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Scaling up social protection: Price & productivity effects on growth

As gradually more countries begin implementing social transfers to protect the most vulnerable parts of their population, the issue of how these policies will impact the local and the larger economy is an increasingly important one. Today's blog argues that the indirect effects of social transfers, particularly on prices and productivity, should be accounted for when designing and scaling up social transfer programmes.

National social protection policies are increasingly replacing experiments and projects in most parts of the developing world. Across the globe, many developing countries are implementing safety net measures consisting of old age pensions, scholarships, unconditional and conditional cash transfers aimed at poor and vulnerable groups. Well-known examples include Mexico's [Oportunidades](#) (newly rebranded Prospera), Brazil's [Bolsa Familia](#) anti-poverty programmes and Old Age Grant in South Africa, which started in 1928. The development of these measures represents a great step forward in the fight against poverty and improves prospects for the livelihood of the most vulnerable populations in these countries.

At the same time, it raises a number of questions on how these large-scale policies are likely to impact the immediate economic environment of the poor as well as the broader economic performance of the implementing country. The livelihood of poor households depends heavily on their surrounding economy. They rely on local markets to sell their labour, and any goods and services they produce, and similarly for the goods and services they consume. The cash they receive from CT measures could be spent on consumption goods and services, invested in productive assets, transferred to their extended family or social network, or saved. These choices, although made at the household level, will cumulate at the macroeconomic level and may have a significant impact on local economies.

“ Price increases are a risk for local, mostly isolated, markets where the measures are implemented. ”

So what do we know about how these choices are likely to affect local economies? What are the possible direct and indirect economic effects of social transfer programmes when scaled-up and run over a long period of time?

Price effects on local markets and the extent to which these effects are

Price effects on local markets could potentially reduce the efficiency of cash transfers

Our research ([here](#)) suggests that the efficiency and effectiveness of social transfers depends heavily on the indirect effects of the transfer. CT can have knock-on effects on both prices and productivity. In fact, it is through these effects that the synergies and multipliers of CTs operate, to benefit of (or not) the economy where the transfers take place.

Price increases are a risk for local, mostly isolated, markets where the measures are implemented. A raise in the price of staples for example could potentially reduce the intended gains in poverty reduction, by diminishing the real purchasing power of the poor. Productivity gains on the other hand are good for virtually everyone: both consumers and producers.

The most recent edition of [Policy in Focus](#) showcases a collection of articles reviewing evidence and findings on both price and productivity effects of social transfers.

On inflation: Our studies show that scaling up measures may cause price increases, particularly in more isolated markets, local price increases could potentially lead to some moderate inflationary effects at the macro level.

“ Productivity gains on the other hand are good for virtually everyone: both consumers and producers. ”

The risk of price increases seem to depend on two things: the ability of available supply and traders to respond to increased demand and the degree of spatial integration between local or regional markets. So, for goods with a more elastic supply, social transfers are less likely to generate price effects. Similarly market integration improves regulation, and encourages trade to prevent supply and demand imbalances, which helps reduce inflation risks in local markets. Road and transport infrastructure, which affect trade costs, are major determinants of spatial integration, and need to be developed enough for trade to feasibly regulate prices.

More productivity means better efficiency for CT programmes: Productivity gains could offset price risks and stimulate local economic growth

Our research also shows that greater investments, public or private, have the potential to offset price effects efficiently. In rural economies, investments can directly support crop production in the most isolated, and poorest of regions.

Moreover, cash transfers could allow less poor households to make the most of investment opportunities which would be otherwise missed given credit market failures. By allowing households to invest in productive assets, cash transfers help break the vicious cycle of poverty by addressing the basic subsistence needs of households

When productive capacities are underutilised or when credit constraints prevent producers from taking up investment

opportunities, cash transfers could offer an efficient and comparatively less expensive option for policy makers. Productivity gains could have higher multiplier effects and long lasting impact, beyond the programme recipients.

By allowing households to invest in productive assets, cash transfers help break the vicious cycle of poverty by addressing the basic subsistence needs of households.

A combination of cash transfers and productivity enhancing measures could be more efficient at reducing poverty than social transfers alone

Several contributions in our report show that [combining CTs with agricultural interventions](#) will lead to longer and larger benefits. Social protection would therefore be even more efficient if designed in conjunction with rural development policies that increase productivity, improve the functioning of markets, allow for a faster response of the local supply and create synergies at the national level.

“ Productivity gains could have higher multiplier effects and long lasting impact, beyond the programme recipients. ”

The economic impacts that are identified in these studies have implications for the design of social transfer policies as well as anti-poverty programmes more largely. More research of this kind is certainly needed to understand to what extent these results are country specific. Nonetheless cash transfers, in many economic contexts, could well be the most efficient measure to effectively reach and protect the most vulnerable.