Opinion **Behavioural economics**

How much cash would it take for you to quit your job?

Economists are turning to new ways of finding out

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Soumaya Keynes YESTERDAY

You would probably have to pay me rather a lot of money to persuade me to retire away from my lovely colleagues here at the Financial Times, although anyone who finds my writing particularly grating is welcome to make me an offer. Perhaps I would use the extra time to write more songs or read more books. I would definitely take more naps.

The question of how one might respond to a financial windfall of this sort is a fun thought experiment. But for policymakers it carries more weight. They have to consider whether a stimulus cheque or a tax break could encourage people to quit their job, or make them deaf to pleas from desperate employers. They have to ask how much money it takes to turn someone idle.

Economists have been trying to come up with the answer to this one for decades. In theory leisure time is nice, and an unexpected windfall should mean people consume more of it. But in practice there might be lots of weirdo workaholics like me.

One early approach was to look at how people reacted to their partner getting a promotion, assuming that the pay bump would be shared. Awkwardly, though, it seems that individuals aren't that generous, and besides causality could run the other way. What if I pressured my partner to climb the corporate ladder so I could quit my job and serenade my (several) fans? If promotions do not come randomly, it is hard to be sure that whatever happens next is really their result.

Another approach is to see what people do after getting a bequest. (Trust economists to turn a moment of grief into an opportunity to estimate the effects of unearned income.) Studies tend to find that women are more likely to drop out of work after such an event, with one in Europe finding a five percentage point drop in women's labour force participation after inheriting a sum of at least €5,000. (The survey is frustratingly vague on exactly how much they got.)

But this method has its flaws too. People inheriting sums big enough to affect their work decisions are probably better off than the average. They also might anticipate the cash.

Looking at lottery winners is a surer way of finding a wealth shock that is truly unexpected. (Ticket holders presumably think that the chance of success is high enough that they should buy a ticket, but low enough that they shouldn't plan their careers around a jackpot win.)

This is a pretty rich area of research. A recently published study of American prize winners finds that for every $100,000 of extra wealth, the chances that the winner is employed falls by just under 4 percentage points. Poorer people are more likely to quit their jobs, while richer folk are more likely to stay in work but reduce their hours. Another study of individuals in Spain found that a win allows some people to set up their own businesses.

All these clever ways of working out the consequences of windfalls are very impressive. There is, however, a simpler approach. Why not just . . . ask?

Historically, merely surveying people like this would have been pretty controversial. Stefanie Stantcheva of Harvard University says that perhaps a decade ago economists didn't trust this technique at all. They felt that people's words were unreliable, and it was far better to measure their deeds.

But in many cases the perfect data or setting just doesn't exist. And recent work by Stantcheva and co-authors has shown several cases where what people say they would do comes pretty close to what they actually do. Over the past few years, she says that acceptance of surveys has risen a lot.

A new working paper by researchers at the Centre for Economic Policy Research and Stanford University, deploys this approach, asking Europeans what they would do if they received sums ranging from €5,000 to €100,000.

Below around €25,000, people say they would plough on with work. But for sums between that threshold and €100,000, their likelihood of working falls by 3 percentage points on average. Women, as well as people who are older, who have less debt or who are close to retirement are more likely to drop out.

Stantcheva says that survey questions are most reliable when the hypothetical situations are "very close to daily lives". So perhaps anyone's views on what they would do with a surprise €100,000 should be taken with a grain of salt. Still, for the smaller sums relevant for most policy interventions, these effects seem pretty tiddly. Perhaps I'm not such a weirdo after all.

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