

Conditional Cash Transfers in OECD countries and their effect on human capital accumulation

Márton Medgyesi, Tárki

Gini Concluding Conference

05/06/2013

Aim of the study

Aim of the study:

CCTs popular in low and middle income countries (Fiszbein and Schady 2009), in some cases as major programs of poverty relief in some other cases more focusing on human capital goals.

In developed countries: sophisticated safety nets+ high general level of school enrolment.

BUT: substantial gap is often seen between schooling outcomes of children from high-income and low-income families or between majority and minority ethnic groups.

Aim: study the impacts of CCT programs in developed countries, focusing on targeted programs and the effects on those with low income.

Definition:

- Conditional cash transfers make cash transfer conditional on the recipient following a certain type of behaviour or the result of that behaviour.
- Narrowing: condition relates to human capital accumulation (education or health).

Important design elements of CCT programs

Incentive:

- framed as a loss (penalty):
- framed as a gain (reward): scholarship

Condition:

- behaviour (enrollment, attendance, doing homeworks etc.)
- performance (test score, credits obtained, graduation)

Targeting:

- according to income status: means-test, proxy, geographic
- targeting to groups with low investment: demographic (gender, ethnicity)

Transfer size:

- low
- high

Frequency of monitoring:

- more often (eg. monthly)
- Less often (eg, yearly)

Sanctioning:

- Suspension of benefits, cancellation of benefits
- Case management, social services

Mechanism: how do CCTs influence individual decisions?

Desired effects:

Income increase: those who meet the condition in the beginning will simply have their incomes increased (same as UCT)

Incentive effect:

- In families where school attendance condition is not met, parents may realise to have a higher level of welfare if they meet the respective condition, and the family receives the transfer.
- For these families CCT reduces the costs of further education, thus has a substitution effect, (UCT has only income effect).

Incentives framed as gains or as losses? Behavioural theories: if there is loss aversion penalties might have stronger effect than rewards.

Adverse effects on behaviour:

- Undermining intrinsic motivation by the use of extrinsic motivation.
- Recipients maximise reward (eg. take easier courses if conditioned on credits earned)
- If conditions impose high private costs: lower take up! (eg. stigmatisation).

CCTs implemented in developed countries

Conditions related to health

- Birth grants: targeted eg. Sure Start Maternity Grant (UK), untargeted: AT, AUS, FI, LU, SK, HU
- TANF (USA)

Conditions related to preschool

- Kindergarten allowance (HU)

Conditions related to compulsory schooling

- Conditioning on school attendance: TANF (in 40 states of the US) Child benefit (SK, HU, BG, RO) School allowance (BE)

Conditions related to post-compulsory schooling

- Extension of eligibility for child allowance if child is in tertiary education (AUS, UK, CZ, MT, PL, PT, SI)
- Grants to finish secondary school: Youth allowance, ABSTUDY (AUS), EMA (UK)
- Means-tested grants for university students: conditioned on enrollment (US, AUS, most EU countries except EE, GR, IC, TR)
- Some grants also conditioned on performance

Impacts of CCT programs in developed countries

- Review of impact evaluations of 34 CCT programmes in developed countries (mostly pilot, few scaled up)
- Majority (31) randomised experiments
except: Kindergarten allowance (HU), EMA (UK), HOPE (Georgia)

	Conditioning on behaviour (eg. enrollment, attendendance, homework etc.)		Conditioning on performance (eg. grades, credits, test scores, graduation)	
	Negative incentive	Positive incentive	Negative incentive	Positive incentive
Health	PPI (Maryland) PIP (Georgia)	Opportunity NYC		
Pre-school		Kindergarten allowance (HU)		
Primary schooling	Learnfare (Ohio) ACT (Texas) ABC (Delaware)	Opportunity NYC Earning by Learning, (Dallas) Capital Gains (Washington DC)		Opportunity NYC Coshocton exp. (Ohio) Levitt et al. exp. (Chicago)
Secondary schooling	Learnfare (Wisconsin) Learnfare (Ohio) ACT (Texas) ABC (Delaware) SADP (San Diego) Cal-Learn* (California) LEAP* (Ohio) TPDP* (New Jersey, Chicago)	Opportunity NYC EMA (UK) LEAP* (Ohio) Cal-Learn* (California) Quantum Opportunity*	Cal-Learn* (Calif.)	Opportunity NYC Cal-Learn* (California) EMA (UK) The Paper Project (Chicago) Achievement Awards (IL) Monthly Grade Stipend (US) Quantum Opportunity* TELS (Tennessee)
Tertiary schooling		Ohio College Opportunity Grant		Wisconsin Scholars Grant Opening Doors Louisiana* Opening Doors Ohio Opening Doors NYC Opening Doors New Mexico* STAR* (CAN) Opportunity Knocks* (CAN) Foundations for Success* (CAN) Univ of Amsterdam (NLD)

Results are mixed

For sanctioning programs:

- In health: Primary Prevention Initiative (PPI, Maryland) had no effect while PIP Georgia had significant effect.
- In education: Primary Prevention Initiative (PPI, Maryland), Better Chance (ABC, Delaware): no effect on school enrollment or attendance, while Learnfare (Wisconsin) reports significant results: enrolment up by 3.7% points, school attendance increased by 4.5% points (Dee 2009)

For positive incentive programs conditioned on behaviour:

- No effect of Opportunity NYC
- positive effects of Earning by Learning, (Dallas) or Capital Gains (Washington DC)

For positive incentive programs conditioned on performance:

- Opportunity NYC, Spark, The Paper Project had no effect
- experiment in Coshocton, Ohio or Chicago experiments (Levitt et al) had significant effects.

Results are mixed (2)

Mixed results of experiments in tertiary education

- Opening Doors (Louisiana), Wisconsin Scholars Grant increasing no. of credits earned
- But Opportunity Knocks, Univ. of Amsterdam experiment average effect on performance is small.

Mixed results on the persistence of effects:

Are effects short-term or long term? Do effects persist when incentive is removed?

- Quantum Opportunity, Univ. of Amsterdam experiment: effects fading away through time
- Learnfare (Wisconsin), Fryer experiments effects are persistent

Heterogeneity of impacts:

- by gender: higher effect for girls of incentives for high school or college performance in experiments in Israel (Angrist and Lavy 2009), Canada's STAR program (Angrist et al. 2010), Quantum Opportunity experiment.
- by age: Chicago experiments (Levitt et al. 2011): older students more responsive to financial incentives, than to non-financial ones, while the monetary nature of rewards didn't have an effect on behaviour for younger students.
- by income: higher effect for the asset poor students (EMA, UK)
- by ability level: higher effect among low ability students (Learnfare program (Wisconsin) EMA (UK), Wisconsin Scholars Grant reverse (Opportunity NYC, Univ. of Amsterdam experiment)

What is the effect of the incentive?

1. Effect of condition or effect of cash?

Only two impact study of CCT against UCT in developing countries.

- Malawi (Baird et al., 2010), Burkina Faso: 2 treated groups
Result (Malawi): CCT group was enrolled, on an average, for 0.54 trimesters longer than the members of the control group (significant).
Effect twice as high as UCT group.

In these experiments: closest to this ideal are AFDC waiver experiments.

2. Effect of incentive or services?

US Programmes which combined sanctions with social services, case management, and positive financial incentives.

- Cal-Learn (California)
- Learning, Earning and Parenting (LEAP, Ohio)
- San Diego County's School Attendance
- Teenage Parent Demonstration Project (TPDP).

significant impacts, primarily in the ratio of enrolled students, and in certain cases, the ratio of those obtaining school graduation also increased due to the transfer.

What is the effect of the incentive? (cont)

Was it the effect of incentives or social services (case management)?

Cal-Learn evaluation, four groups:

- full provision: % of secondary school graduates +7% (mainly GED)
- only case management services: +3,2%
- only financial awards and sanctions: +3,7%
- fourth group: control group.

STAR experimet Canada:

- scholarship alone: +1.8 % points higher grades in fall term
- +2.7 points higher grades for combined treatment
- effect of scholarship faded by the end of the 1st year but effect of combined treatment remained large and significant.

Conclusions

- Positive impacts and null effects are found in every category of broad design features (positive/negative incentive, behaviour/performance).
- Calibration of the incentive, taking into account heterogeneity of impacts.
- Actual implementation: monitoring, sanctioning.
- More research needed on the very effect of conditionality, separate from other program elements.
- Experiments where CCT is tested against UCT, experiment where design features are tested in uniform framework.
- Also need to assess cost-effectiveness.
- This is about impacts of programmes on human capital investment. Not generally about whether such programmes are desirable or not: some oppose on social justice grounds (selective paternalism).

When is CCT a reasonable policy?

Human capital accumulation can be low (eg. families underutilize educational services provided by the government) because of s

- supply side problem: service provision is insufficient in quantity or quality or both
- demand side problem

Low demand can be the consequence of:

- Low income: if service use entails private costs this might be an effective constraint for low income families
- Weak preference, misinformation, high discount rate, low aspirations

If low demand results from income constraint: UCT, if results from weak preference: CCT.