

What Is the Impact of Cash Transfers on Labour Supply?

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Since the 1990s, Latin American governments have implemented various conditional cash transfer programmes (CCTs). The objective of CCTs is to alleviate poverty in the short run and create conditions for upward social mobility in the long run through human capital investments. CCTs target families living below the poverty lines, focusing on children and school-age adolescents.

This One Pager investigates the impact of the Brazilian CCT, the *Programa Bolsa Família* (PBF), on beneficiaries' decision to supply their labour. The theoretical departure is this: households have a time-allocation strategy between housework activities and paid work. Income shocks, such as cash transfers, alter such time-allocation preferences. In other words, they change the relative value of time. Let us assume that paid work hours do not generate any additional well-being to households, except for increases in income. As cash transfers increase income, paid time loses value relative to unpaid time. Therefore, the expected behaviour is a reduction in the supply of paid work hours and an increase in housework or leisure hours.

Using data from the Brazilian annual household survey (PNAD-2006), Teixeira (2008) conducted an empirical analysis to determine if the above effects hold or not. PBF targets two groups of families. The first comprises poor families whose monthly per capita income was between R\$50.00 and R\$100.00 in 2006. This group received variable transfers of R\$15.00 per child or breastfeeding mother, up to a maximum of three people. The second group comprises families below the extreme poverty line whose monthly per capita income was less than R\$50.00. In addition to variable transfers, this second group received a R\$50.00 fixed transfer.

Teixeira (2008) finds a marginal reduction in labour hours supplied in response to PBF's transfers. The reduction was statistically significant but not large. The variation is between 0.5 and 3.5 hours per week for working adults. The effect is greater depending on the share of the transfer in households' income. Those below the extreme poverty line reduce their supply of labour more than those below the poverty line. Additionally, households in which there is only one child or those who receive R\$15.00, R\$50.00 or R\$65.00 reduce their labour supply to paid work more than those with larger families.

Both the transfer's value and its value relative to household income are relevant. However, analysing the transfer share over household income enables a better identification of the most affected individuals than does analysis of whether or not the household receives the transfer.

Moreover, the change in the supply of work hours varies according to gender and sectors. Women are more sensitive to budget shocks, as expected, because of intra-household work divisions. For instance, women usually contribute more to domestic activities and childcare. Since women tend to be low-paid, the cash transfer more easily changes their time-allocation preferences. This is in line with Becker's (1965) Time Allocation Theory, which suggests there is a substitution between paid work hours and time allocated for housework activities.

The empirical evidence suggests that PBF increases housework by an average of 1.1 hours per week. Hence PBF marginally reduces labour hours supplied by the households in our sample, but it also increases the time that women allocate to housework. This latter impact actually implies greater household well-being. The evidence does not suggest a perfect substitution between hours of paid work and housework activities. Thus we cannot affirm that women's work hours are completely replaced by leisure hours as might be the case with men, since men contribute relatively little to housework.

Formal work is the least elastic and self-employment is found to have the greatest elasticity. This means workers in the formal sector are less likely to reduce their labour supply in response to the cash transfer. In most cases, formal work involves a fixed number of working hours. Besides that, the value of work hours devoted to formal work constitutes a payment with the added value of workers' rights and benefits. On the other hand, informal and self-employment activities do not offer any of these benefits. Thus they offer greater flexibility in terms of time spent at work. Labour market weaknesses, such as informality, exacerbate the marginal adverse effects of the reduction in adults' labour supply.

The evidence shows that the beneficiaries have different behavioural responses to the income shock—that is, the PBF transfers. We find a marginal change in labour hours supplied by the households in the sample. Future improvements in the PBF must take account of this effect and strategies must be designed to counter them. Similarly, parallel initiatives focused on training and empowering informal and self-employed workers are desirable in order to minimise the programme's adverse effects on hours supplied for paid work.

References:

- Becker, Gary S. (1976). *The Economic Approach to Human Behaviour*. Chicago, University of Chicago Press.
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