



THE IMPACT OF CASH TRANSFERS

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We live in a time of historic economic change. A dramatic increase in unreliable jobs threatens to undermine the foundation of the modern American social contract – the idea that if you work hard and play by the rules, you can get ahead. Low-income Americans are struggling to pay heating bills and make rent, and many in the middle class live on the financial brink as skyrocketing childcare and medical costs overwhelm stagnating incomes. **More than half of Americans don't have enough savings on hand to cover a \$500 emergency.** We don't need to wait for the future to know that the economic outlook for many Americans is already bleak.

Sometimes the best solution is the simplest: We can use direct cash transfers to ensure people have the financial freedom and safety net they need to solve problems in their lives. We know from ample data that people tend to make the right decisions when we invest in them. **Research shows that they tend to work just as much. Their kids do better in school and are healthier. Workers go back to school and climb up the economic ladder.** Alongside affordable health care, high-quality public education, and robust public services, cash transfers that stabilize the economic lives of American families are a critical component of a 21st century social safety net.

Such transfers build on the success of the Earned Income Tax Credit. **The EITC already lifts more families out of poverty than food stamps, housing subsidies, and unemployment insurance combined.**

Cash transfers are among the most studied anti-poverty interventions. Experiments around the world demonstrate that cash leads to educational achievement increases and substantially improved health outcomes, with people continuing to work and contribute to their communities.

The evidence is clear: **When provided with cash, individuals struggling with economic insecurity take care of their most basic needs and commit to climbing up the economic ladder**--finding a job, starting their own businesses, getting a degree. Below is a snapshot of the data that have emerged from over two dozen studies worldwide.

UNITED STATES AND CANADA

Financial Health and Habits

- EITC households tend to spend their credits quickly and locally, which produces a strong "multiplier effect." Several studies estimate that **the EITC generates at least \$1.50 - \$2.00 in local economic activity for every \$1 in benefits.**¹

- The Alaska Permanent Fund dividend has kept 15,000-25,000 residents (2-3 percent of state's population) above the poverty line annually since 1990, providing the greatest value to the state's most vulnerable populations – children, Alaska Natives, and rural residents.²

Education

- Young adults whose families received \$3,000 in EITC and CTC funds in the early 1990s were five percent **more likely to complete an extra year of college by age 19, an increase comparable to major educational interventions such as reducing classroom size.**³
- A \$1,000 increase in the EITC when a child is 13–18 years old increases the likelihood of **completing high school (1.3%), completing college (4.2%), and being employed as a young adult (1.0%).**⁴
- A comparative study on early childhood interventions found that **cash interventions had almost six times larger gains in children's school achievement than investments in the educational programs themselves.**⁵
- A \$1,000 increase in cash assistance increased high school completion rates by 2 percent and **increased the probability of college enrollment by 2.5 percent**, with an outsized impact for African American children and girls.⁶

Health

- A study by the University of Toronto found that instances of **food insecurity dropped** from 40 to 16 percent among low-income adults when became eligible for old-age security payments at 65.⁷
- Expanding cash transfers through the EITC is more than **eight times more cost effective** as a health intervention than direct spending on low-income healthcare.⁸
- **Hospitalization rates decreased** by 19.23 per 1,000 residents in the Canadian town of Dauphin over five years in the Canadian MINCOME experiment.⁹
- An increase of \$1,000 in cash assistance to single mothers with less than 12 years of education is associated with a 6.7 to 10.8 percent **reduction in low birth-weight rates**, with an outsized effect for Black mothers.¹⁰
- Among mothers who received increased cash assistance with the 1993 EITC expansion smoking rates fell by 1.2 percent (a significant drop compared to the starting smoking rate of 30 percent) and alcohol use fell by 1 percent.¹¹
- According to a study by the National Bureau of Economic Research, raising the minimum wage and the earned-income tax credit (EITC) by 10 percent each could prevent about

1,230 suicides annually. Among adults without a college education, increasing the EITC by 10 percent appears to have decreased non-drug suicides by about 5.5 percent.¹²

Social Trust and Community Safety

- For recipients of casino dividends, self-reported criminal activity also decreased among Native American children relative to their non-Native counterparts. The reduction was concentrated among minor crimes, with a **22 percent reduction for teens aged 16-17**.¹³
- Children from households that received payments in the Casino Dividends study were nearly **seven percent less likely to have reported dealing drugs** in their youth than their counterparts that had not received casino dividends.¹⁴
- A 2015 study of expansions to the Canadian Child Tax Credit found that cigarette and alcohol use **decreased by six and seven cents respectively**, partially attributed to a decrease in financial stress reducing the urge for stress relief through temptation goods.¹⁵

Labor Participation and Earnings

Note: the results for labor participation are mixed across studies, and introduce a values judgment: is it good or bad that individuals retire earlier, or choose to work less to spend more time with children?

- For every additional \$3,000 in income received before a child's sixth birthday, the child will work an additional 135 hours a year between ages 25 and 37, earning 17 percent more than children who did not receive cash assistance.¹⁶
- An additional \$1,000 of the EITC in 2013 USD for children aged 13-18 increases earnings as adults by \$564, which is an increase in earnings of 2.2%.¹⁷
- Researchers found **no change in labor supply or as a result of cash assistance to the Cherokee Indians**.¹⁸
- Studies of low-income mothers show that a \$1,000 increase in the EITC is associated with a one percent **increase in the employment rate**.¹⁹

INTERNATIONAL

Brazil

- Studies done 5 years after the introduction of the Bolsa Familia Program found that for every R\$10 in funds received, the perceived food insecurity decreased by approximately 8%.²⁰

- Over the first decade of Bolsa Familia, the poverty rate fell from 26% to 14% and extreme poverty from 10% to 5%. Most of this decrease happened within the first five years of the program. Income inequality also fell by 15%, resulting in a GINI coefficient 0.527.²¹
- Researchers observed a 13 percent decrease in work hours in households receiving Bolsa Familia benefits. This decrease was driven by women in rural households with young children who opted to devote more time to childcare. Men, however, increased their number of hours worked.²²
- By 2008, school enrollment in Brazil increased by 5.5 percent in grades 1-4 and by about 6.5 percent in grades 5-8 due to Bolsa Familia payments.²³
- The Bolsa Familia Program lowered dropout rates by 1 percent and raised grade promotion rates by 1.1 percent for children in grades 1 to 8.²⁴

Mexico

- When benefit amounts doubled in the Mexican Oportunidades program, rates of childhood obesity decreased by 8 percent and stunted growth by 10 percent.²⁵
- In rural areas, a 10% increase in income translates into a 3%– 4.5% increase in food security, with much of this increase going to foods rich in micronutrients.²⁶
- Under the Progresa transfer program, school enrollment increased by 6% for boys and 9% for girls. Enrollment in secondary school for girls increased by 15%.²⁷
- Incidents of child labor among indigenous children decreased by 8% between 1997 and 2000 under Progresa. The most drastic reductions were in teenage labor, where there was a 26% drop.²⁸

Namibia

- An additional N\$100 a month of cash assistance in Namibia increased the number of parents paying school fees to 90 percent from 40 percent, **non-attendance dropped by 42 percent, and dropout rates fell from 40 percent in November 2007 to 5 percent in June 2008 and 0 percent in November 2008.**²⁹
- Within six months of Namibia cash assistance, **the percentage of underweight children dropped from 42 percent to 17 percent.**³⁰
- Overall crime rates fell with the introduction of cash assistance (as reported to the local police station) fell by 42 percent while stock theft fell by 43 percent and other theft by nearly 20 percent.³¹

Uganda

- Basic income trials in Uganda found that after four years or receiving the initial grant, **young people earned 41 percent more**, on average, than the control group.³²
- The average participant **increased business assets by 57 percent, work hours by 17 percent, and earnings by 38 percent**. Many of the recipients who already owned small businesses formalized their businesses by hiring labor and investing in a formal business office/address.³³

Kenya

- GiveDirectly has found that per \$1,000 of cash assistance, earnings increase by \$270, assets by \$430, and spending on nutrition by \$330. There was no effect on alcohol or tobacco expenditures.³⁴

Other Data Points

- In Sri Lanka, grants made to male entrepreneurs returned gains of **64-96 percent gain five years**.³⁵
- Eight basic income studies noted an **increase from 5 percent to 90 percent in women's involvement in expenditure-related household decisions**. These studies also noted a significant decrease in physical, sexual abuse and in non-physical (emotional) abuse.³⁶

ADDITIONAL DATA FROM THE UNITED STATES AND CANADA

- Children whose parents participated in the Mother's Pension Program (the first government-sponsored welfare program in the United States) lived, on average, one year longer than boys born to families excluded from the program.³⁷
- In Native American tribes with casino dividends, an additional \$4,000 per year in income results in an additional year of school participation by age 21 in families with incomes less than \$30,000.³⁸
- During the EITC expansions of the 1990s, 80 percent of cash recipients in Chicago expected to pay a bill or make a commodity purchase, 50 percent expected to save at least some of their refund, 16 percent planned to pay tuition, and 22 percent planned to use some funds for a car-related expenditure.³⁹
- A 2015 study of expansions to the Canadian Child Benefit found that cash improved outcomes for children not only by increasing expenditures on inputs like education and health, but also by helping pay for general household items that reduce stress and improve family stability. For every dollar the child benefit increased, **the average household spent 50 cents more on essentials like computers, school supplies, rent, food, and transportation**.⁴⁰

- Recipients of the Mother’s Pension Program also saw a 50 percent decrease in instances of stunted growth and low birth rate (<2500g) in babies compared to those from similar families who did not benefit from the program. ⁴¹
- Called “one of the most successful labor market innovations in U.S. history” by University of California’s Hilary Hoynes, the EITC expansions of the 1990s are credited as a key policy change which resulted in a **15 percent increase in the amount of single mothers who went to work during that decade.** ⁴²
- Over all expansions of the Federal EITC, incidents of reduced birthweight have decrease by 5.6 percent overall, reaching 7 percent with the 1993 expansion with increased benefits by \$1,000. Mothers overwhelmingly used the extra funds to source better nutrition for both themselves and their children. ⁴³
- A study comparing EITC to Negative Income Tax (NIT) as a way to aid the poor and middle class found that while both increased earnings, a NIT is more effective. The study found that \$0.27 of every dollar of EITC income is captured by employers through reduced wages. Therefore, \$1 in EITC spending increases after-tax incomes by \$0.73. On the other hand, **every \$1 spent on the NIT yields \$1.39 in increased incomes for its recipients.** ⁴⁴
- For lottery recipients, a \$100 increase in unearned income results in an **\$11 decrease in earned income.** The effect on earnings is largest among individuals between 55 and 65 years old (early retirement), and **does not differ by education.** ⁴⁵
- Participants in the Canadian MINCOME experiments worked 13 percent fewer hours. The primary earner in the family often made a small reduction to hours worked while **mothers and teenagers used the extra income to dedicate more time to care for their children and concentrate on academics,** respectively. ⁴⁶
- Casino payments among Native Americans have improved mental health outcomes relative to non-Natives. As adults, significantly fewer Native Americans had a psychiatric disorder (Indians, 30 percent, non-Indians, 36 percent). ⁴⁷

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