A Big, New Investment in America's Poorest (and Youngest?) Children

Conditional Cash Transfers

by J. Lawrence Aber, Ph.D.

Big ideas to enhance the well-being of American children should be aimed at the most serious problems they face. I aim one big idea at a set of three serious problems: child poverty, the growing skills gap, and neglect during the earliest years of closing the skills gap. First, I describe this set of problems and how they are interrelated. Second, I outline one big idea (or at least, "immodest proposal") to attack these problems head on over the next four to eight years. This new idea is rather simply stated: The next administration should rapidly and rigorously experiment with, refine, and then implement at scale a whole new set of cash transfers – conditioned on parents' investments in their children's human capital – to poor families with children. I conclude by reflecting on one of the critical challenges we all face if any of our "big ideas" are to become realities: changing the "political economy" of children's issues in the United States.

What Big Problems Should Big Ideas Address?

1. Child Poverty

A Few Basic Facts

Nationwide, 18 percent of all children live in families with incomes below 100 percent of the Federal Poverty Line (about $21,000 a year for a family of four). This amounts to 13 million children living in poverty across the United States. Especially relevant to this essay, the poverty rate tends to be higher for infants, toddlers, and preschoolers than for school-age children (20 percent vs. 16 percent). Child poverty rates also vary greatly across race/ethnic groups (white children, 10 percent; Latino children, 28 percent; and black children, 35 percent), and states (from 7 percent in New Hampshire to 27 percent in Mississippi).

As troubling as these statistics are, they only tell part of the problem. Research consistently shows that, on average, families need an income of about twice

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the federal poverty level to make ends meet. Children living in families with incomes below this level – about $42,000 for a family of four – are referred to as low income. An additional 21 percent of all children live in low-income families that earn "too much" to be officially poor, but too little to reach self-sufficiency and basic economic security. Low family incomes mean substantial economic and material hardships for too many of America's children. For instance, 16 percent of America's children experience significant food insecurity, and 41 percent of families who rent, pay more than a third of their income on rent.

Scientific Evidence

Over the last decade, converging evidence from research makes one point crystal clear: Poverty has a pervasive negative effect on children's health, learning, development, and future life chances. Poor children are more likely than non-poor children to manifest developmental delays and learning disabilities, to have lower IQs, repeat a grade, or drop out of school. Even after controlling for relevant parent characteristics (e.g., education), poor children begin kindergarten with significantly lower achievement in math, reading, and general knowledge than their higher income peers, and they increasingly fall behind as they progress through school. Children from poor families are also at greater risk for experiencing behavioral or emotional problems such as antisocial behavior, as well as for internalizing behavior problems, such as depression. Similarly, poor children show difficulties with aspects of social competence including self-regulation and impulsivity.

Bolstering the case that family income matters for children are findings that with increases in family income, children's cognitive-academic skills and social-emotional competence indeed improve. There is clear evidence from both natural experiments and randomized experiments that increases in family income, particularly among poor families, have positive impacts on children. It is incontrovertible that living in poor or low-income families remains a significant barrier to children meeting their cognitive and social potential.

While the deleterious effects of poverty on children's health, education, and development should be concerning enough, two recent reports presented to the Committee on Ways and Means in the U.S. House of Representatives have highlighted the economic costs to the country posed by such high child poverty rates. One report by the Government Accountability Office concluded that higher poverty rates in the general population are associated with slower economic growth, particularly in areas of concentrated poverty. A second report, published by the Center for American Progress, estimated that child poverty costs the United States $500 billion per year, roughly equivalent to 4 percent of GDP, through reductions in productivity and economic output, increases in crime, and increases in health expenditures. Both reports conclude that interventions aimed at augmenting parents' human capital, improving disadvantaged schools and neighborhoods, and providing more income supports are indicated, and that they stand a fair chance of helping poor and low income families.

The convergence of the longitudinal and experimental scientific research allows us to conclude that those negative effects of poverty and low income on children's health, education, and development are causal. Much like earlier research on the effects of smoking, we now know for certain what most of us always suspected: Poverty is bad for children's development and the nation's wellbeing. Now, the question is: What can and should the nation do about it?

The Current Politics of Child Poverty

As other essays in this volume clearly attest, reducing poverty (especially child poverty) is back on the political agenda.

The signs of an emergent, second War on Poverty are clear and, to my mind, encouraging. John Edwards ran for the Democratic nomination making poverty reduction the central argument for his candidacy. On departing the primary field, he agreed to chair the "Half-in-Ten" Campaign. This truly big idea for the United States is modeled after Prime Minister Tony Blair's decision in 1998 to eliminate child poverty in the United Kingdom in 20 years and to cut it in half in 10 years. More importantly, and perhaps as part of a quid pro quo in securing Edwards's endorsement in the winter of 2008, Democratic nominee Barack Obama has endorsed the "Half-in-Ten" Campaign. As recently as the summer of 2007, candidate Obama expressed interest in, but refused to endorse, the Half-in-Ten goal at a major meeting on urban poverty at New York University. Clearly something has changed, at least in Democratic Party politics, that enables a candidate such as Obama to not view a "big idea" poverty reduction goal as political suicide.

Fortunately, the emergent war is visible beyond the borders of national Democratic Party politics. Just in the last few years, Connecticut and several states have passed child poverty reduction legislation. The National Governors' Association and National Conference of State Legislators are holding policy academies on poverty reduction strategies and targets, a sign of the political mainstreaming of an issue if there ever was one. And cities are innovating in antipoverty strategies in very ambitious ways. (More below on some important policy innovations in New York City and elsewhere.) Most impressively, very important conservative politicians and evangelical leaders have spent some of their considerable political capital within the Republican Party on championing poverty reduction, both at home and abroad, primarily for religious reasons.

For big policy ideas to move to concerted national action, they need to catch a wave, capture the zeitgeist, and thereby enable a majoritarian politics. My principal contribution to this collection of "big ideas" for consideration is meant to catch the wave of a second War on Poverty. Endorsing the "what" (cut poverty in half in 10 years), I focus on one new idea about "how." But before I turn to my big action idea, I want to call out two other problems that relate to child poverty.

2. The Skills Gap.

According to a July 9, 2008 column in New York Times by David Brooks, Democrats' favorite Republican, "The Biggest Issue" facing the nation, and therefore the new president, is not the Iraq war, the plummeting economy, health care, or even the global environment, energy, or food crises. He argues that the growing skills gap – between poor and well-off children in the United States – is the biggest issue because it generates growing inequality in this country and a growing skills gap between young workers in the United States and young workers in our international economic competitors. Regular readers of Brooks' column will know that he is not a Johnnie come lately to this issue. He is an excellent analyst of the importance, nature, and causes of the problem. But he has not yet identified solutions adequate to the problem. I take as part of my task in this essay, my contribution to this volume on big ideas to improve the well-being of America's children, proposing one novel strategy to help close the skills gaps.

3. Neglect of the Earliest Years.

It is now nearly commonplace to call attention to the impact of the earliest years of life on people's future life chances. Nobel laureate economist James Heckman has concluded that investments in early years are much more effective than equivalent investments in later years. One does not have to adopt his position to conclude that it is irrational to publicly invest the least in those early years that are most influential to development, and when parents (who are younger) can afford to invest least as well. This is exactly what we currently do. The biggest public expenditure on children is for K-12 education, which accounts for more than 60 percent of all public expenditure on children. Public education is likely to extend down to 4 year olds (pre-K) too. But what of the first three years? Elsewhere I have championed the principle of "age-equity" in public investments in children; as a nation, we should decide to spend about the same on children ages 0 to 3 as for those K to 12. Below, I suggest one way to make significant new investments in low-income children in the first three years of life.

What should a new administration do to attack the problems of child poverty, the growing skills gap, and the neglect of the earliest years? Create a big, new investment in America's poorest (and youngest?) children in the form of Conditional Cash Transfers.

Conditional Cash Transfers

Over the last decade, first in Latin America and subsequently in South Asia and Africa, a new strategy to fight poverty and promote investment in poor children's human capital has emerged. Generically referred to as "conditional cash transfers," this strategy could be adapted to the specific conditions and needs of the United States and become a major new approach for the next administration (Democrat or Republican) to address the triple challenges of child poverty, the growing skills gap, and the neglect of the earliest years. In this section, I'll briefly describe the history and basic design of Conditional Cash Transfers (CCTs), why they are a potentially attractive policy option for the United States to consider at this time in our nation's history, and how the general idea could be adapted to meet the very specific set of needs as they currently exist in the United States.

History and Design

The first nation to design, test, and adopt CCTs was Mexico (Brazil followed close behind.). In the mid-1990s, Mexican officials sought alternative policy options to replace unfairly administered, inefficient, and somewhat regressive social assistance schemes such as tortilla and energy subsidies. Based on the analysis and political persuasion of its main architect, economist Santiago Levy, CCTs were designed to simultaneously pursue two goals: to reduce family poverty in the short run, and to promote poor parents' investments in their children's human capital and thereby help break the intergenerational cycle of poverty in the long run. Specifically, Mexico proposed to provide cash transfers to very poor households (originally in very poor rural areas) worth on average about 20 to 25 percent of their income, but conditioned the transfers on a set of health and education requirements the family must meet. The health conditions included: prenatal visits for pregnant mothers, well-baby visits for children from birth to age 5, and compliance with nutritional and health education schemes. The education conditions focused on school attendance – school-age children achieving and sustaining a rate of 85 percent And monitoring systems were designed to determine if families were meeting the conditions and to provide assistance (first), or end the transfers (later), if they were not.

Quite unusually, before rolling out the policy nationally, Mexico decided to evaluate the program (called Progresa) via a rigorous social experiment in which more than 500 rural villages were randomly assigned to either receive CCTs or the existing social assistance policies. Equally unusual, the early findings of the experiment – which clearly demonstrated success in reducing poverty, improving take up of health and education services, and improving young children's nutritional status and physical growth – were used to advocate for taking the CCT policy (renamed Opportunidades) to nationwide scale, and protect it politically during the next transition in national government from a more left-leaning to a more right-leaning party.

Since Mexico's initial foray, more than 20 additional countries have designed, implemented and/or are planning CCTs adapted to their unique needs and conditions. (About a third are national initiatives; two-thirds are regional initiatives or small local pilots.) A growing body of both experimental and quasi-experimental research on these CCTs has been critically reviewed and analyzed by a team of economists at the World Bank. Their report, which is to be released in November 2008, will demonstrate clear positive effects in poverty reduction and services utilization (well-child visits, school attendance), but note inconsistent effects on "final child outcomes" (such as learning and health status). The report also outlines policy innovation and research agendas for the future, with the aim of discovering how CCTs can become more effective in improving final child outcomes.

Potential Attraction of CCTs as a Policy Option for the United States

Of course, there is nothing terribly new about the idea of "conditioning" cash transfers to the poor in the United States. Indeed, the recent history of American welfare policy is one of transforming some open-ended entitlements (e.g., AFDC) into time-limited assistance conditioned on work effort (e.g. TANF). In the United States, what would be historically unique is conditioning cash assistance to the families of poor children on parents' investments in their children's human capital. And this is exactly what I propose.

There are a number of reasons why a new, ambitious CCT policy, modeled in essentials after ones emerging from Latin America, but strategically adapted to the U.S. context, might be highly attractive to policy makers and citizens on the left, right, and center in the United States, and hence, might become the basis for a new majoritarian politics of antipoverty policy. Progressives would be attracted to the opportunities it offers to increase cash assistance to very poor families with children, and to support poor parents in their other major job in life besides work, namely raising their children. New cash transfers targeted to the TANF-eligible households and conditioned on parent investments in their children would help close the poverty gap (the difference between what families below the poverty line currently have in income vs. what they would need to have to cross over the poverty line), and help reduce the child poverty rate. Of course, the poverty reduction effect of CCTs will depend on the size of the transfers.

Conservatives would be attracted to the "new social contract" features of the policy, emphasizing, as they do for welfare reform, that CCTs are not "handouts" but are earned by parents for their children by virtue of good behavior – namely meeting the health, education, and other conditions designed to promote their children's human capital. Similarly, the monitoring of parents to ensure that they meet the conditions as the parents' "co-responsibility" in this new social contract would attract conservatives because of its emphasis on "accountability measures" for the public provision of assistance. The ability of CCTs to attract attention and support from both the left and right will attract the political center of the nation. Either presidential candidate could then point to CCTs as examples of "post-partisan policymaking." Political analysts in other countries point to the ability of CCTs to garner support from diverse political sectors to explain not only their initial attractiveness but their sustainability over time and across transitions in government.

In the end, how attractive CCTs are to various groups in the United States will depend on the myriad decisions that must be made about their specific design and implementation. On precisely whom should they be targeted? How much should they be worth? What specific conditions should be set? How will compliance with the conditions be monitored and enforced? What other changes in other programs and policies could and should be made to enhance the viability and the effectiveness of the new CCT policy?

Adapting CCTs to the United States

Fortunately for a new presidential administration, the work of adapting CCTs to the United States has already begun. To fulfill a campaign promise he made during his reelection campaign in 2005, Mayor Michael Bloomberg of New York City appointed a high-level Commission on Economic Opportunity and Poverty Reduction in February 2006. As part of that deliberative process, Bloomberg and his deputy mayor for Health and Human Services, Linda Gibbs, were introduced to the idea of CCTs as a major antipoverty policy innovation emerging from Latin America, and worthy of consideration for adoption in the United States. Although the Poverty Commission did not make CCTs one of its formal recommendations, the Bloomberg administration decided to make it one of its signature antipoverty initiatives. It fit many of the criteria the mayor had for evaluating recommendations: It was innovative, "evidence-based," within the ability of NYC to implement on its own (without state or federal aid), and potentially endorsable by the city's progressive (Democratic and service) and conservative (Republican and business) communities! But because CCTs had not yet been tried and evaluated in the United States, Bloomberg made two other decisions: to mount and rigorously evaluate it as a pilot before taking it to scale in the city; and to fund both the transfers and the rigorous evaluation using private sector (largely foundation) funds, not city revenues, until it was demonstrated to be effective.

Thus was born Opportunity NYC: Family Rewards, the first holistic health and education CCT in the United States. Through a very intensive program development and planning process from fall 2006 to September 2007, the city designed a set of new cash transfers. Through visits to Mexico, consultations with local, national, and international experts, and intensive bargaining with various communities and civic groups and city agencies, Deputy Mayor Gibbs led a process of adapting the central ideas of CCTs, developed in low-income, services-poor conditions in poor countries to the needs and realities of a high-income, services-rich city.

Like Progresa, Opportunity NYC: Family Rewards provides big, new cash transfers to eligible families (up to $ 5,000 a year if families fully meet all conditions), but conditions the funding on parents' investments in their children's (and their own) human capital. While the goals of Opportunity NYC: Family Rewards resemble the Mexican CCT, several of the details are different in important ways.

1. It is based on not two, but three sets of conditions: family health, child education, and adult work/education.

2. Rather than become eligible for the whole transfer if all the conditions are met, New York families become eligible for part of the transfers as each condition is met.

3. Rather than creating conditions based exclusively on behavioral effort (getting to clinic, attending school), NYC added conditions based on children's performance, especially educational performance on academic achievement tests.

4. Perhaps most importantly, the CCT program was designed not as a substitute for existing social assistance programs, but as a complement.

In each of these ways, the NYC initiative anticipates the continued evolution in CCTs internationally. Conditions to promote adult human capital development (education and employment training) and transition to full-time employment, conditions rewarding performance and the most effective interactions between CCTs and other social programs are at the forefront of continued international developments.

By the time of the fall elections, a Learning Network on CCTs, supported by the Rockefeller Foundation, may have encouraged other jurisdictions in the United States to mount their own demonstrations. (The cities of Savannah, GA, Chicago, IL, and the state of California have all expressed some levels of initial interest.) By the time a new administration takes office, year-one findings from the evaluation of Opportunity NYC being conducted by MDRC will be available. Thus, a new administration that wished to create new, targeted financial incentives to invest in children's human capital based on a CCT model would not have to start from scratch. But it would have to invest considerably in rapid R&D to generate models of CCTs that would be effective and suitable throughout the nation, not just in New York City.

Where to Begin?

A new administration that wished to create new incentives such as CCTs will have several big issues to address right from the very start. To my mind, the two biggest issues are: (1) how to target CCTs, and (2) what else needs to change in public provision to enable CCTs to be most effective?

Targeting

The international literature is very clear: Poorly targeted CCTs are less effective CCTs. In general, CCTs seem to work best when targeting the poorest households – and the poorest communities. The main arguments in favor of focusing CCTs on the poorest families (and community) are cost and efficiency. A CCT targeted on households with children with incomes below 135 percent of the poverty line (the NYC income-eligibility criterion) will cost roughly half as much in transfers as one targeted on households with incomes below 200 percent of the poverty line. And a dollar of increased assistance to a family with an annual income of $21,000 is more impactful than a dollar of assistance to a family with an annual income of $42,000. The arguments against targeting the poorest households (and community) are equity and politics. The United States already has a labyrinthine system of social assistance with multiple eligibility and cut-off points. Not only is this system difficult to administer, but it also sets the interests of the poor against the interests of the near poor. Nonetheless, implementing CCTs will involve technically and politically difficult decisions about household (and community) targeting.

An additional option for targeting is by the age of child. If I were advising a new administration, I would suggest it begin with a focus on designing CCTs aimed at promoting investments in poor children's human capital in the first three years of life. Why? Because of the two other problems I laid out at the beginning of this essay: the growing skills gap and the relative neglect of the early years. As noted earlier, the scientific evidence is clear. The skills gap opens up in the first three years of life and, because "learning begets learning," widens from there. Parents of young children are young parents – and young workers. They are less experienced in child-rearing and earlier in their work careers. Consequently, they have fewer human and financial resources to invest in their children than do parents of older children. And recall, American society makes greater public investments from kindergarten (and increasingly, prekindergarten) through the end of high school than it does in the first three years of life. (This is because of the simple fact that more than 60 percent of public expenditure on children in the United States is for K-12 education!) Together, these facts argue for early focus by the new administration on public and private investments in the earliest years of children's lives.

Thus, it is worth considering limiting the initial costs of CCT policies while the nation learns how to most effectively design and mount them by targeting them by age of the child – providing CCTs to families for the first three or four years of a child's life, or until they are eligible to enter full-day, publicly-provided education. And condition CCTs on parents' enrolling their children in evidence-based programs that have been demonstrated to close the skills gap that opens over the same period. Beginning by targeting poor families with infants and toddlers, the total cash transfers would cost roughly one-sixth of a CCT initiative targeted on poor families with children over their first 18 years.

What else needs to change in public provision to enable CCTs to be most effective?

When Mexico designed Progresa in the 1990s, its goal was to incentivize parents to bring their children to health clinics to receive primary and preventive health care and nutrition. There was only one big problem. In the targeted rural areas of greatest need, there was an insufficient supply of health clinics to meet the anticipated increase in demand that would be created by the health conditions of the CCT. So Mexico undertook an intensive exercise in building, staffing, and funding enough health clinics to enable the CCTs to work. In my opinion, the United States stands in an analogous position vis-à-vis having a supply-side adequate to permit "education conditions" in the first three years of life. How can we cobble together a solution to this problem? We need to build the supply of evidence-based programs that would help close the skills gap in the first three years of life.

There is a range of options that could be pursued, from very expensive ones (such as building the supply of proven home visiting models and of Early Head Start), to less expensive, but potentially high-impact models (such as Bellevue Hospital's "Video-tape Interaction Project," which introduced early child development services proven to enhance young children's language development into pediatric primary and preventive health care practices that serve low-income children).

The impact of CCTs on the human capital formation of children – their ultimate rationale – is dependent not only on the accessibility of the services on which they are conditioned, but on the quality of those services. Mexico found that CCTs could significantly increase school attendance, but they could not improve children's learning unless the schools improved. We need to improve access to developmentally impactful early childhood services in order to make CCTs work for low-income infants, toddlers, and their families. Interestingly, what Mexico found is that by increasing demand for health clinics via CCTs, it also developed a political constituency for the supply-side building of health clinics. Improving the supply and quality of early childhood development services, delivered through existing platforms in low-income communities (such as Early Head Start or primary and preventive care) is perhaps the key challenge to creating a CCT initiative that would really make a difference to America's poorest infants and toddlers.

But supply-side building for infants and toddlers is not the only feature of the U.S. health, education, and cash assistance systems that would need attention to make CCTs work. Once the political process is engaged to design and fund CCTs, some people will propose cost savings in some areas of the social safety net to pay for CCTs. For example, some may propose swapping out TANF for CCTs. I would oppose this specific proposal on both political and technical grounds. Politically, America has decided to condition some cash assistance to poor families on work effort. It would be politically diversionary and backward looking to refight two decades of battles on welfare reform. The national consensus we have achieved on welfare reform is actually one of the main conditions that allows us to ask: What next in antipoverty policy and practice? Welfare reform reduced dependence and lifted some families out of poverty. But the child poverty rate and the welfare gap are still gigantic by historical and international standards. Let's stay the course on welfare reform. Technically, there is no real way to reduce child poverty quickly and effectively without increased public expenditure. The United Kingdom has demonstrated that an increase in public expenditure of about 1 percent of GDP, invested in the right ways, can and did cut absolute child poverty by about 50 percent in about a decade. We need to find technically and politically effective ways to spend more public funds on reducing child poverty and closing the skills gap. CCTs may be the way.

Changing the "Political Economy" of Children's Issues: Moving Ideas to Action

Creating big, new financial incentives to invest in the human capital of poor children will not be easy. There are many potential obstacles to and opponents of CCTs. The proposal will be attacked from the left as paternalistic, and from the right as overly generous. Many will mischaracterize the proposals as efforts to "bribe the poor" to do what they should be doing anyway. Depending on how they were structured, a new national policy of CCTs could cost anywhere from about the cost of TANF ($16 billion a year) to about the cost of the EITC ($32 billion a year). So even if the United States decides to do what the United Kingdom did – make 1 percent of GDP in additional investments in child poverty reduction (or about $125 billion a in U.S. terms) – a major new cash transfer is still a very big ticket item.

Most of the criticisms can be effectively rebutted one at a time. Research and practice clearly indicate that poor families and children decidedly do not experience CCTs as paternalistic. Thirty-two billion dollars is a lot of money, but a small price to pay to help cut the child poverty in rate. CCTs do not bribe the poor; they offset the much higher opportunity costs poor parents and children face to do the right thing. (When I bring my daughter to the pediatrician, it takes about an hour of my time, and I'm a salaried worker. When a parent making minimum wage takes her child to a public clinic, it takes three hours of wait time and she loses three hours' pay.) Finally, if the Center for American Progress is right, the costs of reducing child poverty will be offset over time by the savings to the public in reduced crime and health care costs and increased economic productivity. The main challenge to achieving a smart new national cash transfer such as CCT is not each criticism taken one at a time. Rather, it is how hostile "the political economy of children's issues" is to most of the big ideas laid out in this volume. The essential problem is that children, especially poor children, are not powerful politically and not sufficiently protected ethically. To state the obvious, children can't vote. Less obviously, households with children are a declining percentage of all American households. Nonetheless, children are almost 100 percent of the nation's future.

What should the community that wishes to move big ideas about improving the well-being of children to action do to confront this problem in the political economy? I suggest we tackle it head on. There are many actions we could take to shift American attitudes and norms about what we should do with public resources for children, and to change how political-economic decisions about deployment of resources to and for children, especially poor children, are made. I'll suggest two.

Ratify and Observe the International Convention on the Rights of the Child (CRC)

The United States is one of only two countries in the world that have not ratified the main international instrument for the protection of children. Evidence abounds throughout the world that the CRC can change social norms about what countries can and should do for their children. The next administration should develop communications, public education, and political strategies that would lead to the United States's ratification and observance of the CRC.

Enable "Parents" to Vote for Their Children

Parents can make every other major decision for their kids until their kids can make it for themselves – what to eat, where to live, and go to school, whom or what to worship. Why not "whom to vote for"? I am fully aware of the profound Constitutional and political roadblocks to this proposal. Yet, I can think of no other single act which, if achieved, would more dramatically change the "political economy" of children's issues than to enable parents/legal guardians to vote for their children. The next administration should commission the highest level, bi-partisan commission of legal scholars and citizens to explore the radical idea that parents should be able to vote for their children until their children can vote for themselves.

The obstacles to these proposals for changing the political economy of children's issues make the obstacles to CCTs look like small potatoes in comparison. But we may need to think big on the political-economy side before we can act big on the program policy side.