

Transfers and Labor Market Behavior of the Elderly in Developing Countries: Theory and Evidence from Vietnam

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- We study the crowding-out effects of public transfers on labor supply of the elderly in the context of developing countries.
- We argue that the interactions between private transfers received and labor supplied by the elderly affect the opportunity cost of retirement and, therefore, magnify the crowding-out effects of public transfers on the labor supply of the elderly.
- Using household survey data from Vietnam, we find the evidence supporting this hypothesis. That is, the crowding-out effect is about two times larger when accounting for the endogeneity of private transfers, which is caused by the interactions of private transfers and the labor supply.
- Our findings imply that in developing countries, where there are relatively large flows of transfers across households and generations, it is essential to take into account the interactions between transfers received and labor hours supplied by the elderly when evaluating the effects of public transfer programs.