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Commentary: Cash Transfers to Indonesia's Poor Don't Discourage Work

Around the world, there are often **contentious debates** on whether or not to provide social safety net programs to the poor. Critics often paint a portrait of the poor as lazy, refusing to work in order to receive government handouts, wasting valuable tax-payer funds on for example alcohol and cigarettes, rather than feeding and clothing children.

The debate in Indonesia over cash transfers mirrors the worldwide debate. Impassioned arguments come from both sides about whether social protection programs, from cash transfers like the temporary direct aid program (BLSM) to conditional transfers like 'Family of Hope' (PKH) -- actually help the poor or simply reduce their incentive to work. Putting aside the political rhetoric and ideology, what do we actually know about the impact of cash transfer programs on work?

In 2013 we founded the Abdul Latif Jameel Poverty Action Lab's Southeast Asia (J-PAL SEA) office -- based in Jakarta at the University of Indonesia (UI) -- to help answer critical policy questions through rigorous randomized evaluations, which are widely considered the "gold standard" for identifying the impact of a program or policy, and to make the results available to and usable by policymakers in Indonesia and throughout the region. This has helped Indonesian policymakers get reliable evidence on the effect of many programs, from how best to identify poor households for government assistance to how to reduce corruption in village road projects.

To answer the question regarding the impact of cash transfer programs, we, along with our colleagues Professor Abhijit Banerjee and Gabriel Kreindler, went back and collected datasets from seven randomized evaluations of government-run, cash transfer programs from six countries around the world. The studies include Indonesia's PKH and the Philippines's



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the outcomes of a person who receives a program with a person who does not are likely to produce inaccurate measures of the program's impact. For example, recipients of a cash transfer program are by nature poorer than non-recipients because these programs target poor households. As such, recipients are very likely to have worse employment outcomes to begin with and thus comparing them to non-recipients will not tell you if the cash transfers actually caused the program recipient to work less or if this is simply a reflection of the recipient being poorer.

Randomized evaluations overcome the above issue by testing the program in randomly selected areas and not others. This way, the people who receive the transfers are similar in educational and employment background to those who do not receive it. In the end, if you observe any differences between these two groups of people, you know that it is caused by the cash transfer program and not other factors, such as an initial difference in wealth.

The cash transfer randomized evaluations we reviewed highlight important findings. The first important fact that comes out is that most men who are eligible for the transfer programs are working. In Indonesia, prior to receiving the program, 82 percent of men (between the ages of 16 and 65) from households that are eligible for PKH cash transfers engaged in some form of work the week before survey. But, despite working, their family income levels remain below the poverty line.

Further, we find that cash transfers do not discourage people from working — in any of the six countries, including Indonesia. Though we do not have data on hours worked for Indonesia, we can look at the other country evidence — including the Philippines — for guidance. In none of these countries do government cash transfers reduce the number of hours a person worked, either for men or women.

A recent World Bank study did a similar review as ours, but focused on whether cash transfers led to increases in spending on "temptation goods." Again, the data contradicted the often prevailing stereotypes — spending on alcohol and tobacco did not increase as a result of the cash transfer programs.

Cash transfer programs for the poor can provide crucial money to help the poor feed their families, ensure their kids go to school, and fulfill other basic needs. And they don't seem to discourage the people from working. They can be an important part of the anti-poverty policy toolkit for Indonesia.

Rema Hanna is professor of public policy at the Harvard Kennedy School. Benjamin Olken is professor of economics at the Massachusetts Institute of Technology. Hanna and Olken together direct the Abdul Latif Jameel Poverty Action Lab's Southeast Asia (J-PAL SEA) office, based in Jakarta at the University of Indonesia (UI).

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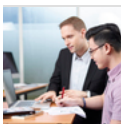
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A devastating earthquake struck the **Hindu Kush** region of north-east Afghanistan just after lunchtime on Oct. 26, rocking communities as far away as Tajikistan, Pakistan and even India. A devastating earthquake struck the **Hindu Kush** region of north-east Afghanistan just after lunchtime on Oct. 26, rocking communities as far away as Tajikistan, Pakistan and even India.

The strong quake, estimated at magnitude 7.5 by the US Geological Survey (USGS), had its origins more than 200km deep beneath Earth's surface, and was felt as strong shaking across a very wide area. Casualties have been reported from across the region, with widespread landslips causing potential further damage to infrastructure.

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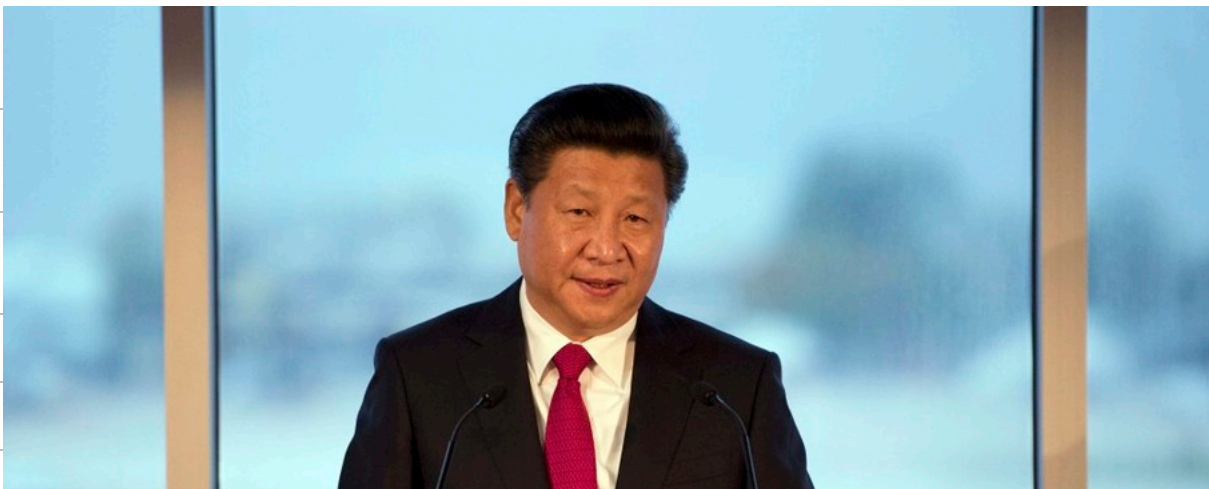


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Commentary: China's Five Year Economic Plan Is Rich With Symbolism

China's latest **five-year plan**, the details of which were endorsed at last week's **fifth plenum**, aims to double the nation's GDP and per capita income by 2020 (from 2010 numbers).

The 2020 deadline is important because it is the final year of the 13th five-year plan, the first plan led by Xi Jinping and Li Keqiang. It would allow the Chinese Communist Party to claim a doubling of the country's economic size in the decade preceding the 100th anniversary of the Party's founding in 1921.

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