

Can cash transfer programs increase labor supply?



Starting in 2006, Bolivia implemented a non-targeted, nationwide conditional cash transfer program (CCT) that delivered transfers to households of school-age children conditional on attendance.



The program increased the probability of working and the number of weekly work hours among parents of eligible children, mainly in areas with limited access to formal financial services.



The program allowed mothers of eligible children to work more as they used the transfers to start or scale up small businesses. In turn, as mothers entered the labor force, *overworked* fathers were able to work fewer hours.

CONTEXT

For years, conditional cash transfer programs have delivered improvements in several welfare-enhancing dimensions. Critics argue that such programs run the risk of creating a culture of dependence. However, these programs may relieve time, psychological and financial constraints that prevent beneficiaries from working. The roll-out of the Bono Juancito Pinto, a nationwide conditional cash transfer program in Bolivian public schools, makes it possible to test whether these programs decrease work incentives among parents of eligible children or relieve constraints that prevent them from working more and generating more income.

THE PROJECT

The Bolivian program provides an annual lump-sum cash transfer of 200 bolivianos (approximately US\$28) conditional on 80% school attendance for children enrolled in public school, regardless of their socioeconomic status. The transfers represented 42% and 28% of the respective monthly earnings of mothers and fathers of eligible children. This project exploits the quasi-experimental variation in the rollout of the program to estimate its impacts on parental labor supply. In 2006, only households with children in 1st to 5th grade were eligible to receive the transfers, but two subsequent expansions included households with children in 6th grade in 2007, and 7th and 8th grades in 2008.

Key concept



OVERWORK

Workers may work for excessively long periods or until exhaustion. International Labour Organization conventions suggest that fair treatment of workers entails working no more than 48 hours a week.

RESULTS

This paper shows that conditional cash transfers can increase work outcomes of parents of eligible children, particularly mothers.

1. Weekly work hours among parents of eligible children increased by 8 hours due to the program (9% of the baseline mean). Thus, the program did not reduce incentives to work. Instead, it helped parents work more.
2. The effects of the program on the probability of working among mothers were twice as high as the effects on fathers. As fathers were already working before the program was implemented, mothers entered the labor force and allowed households to have two working parents.
3. Cash transfers seem to have been used as capital for female-owned businesses, particularly in areas with limited access to formal credit. The study shows that self-employment and spending by those businesses increased due to the program. It is also shown that effects are concentrated in municipalities with a low presence of financial branches (per 100 thousand inhabitants). Thus, the program relieved *credit constraints* among potential entrepreneurs.
4. The program additionally led to within-household substitution in the provision of labor. As the program increased female labor force participation, it led to an 8-hour reduction in hours worked by fathers working more than 60 hours a week. One implication is that, by allowing mothers to participate in the labor force, cash transfers may reduce *overwork* among fathers of eligible children.

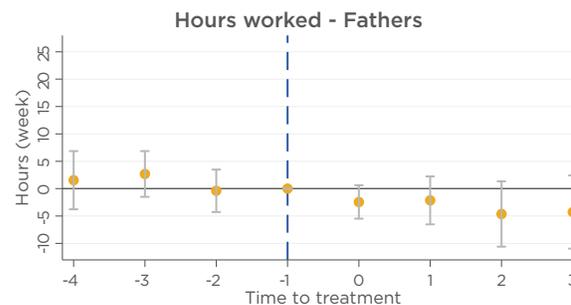
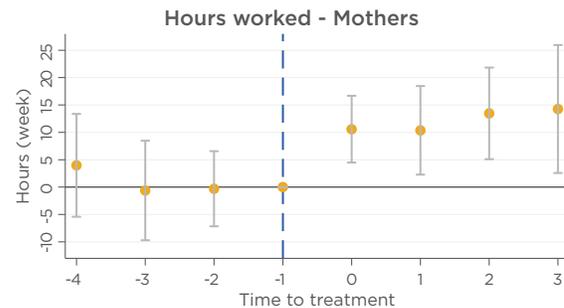
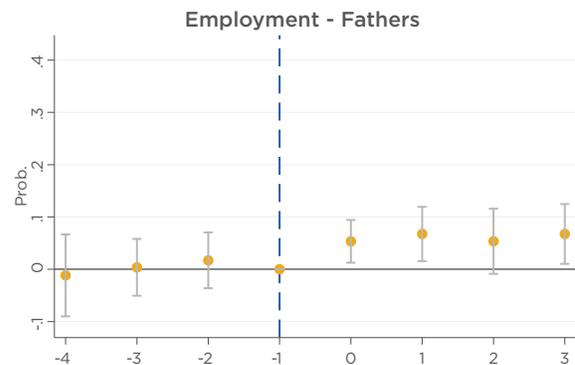
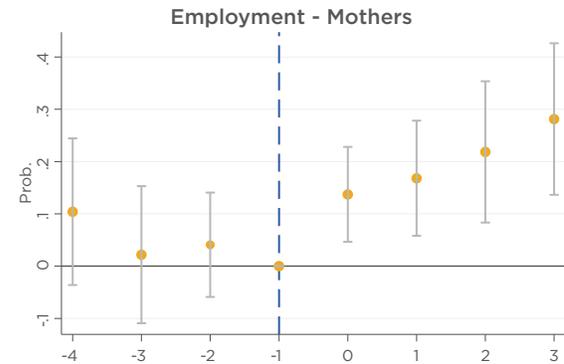
Key concept



CREDIT CONSTRAINTS

Firms or individuals may be willing to borrow in order to finance investments or cope with consumption needs but are unable to obtain loans.

Effects of the Program on Employment and Work Hours by Gender



● Coefficient | 95% CI

POLICY IMPLICATIONS

1. Contrary to the notion that cash aid creates a culture of dependence, cash transfer programs may allow financially constrained households to participate in labor markets.
2. Targeting higher resources from cash transfer programs to sub-populations with limited access to credit markets may maximize the positive unintended consequences of these programs. The program indirectly provided seed capital to female entrepreneurs from areas of low access to credit.
3. By empowering the mothers of recipient children, these types of programs may also reduce the economic burden borne by fathers. This is particularly important in a context where females face strong barriers to participating in labor markets and where over 50% of fathers of school-age children work more than 50 hours a week.
4. Further research analyzing different ways of linking cash-assistance programs to entrepreneurship in the region would provide new insights for crafting better policies.

THE IDB AND CONDITIONAL CASH TRANSFERS

The IDB is a leader in the analysis of conditional cash transfer programs in developing countries. This study is part of a wider research agenda attempting to document unintended consequences of these programs in Latin America and the Caribbean with the aim of improving their design.



FULL STUDY

[Vera-Cossio, Diego \(2019\). Dependence or Constraints? Cash Transfers and Labor Supply.](#)

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