

“Do Conditional Cash Transfer Programs Improve Work and Earnings among its Youth Beneficiaries? Evidence after a Decade of a Mexican Cash Transfer Program.”

Susan W. Parker, CIDE
Luis N. Rubalcava Spectron Desarrollo/CIDE
Graciela M. Teruel, Universidad Iberoamericana.

Extended abstract

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Conditional cash transfer (CCT) programs were first introduced in Brazil and Mexico more than a decade ago. CCT programs aim, in addition to alleviating current poverty, to reduce future poverty by increasing human capital accumulation of children and youth from poor families and thereby increasing their income when they become adults. Their main innovation, linking cash benefits to families' investments in human capital (particularly schooling), has been by any measure wildly popular. Well over thirty countries now have as part of their social policy CCT programs, most of which include substantial schooling conditionalities.

Some of the most important impacts of CCTs, including their longer-term effects on schooling and work, can be measured directly only after a significant number of years of program operation. Surprisingly little is known about the longer-term impacts of CCTs in particular on work and earnings, despite the rapid spread of these programs. This paper uses the Mexican Family Life Survey (MxFLS) to estimate long term impacts of the Mexican conditional cash transfer program *Oportunidades* on the well-being of youth beneficiaries, focusing on labor market outcomes as well as education. Using three rounds of the longitudinal MxFLS (2002, 2005, 2009), we provide impact estimates in rural areas after more than 10 years of program

operations on work participation, earnings, sector of participation and other job characteristics as well as on completed education. We focus on children and youth who were between age 10 and 14 when the program began in 1997-1998 and follow them until the last round of the program in 2009 when they were in their early to mid twenties.

A number of previous studies have shown significant impacts of the *Oportunidades* program on accumulating education (see Parker, Rubalcava and Teruel, 2009 for a summary). Nevertheless, no studies have been able to study whether this increase in education actually translates into an increase in earnings in the labor market, largely because previous studies have been based on much shorter times of program exposure and shorter times of followup. The published study with the longest time of period exposure analyzed is that of Behrman, Parker and Todd, 2011, who show that after 5.5 years of program exposure, youth beneficiaries accumulate between 0.7 and 1 years of additional schooling. In their study the possibility to analyze impacts on work was limited because many youth continue to be in school and the program for school age children and youth acts to subsidize schooling over work. Once schooling has been completed, nevertheless, if returns to the extra schooling attained are significant, we should observe positive impacts on work and salaries. This is a critical question for analyzing whether one of the main objectives of CCT's, that is of reducing future poverty, is being achieved.

The availability of the MxFLS provides a number of advantages for the study of *Oportunidades* impacts. First, it covers a longer period of time than previous available databases, including the original experimental evaluation used by Behrman, Parker and Todd, 2011. Second, the MxFLS is a nationally representative database so that impacts derived with its use provide nationally representative information of the impacts of *Oportunidades*, as opposed to the 7 Mexican states where the experimental design sample was drawn. Finally, the panel design of the MxFLS includes the following up of all household migrants, an important issue for estimating impacts of *Oportunidades* on youth, given high out migration rates of households of origin of youth beneficiaries.

We combine administrative information on program beneficiary status with the longitudinal MxFLS to estimate impacts using several different estimator strategies. First, we carry out difference in difference estimators specifications in which we compare households in localities which were selected to receive *Oportunidades* in the initial years of program operation (1997-

1998) and we compare outcomes with households in localities selected to receive *Oportunidades* in 2004 or later. That is, we take advantage of variation in time of benefits to compare changes in schooling over time for youth born in communities who began receiving the program in the early years versus youth born in communities who receive the program later on. There are several periods of large growth in terms of *Oportunidades* beneficiaries, occurring mainly in 1998 and 2004, with some slower incorporation in 2001 and 2002 and after 2004. We construct two separate groups, those based on youth living in communities incorporated during the 1997 and 1998 period and the control group, defined as communities incorporated in 2004 or afterward. The source of variation in impacts is thus time receiving the program as well as variation in the age at which the program began. That is, the impact of receiving the program for one year at 12 is likely much different from the impact of being offered the program for one year at age 19.

Given not all households in selected communities are chosen to receive *Oportunidades*, this strategy likely underestimates the impact of *Oportunidades*. A second strategy is we use the year a locality was selected to receive benefits to instrument actual *Oportunidades* receipt, based on administrative records merged to the MxFLS. An important aspect of program operations is that when a community is selected to receive *Oportunidades* benefits, the targeting method insures that nearly all beneficiaries in that community are incorporated at the same time. *Oportunidades*, particularly in its early years, did not tend to return to communities in order to say incorporate households who were not able to be interviewed initially. Thus, the year in which the community began to receive benefits is an excellent predictor of when beneficiary households in that community began to receive benefits. We take advantage of this strategy to carry out instrumental variable estimates of the impacts of *Oportunidades* in the 2009 round for schooling and work impacts.

Our preliminary results confirm large long term impacts of the *Oportunidades* program on accumulated schooling of youth beneficiaries. Nevertheless, our results also suggest that this increase in schooling does not appear at least within the time frame studied to have led to higher incomes and a higher likelihood of having employment among the young adults studied. We offer a number of explanations for these findings including the timing of the relative returns of education and experience across the life cycle as well as possible explanations involving the level of returns to education in rural areas of Mexico.

References

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