# Literature scan on the economic effects of social protection expenditure

**NZIER report to a coalition of non-government organisations with an interest in poverty**

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# Authorship

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# Key points

Literature we reviewed indicated that the fundamental purpose of social protection is the alleviation of poverty.

At the same time social protection is recognised as having economic growth impacts.

These are, in summary:

- Short term fiscal stimulus
- Long term increases in microeconomic (household) productivity
- Long term changes (increases and decreases) in macroeconomic growth.

One study for New Zealand found that for every 1 percent of GDP increase in transfer payments, such as social protection expenditure, GDP increases by about 1.53 percent after one quarter.

Microeconomic growth for households occurs through:

- preventing the loss of productive capital
- accumulating productive assets
- increasing innovation and risk taking in the livelihoods of poor households
- increasing investment in human capital through education, health, longevity, nutrition, and inclusion
- influencing labour force participation.

Evidence for long term macroeconomic growth effects is inconclusive.

# Executive summary

## Purpose

The purpose of this literature scan is to provide theoretical and evidential insights to a coalition ('Coalition') of non-government organisations (NGOs) with an interest in poverty into the microeconomic and long term macroeconomic growth effects of increases in social protection expenditure.

The Coalition is interested in the economic effects of increases in welfare benefits recommended by the Welfare Expert Advisory Group (WEAG). These welfare benefits are types of social protection expenditure.

While social protection has a social policy purpose, it also has associated economic growth impacts. These are of interest to policymakers and social policy organisations.

## Our findings

The literature scanned reported social protection expenditure has the following economic effects:

- Short term fiscal stimulus
- Long term increases in microeconomic (household) productivity
- Long term changes (increases and decreases) in macroeconomic growth.

Evidence is generally good for positive fiscal and household effects but mixed for effects on long term macroeconomic growth. Many authors expect that micro level effects do influence the macro economy, but evidence of the nexus is elusive.

### Fiscal stimulus effects on macroeconomic growth from social protection expenditure

Literature we scanned reported:

- The fiscal stimulus effect for macroeconomic growth is positive and short term.
- The fiscal stimulus in the United States in 2009 from targeted social protection expenditure exceeded that for tax cuts.
- For New Zealand, for every 1 percent of GDP increase in transfer payments, such as social protection expenditure, GDP increases by about 1.53 percent after one quarter.
- Social protection fiscal stimulus has, at times, been extinguished by monetary policy to curb inflation.

### Microeconomic growth effects of social protection expenditure

Literature reported that microeconomic growth from social protection expenditure in cash transfers:

- Is positive and long term for human and physical capital improvements from cash transfers.
- Occurs by raising the productivity of households through:
  - preventing the loss of productive capital
  - accumulating productive assets
  - increasing innovation and risk taking in the livelihoods of poor households
  - increasing investment in human capital through:
    - education
    - health
    - longevity
    - nutrition
    - inclusion
  - influencing labour force participation.

## Measurement limitations

In summary, the literature scanned has confidence in measurement of fiscal and microeconomic effects of social protection expenditure. This is because the measurement is underpinned by accepted theoretical frameworks as well as available data.

By comparison, the literature indicates that more data are needed to assess the long term macroeconomic effects, especially given the complexity and multiplicity of programmes. Some literature questions whether a long term macroeconomic effect is observable given the scale of these programmes.

## Macroeconomic growth effects of social protection expenditure

Literature scanned indicates that long term macroeconomic growth from cash transfers is:

- Inconclusive based on historic evidence, although some emerging studies continue to suggest a positive connection.
- Considered valid by many authors who look to the micro level effects as some underpinning basis.
- Considered valid by governments globally who apply cash transfers as long-term macroeconomic stabilisers.

Active labour market programmes are considered effective for macroeconomic growth when they improve labour force participation.

Studies indicate opportunities for targeted social protection expenditure to address outcomes of interest to the macroeconomy, for example:

- Enhancing fiscal stimulus
- Reducing inequality
- Facilitating long term macroeconomic reforms
- Enhancing social cohesion.

# Definitions of selected terms

### Active labour market programmes

Active labour market programmes are intervention programmes and policies that actively assist people into employment.

### Cash transfers

A cash transfer is a direct transfer payment of money to an eligible person. Cash transfers are either unconditional cash transfers or conditional cash transfers. They may be provided by organisations funded by private donors, or a local or regional government.

### Consumption

Consumption is the acquisition of goods and services by individuals or families.

### COVID-19 [1]

COVID-19 is a disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The outbreak was first identified in Wuhan, Hubei, China, in December 2019. It was recognised as a pandemic by the World Health Organization on 11 March 2020.

### Fiscal policy

Fiscal policy is comprised of actions taken by the government that set tax rates and government spending levels. How much tax we pay and how much healthcare is subsidised are important and immediate concerns, but the main influence of government is to set incentives.

### Gross domestic product

Annual gross domestic product refers to the monetary value of all finished goods and services made within a country in one year.

### Human capital

Human capital refers to the economic value of an individual's experience and skills made up from assets including education, training, intelligence, skills and health.

### In kind social transfers

In-kind social transfers refer to individual goods and services provided as benefits rather than money to individual households by government agencies.

### Monetary policy

Monetary policy is comprised of actions taken by a central bank to influence interest rates. Through that mechanism, the central bank also influences the money supply, exchange rates, economic activity, employment and inflation.

[1] COVID 19 https://www.who.int/health-topics/coronavirus#tab=tab_1

## Universal benefit income

A universal benefit income can be defined as guaranteed unconditional minimum income provided directly by the state to every individual within a country. The intention behind the payment is to provide enough to cover the basic cost of living and provide financial security.

# Contents

## Appendices

# 1 Introduction

## 1.1 Purpose of this literature scan

The Coalition is interested in understanding the potential economic growth effects of proposed increases in benefits recommended by The Welfare Expert Advisory Group (2019) (WEAG) following its review of the welfare system.

Government expenditure for these types of benefits is called social protection expenditure.

The purpose of this literature scan is to provide theoretical and evidential insights to the Coalition into the microeconomic and long term macroeconomic growth effects of increases in social protection (social protection) expenditure.

While social protection has a social policy purpose, it also has associated economic growth impacts. These are recognised globally by policymakers and they are of interest to social policy organisations.

## 1.2 Social protection

Social protection refers to policies aimed to prevent and reduce poverty, vulnerability and social exclusion throughout the lifecycle (UN DESA, 2018).

Social protection expenditure covers three main areas. They vary in design and coverage (OECD, 2019):

- Social assistance
- Social insurance
- Labour market programmes.

Social assistance (OECD, 2019) is defined as non-contributory social protection, usually financed through taxes and targeted at low income households and vulnerable groups. Examples include cash or in-kind social transfers, fee waivers, subsidies and child benefits, all of which are means tested. Cash transfers can have conditions (such as a training requirement) attached to them or be unconditional.

Social insurance refers to contributory programmes that protect against certain life contingencies through a risk pooling insurance mechanism dependent on prior contributions (Mathers and Slater, 2014).

The WEAG recommendations are concerned mostly with social assistance and to a lesser extent labour market programmes.

In this literature scan when we refer to social protection we are concerned only with:

- Social assistance
- Active labour market programmes.

## 1.3 Methodology

The literature reviewed for this report was identified by searching English language academic and grey material that focused on the economic impacts of welfare spending on low income groups. Sources included the Econlit, Academic Search Elite and ProQuest Research Library databases, Google Scholar, website limited searches of the World Bank, OECD and other relevant institutions.

We began our search using a combination of the following keywords and phrases: 'welfare spending', 'impacts', 'social protection', 'social spending', 'social investment', 'social welfare spending', 'cash transfers', 'economic effects', 'evidence'.

However, as searching is an iterative process, other keywords were introduced later, and additional targeted searches were added for authors with multiple relevant publications, for papers that were already known to the reviewer, or for papers identified in the references of other included papers where these appeared relevant. Opinion pieces, letters to editors, media articles, presentations, and authors' replies to comments on published papers were excluded.

We scanned a number of studies which were reviews of other works. In general, they critically appraised individual articles. In some respects, a common typology of studies is emerging in the literature and many reviews use a common framework, such as seen for Alderman and Yemtsov (2012), Mathers and Slater (2014) and OECD (2019). In this way a systematic review of studies is emerging but is not present yet.

## 1.4 Content

We canvassed selected literature for the following main topics:

- fiscal stimulus of social protection expenditure (section 3)
- microeconomic growth effects from social protection expenditure (section 4)
- limitations of measurement of economic growth effects (section 5)
- long term macroeconomic effects (section 6).

We present our conclusions in section 7.

The literature scan is sequenced in this way because:

- The fiscal stimulus effect is short term and measurable.
- The microeconomic effect is a long-term effect and involves improvements in human and physical capital and is reasonably well measured.
- There are limitations to the measurement of a long term macroeconomic effect that need to be covered prior to discussing it.
- There are many interesting potential macroeconomic effects, even if not well measured.

Many authors expect that micro level effects do influence the macro economy, but evidence for this nexus is elusive.

The literature in this field of study is quite extensive. Given time and resources available, we have focused on key papers that highlight the main topics.

## 1.5 Models of welfare systems

Tridico and Paternesi Meloni (2018) present a review of paradigms of welfare systems. They refer to the widespread classification of socio-economic models of welfare systems proposed by Esping-Anderson (1990), according to which welfare models can be divided into three groups: Liberal, Continental and Scandinavian models (Kloosterman, 1994).

*Liberal regimes, characterized by modest, means-tested assistance, and targeted at low-income, usually working-class recipients. Their strict entitlement rules are often associated with stigma. This type of welfare state encourages market solutions to social problems — either passively, by guaranteeing only a minimum, or actively, by directly subsidizing private welfare schemes.*

*Conservative regimes, which are typically shaped by traditional family values, and tend to encourage family-based assistance dynamics. Social insurance in this model typically excludes non-working wives, and family benefits encourage motherhood. State assistance will typically only step in when the family's capacity to aid its members is exhausted.*

*Social democratic regimes, universalistic systems that promote an equality of high standards, rather than an equality of minimal needs. This implies decommodifying welfare services, to reduce the division introduced by market-based access to welfare services, as well as preemptively socializing the costs of caring for children, the aged, and the helpless, instead of then waiting until the family's capacity to support them is depleted. This results in a commitment to a heavy social service burden, which introduces an imperative to minimize social problems, thereby aligning the system's goals with the welfare and emancipation (typically via full employment policies) of those it supports.* (Kloosterman, 1994)

Of course, there have been developments of these models and Tridico and Paterson Meloni (2018) describe variations of these three main types. Isakjee (2017) presents a review of various developments of the Esping-Anderson framework.

## 1.6 Prime purpose of social protection

Authors in literature studies concerned with this topic emphasise that although they discuss the economic effects of social policy, the prime purpose of social protection is:

> *To prevent and reduce poverty, vulnerability and social exclusion throughout the lifecycle.* (UN DESA, 2018)

Accordingly, social protection has a social purpose and its economic growth effects are secondary to this.

Authors say therefore that we cannot use economic returns from public expenditure on social investment to compare its value to other economic investments:

> *The return on investment in social protection cannot of itself justify a claim to scarce public funds, especially since other investments would yield higher returns. It is the social benefits that social protection provides that makes it desirable.* (Alderman and Yemtsov, 2012)

# 2 Nature of the welfare system and WEAG recommendations

WEAG (2019, Appendix D) defines the purpose of the welfare system as being whakamana tāngata (enhance the mana of the people) and ensure a dignified life by:

- Providing financial security and social security sufficient for an adequate standard of living.
- Supporting people to achieve their potential for learning, caring or volunteering, and earning through good and appropriate work.

The Ministry of Social Development's (MSD, 2018) briefing to WEAG provides a good precis of the history and current state of the welfare system in New Zealand. It also describes the challenges it faces and areas for future focus and development.

In its summary the MSD briefing says:

> *In the last thirty years, the benefit system has undergone a significant series of reforms. The period of rapid growth in unemployment and sole parent benefit receipt that accompanied the economic restructuring of the 1980s and 1990s was an important turning point and provided the backdrop to the reforms.*
>
> *Financial assistance for families has become more targeted, and increasingly tied to work and other obligations. Main benefits for families with children have reduced in value relative to prices and wages (recent increases have only partially reversed this decline).*
>
> *The share of support delivered to families through income-tested tax credits, income and asset-tested supplementary assistance, and discretionary payments (which are in some cases recoverable), has increased.*
>
> *The system is now more complex for people to understand, and more difficult to access.*

## 2.1 WEAG recommends increases in social protection

WEAG recommends action in four main areas for the welfare system to achieve its purpose:

- Income adequacy
- Housing subsidies for those on low incomes
- Improving income support for people affected by health conditions and disabilities, and health shocks
- Improving support for employment and re-employment, particularly especially for people affected by health conditions and disabilities.

The proposed actions consist of cash transfers and active labour market programmes:

- Increasing dollar amounts of current benefits
- Indexing benefits to general wages and prices
- Maintaining a minimum income standard for benefits
- Expanding eligibility for benefits

- Improving employment support.

Welfare policies such as these are types of social protection.

# 3 Fiscal stimulus of social protection expenditure

This section reviews selected studies on the macroeconomic fiscal stimulus provided by social spending increases such as those for social protection expenditure recommended by WEAG.

This stimulus is a short-term macroeconomic effect of social protection expenditure.

A fiscal stimulus can have a substantial effect on gross domestic product (GDP) from its influence on household spending and investment as well as business activity. Gaining an understanding of the stimulus provided from social protection expenditure increases is important for policymakers.

Studies we reviewed reported estimates of the size of the social protection stimulus for GDP. This varies by type of expenditure and country specific conditions. It is often expressed in terms of the 'fiscal multiplier'.

## 3.1 Fiscal multiplier

The fiscal multiplier expresses the impact of increased government expenditure as the percentage change in GDP arising from a change in fiscal expenditure of one percent of GDP (Hamer-Adams and Wong, 2018).

An increase in government expenditure (funded by debt) and paid to households increases their consumption. Households pay suppliers who then pay workers and other suppliers. This enables further rounds of consumption by households. This creates additional increases in short run consumption that is a multiple of the initial impact.

In the long term, the demand for capital to repay the debt causes a rise in interest rates and this tends to reduce economic growth by dampening investment (refer for example, Giesecke and Schilling, 2009). There are other factors resulting from social protection expenditure that can influence the overall long-term effect. Literature for these are discussed in section 6.

In times of economic downturns, a fiscal stimulus can be desirable for sustaining output. In times of economic upturns, a fiscal stimulus may produce undesirable effects such as increased inflation.

### 3.1.1 New Zealand fiscal multiplier for social spending transfer

Hamer-Adams and Wong (2018) studied fiscal multipliers for New Zealand. They found for every 1 percent of GDP increase in transfer payments, such as social protection expenditure, GDP increased by about 1.53 percent after one quarter and 0.76 percent one year after. This is a relatively high fiscal multiplier than levels achieved by alternative types of government expenditure.

According to the authors, their results are within the range of international findings:

> *Our estimated multipliers are well within the range of these other studies and are not at the extremes.* (Hamer-Adams and Wong, 2018)

The authors note, in line with the finding of Brinca et al (2014), that the strong GDP response of social spending is possibly because it targets credit constrained households,[2] which have a higher tendency to spend increases in income (thereby producing a higher fiscal multiplier) than the general population:

> *One interpretation for the strong initial GDP response is that transfer spending over history is well targeted to households that are liquidity-constrained. These households will readily use the additional income from transfers to increase their consumption, which then stimulates private sector demand even further – generating a multiplier above 1.* (Hamer-Adams and Wong, 2018)

The authors also suggest, in line with Romer and Romer (2016), that responses of New Zealand monetary policy have typically tended to extinguish the fiscal stimulus beyond the short term:

> *The dynamics suggest that while the impulse to aggregate demand from transfers spending is initially strong, the boost to activity has typically been offset by a high degree of monetary tightening.* (Hamer-Adams and Wong, 2018)

### 3.1.2 Fiscal multiplier from social protection is significant

Romer and Romer (2016) in a study of the effects of social security benefit increases in the United States for 1952 to 1991, found a large, immediate and significant positive response of consumption to permanent benefit increases. This means the fiscal multiplier is large and significant. They found that the main component of consumption that responds is purchase of durable goods.

Furceri and Zdzienicka (2011) study the impact on economic activity of an increase in social spending for a panel of OECD countries from 1980 to 2005. They find a social spending multiplier of about 0.6. This means an increase of social spending by 1 percent of GDP increases GDP by about 0.6 percent.

Studies show that fiscal multipliers for targeted transfers are comparable to those for tax cuts. Some studies show that the fiscal stimulus effect of targeted transfers exceeds that for tax cuts.

Freedman et al (2009) estimate that the fiscal multipliers for targeted transfers, such as social protection programmes, were high and more effective than tax cuts as a fiscal stimulus:

2 Such as we would expect for social protection beneficiaries.

**We find that the multipliers of a two-year fiscal stimulus package range from 1.3 for government investment to 0.2 for general transfers, with targeted transfers closer to the upper end of that range and tax cuts closer to the lower end (Freedman et al, 2009).**

A Brookings Institute study (Schanzenbach et al, 2016) reports that transfer payments had greater fiscal stimulus than tax cuts in the United States during the 2009 Great Recession.

Hamer-Adams and Wong (2018) find the one-year (one quarter) fiscal multiplier for transfer payments at 0.76 (1.53) percent is lower (higher) than that for tax cuts at 1.29 (1.27) percent.

### 3.1.3 Extinguishing the fiscal stimulus

From an analysis of Federal Reserve policy discussions, Romer and Romer (2016) find that the Federal Reserve was very aware of the benefit increases and often viewed them as a reason to tighten monetary policy.

Often, the Federal Reserve extinguished the fiscal stimulus. The authors say that this is one explanation for why initial GDP changes from the fiscal stimulus did not endure in the long term:

> *Monetary policy appears to be important in explaining the differential impacts of a benefit increase and a tax cut at medium horizons. The federal funds rate rises sharply and significantly following a permanent Social Security benefit increase… Narrative evidence from Federal Reserve records confirms that monetary policymakers believed that the benefit increases stimulated the economy and called for a contractionary response.* (Romer and Romer, 2016)

### 3.1.4 Fiscal multiplier increases as households become more credit constrained

Brinca et al (2014) in a study of a large number of countries, of a shock to government consumption financed by non-distortionary taxation, found that the fiscal multiplier rises:

- The greater the proportion of the population who face binding credit constraints
- The lower the average wealth in the economy.

**Cash strapped households will tend to spend rather than save the transfer payments that are paid to them. This can mean a larger rise in consumption and a higher fiscal multiplier for transfer payments to such households than for other kinds of government expenditure (Brinca et al, 2014).**

Alderman and Yemtsov (2012) note that, in these circumstances, social protection may be better than other government spending because getting cash into the hands of poor people, who tend to spend on local basic goods and services, acts faster to increase aggregate demand through multiplier effects.

Oh and Reis (2011) note that in the United States, medical care, retirement and disability accounted for the bulk of this increased spending:

> *All over the developed world, the large fiscal expansions of 2007-09 have been mostly about increasing social transfers. This is also true in the United States, a leading example of a country with simultaneously large increases in government expenditures primarily due to transfers. While public works and other purchases dominate the public debate, it is medical care, retirement and disability that account for the bulk of this increased spending*. (Oh and Reis, 2011)

# 4 Microeconomic growth effects from social protection expenditure

This section reviews selected studies on the economic growth effects for households. These microeconomic effects are long-term, well defined and measurable.

The studies were selected because they:

- Identified key issues on microeconomic effects
- Presented frameworks common in literature
- Canvassed diverse topics.

Many authors describe the microeconomic growth effects of social protection expenditure in terms of increases in the productivity of labour and capital of recipient households. They describe how this happens and why it can improve their economic growth (Alderman and Yemtsov, 2012).

These productivity improvements of households are additional to the increase in their income. They are additional to the fiscal stimulus effect.

It is important to understand these microeconomic productivity improvements because long-term macroeconomic effects of social protection expenditure (section 6) are understood by some researchers to be underpinned by them.

## 4.1 Social protection expenditure relevance for microeconomic growth

We must be aware, according to Barrientos (2012), that the primary objective of social protection programmes is to provide income to households to enable their consumption of necessities of life. The social outcome sought is reducing poverty and vulnerability, by supplementing their current income.

Microeconomic growth is not the key objective, it occurs as a result of social protection expenditure.

## 4.2 Effectiveness (social and economic) of social protection expenditure

According to Roth et al (2016), the effectiveness of the poverty alleviation and the associated economic effects of cash transfer programmes depends on:

- The availability and quality of social service delivery
- Coherence of policy for social protection with other public policies
- Appropriateness of the social protection programme for the culture of the community:

> *The impact of conditional cash transfers often critically depends on additional circumstances. First and foremost, the quality and quantity of services such as schools and health centres needs to be sufficient for the desired behaviour to have a valuable and lasting impact on participants. It is further crucial to take complementary policies into consideration in order to ensure coherence. Finally, specific characteristics of the target group need to be clarified and incorporated in the policy design since there may be strong factors such as social norms or traditional beliefs preventing participants from complying with conditions in case they are not considered at an early stage.* (Roth et al, 2016)

## 4.3 Social protection can enable access to physical and human capital improvements

Barrientos (2012) explains that social protection benefits enable households to purchase goods and services that raise their quality of life and capacity for employment. Increasing education and health increases the 'human capital' of individuals:

> *Social transfers are often used to directly support investment in schooling, health care and prevention, livestock and other agricultural assets, and micro-level financial assets, for example. Whether through improvements in nutrition that lead to higher labour productivity, or through direct investment, social transfers have the capacity to support income growth among beneficiary households and their communities.* (Barrientos, 2012)

Barrientos comments that this raises the important issue of whether, and to what extent, social transfer programmes could also contribute to broader growth objectives. This underscores the policy relevance of social protection programmes for economic growth noted in section 4.1 above:

> *If it can be shown that consumption subsidies can be effective in supporting income growth among the poor, then social transfers are appropriate policy instruments to deliver growth objectives, in combination with other policies. The interesting issue, from a policy perspective, is whether social transfers have growth effects, especially among the poor; and, if these effects can be identified, whether they are sufficiently reliable and significant to be the object of policy.* (Barrientos, 2012)

Aldermann and Yemtsov (2012) and others articulate how economic growth depends on security of households to enable them to take advantage of opportunities for income generation. They make the case that without the poverty burden of lack of financial capital and access to income and healthcare, etc. households are able to actively seek opportunities for jobs and investment in business. Citing Holzmann et al (2003), the authors note that:

> *Even in OECD economies with their extensive welfare systems the debate on social protection is framed around the questions of productivity (www.oecd.org/social/ministerial). It is argued that protecting households against shocks through social protection not only eases poverty momentarily but also enables growth by allowing poor and near-poor households to create and protect their assets, and allocate resources to risky but highly remunerative production activities.* (Holzmann et al, 2003 cited in Alderman and Yemstov (2012))

These activities include education and training for improved labour market participation as well as investment in assets in local communities.

Mathers and Slater (2014), Aldermann and Yemtsov (2012), Barrientos (2012), the OECD (2019) and others generally agree that there is substantial evidence pointing to the impacts of social protection on individual and household productivity. A framework provided by Mathers and Slater (2014) expresses this in five main categories:

- preventing the loss of productive capital
- accumulating productive assets
- increasing innovation and risk taking in the livelihoods of poor households
- increasing investment in human capital
- influencing labour force participation.

In the following section we present a review of studies in these areas.

## 4.4 Preventing the loss of productive human and physical capital

Poor households are more vulnerable than others to shocks such as economic downturns, household disruptions, illness, unemployment and geographic displacement. This arises from their lack of resources to meet such items as healthcare costs, new travel costs, retraining costs, etc.

Immediate responses may include sale of residences, unemployment, cessation of skills development, and drawdown of lifetime savings. These are detrimental to their long-term ability to accumulate assets and increase productivity.

Barrientos (2012) observes that insecurity leads to inefficient use of resources by those in poverty (citing Barrientos, 2007), for example by:

> *Forcing rural poor households to opt for low-risk/low-return crops and production methods (Morduch, 1995) which reduces growth opportunities. Insecurity also forces poor households to holding liquid but less productive assets (Dercon, 2003). It also leads to distortions in inter-temporal resource allocation, forcing a focus on current consumption in preference to investment. This is typically the case when households withdraw children from school or 'economise' on health care in response to crises. In the absence of security, responding to short term shocks can lead to poverty persistence.* (Barrientos, 2012)

Social protection instruments help protect against such shocks by:

- Reducing or preventing the need for distress selling of productive assets and of disruption in human capital development

- Preventing the need to disrupt families and whānau from communities and schools.

Even though New Zealand communities are different in many respects to others globally, we can draw meaningful learnings from their experiences. One example arises from the case of the Mexico's Oportunidades (see Appendix A) programme.

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**Mathers and Slater (2014) report that children of families enrolled in Mexico's Oportunidades conditional cash transfer (CCT) programme were found to be less likely to drop out of school if an adult in the family became unemployed.**

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## 4.5 Accumulating productive assets

Social protection instruments can enable poor households to accumulate productive assets by providing assets directly, supporting investment or increasing access to credit. Social protection programmes often provide productive assets (or vouchers for them), cash transfers with conditions (such as attending training or investing a percentage) and micro-credit.

Another learning we can draw from international experience is that accumulating assets can facilitate entrepreneurship. Mathers and Slater (2014) report that participants in Ethiopia's PSNP programme accumulated assets, with 15 percent investing their transfers in farming and 8 percent in buying livestock (Devereux et al, 2006 cited in Arnold et al. 2011). They noted that:

> *Women often face additional barriers to enhancing productivity. In the agricultural sector, for example, women tend to have fewer rights to own and control productive assets such as land. They also face additional time and labour constraints and have more limited mobility, access to information and social capital (Holmes et al. 2009). In this context, productive transfers can play a transformative role by targeting women to reduce systemic inequalities in the productive sectors.* (Mathers and Slater, 2014)

Mathers and Slater (2014) cite Gertler et al (2012) who found that households enrolled in Mexico's Oportunidades programme invested about 26 percent of transfers, increasing agricultural income by almost 10 percent after 18 months of benefits. Evidence exists that regular transfers to poor households can increase credit worthiness and thus access to credit for investment.

Barrientos (2012) observes that social protection programmes can facilitate access to micro-credit arrangements, where the poorest households cannot access them. He noted that:

> *There are two ways in which social transfers could help lift credit constraints for poor and poorest households. Firstly, social transfers, providing they are regular and reliable, can encourage small scale saving and investment providing another route to lowering credit constraints. Secondly, social transfers could prove more effective, in combination with other interventions, in enabling access to credit.* (Barrientos, 2012)

## 4.6 Guaranteed income can foster entrepreneurship

Social protection can foster economic growth by enabling innovation and entrepreneurship for business formation. This occurs when long-term and predictable income support unlocks innovation and risk taking for the vulnerable or poor, who otherwise could not afford potential failure.

> *The certainty of future transfers, which guarantee consumption levels and protect productive assets, diversifies livelihoods and reallocates labour to more profitable activities.* (Alderman and Yemtsov, 2012)

Mathers and Slater (2014) note that Bianchi and Bobba (2012), cited in Alderman and Yemtsov (2013) found that among households enrolled in Mexico's Oportunidades programme, expectations of future transfers had a larger impact on entrepreneurship than did current receipt of transfers.

A contrary view presented by Coote and Yazici (2019) on universal benefit income argues that universal benefit income policy is ineffective. They advocate for specific targeting of benefits, rather than unconditional cash transfers.

## 4.7 Investing in human capital development

### 4.7.1 Education and health

Roth et al (2016) review a number of studies and concluded that findings are conclusive that conditional cash transfer programmes improve education outcomes:

> *Evidently, the impact on education has been studied widely, considering that educational development is at the focus of human capital aims of many of these transfers. The overall effect is strong positive while certain considerations and compromises have to be made.* (Roth et al, 2016)

Roth et al (2016) also find conclusive and positive findings for the effect on health outcomes:

> *While we are aware of the problem of supply and quality of services, we conclude that the effect of conditional cash transfers on health is strongly positive. It is important to consider numerous design factors to ensure this effect and it is true that supply can mute the effects, yet it has been shown conclusively that both health care behaviour and actual health indicators change significantly through the introduction of conditional cash transfers.* (Rother et al, 2016)

### 4.7.2 Longevity

Periods without essential funding can have long term detriments for a household's health and education. Aizer et al (2014) find that targeted cash transfers improve children's long-run outcomes, with a particular focus on longevity, by studying the Mothers' Pension (MP) programme – the first government sponsored welfare program for poor families with dependent children in the United States (1911–1935). The authors find additionally that:

> *Underlying nutrition, educational attainment and income in adulthood are all likely mediating factors.* (Aizer et al. 2014)

While conditions today differ significantly from those at the beginning of the twentieth century, the authors identify three important similarities that make the results relevant:

- Women raising children alone represent the most impoverished type of family.
- The relationship between parental income and the development of child human capital is similar in these two periods.
- The estimated short- and medium-term effects are consistent with estimates of the impact of contemporary antipoverty programs on short- and medium-term outcomes.

### 4.7.3 Nutrition outcomes

Mathers and Slater (2014) report that there is strong evidence that social protection instruments significantly improve nutritional outcomes for children and access to healthcare:

> *Cash and in-kind transfers (conditional and unconditional) and fee waivers address demand-side barriers to accessing sufficient and nutritious food and health services. The child support grant and old age pension in South Africa have improved nutrition, health and height of children (Aguero et al. 2006; Samson et al. 2004; Case, 2001 cited in Samson & Miller 2012). Other more specialised programs include supplementary or school feeding targeted to areas with high rates of malnutrition, and vaccination and public health initiatives.* (Mathers and Slater, 2014)

### 4.7.4 Inclusive growth

Social protection expenditure can target socially excluded groups and enhance their human capital by including them in growth processes.

Mathers and Slater (2014) explain that by appropriate targeting productivity gains. social protection programmes can include socially excluded groups:

> *The receipt of transfers also has the potential to enable excluded groups to participate in growth processes. Targeting women with transfers has been shown to increase their decision-making power within the household. This often leads to greater spending on children, which improves their chances of survival, and their health and educational outcomes (Samson & Miller 2012; Scott 2009). The highest increase in enrolment rates among children living in recipient households of South Africa's social pension, for example, was among girls (7 per cent).* (Scott 2009)

### 4.7.5 Intergenerational growth benefits

Social protection can increase productivity and help break the cycle of intergenerational poverty. Parker and Vogl (2018) describe the intergenerational benefits of Mexico's Progresa programme (see section 5 below). They estimate the intergenerational benefits may be as large as or larger than the current effects to alleviate poverty:

> *We estimate the long-term effects of the Mexican program Progresa on the educational, labor market, household, and demographic outcomes of young adults who effectively grew up with the program. The results show large effects on the next generation's completed education, work, earnings, and household economic status, particularly for women.* (Parker and Vogl, 2018)

## 4.8 Influencing labour market participation

Roth et al (2016) review a number of studies of active labour market programmes and conclude that more research is needed to understand the impact of these for economic growth.

Mathers and Slater (2014) report that unconditional cash and food transfers have been shown to lead to better employment opportunities for resource poor households by freeing up time and allowing a portion of the transfer to be invested in job seeking or migration They cite findings of Samson et al (2004) cited in Samson & Miller (2012) and Keswell et al (2005) cited in Samson (2009).

> *Recipients of social cash transfers in South Africa and elsewhere have increased job-seeking efforts and migration and resulted in more recipients than non-recipients finding employment.* (Mathers and Slater, 2014)

Mathers and Slater (2014) note there are some concerns that social protection creates disincentives to work and invest in education and training for higher skilled jobs.

However, Barrientos (2012) has the view that there is scant evidence that social transfers have large adverse labour supply effects on beneficiaries and their households. There are two main countervailing impacts from the social protection instrument:

- Labour supply of children and older persons is reduced, especially when targeted by education subsidies and pensions
- Reduction in labour supply of these two groups is often compensated for by changes in labour supply of other household members.

Barrientos (2012) cites the case of *Oportunidades* where a small reduction in child labour was compensated for by an increase in the labour supply of adults (Skoufias and Parker, 2001). Further to the extent that social transfers lift credit and care constraints, they could have the effect of encouraging additional labour supply from other household members (Carneiro and Galasso, 2007).

# 5 Limitations of measurement

This section outlines the limitations of measurement of economic effects for households, communities and the nation.

## 5.1 Three levels of the economic growth: micro, meso, and macro

The OECD (2019), Mathers and Slater (2014), and Alderman and Yemtsov (2012) use a common conceptual framework based on the work of Barrientos (2012) that shows the effects of social protection expenditure at micro, meso and macro levels of the economy.

They visualise:

- households representing the ‘micro’ level
- communities and regions as representing the ‘meso’ level
- the nation representing the ‘macro’ level.

The meso level is concerned with many households. In a New Zealand context, we can potentially envisage the meso level as being at the geographic level of our regions.

## 5.2 Microeconomic measurement is reasonably sound

The OECD (2019) observes that while social protection expenditure is understood to influence economic growth, measuring its impact faces challenges:

> *The conceptual framework developed in this report shows that social protection investments may affect growth and inequality through a multiplicity of effects at micro, meso and macro level. Measuring these effects is often a challenge, however.* (OECD, 2019)

At the micro level, the connection between social protection expenditure and economic growth, is underpinned by direct theoretical links, such as increased incomes arising from better education and health. The OECD says the impact of the social protection expenditure can be measured with statistical data on households. Hence there is a high level of confidence in micro level measurements.

Mathers and Slater (2014) report that evidence for micro level studies is reasonable and good:

> *The impacts of social protection on productivity and labour market participation at micro level are well studied. In LICs [low income countries] and MICs [medium income countries], the evidence overwhelmingly shows positive impacts, and very little evidence of potential negative impacts, especially labour disincentives. The evidence also shows that design and implementation are critical. Meso and macro level measurement faces challenges.* (Mathers and Slater, 2014)

The OECD (2019) highlights the measurement challenges for meso and macro level economic effects:

> *Key measurement challenges include the heterogeneity of social protection investments, the multiplicity of possible effects that may cancel each other out, the presence of endogeneity, and, for the macro effects, the scarcity of internationally comparable data on social protection investments broken down by types of programmes.* (OECD, 2019)

Alderman and Yemtsov (2012) point out that most conditional cash transfers are now starting to reach maturity and thus slowly yielding robust longitudinal data, which can be used to estimate the growth effect with an enhanced scope.

Roth et al (2016) assessed the impact of active labour market programmes on economic growth. They find scarce evidence and recommend more research in this area:

> *It therefore remains yet to be understood if ALMPs have the potential to speed economic growth, as more research is necessary.* (Roth et al, 2016)

Mathers and Slater (2014) say that:

> *Results from the literature on social protection on aggregate growth are somewhat inconclusive. The most recent literature suggests that 'productive' social protection spending in HICs [high income countries] is positive for growth, but that even in countries where spending represents a relatively large share of GDP the effects on growth are small.* (Mathers and Slater, 2014)

Barrientos (2007) reinforces the lack of clarity:

> *Some studies find that social transfers facilitate growth, others that they harm growth, and a majority of the studies finds there is no statistically significant correlation between social transfers and growth performance. (*Perotti, 1992; Atkinson, 1996; Arjona, et al, 2001 cited in Barrientos (2007))

## 5.3 Is a long term macroeconomic effect measurable?

There are some views that it is valid to focus on the economic effects for the targeted recipients of social protection programmes. Some authors say the economic growth effects are small and only meaningful for the vulnerable groups targeted.

Barrientos (2012) suggests that when assessing the impact of cash transfers on economic growth, the analysis should focus on the economic activity of the vulnerable group targeted by the transfer. According to his view a focus on the overall economy would distort and potentially understate the economic impact of transfers.

Kabeer (2009) argues that low cash transfer amounts on the one hand and the proportionally small economic contribution of poor people on the other hand explain why measuring an overall economic impact would not be representative.

Yet when considered at a household or community level the economic growth effect of cash transfers may be substantial (Kabeer et al, 2012).

## 5.4 Overall rating for quality of evidence

Alderman and Yemtsov (2012) provide a helpful summary rating the quality of evidence for economic effects of social protection programmes.

We see this 'quality' as describing robustness of evidence rather than describing the effectiveness of the programme. Potentially the evidence can be assessed using the GRADE classification (e.g. Movsisyan et al, 2018). However, we do not attempt that here.

Alderman and Yemtsov (2012) rate the quality of evidence as:

Strong for:

- investment in human capital (conditional and unconditional cash transfers, school feeding, early childhood development, and nutrition)
- building household assets (micro-credit and saving schemes)
- labour market progress (especially active labour market programmes).

Developing for:

- actively using social protection programmes for conflict resolution
- using social protection programmes to promote reforms.

Weak for:

- using social protection for safety nets to help households become more productive, by simulating riskier activities and entrepreneurship
- ensuring economic value of local infrastructure created by social protection interventions

- using social protection expenditure as an automatic stabiliser to boost overall economic growth and maintain demand in times of crisis.

# 6 Long term macroeconomic growth effects from social protection expenditure

This section presents studies about the long term macroeconomic effects of social protection expenditure. It covers historic evidence, emerging approaches, the case for aggregates of micro level impacts, the case of social protection expenditure as a clear policy instrument for long term macroeconomic growth, labour market impacts, and other indirect effects.

Historic evidence is mixed. Further research is recommended but is challenged by scarce data. Authors widely advocate that the microeconomic productivity effects should be transmitted to the macroeconomy. However, evidence is elusive. Some support that the linkage is indeed real comes from studies that cite the use of social protection expenditure as a policy tool to sustain economic growth following the Global Financial Crisis.

## 6.1 Conclusions are mixed

Literature studies present a wide array of views and perspectives of the potential effects of cash transfers on long term macroeconomic growth (Roth et al, 2016).

This mixed view is evidenced by a summary of the literature by Alper and Demiral (2016). They review selected studies of the determinants of GDP growth and GDP per capita. The studies typically span 20 years and use panel data analysis for between 19 to 120 countries. The studies in Alper and Demiral (2016) show the following results for welfare spending:

- Baum and Lin (1993): Education and defence expenditures have positive effects while welfare expenditures have negative but insignificant effects on growth.
- Barro (1991): The growth rate is positively related to initial human capital and negatively related to the initial level of real GDP per capita. Growth is inversely related to government consumption, but insignificantly related to public investment.
- Kelly (1997): Public investment and social expenditures contribute to growth. Crowding-out and rent-seeking concerns seem to be overstated in the literature.
- Folster and Henrekson (2001): There is a strong negative relationship between social expenditures and economic growth.
- Alam, Sultana and Butt (2010): Social expenditures increase efficiency and therefore, affect growth positively.
- Khan and Bashar (2015): Social expenditures promote economic growth in both countries. One-way causality runs from economic growth to health and social expenditures in Australia. One-way causality runs from education expenditure to growth in New Zealand.

Alper and Demiral (2016) conclude that the contribution of social protection expenditure to economic growth is country specific and time dependent.

Alderman and Yemtsov (2012) also trace the history of research. In their view, early research suggested that investment in cash transfers would be detrimental to economic growth since they implied a shift of resources to the less productive share of the population.

## 6.2 Emerging studies of long-term macroeconomic effects

Roth et al (2016) says that presently there is a wider understanding that reflects the potential of cash transfers to have positive effects on the overall economy in the long term.

For example, using an endogenous growth approach, Alper and Demiral (2016) investigate the effects of governments' social expenditure (education, health and social protection) on economic growth. They study the changes in GDP per capita using a balanced panel dataset covering 2002-2013 for 18 OECD countries. The findings reveal that the effects of education, health and social protection expenditures on economic growth are significantly positive.

Alper and Demiral (2016) opine that:

> *Supporting the predictions of endogenous growth theories in terms of the importance of human capital, overall results suggest that governments not only can eliminate the results of market failures by social spending directly but also, they can increase the welfare promoting the economic growth from various channels in the case of selected OECD countries.* (Alper and Demiral, 2016)

## 6.3 Aggregate micro impacts at the macro level

Mathers and Slater (2014) express the view that the aggregate of household productivity effects due to social protection expenditure could have an effect at the long term macroeconomic level:

> *Social protection could impact on national (macro-level) growth directly, through increasing household productivity and employment, stimulating aggregate demand, affecting labour force participation and influencing savings and taxation; and indirectly, through facilitating economic reforms, building human capital, contributing to social cohesion and influencing demographics.* (Mathers and Slater, 2014)

In general, the evidence cited by the authors is scarce and weak. They note that for some studies the channels by which household productivity enhancements are transmitted to the macro level remain undefined.

We note that this does not mean that the transmission from micro to macro levels does not occur. It may occur and yet, at present, we may be unable to measure it.

## 6.4 Macroeconomic policy tool

Sometimes social protection programmes are applied as a policy tool for an expressed purpose to act at the macroeconomic level as a "long-term macroeconomic stabiliser ". The OECD (2019) cites the ILO in noting:

> *Measures such as cash benefits, old age pensions, in-kind transfers and disability benefits were instrumental in cushioning the impact of the global financial crisis*

*among the most vulnerable, while serving as a long term macroeconomic stabiliser and enabling people to overcome social exclusion and poverty in both developed and developing countries.* (OECD, 2019)

ISSA (2016) cites the ILO in noting the long-term macroeconomic effect of social security spending in "sustaining growth":

*The recent global financial and economic crisis has forcefully underlined the importance of social security as key to crisis recovery by sustaining consumption. As the crisis took hold in 2008, the vast majority of governments in countries immediately scaled up public social expenditure in order to sustain growth and protect their populations from the adverse effects of the food, fuel and financial shocks.* (ISSA, 2016)

## 6.5 Social protection expenditure can affect labour force participation

Alper and Demiral (2016) make the point that social protection expenditure can contribute to long term macroeconomic growth by providing a kind of insurance to workers. In doing so they will be better motivated and more productive. This motivation is another enhancement of human capital.

*On the other hand, social protection expenditures will make a positive contribution to the economic growth since the individuals are insured against disease and unemployment risk and therefore they become more productive and motivated to work.* (Arjona, Ladaique and Pearson, 2002 cited in Alper and Demiral (2016)).

In another view, Arjona (2012) explains that social protection expenditure can be bad for growth if benefit systems discourage people from working, such as by substituting a welfare payment for a wage:

*The amount of labour supplied in the economy is lowered, so reducing the level of output and, in some circumstances, the level of capital investment and hence growth. If social provisions discourage people from saving, then unless public saving rises by an equivalent amount there is a reduction in the capital available for reinvestment. Furthermore, the taxes necessary to finance social protection may reduce the return to innovation.* (Arjona, 2012)

In response to this claim, Banerejee at al (2017) say their analysis debunks Arjona's claim:

*We re-analyze the data from 7 randomized controlled trials of government-run cash transfer programs in six developing countries throughout the world and find no systematic evidence that cash transfer programs discourage work.* (Banerejee et al, 2007)

## 6.6 Active labour market policies may enhance long term growth

In an extensive review of active labour market programmes (ALMPs), Roth et al (2016) draw the following five conclusions:

*…..generally, there is strong evidence that ALMPs fulfil their role to reduce unemployment – however, the mix of programmes and the scale can alter this prospect and produce no impacts.*

*……it is suggested that programmes that simulate or offer experiences similar to a regular job, such as on-the-job training, are more effective to reduce unemployment.*

*…there is robust evidence that wage subsidies are very effective on creating jobs.*

*…public work programmes can harm the employability of its participants in the long term and demonstrate little immediate impact*

*…there is mixed evidence on training programmes – mostly insignificant or negative in short term, but with potential for large positive effects in long term.*

In a study of an annual sample of 21 OECD countries running from 1970 to 1998, Arjona (2012) found 'active' social expenditure (such as applied to active labour market policies), was a form of social protection expenditure that did raise long term long term macroeconomic growth:

> *In interpreting this result, the suggestion that different sorts of social expenditure have different effects on growth proves to be important. The estimates in this study suggest that more "active" spending (i.e. social spending which attempts to change the distribution of market income by promoting the labour market participation of part of the population that would have lower-than-normal market incomes) is associated with higher growth, whereas other social spending is associated with lower growth.* (Arjona, 2012)

## 6.7 Targeted social protection expenditure may support outcomes relevant to the macroeconomy

### 6.7.1 Enhancing fiscal stimulus

Mathers and Slater (2014) and others note that low income households have lower tax rates and higher propensities to consume than other households. This can mean a higher fiscal stimulus for the same dollar value of cash transfer if it is targeted to low income households than if all households received the cash transfer.

These authors also note that social protection expenditure funded by debt can be potentially destabilising for the reasons noted in section 3 above.

### 6.7.2 Reducing inequality

Alderman et al (2019) suggest that social protection can reduce income inequality between households and this can enhance the wellbeing of the nation. In a study of these wellbeing benefits from Mexico's Progresa programme, Alderman et al (2019) find that they are as large as, or even larger than, the expected future gains from education (human capital investments) intended and provided by the programme:

> *The welfare gains from current redistribution for the Mexican PROGRESA conditional cash transfer program are as large, or possibly much larger, than the estimated present discounted value of future earnings from human capital investments in lower and upper secondary schooling. These, moreover, are an underestimate of the gains from redistribution because, in addition to current gains, such gains will be augmented in the future through the distribution of the returns on the human capital investments induced by cash transfer programs.*

> *Therefore, to fully evaluate such programs, it is critical to incorporate the distributional gains, not only the impacts on human capital investments.* (Alderman et al, 2019)

Mathers and Slater (2014) find a growing consensus that social protection expenditure applied to reduce inequality is positive for economic growth:

> *Crucially, consensus is growing that the role of social protection in reducing inequality is positive for economic growth, especially in LICs [low income countries] and MICs [medium income countries] (Ravallion 2005; Barro 2008; Arjona et al. 2002). Grosh et al. (2008) explain that high inequality slows growth because high political and social inequalities lead to the development of institutions and policies concentrating income in the hands of privileged groups rather than the creating of a broad base for growth.*
>
> *The poor and near-poor (who constitute most LICs and MICs) are therefore locked out of opportunities to participate in growth processes. Increasingly, evidence is consistent that there is no trade-off between greater equality and growth (Ravallion 2005, Arjona et al. 2002) and even that greater equality leads to higher growth (Perotti 1996; Barro 2008), especially in LICs and MICs.* (Slater and Mather, 2014)

The OECD (2019) finds that the economic growth effects of social protection may also provide inclusive growth which is improvement of living standards and shared prosperity across all social groups.

### 6.7.3 Facilitating economic reforms

Mathers and Slater (2014) note that social protection programmes can help make economic reforms acceptable to communities. If the reforms involve income losses, social protection programmes can provide income support for those affected.

### 6.7.4 Enhancing social cohesion

Foa (2011) describes a rationale for the contribution of social cohesion to economic growth. If valid, social protection expenditure can lead to economic growth, by contributing to social cohesion.

Mathers and Slater (2014) citing Babajanian (2012) and Carpenter et al (2012), note that despite many positive claims, there is little evidence of the impacts of social protection on state-building and social cohesion. Citing Carpenter et al (2012) further they also say that there is also little evidence of the impacts of social cohesion on growth.

# 7 Conclusions

## 7.1 Fiscal stimulus effects on short term macroeconomic growth from social protection expenditure

Literature we reviewed generally reported:

- The fiscal stimulus effect for macroeconomic growth is positive and short term
- The fiscal stimulus in the United States in 2009 from targeted social protection expenditure exceeded that for tax cuts.
- For New Zealand an increase in transfer payments such as social protection expenditure of 1 percent of GDP raises GDP by about 1.53 percent after one quarter
- Social protection fiscal stimulus has, at times, been extinguished by monetary policy to curb inflation.

## 7.2 Microeconomic growth effects of social protection expenditure

Literature we reviewed indicated that microeconomic growth from social protection expenditure in cash transfers:

- Is positive and long term for human and physical capital improvements.
- Occurs by raising the productivity of households through:
    - preventing the loss of productive capital
    - accumulating productive assets
    - increasing innovation and risk taking in the livelihoods of poor households
    - increasing investment in human capital in:
        - education
        - health
        - longevity
        - nutrition
        - inclusion
    - influencing labour force participation.

The literature is inconclusive on microeconomic effects of active labour market programmes. The literature suggests that programmes that simulate a job experience and wage subsidies are effective.

## 7.3 Limitations of measurement

In summary, literature reviewed has confidence in measurement of fiscal and microeconomic effects of social protection expenditure. This is because at the micro level the models are underpinned by theoretical microeconomic frameworks as well as available data.

By comparison the literature indicates that more data are needed to assess the long term macroeconomic effects, especially given the complexity and multiplicity of programmes. Some studies question whether a long term macroeconomic effect is actually observable given the scale of these programmes.

## 7.4 Long term macroeconomic growth effects of social protection expenditure

Literature scanned indicates that long term macroeconomic growth effects from cash transfers are:

- Inconclusive based on historic evidence, although some emerging studies continue to suggest a positive connection.
- Considered by many authors to be underpinned by the micro level effects.
- Accepted by global governments seeking long-term macroeconomic stabilisation.
- Potentially available through improved labour force participation.

Evidence is mixed on whether active labour market programmes are positive for long term macroeconomic growth.

Many studies indicate targeted social protection expenditure can address outcomes relevant to the macroeconomy:

- Enhancing fiscal stimulus
- Reducing inequality
- Facilitating long term macroeconomic reforms
- Enhancing social cohesion.

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# Appendix A Case studies

We can draw important insights from international experience because all social protection programmes are similarly concerned with protecting households from poverty.

Governments in the developing world are increasingly providing social assistance programs for their disadvantaged citizens. For example, in a recent review of programs worldwide, Gentilini et al (2014) found that 119 developing countries have implemented at least one type of unconditional cash assistance program and 52 countries have conditional cash transfer programs for poor households. Thus overall, they find that 1 billion people in developing countries participate in at least one social safety net.

We present here three case studies:

- Bolsa highlights the success of a cash transfer programme in overcoming poverty as well as achieving health and education outcomes
- Oportunidades highlights the achievement of productive investment following the removal of credit constraints
- Banerjee's study shows that a suite of activities can achieve an enduring impact while being sustainable and cost effective.

**Brazil's Bolsa Família** (excerpt from Damon, 2016)

*Brazil's Bolsa Família programme combines the objectives of poverty alleviation, health promotion and empowerment through education. Established in 2003, the programme consists of monthly cash transfers to poor households with children or pregnant women conditional on greater use of health and education services.*

*As of June 2016, the programme has reached over 50 million Brazilians whose current incomes are below the poverty line, making it the largest conditional cash transfer programme in the world. The Brazilian government attributes the improvement in household incomes to several decisions including the adjustment of the minimum wage, efforts to expand the formal sector, and finally the implementation of the Bolsa Família programme.*

*Among the notable achievements of the Bolsa Família programme are the near elimination of extreme poverty (a reduction of 89 per cent), a 28 per cent reduction in the poverty rate, and a decrease in the total number of Brazilians living with less than BRL 70 (USD 21.73) per month to 3.6 per cent from 8.8 per cent. School performance and health conditions of beneficiaries have improved, small businesses in poor areas have emerged due to localized increases in household consumption, rural development and the reduction of regional inequalities.*

Sources: IBSA (2012); Soares (2012a, 2012b); Sousa and Santos (2009).

**Mexico's Oportunidades** (excerpt from Mathers and Slater, 2014)

*Mexico's Oportunidades (formerly Progresa), a relatively generously funded conditional cash transfer [CCT] programme, has been highly evaluated, offering rich evidence of the impacts of social protection on productivity at micro level. Oportunidades was introduced to replace a number of inefficient food transfer programs and price subsidies. In 2007, the CCT was reaching 5 million households (approximately 25 million people, or one-quarter of the* *population), and cost US$3.3 billion (about 0.4 per cent of GDP) (Grosh et al. 2008). Receipts of transfers are conditional on children attending school and health care visits, with women in participating households receiving cash payments as well as schools supplies and nutrition supplements.*

*Oportunidades has resulted in increased productive investment by allowing households to overcome credit constraints. A 2006 evaluation showed that program participants invested around 12 per cent of their transfers which increased consumption by one third over five years (Gertler et al. 2006). A follow-up study in 2012 found that household investments had grown to 26 per cent of the transfer, increasing the value of livestock and micro-enterprises (Gertler et al. 2012). Importantly, a number of studies looking at the labour incentive impacts of the CCT found no negative impacts on adult labour force participation or work effort. However, the program has resulted in reductions in child labour participation rates by up to 25 per cent (Parker & Skoufias 2000; Skoufias & di Maro 2006). Mexico's CCT also provides evidence of the potential for social protection to promote increased risk taking. Participating households have developed more diversified livelihoods through reallocating labour from agricultural to non-agricultural activities which attract higher returns (Behrman et al. 2010 cited in Alderman & Yemtsov 2012). Another program study suggests that entrepreneurial activity was higher when households had greater certainty about the future receipt of transfers (Bianchi & Bobba 2012, cited in Alderman & Yemtsov 2013).*

*Oportunidades has also been instrumental in allowing households to invest in human capital. Attanasio et al. (2005) found positive impacts on primary and secondary school enrolment rates. The greatest effects were for girls with an increase of 7 to 9 percentage points (up from 67 per cent) in rural areas. A study by Todd and Wolpin (2006) predicted that children of participating households would complete school with almost one extra year of education. A number of studies have shown positive impacts on child growth, with lower probabilities of stunting for children aged 12 to 36 months and an 11 per cent decline in infant mortality among children of beneficiary households in rural areas (Behrman and Hoddinott 2005; Gertler 2000; Gertler & Boyce, 2001).*

### A multifaceted program causes lasting progress for the very poor: Evidence from six countries (excerpt from Banerjee et al, 2019)

*Structured Abstract*

***Introduction***

*Working in six countries with an international consortium, we investigate whether a multifaceted Graduation program can help the extreme poor establish sustainable self-employment activities and generate lasting improvements in their well-being. The program targets the poorest members in a village and provides a productive asset grant, training and support, life skills coaching, temporary cash consumption support, and typically access to savings accounts and health information or services. In each country, the program was adjusted to suit different contexts and cultures, while staying true to the same overall principles. This multipronged approach is relatively expensive, but the theory of change is that the combination of these activities is necessary and sufficient to obtain a persistent impact. We do not test whether each of the program dimensions is individually necessary. Instead, we examine the "sufficiency" claim: A year after the conclusion of the program, and*

*3 years after the asset transfer, are program participants earning more income and achieving stable improvements in their well-being?*

***Rationale***

*We conducted six randomized trials in Ethiopia, Ghana, Honduras, India, Pakistan, and Peru with a total of 10,495 participants. In each site, our implementing partners selected eligible villages based on being in geographies associated with extreme poverty, and then identified the poorest of the poor in these villages through a participatory wealth-ranking process. About half the eligible participants were assigned to treatment, and half to control. In three of the sites, to measure within village spillovers, we also randomized half of villages to treatment and half to control. We conducted a baseline survey on all eligible participants, as well as an endline at the end of the intervention (typically 24 months after the start of the intervention) and a second endline 1 year after the first endline. We measure impacts on consumption, food security, productive and household assets, financial inclusion, time use, income and revenues, physical health, mental health, political involvement, and women's empowerment.*

***Results***

*At the end of the intervention, we found statistically significant impacts on all 10 key outcomes or indices. One year after the end of the intervention, 36 months after the productive asset transfer, 8 out of 10 indices still showed statistically significant gains, and there was very little or no decline in the impact of the program on the key variables (consumption, household assets, and food security). Income and revenues were significantly higher in the treatment group in every country. Household consumption was significantly higher in every country except one (Honduras). In most countries, the (discounted) extra earnings exceeded the program cost.*

***Conclusion***

*The Graduation program's primary goal, to substantially increase consumption of the very poor, is achieved by the conclusion of the program and maintained 1 year later. The estimated benefits are higher than the costs in five out of six sites. Although more can be learned about how to optimize the design and implementation of the program, we establish that a multifaceted approach to increasing income and well-being for the ultra poor is sustainable and cost-effective.*