

Conditional Transfers, Labor Supply, and Poverty: Microsimulating Oportunidades

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Abstract: This article summarizes a microsimulation exercise for the Mexican human development program Oportunidades and presents a series of simulations of its actual and potential impact upon poverty at the national, urban and rural levels. The microsimulation tool used for this paper makes accounting and behavioral exercises and aims to answer three main questions: What would have happened to poverty if the program had been cancelled, if benefits were doubled, or if urban beneficiaries were doubled? We conclude that Oportunidades can be associated with up to a third of the reduction in rural poverty in Mexico by the year 2002. Doubling benefits and targeting urban beneficiaries would reduce poverty a further 30 percent from its 2002 level. We also find that each percentage point of poverty reduction at the rural level costs around 326 million pesos per month in cash transfers (that is, 1.2 percent of the central government's total spending in 2002). Further reductions of poverty would have higher or lower average costs depending on the area and on whether they are performed either by extensions in coverage or by enlargement of benefits. Finally, behavioral simulations suggest that labor supply does not seem to be much affected by current cash transfers from Oportunidades.

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