

Bolsa Família and Household Labour Supply

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A common concern about social protection programmes is that the transfers they provide may create disincentives for work. By raising incomes, transfer payments may encourage households to seek more leisure time and reduce their participation in the labour force or the number of hours worked, even in poor households. Evidence from evaluation studies of conditional cash transfer programmes suggests that such concerns are overstated; most studies find no disincentive effects or, at most, modest reductions in labour supply (Fiszbein and Schady, 2009). However, much less attention has been paid to the effect of social protection programmes on other forms of labour reallocation. In particular, targeted, means-tested programmes that determine eligibility as a function of income earned in the formal sector may encourage households near the threshold for eligibility to reallocate labour towards the informal sector, to ensure their eligibility. If this behaviour exists, it could have unintended consequences for the future earnings potential for these households and for economic growth.

In a recent paper (de Brauw et al., 2013), we estimate the impact of Brazil's Bolsa Família cash transfer programme on several dimensions of household labour supply, including participation in the labour force and the number of hours worked, disaggregating labour time devoted to the formal and informal sectors. Eligibility for Bolsa Família is based on self-reported income provided at the time of application for the programme. The government checks this information against a database of formal-sector earnings. Households whose income is near the threshold might supply additional labour hours in the informal sector rather than the formal sector, since additional formal-sector work might jeopardise their eligibility for the programme. Since formal employment pays higher wages on average than informal employment, households may forgo formal employment offers, or even applying for formal employment, to maintain their Bolsa Família eligibility. According to our data, the differential between formal and informal wages is larger in rural than urban areas, creating even greater incentives for labour reallocation there. Therefore, we disaggregate impact estimates on the sectoral allocation of labour by urban and rural location.

We use rich longitudinal household-level data, collected in both 2005 and 2009, to evaluate the impact of Bolsa Família on the labour supply of household members. The sample includes households in both urban and rural areas, and the survey includes questions at the individual level that allow us to assign work as being in either the formal or informal sector.

To account for non-random assignment of poor households into the programme, we use propensity score weighting to construct a statistical comparison group for Bolsa Família beneficiaries (Hirano, Imbens and Ridder, 2003).

In the aggregate, we find no significant impacts of Bolsa Família on individual participation in the labour force or the number of household work hours. However, in rural areas, we find that Bolsa Família causes a small but significant decrease in the proportion of women currently working (about 13 percentage points), corresponding to women dropping out of the labour force. Meanwhile, rural men slightly increase their weekly work hours to compensate, such that rural household hours are unchanged overall. We also find a large and highly significant shift in household work hours away from the formal sector (a decrease of about 8 hours per week per household member) into the informal sector (an increase of about 8 hours per week per household member). The shift is driven by urban households, where the lost earnings from shifting from formal to informal sector work are lower than in rural areas. In rural areas, we find no similar sectoral shift.

These results have compelling implications. While we find little evidence of the negative consequences most often discussed in the context of cash transfer programmes—reliance on the programme through reduced overall work—we find different and more subtle forms of potential reliance. If the programme encourages urban households to shift from formal to informal work, these households may forgo more stable work with better employee protections, better benefits and higher returns to tenure.

The effect is that, while urban beneficiary households do not reduce their total labour supplied, they may be more vulnerable as workers should they cease to receive the programme. Meanwhile, if the programme encourages women in rural areas to drop out of the labour force, rural women may become less self-reliant. Even if rural men compensate by increasing their work hours such that overall household work hours are unaffected, rural women's autonomy may be adversely affected.

References:

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