

# ***The Effectiveness of Governmental Cash Transfer in promoting Economic Growth and reducing Income Inequality***

**Abstract:** *One of the more widely used programs to reduce poverty rates in Latin America has been cash transfers, both conditional and unconditional. Specific program evaluations suggest that these programs were successful in reducing poverty, increasing school attendance, improving healthcare access, and fueling consumption and even economic growth. We use a theoretical model to examine the macroeconomic impact of such programs and find that the recipients are able to increase consumption and their income, but such programs are detrimental for economic growth when they don't improve human capital, or the technological level of the economy. Empirical results suggest that poverty and inequality are indeed reduced by cash transfer programs, but these transfers have a muted or negative effect on output. Adjustments to the model to account for its impact on poverty rates and its contribution to technological improvements result in cash transfers raising output to pre-program levels and even generating economic growth when the correlation between the transfers and technological development is set high enough.*