

Paying for Good Behavior

Does New York City's Experiment with Conditional Cash Transfers Offer Lessons for the Safety Net in the United States?

BY GORDON BERLIN AND JAMES RICCIO

It is hard to design public policies that are durable in good times and in bad. Since the social safety net was first conceived in the United States as a response to the Great Depression, policymakers have attempted to balance two competing goals: reducing poverty while limiting dependence on

public handouts. Just as it would have been difficult to foresee the booming 1960s from the depths of the 1930s, few predicted today's severe downturn during the roaring 1990s. Then, with economic cycles seemingly in check and unemployment at historic lows, the nation moved to tie the social safety net more closely to work—by greatly expanding the Earned Income Tax Credit and placing time limits and strict work requirements on the cash welfare system, Temporary Assistance for Needy Families (TANF). In the grip of the Great Recession's aftermath, the wisdom of building a safety net around work alone is in question.

But what might work better? Can we strike a better balance between protecting vulnerable families in the short run without exacerbating the intergenerational transfer of poverty? Can we maintain a focus on work without impoverishing families in periods when work is scarce?

In March, MDRC released early evaluation results from Opportunity NYC-Family Rewards, New York City's bold (and controversial) demonstration and evaluation of a conditional cash transfer (CCT) program to help families break the cycle of poverty. Family Rewards offers cash payments to poor families to reduce immediate hardship and poverty but conditions this assistance on families' efforts to improve children's school performance, family preventive health care, and parents' work and training—in the hope of reducing poverty over the longer term. Thus, the evaluation seeks to answer two basic questions: (a) does the program quickly increase families' resources and improve the conditions in which children are raised, without causing any substantial reduction in parents' work efforts—an unintended consequence that income transfer programs risk—and (b) does it support families as they invest in education, preventive health care, and work, which can help them exit poverty sooner and reduce the chances of their children being

poor as adults? Although it is much too soon for a final judgment (the study will continue through 2014), the MDRC report assesses early progress against these twin goals.

The initial findings show that Family Rewards substantially reduced current poverty and material hardship and had a range of modest positive results in improving some education, health-related, and work-related outcomes. Yet, the press coverage was largely and perhaps not surprisingly negative, given that the initiative has provoked criticism from both the left and the right. At the risk of oversimplifying, the right argues that “it’s wrong to pay people for what they should already be doing” and the left says “it’s demeaning to assume that poor people aren’t doing the right thing and wrong to make them jump through hoops for money.”

What both sides seem to ignore is that the United States (with the support of both Democrats and Republicans) has already made the majority of its safety net conditioned on the work effort of beneficiaries. Are there lessons from New York City’s CCT experiment that might speak to the inadequacies of a predominantly work-based safety net? Before addressing this question, let us outline what Opportunity NYC-Family Rewards is—and what MDRC’s evaluation has found so far.

What Is Opportunity NYC-Family Rewards?

Opportunity NYC-Family Rewards was launched by Mayor Michael Bloomberg and New York City’s Center for Economic Opportunity in 2007 as an experimental, privately funded¹ program to help families in six of the city’s highest poverty communities break the cycle of intergenerational poverty. Inspired by Mexico’s pioneering Oportunidades program, CCT programs have grown rapidly across lower- and middle-income countries, and evaluations have found some important successes. Family Rewards is the first comprehensive CCT program in a developed country and, as such, has been the focus of much attention domestically and internationally.

An incentives-only program (with no social services or case management component), Family Rewards is coordinated by a private, nonprofit intermediary organization, Seedco, in partnership with six community-based organizations. It is being evaluated by MDRC, which helped design the initiative, through a randomized control trial.

The program includes an extensive set of rewards, most of which are available for three years, with the following conditions:

Education-focused conditions, which include meeting goals for children’s attendance in school, achievement levels on standardized tests, and other school progress markers, as well as parents’ engagement with their children’s education.

Health-focused conditions, which include maintaining health insurance coverage for parents and their children, as well as obtaining age-appropriate preventive medical and dental checkups for each family member.

Workforce-focused conditions, aimed at parents, which include sustaining full-time work and completing approved education or job training activities.

Overall, the program offered 22 different incentives during its first two years, ranging in value from \$20 to \$600. Recognizing that poverty’s causes would differ between developing and developed countries, the program designers purposely chose to test a wide variety of rewards, including academic achievement and parent’s work, education, and training, activities that were not rewarded in Mexico or most other developing countries. The objective was to see where incentives would—and would not—work. By rewarding a wide range of activities, the program also gave families many different ways in which to earn money, and it was able to avoid attaching overly large amounts of money to any one activity or outcome. Based on assessments of the program’s early operational experiences, including the complexity of administering so many different rewards, along with preliminary impact evidence, a number of rewards were discontinued for the third year. This was done to simplify the program, lower its costs, better align it with need, and make it easier to replicate should it prove to be successful.

How Well Was the Program Implemented?

Overall, the rapidly launched program was successfully implemented after a first year in which operational kinks were being worked out. Families were substantially engaged with the program, earning reward payments of more than \$3,000 per year, on average, during each of the first two years. Nearly all families (98 percent) earned at least some rewards in both program years (mostly in the education and health domains), and 65 percent earned payments in every period in which rewards were available.

How Was the Evaluation Conducted?

The evaluation uses a randomized control trial involving approximately 4,800 families and 11,000 children, half of whom can receive the cash incentives if they meet the required conditions, and half who have been assigned to a control group that cannot receive the incentives. The period covered in the report, beginning in September 2007 and ending in August 2009, encompasses a start-up phase as well as a stage when the program was beginning to mature. The report presents early findings on the program’s effects on a wide range of outcome measures. For some measures, the results cover only the first program year, while for others they also cover part or all of the second year. No data are available yet on the third year. The evaluation findings are based on analyses of a wide variety of administrative records data, responses to a survey of parents that was administered about eighteen months after random assignment, and qualitative in-depth interviews with program staff and families.

What Were the Program’s Early Effects on Reducing Material Hardship and Poverty?

The effects on reducing poverty and material hardships and on other economic outcomes were substantial (see Figure 1). Family Rewards:

Reduced the share of families living in poverty by 11 percentage points and cut “severe poverty” (defined as having income less than 50 percent of the federal poverty level) by nearly half, reducing it from 30 percent of the control group to 17 percent among the program group.

Reduced measures of material hardship, including difficulty providing enough food for one’s family (by 7 percentage points) and not being able to “make ends meet” (8 percentage points).

Increased the likelihood that parents had bank accounts by 22 percentage points, increased their savings, and reduced their use of alternative banking institutions, such as check cashers, by 7 percentage points.

Increased the percent of parents who paid their children an allowance, the amount they paid, and share who required children to earn the allowance by completing an activity.

What Were the Program’s Effects on Children’s Education?

Overall, Family Rewards has had no effect so far on elementary and middle school students’ attendance or achievement. (The absence of effects on attendance was not surprising given the high rates of school attendance, averaging about 90 percent, among younger students.) However, a survey of parents indicates that Family Rewards increased the likelihood that middle school students became involved in school-related activities, such as programs to help with schoolwork or homework, school clubs, school musical programs, and dance or art lessons. In addition, parents of elementary school students were somewhat more likely to help their children with homework and to enroll them in an afterschool program that helps with homework.

Among high school students overall, Family Rewards increased the proportion of high school students with a 95 percent attendance rate by 5 percentage points—but has had no overall effect on student achievement. However, among the subgroup of incoming ninth-graders who scored “proficient” in eighth grade—that is, the students who met minimum academic standards necessary to perform high school level work and thus could take advantage of the performance incentives (although many still struggle in high school)—there were positive impacts:

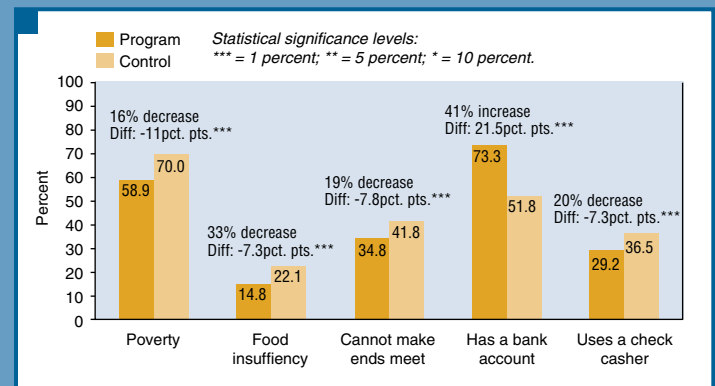
Reduced the proportion of students who repeated the ninth grade by 6 percentage points.

Increased the likelihood of having a 95 percent or better attendance rate (in year 2) by 15 percentage points.

Increased the likelihood of earning at least 22 credits (11 credits per year are needed to remain on track for on-time graduation) by 8 percentage points.

Increase the likelihood of passing at least two Regents exams (New York’s statewide achievement exams)² by 6 percentage points.

FIGURE 1 Effects on economic well-being



What Were the Program’s Effects on Family Preventive Health Care?

The health-related incentives of the Family Rewards program were designed to encourage low-income families to maintain insurance coverage and to adopt better preventive health care practices. It turned out that a higher proportion of families than the program’s designers had expected were already receiving health insurance coverage and practicing preventive health care. This finding may reflect the success of efforts by New York State and New York City to expand access to health coverage in recent years. Although the high rates of insurance coverage left little room for improvement on this outcome, the analysis found that Family Rewards still had small, positive impacts on a variety of health-related indicators (which are often difficult to move):

Increased families’ consistency of health insurance coverage (by 2–3 percentage points).

Reduced reliance on hospital emergency rooms for routine care (by 2 percentage points) and increased receipt of preventive medical care.

Increased receipt of at least two preventive dental care visits by 10 percentage points.

What Were the Program’s Effects on Parents’ Work and Training?

Family Rewards’ early impacts on employment outcomes are mixed. The findings point to gains in the likelihood of full-time employment and average earnings but not in jobs covered by the unemployment insurance (UI) system. According to an 18-month survey of parents, the program increased the likelihood of working at the time of the interview by 6 percentage points, driven by an increase in full-time work. At the same time, the program also led to a small *reduction* in average quarterly employment rates (by 1.4 percentage points) in *UI-covered* jobs over a 12-month follow-up period, according to administrative records data. However, the effect on average annual earnings from such jobs (a decline of \$286) was not statistically significant.

Some jobs are not covered by the state’s UI system, such as self-employment, federal government employment, and

out-of-state work. The UI system also misses informal (casual or irregular) jobs that are never reported to state agencies. It is not clear why the effects of the program would vary across types of employment. Perhaps for some parents, non-UI jobs were easier to get in a period when the economic downturn was accelerating, particularly those that offered the full-time hours necessary to qualify for the program's work rewards. Such jobs may also have been more attractive options if they were more conveniently located, easier to obtain, or offered more flexible schedules than UI-covered jobs.

With regard to incentives for training, Family Rewards had a small but statistically significant impact (of 2 to 3 percentage points) on increasing the likelihood of receiving a training certificate or associate's degree.

Longer-term follow-up will be important for assessing how the program's marketing of the workforce rewards, which was intensified in years two and three, coupled with the trough of the labor market at that time, affect these results. Still, it is noteworthy that, despite transferring substantial amounts of cash to families, the program has not led to any appreciable reduction in work effort.³

What Are the Implications of These Early Results for the American Safety Net?

Evaluations in other nations have convincingly shown that CCT programs can reduce poverty and improve the consumption of goods and services (for example, food consumption) among very poor families—but these results were seen in countries with undeveloped or nonexistent safety net systems. These CCT programs have also had some positive effects on human capital development outcomes, including school attendance, nutrition, and infant growth. In school attendance, the magnitude of Family Rewards' effects is roughly comparable to what has been found in evaluations of CCTs in other countries. In other areas, for example, school achievement (as measured by standardized tests) and parents' work, education, and training, Family Rewards is among the first to have found any effects.

The initial results from the New York City project show that CCTs can make an immediate difference in the lives of poor families in a developed country by increasing family income by 23 percent on average. Nearly all families were able to qualify for at

least some rewards, mostly in the education and health domains—meaning that, even in a depressed labor market, poor families could make non-work efforts that would bring needed income. This income reduced measures of economic hardship as well, which are notoriously hard to move. It is important to emphasize that these effects on poverty did *not* lead to major unintended consequences, such as substantial reductions in work effort.

While many families were rewarded for efforts they would likely have undertaken without the program, Family Rewards did have modest effects on behavioral outcomes in each domain, suggesting that an income-transfer program with achievable conditions attached can provide a modest boost in positive behaviors. It's too early to say whether these effects will be sustained or grow or whether they are worth the cost—questions that will be answered as MDRC follows these families for another year in this three-year program and then two more years after it ends this summer.

In the meantime, the nation is looking for ways to strike a better balance between fighting dependence and fighting poverty in its safety net programs, to meet short-term needs while investing in better long-term outcomes, and to do so in a way that is more responsive to economic downturns and poor labor markets. Early lessons from Opportunity NYC-Family Rewards suggest that cash transfers with reasonable conditions attached can be a feasible and effective way to boost the income of poor families, raising some out of poverty, while maintaining the ethos of reciprocity and responsibility that is valued by American society (and certainly its elected representatives). But if policymakers are interested solely in CCTs as an inducement to change behaviors thought to be at the heart of long-term and intergenerational poverty, the early effects in this area will have to grow over time to be truly cost-effective. Longer-term results at the three- and five-year points due in 2011 and 2013 will provide those answers.

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1 These funders include Bloomberg Philanthropies, The Rockefeller Foundation, The Starr Foundation, the Open Society Institute, the Robin Hood Foundation, the Tiger Foundation, The Annie E. Casey Foundation, American International Group, the John D. and Catherine T. MacArthur Foundation, and New York Community Trust.

2 Regents exams are administered to all public high school students in New York State. Students must pass at least five tests in specified subject areas in order to graduate with a diploma recognized by the New York State Board of Regents, which sets standards and regulations for all public schools.

3 The impact evaluation tests the program's effects on a large number of outcome variables, raising the risk that, with so many estimates produced, some will appear statistically significant simply by chance. However, positive effects take on more credibility when there are many of them, and when they are part of broader pattern of results, as is the case in the findings that are emphasized here. For example, the positive effects on more-proficient high school students held across a range of outcome measures. Equally important, the lack of education effects for elementary and middle school students and for less-proficient high school students held across most of

the outcomes examined for those groups. Furthermore, in each of the behavioral domains examined, many of the positive effects were on activities or accomplishments for which incentives were offered, such as insurance coverage and dental visits in the health domain, high attendance and passing Regents tests in the educational domain, and full-time employment in the work domain. In other words, the effects highlighted by the study were not simply a random assortment of positive impacts.