

The Effects of Welfare Programs on Formal Labor Markets: Evidence from Conditional Cash Transfers in Brazil

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Abstract

Welfare programs, such as Conditional Cash Transfers (CCTs), have expanded widely in Latin America in the past 15 years, and have been credited for a sizable reduction in poverty rates. Yet, the potential unintended consequences of these programs for labor markets have spurred a heated debate over their future. There is a concern that they lower efficiency by creating disincentives to work, particularly in the formal sector, as many programs condition continued eligibility on reported income levels. However, such disincentive effects at the individual level could be overturned by general equilibrium effects. Welfare programs also inject funds into local economies, potentially raising labour demand, equilibrium wages, and employment, including in the formal sector. This paper links administrative records on the universe of *Bolsa Familia* recipients and formal workers in Brazil to provide evidence on the partial and general equilibrium effects of the program on formal labour markets. We find evidence of disincentive effects in formal labor supply at the individual level for families that have a relatively larger loss in benefits from additional income, and positive aggregate effects on local labor markets. These results highlight the importance of accounting for both partial and general equilibrium effects of welfare programs, and illustrate the feasibility of using detailed administrative data to study them.