

# **Does Social Assistance Disincentivise Employment, Job Formality, and Mobility? Learning from Past Unconditional Cash Transfer Programs in Indonesia**

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How does social assistance in the form of cash transfers affect employment and formality in developing countries, especially in times of crises and economic recovery? In many developing countries, there has been a substantial increase in social protection investment where targeted cash transfer programs have become a major anti-poverty tool (Barrientos and Hulme, 2009). There is a growing consensus that transfer program is an effective measure to promote aggregate welfare including improving education, health, and other welfare outcomes among poor households (Hanlon et al, 2012). However, diminished work incentives and a greater inclination towards informal employment are among the potential unintended consequences on labour market outcomes (Borjas, 2016). Protecting the poor and alleviating hardship during economic downturns through cash transfer may undermine the intended recovery, either in the short or long term, if it has a counterproductive effect on labour market behaviour.

This paper examines how social assistance influences labour market behaviour, with a particular emphasis on employment, job formality, and employment mobility, using Indonesia's large-scale unconditional cash transfer program, which is specifically intended for crises stimulus. In 2005 and 2008, to counteract the negative impacts of domestic inflation due to the increase in fuel prices, the Indonesian government decided to reallocate a part of fuel subsidy savings to vulnerable households via a direct cash transfer, *Bantuan Langsung Tunai* (BLT). Despite its success in administering the assistance at the right time to alleviate the negative impacts (Bazzi et al, 2015), little is understood about its impacts on labour market behaviour. By using this significant government initiative, this paper, thus, aims to learn how cash transfers administered in times of crisis affect labour market behaviour, particularly among the poor.

The case study of direct cash transfers is worthwhile to review. Specifically, by drawing on the lessons learned from BLT 2005 and BLT 2008 administered by the Indonesian government in response to the increase in fuel prices and the global financial crisis. It is critical to evaluate how such social transfers affect individuals' or households' behaviours, especially since the government has also disbursed substantial social assistance in reaction to the effects of COVID-19. Principally, an unconditional cash transfer acts as fiscal stimulus in times of crises which is temporary in nature and is mainly linked to its capacity for recovery, thus one should not anticipate any significant change in behaviour of the beneficiaries. Therefore, if any behavioural changes are observed, it can be used to inform policymakers about potential trade-offs and how to further enhance policy design.

To determine the causal impact of social assistance programmes on labour outcomes, a randomised controlled trial would be the first-best strategy to apply (see Behrman and Todd, 1999; Gertler, 2004; Cahyadi et al., 2018 for conditional cash transfer). On the contrary, in this instance, the direct cash transfers in 2005 and 2008 were administered at a national scale as a reaction to the crisis. There is, of course, no pilot period to have a phase-in experiment design,

and the assistance was aimed specifically for the impoverished households. Due to the targeted nature of the direct cash transfers, it is often difficult to obtain statistically equivalent treatment and control groups in order to analyse the impacts of the social assistance. Therefore, to overcome the challenges, while still being able to study the causal relationship, a quasi-experimental research design is used. This paper employs a difference-in-difference method with propensity score matching as the approach to measuring the impact of unconditional cash transfer on employment and job formality, using panel datasets constructed from the Indonesia Family Life Survey (IFLS) wave 3, 4, and 5.

In this study, the pairing with the propensity score matching help generate a statistical comparison group utilising the probability model of participating in the treatment to account for the possibility of varying unobserved heterogeneity over time. In addition, the rich panel structure allows for a host of identification checks, different fixed effects structures, and subgroup effect heterogeneity analysis. Meanwhile, to explore the transition behaviour of individuals across employment statuses concerning the provision of social assistance, this paper uses the multinomial logit approach. In the latter case, each observation is categorised based on its initial labour market condition, and the individual probability distribution of transition into three terminal statuses is estimated.

The estimation results indicate that, in the short term, BLT beneficiaries are around 2 to 3 percentage points less likely to be employed (2 to 3 percent decrease from the mean) and, among those employed, 3 to 6 percentage points less likely to be in formal work (4 to 12 percent decrease from the mean). The adverse impact of receiving unconditional cash transfer on employment and job formality is mainly driven by the effects among males, individuals with low skill, and male household heads. These results are consistent for both unconditional cash transfer programs introduced – BLT 2005 and BLT 2008. Moreover, among the formally employed individuals, beneficiaries are less inclined to remain in their initial position of formal work and are more likely to transition into informal work or unemployment. Among the informally employed, beneficiaries of social assistance tend to stay in their informal employment and are less likely to move into formal employment for those previously unemployed. Overall, these findings suggest that employment disincentives from social assistance programs may partly contribute to the jobs challenge, and at times present a difficult trade-off between reducing immediate hardship and economic recovery.

### **Key Words**

unconditional cash transfer, employment, informality, transition