

Monthly wages are an important step towards economic development

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Most workers and agricultural producers in developing countries are paid on a daily basis. This has a negative impact on their ability to generate savings for large expenses. Researchers from UZH have now shown that

dairy farmers and agricultural workers prefer to be paid once at the end of the month rather than daily, since monthly payment schemes are an efficient tool to increase savings.

Dairy farmers in central Kenya typically own two or three cows, and produce and sell milk on a daily basis. They need the cash for daily consumption, but they also need to set aside money for larger investments, like cow feed or school fees. Previous research has shown that people struggle to generate savings or to cover unexpected lumpy expenses when they are on a low, daily income.

Self-control concerns favor monthly payments

Researchers from the Department of Economics at the University of Zurich wanted to know if the Kenyan [dairy farmers](#) prefer one large end-of-month payment to daily payments, and on which conditions. When faced with the choice to receive monthly or daily payment for their milk, 86% of the farmers choose to receive end-of-month payments, even if this means receiving 15% lower price per liter of milk than they would otherwise. When asked for the reason of this choice, the majority of farmers mentioned that they have set themselves saving goals and do not trust themselves handling the money during the month. When given the choice between having the option to change back to the daily payments at any stage of the month, or committing themselves to a plan for the whole month, 93% choose not to have that flexibility. These two findings suggest that self-control concerns are the primary driver of the demand for monthly payments.

Trust is crucial for markets to flourish

Although there is a strong demand for monthly payments, the supply side cannot keep up. Only one large dairy buyer in the study region offered

the monthly payment option. The researchers point out that smaller operators do not have the credibility to offer such a payment schedule: farmers are concerned the small buyers would run away with the money due at the end of the month. "Trust is crucial for economic development. With a credible third party or judicial organizations guaranteeing the [payment](#), farmers would be willing to sell to smaller dairies and there would be more competition among milk buyers. Therefore, increasing contract enforcement helps the market to establish itself", says Lorenzo Casaburi, an assistant professor in the Department of Economics at UZH who co-authored the paper.

Valuable research to understand self-commitment

The study is one of the first to show that people are willing to pay high price for commitment devices addressing self-control problems. This research differs from other experiments in the area of self-commitment because it is not based on hypothetical situations created by behavioral economists for research purposes, but on a real commitment device common in many markets: infrequent payments for frequently provided goods or services. The authors show that the mechanism proposed in the paper holds for producers and workers in other countries. "The findings on infrequent payments as a saving tool may be relevant for developed countries as well. For instance, many countries around the world, including Switzerland, instituted Thirteenth Salaries to provide workers with more liquidity around end of the year expenses", Lorenzo Casaburi observes about the relevance of his research.

More information: Lorenzo Casaburi et al, Demand and Supply of Infrequent Payments as a Commitment Device: Evidence from Kenya, *American Economic Review* (2019). [DOI: 10.1257/aer.20180281](https://doi.org/10.1257/aer.20180281)

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