The Macroeconomic Effects of Cash Transfers: Evidence from Brazil

Arthur Mendes — World Bank
Wataru Miyamoto — University of Hong Kong
Thuy Lan Nguyen — FRB SF
Steven Pennings — World Bank
Leo Feler — Numerator and FRB Chicago

Discussant: Hanbaek Lee (University of Tokyo)

Oxford-CEPR-BoJ-Waseda

Financial and Economic Developments: New Challenges and Policy Solutions

March 12, 2024

This paper

Research question

How do cash transfers affect the macroeconomy in developing countries?

This paper

Research question

How do cash transfers affect the macroeconomy in developing countries?

What this paper does

1. Empirically quantifies the multiplier using the Bartik instrument based on Brazilian data.
2. Compares the empirical findings with the canonical NK model's prediction.

Key findings

- The relative cash transfer multiplier is around 2.2.
- Informal employment is substantially more responsive to the transfer shock than the formal employment.
- New Keynesian model prediction falls far short of the empirical multiplier.

An *excellent* paper with **a clean empirical strategy** + model comparison.

Discussion I: Main channel

What drives the high cash transfer multiplier?

- According to the paper, the main channel is through the non-tradable sector.
- Why is this happening? Is this the nature of a developing country? Or a certain friction in Brazil?
- Would this non-tradable dominance not be true in developed countries?
- The stronger responsiveness in the informal sector: is this a byproduct of the non-tradable effect or a driver of the non-tradable effect?
- The New Keynesian mechanism is through the sticky prices. The right model for Brazil?
  - One possibility: the informal sector might have greater price stickiness.

Discussion II: Macro impact

How can we infer the macro impact from the local multiplier?

- Ramey (2011), Fishback and Kachanovskaya (2015), Chodorow-Reich (2019)

- In a desired case, the empirical local result guides the NK model's structural parameter, so the NK model also speaks to the aggregate multiplier.
  - The important driver is "*non-Ricardian*" households receiving "transfer," and the policy is targeted towards the *poor* people.
  - A high ω might produce the same multiplier as in the empirical result.
  - What is the upper bound of the NK model prediction?
  - How generalizable is the policy outcome (multiplier)? Multiplier is endogenous function of the composition of the target group.
- In the end, the non-tradable driven impact will spill over to the tradable as there is no such a thing as a complete separation (20% spending in the tradable sector): How large would this be?
  - It does not matter for the *relative* multiplier, but it matters for the *aggregate* multiplier.
  - The spillover concern is well addressed in the relative multiplier.

Discussion III: Business cycle and long run prediction

How large would the multiplier be during the recession?

- A simple check would be the multiplier without/during the recession periods. (Alternatively, an interaction term)
- Policy implication: A counter-cyclical cash transfer program?

How did the firm side respond to the policy?

- Is the industrial organization affected by the policy?
  - As a result, firms producing more non-tradable goods? More entries in the non-tradable sector?
  - Cash transfer would be more beneficial as time goes by if the structure of an economy shifts.
  - It would lead to a long-run backfire, given the irreversibility of capital or technology (putty-clay), which would be followed by less innovation and dominant informal sectors.
  - Is this a progress or regress?

Concluding remarks

- Sharp contributions to the fiscal policy literature with respect to the angle of "developing country" and "informal employment responsiveness."

An *excellent* paper with **a clean empirical strategy** + model comparison.