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The 2008 Economic Stimulus Payments Increased Emotional Well-Being

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fewer of them at any given time, and with more time in which to do it. Instead, large numbers of workers can find their skills depreciated at the same time, with limited prospect of finding comparable reemployment. Public policy has yet to figure out how to reallocate workers on a large scale following a recession, or provide training in the new skills demanded by employers, but the need to do so is likely only to grow.

NOTE

1. We rank 381 MSAs in the United States according to the predicted change in employment growth between 2006 and 2009. For ease in interpretation, we define a “hard-hit” MSA as one that experienced an employment shock at the 90th percentile (in absolute value, so that 1 in 10 MSAs had a worse shock), and compare this “hard-hit” MSA to one that experienced a 10th percentile shock (so that 1 in 10 MSAs had a milder shock).

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Over the past few decades, economists have become more interested in understanding the determinants of subjective well-being (SWB). For example, SWB has been used to study the welfare trade-off between inflation and unemployment (Di Tella, MacCulloch, and Oswald 2001), welfare costs of business cycles (Wolfers 2003), the need to interact with others (Krueger and Schkade 2008), and mental costs of job loss (Clark and Oswald 1994). However, perhaps the best-known application of SWB in economics has been to answer the question, “Does more income make you happier?”

This article highlights findings recently published in the Journal of Human Resources, in which Lachowska (2017) estimates the effect of income on emotional well-being using the close-to-random variation in the timing of the disbursement of the 2008 tax rebate payments. Because the rebates were disbursed using a close-to-random schedule of payment, the tax rebate program offers an attractive setting for identifying the effect of a medium-sized income change on SWB, measured as life satisfaction, health satisfaction, or emotional well-being (also known as affect).

As the United States entered the Great Recession in February 2008, the Bush administration proposed an economic stimulus package that included tax rebates to low- and middle-income families with the goal of increasing household spending. Eligibility for the tax rebates was determined by the previous year’s tax returns. The payments ranged between $300 and $600 for individual tax filers and between $600 and $1,200 for joint filers, and the average value of the tax rebate payment was about $1,000.

An interesting feature of the economic stimulus package was that the U.S. Treasury did not disburse the rebates all at once, but instead opted for a sequential payment schedule that depended on the last two digits of the filer’s Social Security number (SSN). As these two digits of the SSN are assigned randomly, the timing of when someone received a payment was also as good as random.

The randomized timing of rebate disbursement is valuable for at least two reasons. First, it allows me to estimate if rebates actually cause well-being to increase. Second, several papers have shown that the rebates had a positive effect on household
people in particular seem to benefit from better emotional well-being. For example, Mani et al. (2013) show that experimentally inducing low-income people to think about a hypothetical financial problem leads to a decrease in their cognitive abilities. Mullainathan and Shafir (2013) discuss the results of this study and draw broader implications for the effects of liquidity constraints. The authors hypothesize that the tax rebates had an impact on reducing stress and worry is interesting because research in behavioral economics has argued that better emotional well-being can increase patience and strengthen cognitive capacity.

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**Figure 1 The Effect of Receiving Rebate on Various Emotions**

![Figure 1](image_url)

NOTE: The estimates come from the last two columns of Table 5 in Lachowska (2017). * denotes that the change in the share reporting a given emotion is statistically significant at a 5 percent level. SOURCE: Lachowska (2017).
that reminding low-income subjects about money may reduce their cognitive capacity because it increases distress, which in turn limits the subject's capacity for processing problems. In fact, a link between liquidity constraints and emotional distress may explain why low-income people sometimes make poor financial decisions (Shah, Mullainathan, and Shafir 2012). Support for this is also echoed in other psychological research. Isen (2001) states in her literature review that “positive affect enhances problem solving and decision making.”

If relaxing liquidity constraints increases emotional well-being, and if this increase in emotional well-being can in turn improve economic decision making, then the results suggest that the rebates may have had a yet unaccounted-for benefit that should be considered in the discussions of proposed policies, such as the universal basic income.

NOTES

1. This article draws heavily on Lachowska (2017). An earlier version of this paper is available as an Upjohn Institute working paper; see Lachowska (2015).

2. Emotional well-being is an index based on seven emotions (“Did you experience the following feelings a lot yesterday: enjoyment, happiness, physical pain, worry, sadness, stress, anger?”), each measured as either a “yes” or a “no.” Emotional well-being is computed by subtracting the average of questions on negative emotions from the average of questions on positive emotions.

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