

Essays on the economic effects of non-contributory social protection

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Summary

Global GNI per-capita (PPP, current international \$) accounted to 16,100 USD in 2016. However, 10.7% of the population was still living in poverty, on less than 1.90 USD a day. The first of the sustainable development goals (SDG) that were approved in 2015 by the United Nations' General Assembly aims to “end poverty in all its forms everywhere”, mandating to “implement nationally appropriate social protection systems and measures for all”.

Social protection is a human right and, therefore, it is an obligation of states to guarantee it to their citizens. Non-contributory social protection has been proven to be affordable at least for a minimum level of benefits, and international research is highly conclusive with regard to its positive effects on human development dimensions like health and education. However, there are still questions regarding its economic effects in the medium and long terms.

The research question of this thesis is *Under what conditions do non-contributory social protection investments foster economic performance?* To answer it, four sub-questions were explored: Under what conditions do non-contributory social transfers promote labour market participation? How and to what extent do non-contributory social transfers affect accumulation of human capital? Under what conditions do non-contributory social transfers foster social mobility? And finally, what is the economic rate of return of non-contributory social protection investments?

This thesis generates new light on the economic effects of non-contributory social protection and under what conditions social transfers promote a sustainable path out of poverty, while fostering economic

performance. The main findings of the thesis show that *non-contributory social protection investments do foster economic performance*.

Although traditional labour supply theories argue that a social transfer discourages labour, we discuss that it is not the case for poor individuals who can barely cover their basic needs, because leisure in this context may not be enjoyable. We find non-negative effects of social transfers on household heads' labour supply in Ecuador, but only below a given level of social transfers. On the other hand, negative labour supply effects were found for partners (who were mainly women) and single adults, where a social transfer may have paid for childcare, but also because of idiosyncratic characteristics and labour market obstacles found by women. We believe that policies that address gender equity and childcare should complement social transfers if paid-labour participation of partners is a final objective. However, it should be assessed carefully how such policies would affect child wellbeing and the freedom to choose any kind of work.

Estimating a dynamic cohort microsimulation model for Ecuador, we found that social transfers promoted higher levels of schooling. However, social transfers were more cost-efficient to promote accumulation of human capital if they were targeted at critical ages, and more efficient in reducing schooling inequality if targeted at the poorest of the poor. Social transfers have the potential to promote accumulation of human capital and, in the long term, economic returns. However, the effect depends on the guarantee of coverage and quality of educational services.

Using long-term administrative panel data, we found a positive treatment effect for social transfers. Non-contributory social protection generated positive welfare effects. Additionally, we found that the amount of the transfer was important, which may be related to the possibility of relaxing

demographic and physical capital poverty traps. Moreover, social transfers aimed not only at guaranteeing a minimum level of consumption, but also at promoting productive investments, had a higher effect on multivariate social mobility. To enable social mobility, anti-poverty policies should be geared towards improving access to physical capital and income generating activities (i.e., labour) and the accumulation of human capital to promote reproductive health, foster gender equity, and reduce welfare and opportunity gaps between ethnic groups and between urban and rural areas. To solve poverty traps, social protection instruments should consider household composition and economic vulnerabilities, and they should be complemented with policies that strengthen the determinants of upward social mobility. Moreover, social transfers should not only be assessed by their impact on smoothing of household consumption, but also as an instrument that can foster social mobility, due to their potential to solve different poverty traps.

Finally, we found a positive rate of return of social protection investments in Cambodia. Estimates revealed that social transfers increased school attendance, and that increased education augmented household consumption. However, the benefit was not generated immediately. Investments in social protection require a long-term commitment and social transfers should be regular and reliable to achieve positive effects through the increase in the permanent income of household. Moreover, economic returns due to higher aggregate demand (i.e., consumption) depend on the economy being able to react, which is likely to happen if resources are not fully utilized.

All these results show that social protection programmes must be seen as an investment rather than as a cost. However, the effects are context-specific. The economic effects of social transfers depend on labour market conditions, access to financial services and productive assets, coverage and quality of

health and education services, social exclusion, and general economic performance.