

The impacts of social protection benefits on behaviours potentially related to inclusive growth: a literature review

Luis Henrique Paiva, *Institute for Applied Economic Research (Ipea)* and Santiago Falluh Varela, *United Nations Children's Fund (UNICEF)*

Social protection benefits could theoretically lead to a distortion in marginal incentives given by market prices and, therefore, could have negative impacts on microeconomic behaviours potentially related to economic growth, such as saving and labour supply. On the other hand, they could allow liquidity- and credit-constrained individuals and households to invest in education, in a new business or even in migrating to places where they could make better use of their skills.

Paiva and Varela (2019) surveyed the empirical literature about the effects of contributory and non-contributory social protection benefits on a set of microeconomic behaviours that are potentially related to economic growth: (i) consumption and saving; (ii) labour supply; (iii) education; (iv) fertility; (v) migration; and (vi) innovation and risk-taking.

This literature review suggests that there seems to be little space for deep concerns or high hopes regarding the possible effects of social protection benefits on economic growth through microeconomic channels. Pensions can have negative effects on savings and labour supply, but estimates vary considerably and are frequently of small magnitude. The saving behaviour of low-income, lesser-educated workers, potentially affected by liquidity and credit constraints, tends not to be affected in any way. Moreover, there are policy options to deal with these possible adverse effects. Actuarially fair benefit formulas, adequate pensionable ages, limited access to early retirement and close coordination between passive and active employment policies are believed to reduce or eliminate disincentives.

There is evidence of a positive impact of modest cash transfers (particularly when attached to conditionalities) on school enrolment and attendance, which is encouraging. However, evidence is far

less clear regarding their effects on learning—a critical outcome. Contributory pensions and conditional cash transfers seem to have a modest negative impact on fertility, which is a source of concern for the sustainability of pay-as-you-go pension regimes and for economic growth. As other child-related benefits might have a positive impact, social protection reform that decreases pension expenditures and substantially increases child benefit outlays should be considered a policy option. Social security affiliation tends to be negatively related to migration (which enhances growth, given that the affiliated are the most productive part of the labour force). Cash transfers can finance migration—but they would also be enhancing growth if they were to finance domestic migration. Finally, there is some evidence that modest cash transfers enable small investments and improve risk-coping strategies.

The best news is that the relatively small magnitudes of negative effects of social protection benefits (on outcomes such as savings and labour supply, for instance) lead us to believe that they improve household welfare. The myriad policy alternatives to deal with possible negative impacts—together with small, but positive effects on outcomes such as education, migration and risk-taking—lead us to be modestly optimistic about their overall impact on economic growth through microeconomic channels.

Reference:

Paiva, L. H., and S. F. Varela. 2019. "The Impacts of Social Protection Benefits on Behaviours Potentially Related to Inclusive Growth: a Literature Review." *IPC-JG Working Paper*, No. 183. Brasília: International Policy Centre for Inclusive Growth.