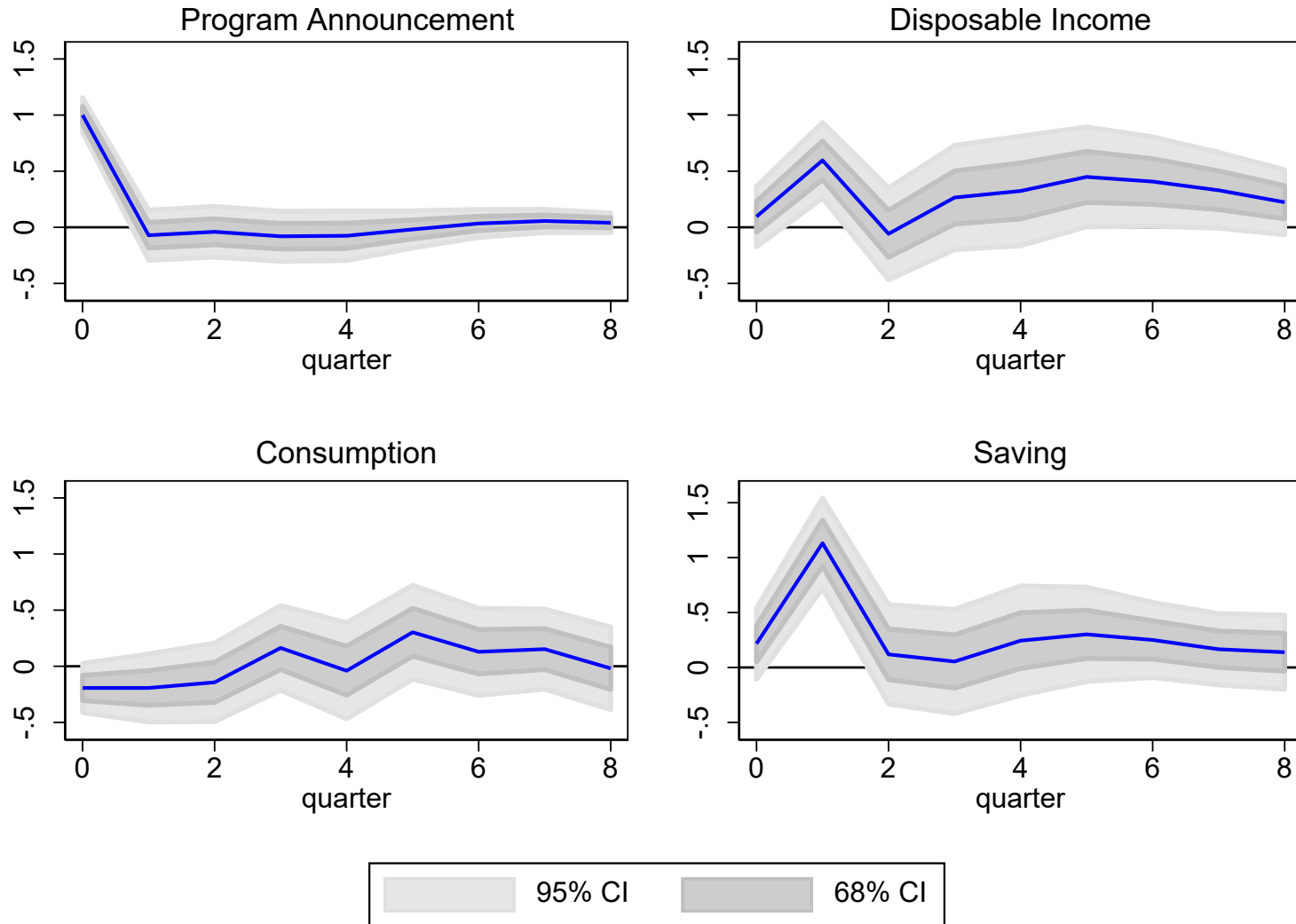
Thus, I used a **time series model** to see if there was an aggregate effect.

# \$1.5 billion in Growth Dividends for S'poreans



The \$600 she will get in Growth Dividends will go a long way towards paying for her personal daily expenses, says retiree Wong Siew Yin (right), 61, with family members (from left) Dorcas Chua, 39, William Koh, 36, Koh Jian Hui, 10, and Koh Cheng Yue, 63. ST PHOTO: ALPHONSUS CHERN

# Response to Announcement



- **Announcement** shock peak normalized to 1% of trend disposable income.

# Why No Macro Effect on Consumption Expenditures?

- Work in progress:
  - Agarwal and Qian find some evidence that some of the dividend was **spent in Malaysia and Indonesia**
  - The spending wasn't picked up in retail sales or national accounts of Singapore
  - Joint with them, we are revisiting the household estimates as well in light of new econometric techniques
- In any case, no evidence of **macro stimulus**

## 2. The Macro Effects of Large or Repeated Transfers

# Overview of the Economics of Repeated Transfers

- Effects on consumption - MPC
  - **Permanent income hypothesis** predicts that MPC out of permanent income increase should be near 1
  - This should continue to hold for government transfers if those receiving the transfers do not expect to finance the transfers – i.e. **no Ricardian effects**
  - One-time large transfers: expect higher MPC for **older individuals** since fewer years for smoothing
- Effects on labor supply – marginal propensity to earn (MPE)
  - A large one-time or repeated transfer should **reduce labor supply** of working-age population through income effects

# Effects of Winning the Lottery in the U.S.

Golosov, Graber, Mogstad, Novgorodsky “How Americans Respond to Idiosyncratic Exogenous Changes in Household Wealth and Unearned Income,” *QJE* 2024

- IRS + lottery data, 1999 – 2016, by household before and after winning.
- Estimate **\$100 wealth increase reduces labor earnings by \$2.3.**
- When they **annuitize the lottery winnings** to annual unearned income, they find:
  - An extra **\$1 of unearned income** reduces labor earnings by **50 cents.**
  - Effects rise with income: **↓ 30 cents for 1<sup>st</sup> quartile of income**, 67 cents for 4<sup>th</sup> quartile of income.

# RCT in South Korea with Tax and Transfer Effects

Kim, Kim, Lee, Lee, Park (2026) “The Impacts of Negative Income Tax on Labor Supply and Household Expenditure: Evidence from a Large-Scale Field Experiment” (posted soon on <https://sites.google.com/site/minkikimecon> )

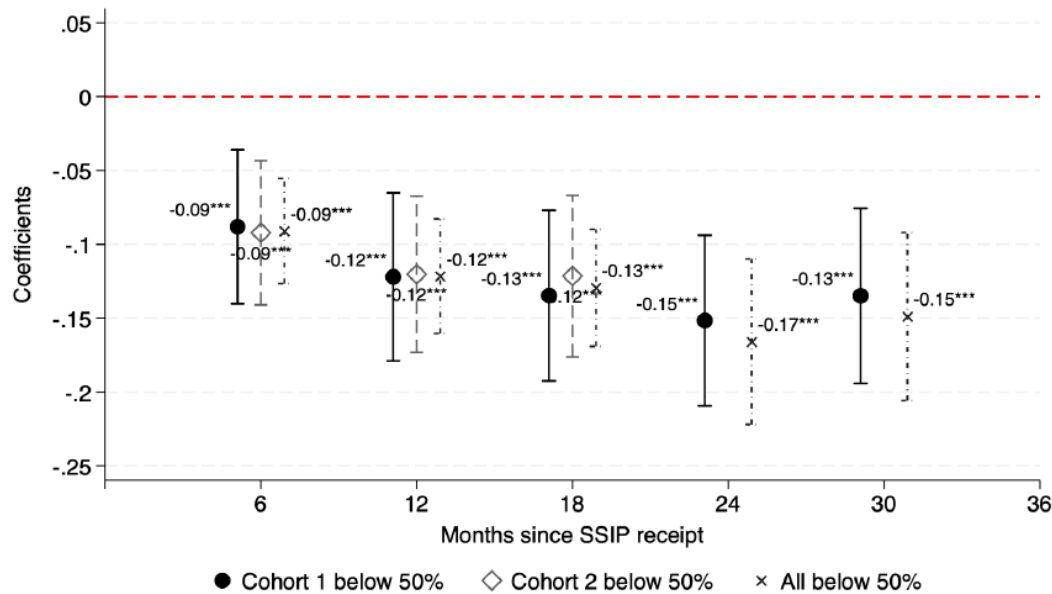
- **Seoul Stepping Stone Income Project (SSIP) experiment**

- NIT with **50% marginal tax rate and guaranteed minimum income budgets**
- Randomized controlled trial with 5,000+ households for 2-3 years ('22-'25)

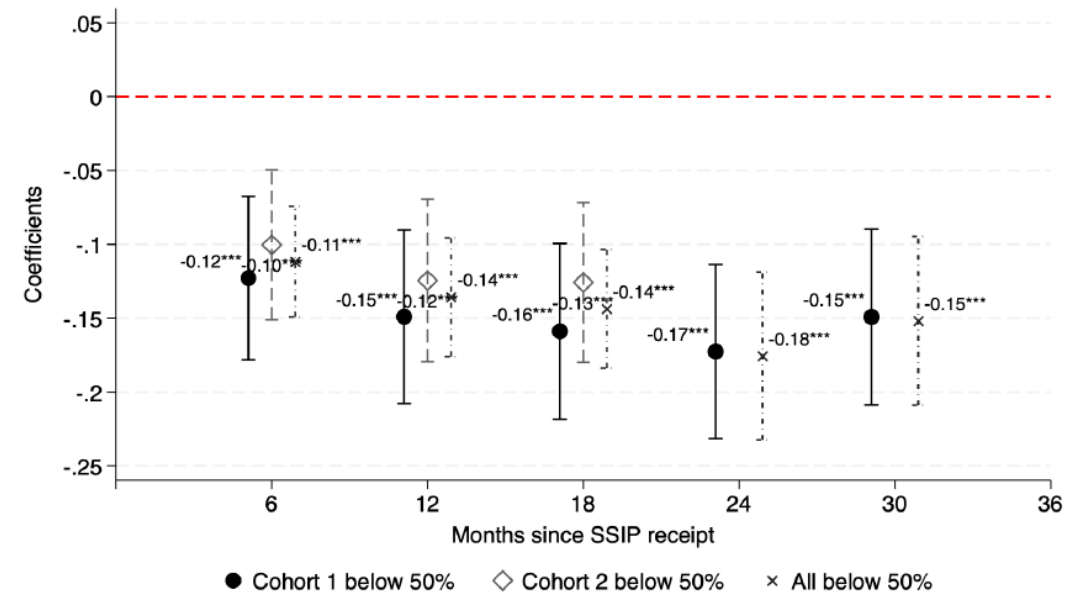
- **Reduced-Form Evidence from Experimental Data:**

- ↑ Expenditures on food (5%), healthcare (3%), and other basic needs
- ↓ Employment rates ( $\approx -12\%$ ) and **labor earnings ( $\approx -25\%$ )**
- ↑ Mental health, but these benefits diminished over time

## Persistent Declines in Labor Supply at Extensive Margins



(a) Employed



(b) Worked last week

# Macro Implications of the RCT in South Korea

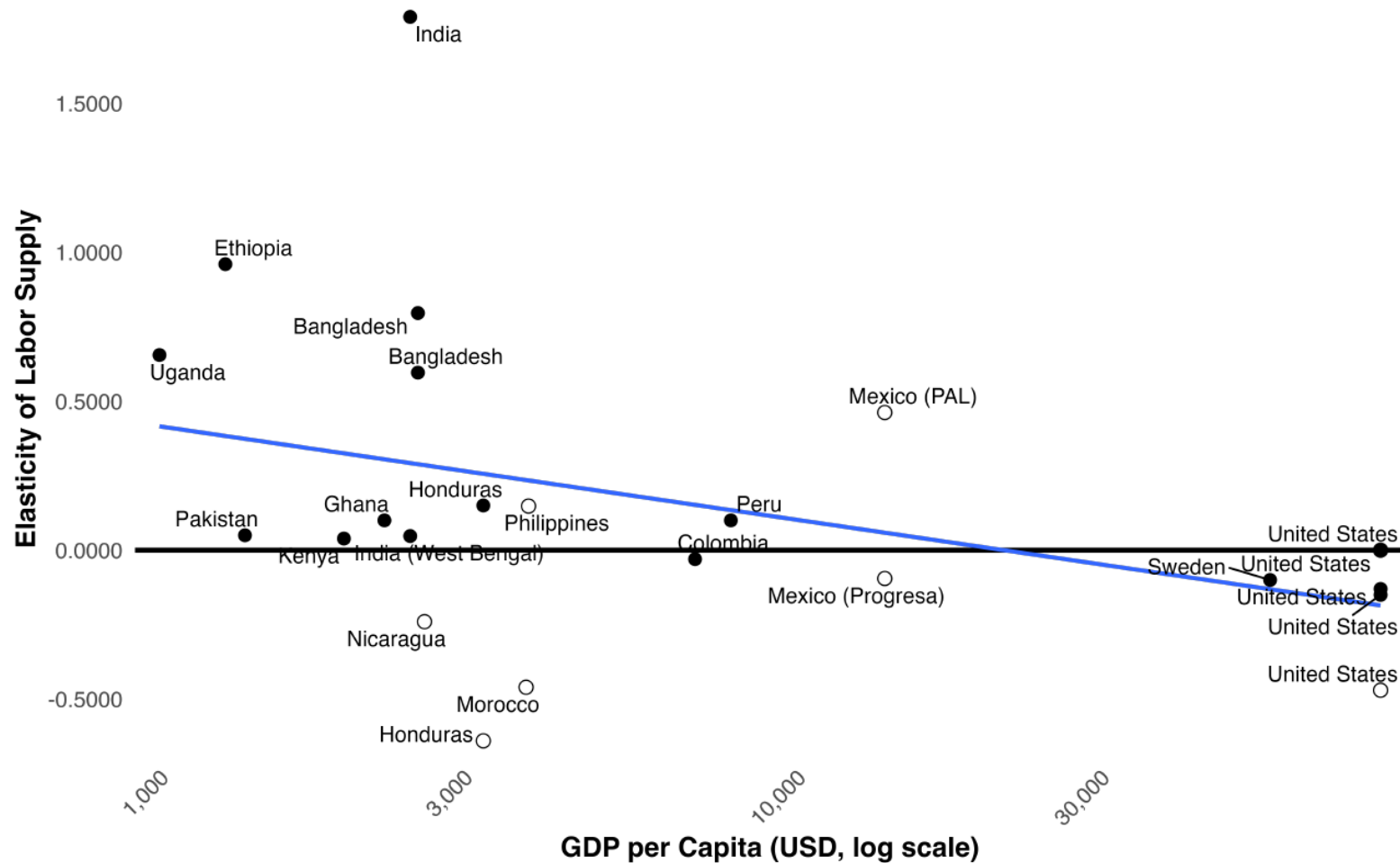
- What would be the macro effects of **scaling up the negative income tax experiment**?
  - Authors use the RCT household estimates to **calibrate a macro model** to determine the aggregate effect
- They predict that **scaling up the RCT policy** nationwide. **Preliminary results:**
  - Reduces aggregate labor supply by 7%
  - Reduces aggregate capital stock by 21%
  - **Reduces GDP by 13%**

# What About Labor Supply Effects in Less Developed Economies?

## Meta Analysis of Labor Supply Elasticities to Cash Transfers

Best, Lobel,  
Neto (2026)

“Cash Transfers  
and Productive  
Inclusion:  
Evidence from  
Bolsa Familia”



# Two Examples

- Egger, Haushofer, Miguel, Niehaus, and Walker, "General Equilibrium Effects of Cash Transfers: **Experimental Evidence from Kenya**," *Econometrica* 2022
  - Find that large cash transfers in Kenyan villages have **multipliers of 2.4 on output**
  - Little evidence of a decrease in labor supply
- Ghosh and Vats (2026) "**Safety Nets, Credit, and Investment**: Evidence from a Guaranteed Income Program"
  - Permanent, unconditional income transfers to landowning farmers in **India**
  - **\$1 raises farm income by \$1.76**
  - Stimulates investment, financed with credit

- **Non-homothetic preferences:** Negative effects on labor supply rise with income
- **Developing economies** --- individuals face many constraints from distortions. **Cash injections may free them** from those constraints so that they can be more productive.
  - Consider the India example: the cash infusions allowed **more investment**.
  - In advanced economies, labor market regulations, etc. might make it more difficult for a household to use cash infusions to start businesses.
- Or, there are **issues with the econometrics** or data

# Conclusions

## 1. **Temporary transfers** may not offer much stimulus in advanced economies

- Micro MPCs are not as large as once thought – permanent income
- Relative price rises can dampen the macro effects
- To make people spend, may need to add intertemporal elements, such as cash transfers that expire (e.g. Boehm, Fize, and Jaravel)

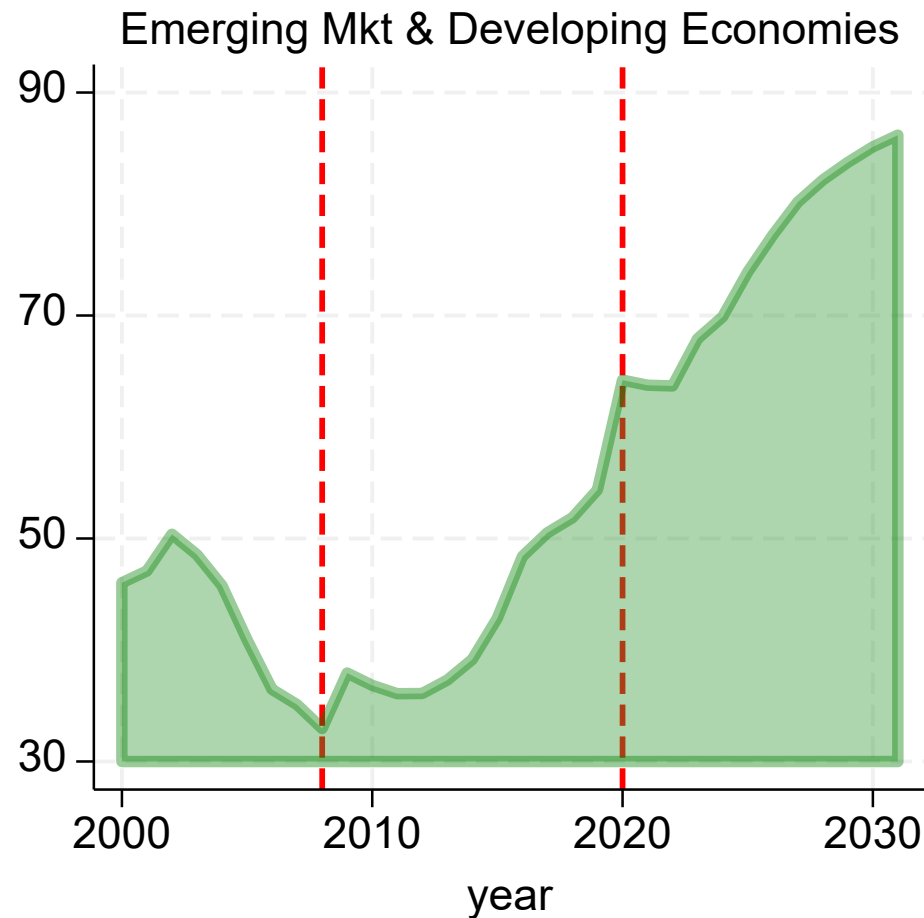
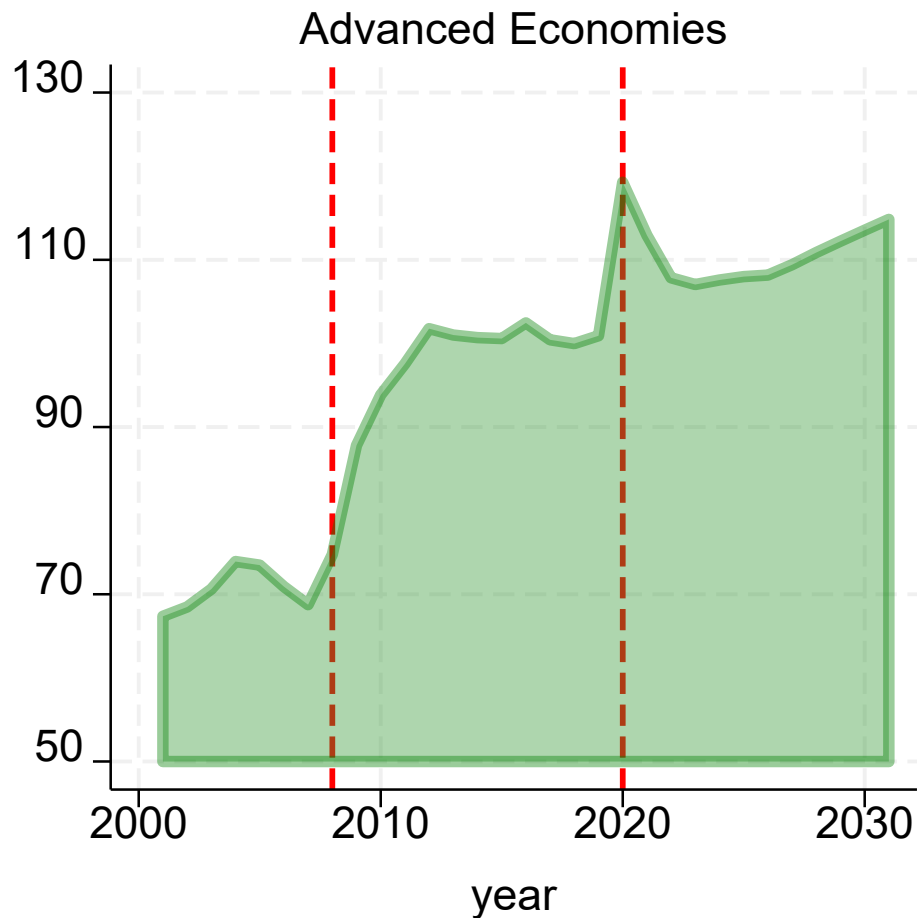
## 2. **Large or repeated transfers** appear to have negative labor supply effects in advanced countries but not in developing countries

- The **negative effects are even larger** when combined with negative income taxes.



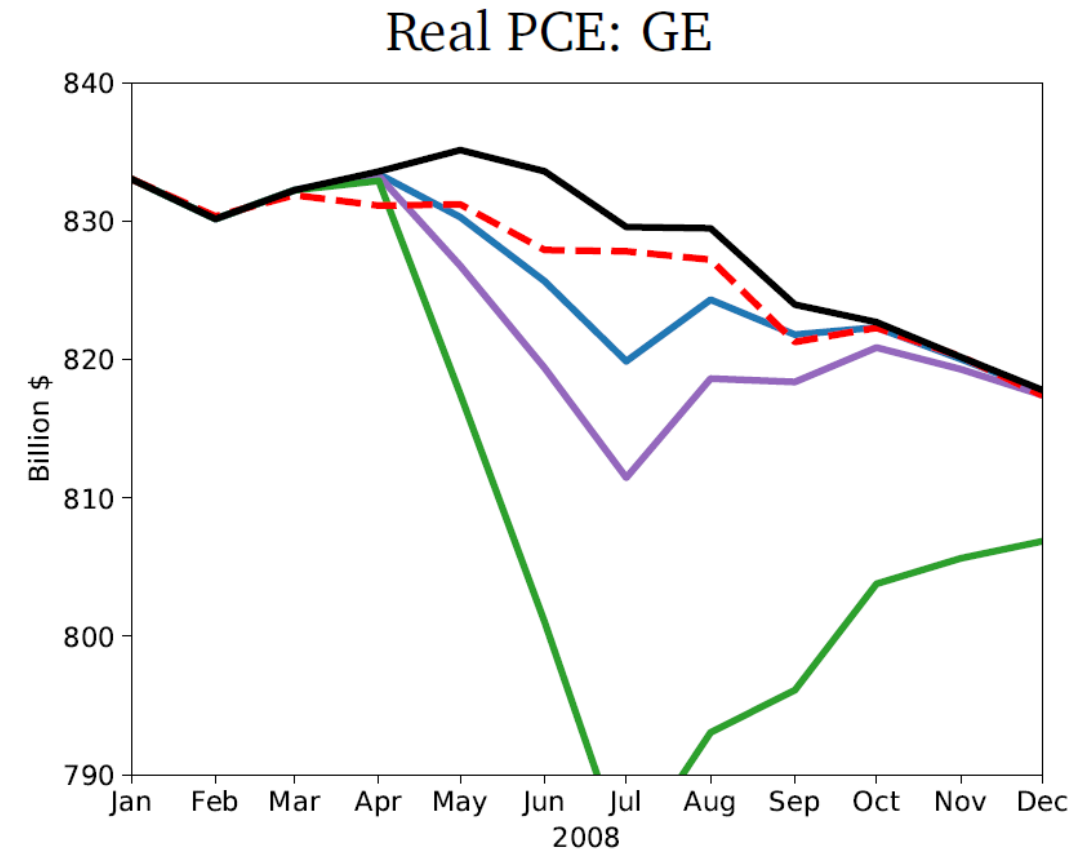
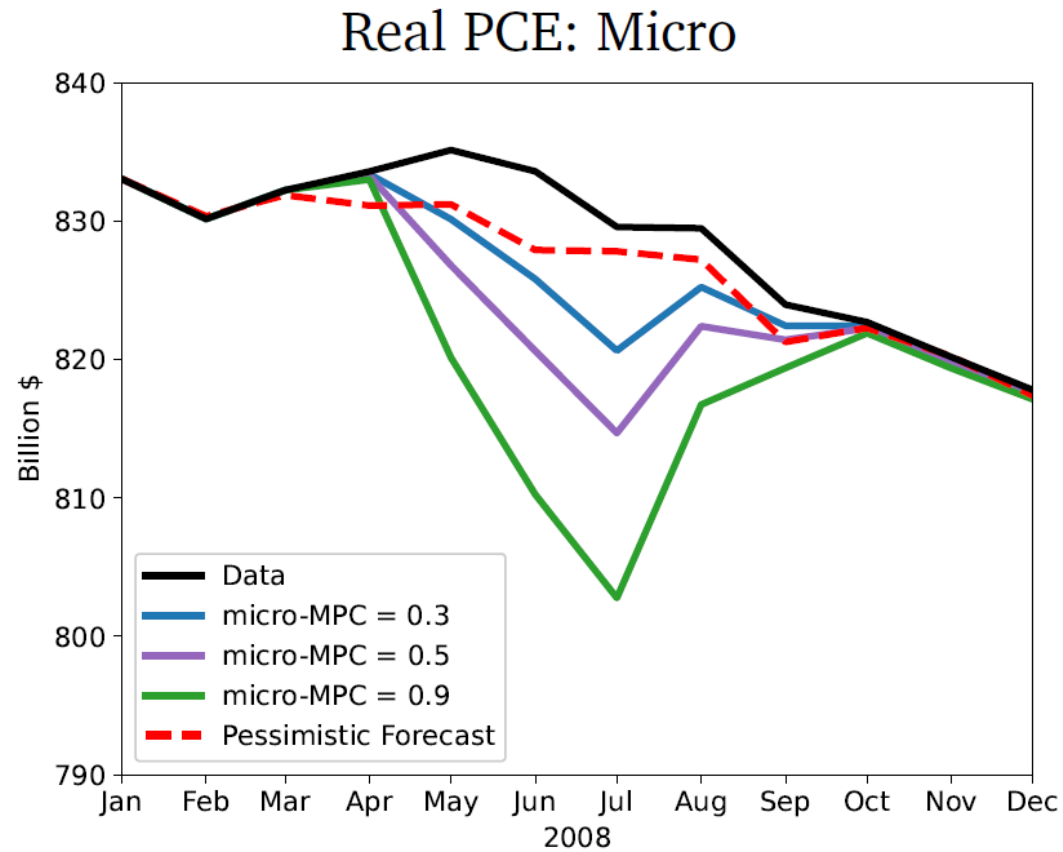
## Extra slides

# The Ratchet Effect of Crises on Government Debt



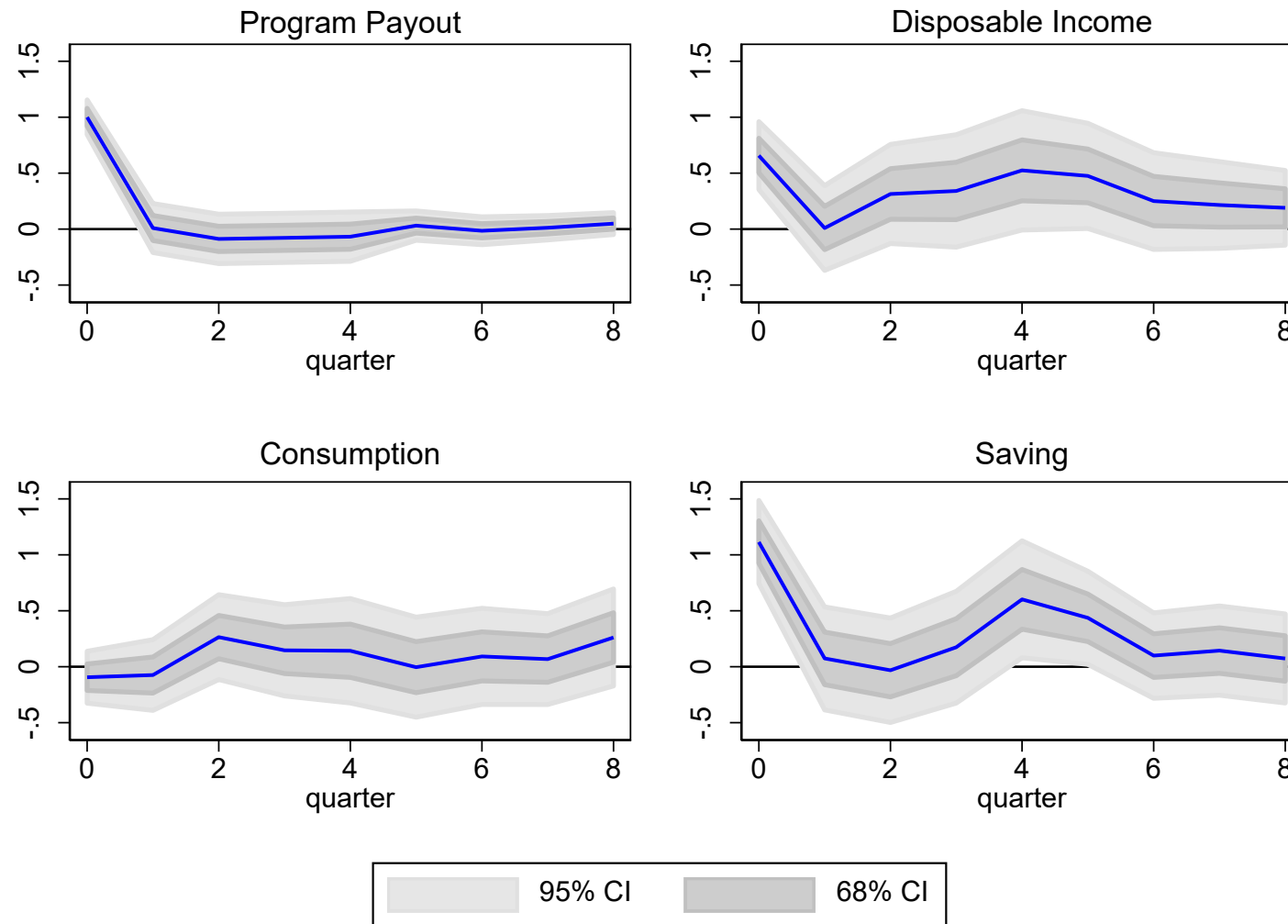
Gross general government debt % of GDP; WEO

# Micro and GE Counterfactuals for the 2008 Rebate



- Counterfactuals imply U.S. economy would have **collapsed** in the Summer of 2008 and recovered in the Fall if no rebate.
- We use narratives, professional forecasts, and our own forecasting model to show these counterfactuals are **implausible**.

# Response to Payout



- **Payout** shock peak normalized to 1% of trend disposable income.