The Macroeconomic Effects of Cash Transfers: Evidence from Brazil

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This paper

Research question

How do cash transfers affect the macroeconomy in developing countries?

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What this paper does

1. Empirically quantifies the relative 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? (No preference driven?)
- The stronger responsiveness in the informal jobs: is this a byproduct of the non-tradable effect or a driver of the non-tradable effect?

Discussion II: Macro impact

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

- Ramey (2011), Nakamura and Steinsson (2014), 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 the portion of "*non-Ricardian*" households amoing the "transfer" receivers, 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?
  - Multiplier is an endogenous function of the composition of the target group: the variation in the marginal group's non-Ricardian portion matters (Like the DMP model with an endogenous job separation)
  - How generalizable is the policy outcome (multiplier)?

Discussion II: Macro impact (Cont'd)

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

- 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.
  - What's the aggregate output multiplier out of $1 transfer?
- Colombo, Furceri, Pizzuto, and Tirelli (2024) shows that the public expenditure multipliers declines in an economy's size of the informal sector.
  - Not a directly opposite result, but it indicates a possible inconsistency between the aggregate multiplier and 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 does the firm side respond to the policy in the long run?

- Is the industrial organization affected by the policy?
  - More non-tradable oriented technology and more entries in the non-tradable sector?
  - Cash transfer would be more beneficial as time goes by if the structure of an economy shifts accordingly.
  - However, 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."

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