

The Effect of Unconditional Cash Transfers on Labour Supply, Bargaining Power, and Welfare in a Developing Country Setting

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March 15, 2018

Abstract

I estimate the labour supply response, shift in bargaining power, and change in welfare for recipients of the old age pension and their fellow household members in South Africa. The pension is a large cash transfer (around twice the median income) for many low-income individuals, consisting mainly of previously disadvantaged Black Africans, Coloureds, and Asians. I specifically aim to measure two main effects: the magnitude of the welfare change for individuals within a household and the household as a whole, and the distribution of the welfare change. I estimate the labour supply response using a Regression Discontinuity Design (RDD), contributing to the existing literature by controlling for endogenous household formation. Following Cherchye et al (2015), I then estimate individual demand schedules with the Quadratic Almost Ideal Demand System and calculate bounds on a household's resource sharing rule, providing a more nuanced measure for the distribution of resources within a household. Finally, I use the estimates in an RDD framework to analyse whether the magnitude and distribution of the welfare change is dependent on particular demographic characteristics (e.g. gender of the recipient, age difference between household members).

Keywords: Sharing rule, labour supply, welfare, unconditional cash transfers, development

JEL Codes: D13, D60, I32, J26

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