Abstract for "Social Interactions and Optimal Consumption Under Conditional Cash Transfers Programs"

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There have been a lot of studies on Conditional Cash Transfers (CCT) that were primarily focused on analyzing if the CCTs have effects in the accumulation of human capital. However, less attention was paid on the inter-temporal consumption decisions of the families. The common recommended policy was that the transfers should be closed to the opportunity cost to send their children to the market in order to avoid distortions.

This recommended policy did not take into account two factors that could influence the consumption decisions: a) Many CCT use non-monetary proxies as an indicator of whether the families remain poor and should continue participating in the program (i.e. this proxies include durable goods such as having a fridge in the house); b) Most of the economic models assume that the utility of the families is independent of the consumption of others. However, in the case of the CCT Oportunidades from Mexico, Martinelli (2007) shows a trend of the families to over-reporting goods linked with social status, with open the hypothesis that the families take into account the consumption of other members of the society.

This paper evaluates the policy which recommend that transfers should be closed to the opportunity cost of sending their children to work in an environment where the families take into account social interactions and the uncertainty to drop out from the program as a consequence of not being any more poor in the programs sense.

In order to analyze this, we first solved a special Dynamic Optimization model that presents this characteristics: a) The agents maximize their utility function differentiating between durable and non durable consumption goods; b) the utility function take into account the consumptions of durable and nondurable goods of other members of the society; and c) uncertainty is incorporated, measured as the probability to go out of the program conditional on their accumulation of durable goods. Then, we estimate the parameters of the model, in particular, those related to consumers own consumption to the benchmark level of social consumption (the social interaction hypothesis). In order to do this, we use the panel data from the CCT Oportunidades in Mexico from 2002-2004 in urban areas.

We found several interesting results: First, there is a presence of social interactions; Second, under the presence of social interactions, to establish the transfers equal to the opportunity cost of send their children to work is not anymore the optimal policy. However, we show that it is possible to return the families to the optimal inter-temporal consumption decisions when we condition the permanence on the program over the consumption of durable goods.

Finally, in terms of policy, the model conclude that when the families are over accumulating durable goods the best response should be, surprising, to increase the level of transfers; on the other hand, if the families are under accumulating durable goods the best response is to reduce the level of transfers.