

**Looking to the Developing World for Anti-Poverty Strategies:  
The Conditional Cash Transfer Plan in New York City**

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## *1.0 Introduction*

During New York City Mayor Michael Bloomberg's recent reelection campaign, the centrist Republican mayor decided to make poverty reduction a key goal of a second administration. After focusing much of his attention on restructuring education and recovering from the effects of September 11, 2001 during his first term, the problem of urban poverty for the city became increasingly apparent to him and others (Roberts, 2006). Consequently, Bloomberg appointed a commission to study poverty in the city, and has vowed to implement the recommendations announced by the commission in September 2006. One of the key target groups on which the commission focused was young adults age 16-24. According to the report, this group faces higher rates of poverty than adults, and a large percentage of young adults are disconnected from both school and work. Given the importance of the transition between adolescence and adulthood, the commission recognized the urgency in reconnecting with young adults, and especially with young minority males. The recommendations of the commission reflected this reality as they focus on reducing the school drop out rate, placing at risk youth in apprenticeship opportunities, and providing additional work supports for young workers.

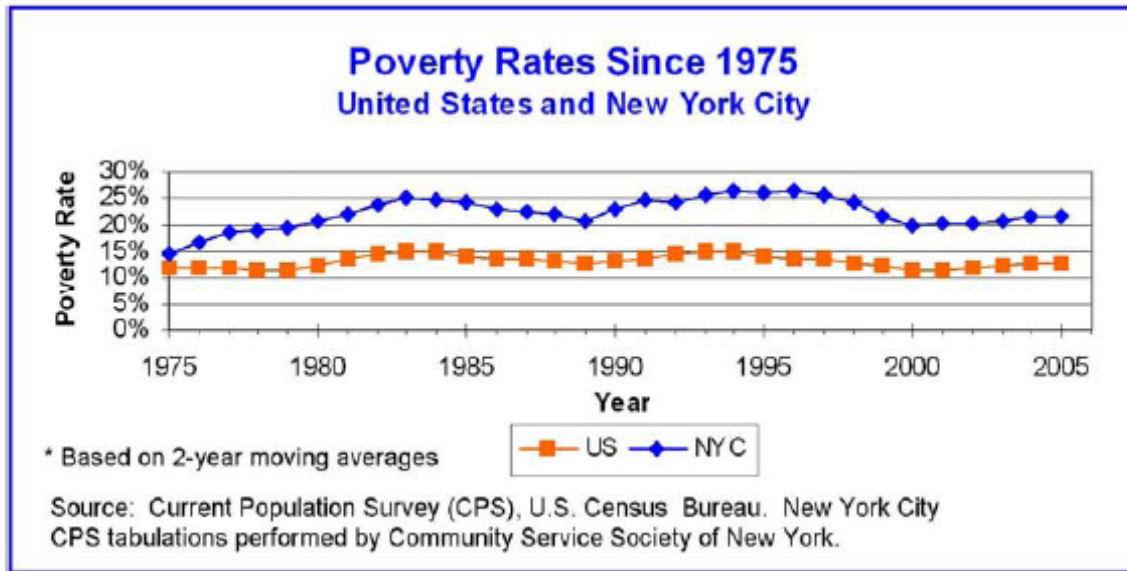
However, the proposal that has garnered perhaps the most attention did not come from the commission itself but from the mayor's office. In keeping with Bloomberg's experimental approach to addressing the city's problems, he announced the creation of a privately financed conditional cash transfer (CCT) program that would seek to reconnect youth with school, job training, and possibly with preventative health care. Although CCT programs have produced remarkably favorable results in developing countries, officials in the United States have yet to implement a CCT program. Although critics of Bloomberg's plan suggest that the differences in the incentive structures and socioeconomic environments between New York City and

developing countries undercuts the rationale for implementing a CCT program in New York City, the impact of such variations seems overblown. While differences between Mexico City and New York City should factor into the design of the CCT program in New York City, such incongruities should not cause the mayor to abandon his plan. Rather, Bloomberg should make certain that the CCT program goes beyond those in developing countries by ensuring that the program focuses directly on reconnecting the city's young adults with school in a manner that prepares them for the realities of the local labor market.

### *2.0 The Context of Poverty in New York City*

As in most major American cities, New York City has a high rate of poverty. Indeed, based on the national poverty line (nearly \$20,000 for a family of four in 2006), approximately 20 percent of New York City—or one in five city residents—lived in poverty in 2006, with 13 percent of families living under \$10,000 per year in 2005 (Roberts, 2006; Gotham Gazette, 2006). Compared to other major U.S. cities, New York ranks in the middle in terms of its poverty rate. Thus, approximately 1.5 million people live in poverty, and this number might be much lower than the reality in New York City. Indeed, given that the poverty line not only is too low in many experts' eyes, the distortion in the picture presented by the national poverty line is even more significant in New York City. Based on the city's substantially higher cost of living, some experts argue that \$40,000 for a family of four would better quantify the number of people living in poverty in New York City. This number would suggest that approximately two to three times more city residents would be living in poverty, which means that over three million people in New York City might be living in poverty (Gotham Gazette, 2006). Furthermore, the poverty trends in the city over the past several years have been characterized by stagnation (see Figure 1). Even though the city has recovered from the economic downturn at

Figure 1



Source: The New York City Commission for Economic Opportunity (2006). “Increasing opportunity and decreasing poverty in New York City.” p. 4.

the beginning of this decade and from the September 11 attacks, the benefits of economic growth have not accrued to the city’s poor and working classes. Since 2000, poverty rates have remained unmoving at approximately 20 percent, and median family income has stayed around \$43,000. While upper income groups have seen substantial increases in incomes, wages in the middle and lower deciles have decreased: While the median family income in higher income Manhattan grew by nearly 2 percent between 2000 and 2005, the median income in the poorer borough of the Bronx decreased nearly 10 percent during the same time period. (Roberts, 2006). Consequently, as poverty has remained stagnant while income inequality increases, the impetus for effective poverty reduction policies in the New York City has become increasingly manifest.

Poverty in New York City also tends to affect particular groups, including minorities, immigrants, children, and young adults. The recent report produced by Mayor Bloomberg’s Commission for Economic Opportunity (CEO) details these particular attributes of poverty in New York City. Like in most of the rest of the country, the rate of poverty in single female-

headed households is significantly higher (41 percent), and immigrant families earned substantially lower wages than native-born workers. Poverty in New York “disproportionately affects children,” as over 185,000 children under the age of five live in poverty (CEO, 2006, p. 8). In nearly half of all families in poverty the head of the household is employed, and nearly 20 percent of New Yorkers live on the “verge of poverty” (between 100-199 percent of the poverty line). Poverty levels are greater among African Americans and Hispanics, and as shown in figure 2, poverty is also concentrated geographically: “In New York City there are 248 census tracts classified as in “extreme poverty” in which more than 40 percent of the population lives below the poverty line” (CEO, 2006, p.8). Like much of the rest of the urban areas in the United States, poverty in New York City is disproportionately born by children and minorities.

Finally, it is worth emphasizing the effects of education on poverty in New York City since many potential solutions to poverty focus on increasing educational achievement and human capital accumulation. As one would expect, the commission observed that low education achievement in New York City has serious consequences for the poverty rate: “Almost a third of those who lack a high school diploma or GED live below the federal poverty line. However, additional education decreases the likelihood that a person will live in poverty” (CEO, 2006, p. 8). Consequently, the details of poverty reality in New York City demonstrate substantial challenges for the city’s elected officials.

### *2.1 Poverty and Disconnection among New York’s young adults*

Addressing poverty in New York City is particularly important for the 16-24 year old age group as a result of the high levels of poverty that young adults experience in the city as well as the high rates of ‘disconnection’ between young adults and society. Although poverty affects New Yorkers across age ranges, the significance of targeting poverty at this point is apparent due

to the important life transitions that occur during this period. The CEO report makes clear why this group is of particular concern to those working toward reducing poverty:

There were over 200,000 New Yorkers between 16 to 24 years of age living in poverty, a poverty rate of almost 25 percent. Poor young adults ages 16 to 24 disproportionately lack the family supports necessary to make the transition from adolescence to adulthood: In 2000, while 21 percent of young adults who live with their family are below poverty, 35 percent of those living on their own are poor. (CEO, 2006, p. 26)

Thus, those who are on the verge of the transition to adulthood and the entrance to the workforce are even worse off than many other age groups. With these negative conditions present at such a

**Table 1**

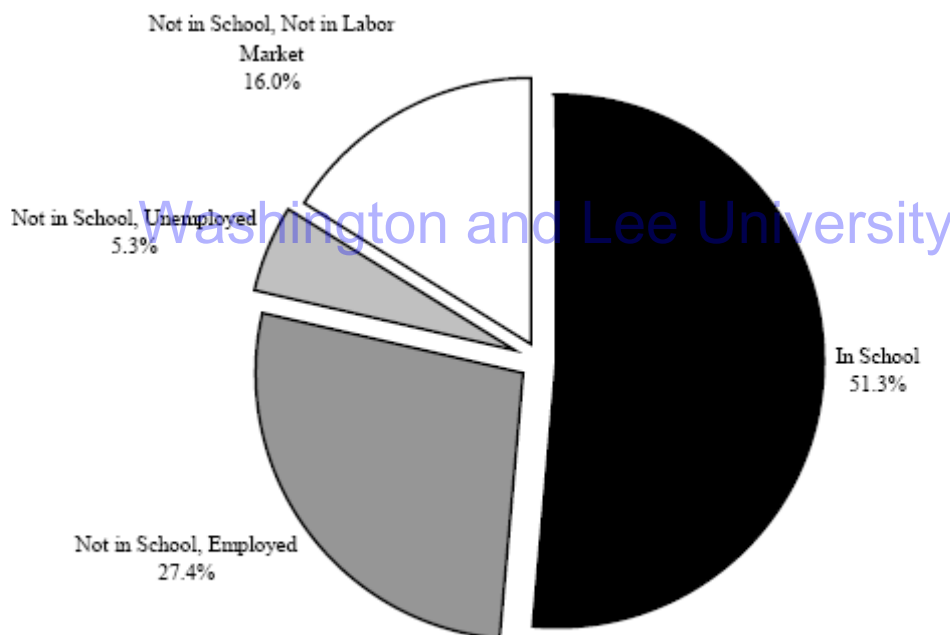
City	School Enrollment <sup>1</sup>	% Minority <sup>1</sup>	% Below Poverty Line <sup>2</sup>			Violent Crime Rate <sup>3</sup>	Juvenile Arrest Rate (100,000) <sup>4</sup>	Teen Births <sup>5</sup>	Graduation Rate <sup>1</sup>	% Teens Employed
			Total	Black	Hispanic					
Atlanta	58,320	93.2	39.3	47.0	29.0	2,289	607	100	39.6	30.9
Baltimore	99,859	89.2	31.0	35.8	22.9	2,054	1,281	86	47.9	28.4
Buffalo	45,721	71.5	38.7	45.0	56.7	1,271	327	72	47.3	34.2
Cleveland	75,684	80.7	38.0	45.6	40.6	1,322	NA	99	30.0	32.4
Detroit	162,194	96.3	34.8	35.2	31.9	2,072	200	78	57.0	28.8
Fresno	79,007	79.8	36.8	44.6	40.5	853	423	86	55.8	28.3
Los Angeles	721,346	90.1	30.7	38.5	36.6	1,349	304	61	46.4	27.2
Miami <sup>6</sup>	368,265	88.7	38.5	52.4	34.6	1,906	NA	174	52.1	26.0
Milwaukee	97,985	81.3	32.0	43.7	33.2	956	892	88	45.8	39.2
New York	1,066,515	84.7	30.3	33.9	39.9	955	332	41	38.2	19.7
Philadelphia	201,190	83.3	31.6	37.2	50.4	1,524	1,008	64	41.9	25.8
Washington	68,925	95.5	31.7	37.6	25.6	1,596	NA	53	65.2	23.9
<b>Average for High-Poverty Cities</b>	Total 3,045,011	86.2	34.4	41.38	36.8	1,512	537.4	83.5	47.3	28.7
<b>For U.S.</b>			16.6	33.1	27.8	495	276	48	68	41.2
<b>Ratio of High-Poverty Cities to U.S.</b>			2.08	1.25	1.32	3.06	1.95	1.74	.695	59.9

Source: Harris, L. (2005). "What's a youngster to do? The education and labor market plight of youth in high poverty cities." *Clearinghouse REVIEW Journal of Poverty Law and Policy*, (July-August), 126-134.

critical transition period, young adults in New York City are at risk of entering adulthood disadvantaged by poverty. Table 1 provides an overview of poverty among young adults in

major cities including New York. It demonstrates the many similarities between urban youth in New York and in other major cities. However, compared to other major U.S. cities, New York City has a high rate of what Levitan (2005) terms “disconnection” among young adults; in other words, a high percentage of young adults in New York City are neither in school, working, or trying to find work. Approximately 16 percent—or around twice the national average—of young adults in New York City fall into this category. Figure 2 demonstrates the activities of New York City youths and shows the degree of disconnection within this age group. In all, 21 percent of young adults are not in school and not working, with 16 percent not even looking for a job.

**Figure 2: School Enrollment and Labor Market Status, NYC Youth, 2003/2002**



Source: CSS tabulations from the Current Population Survey.

Source: Levitan, M. (2005). “Out of school, out of work...out of luck? New York City’s disconnected youth.” p. 3

Within the disconnected youth in New York City, nearly 70 percent live under 200 percent of the poverty line, with close to 45 percent living below the poverty line (Levitan, 2005, pp. 6, 18). As

Levitan (2005) argues, this high rate of disconnection and poverty does not bode well for the future of many of the city's young adults:

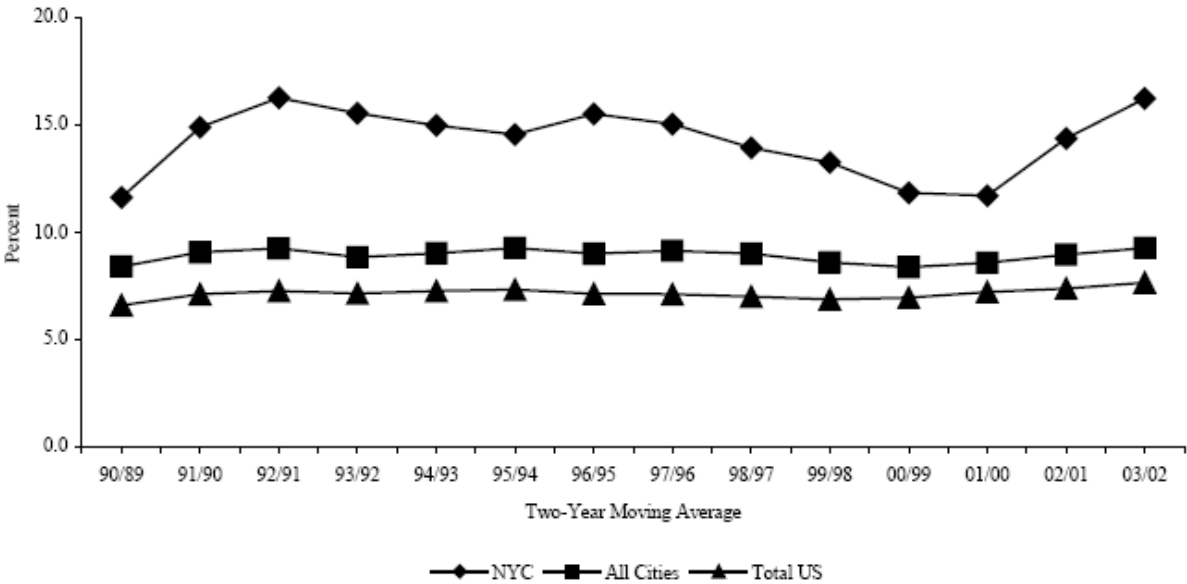
These young people are an “at risk” group. Disconnected youth are more likely than other young people to engage in activities that are destructive to themselves and their communities. Adults who have experienced prolonged spells of disconnection in their youth are more likely than other adults to experience long bouts of joblessness and earn lower wages throughout their lives. (p. i)

Thus, disconnection from school and work tends to promote conditions that lead to lives of poverty. Given the high rates of poverty among young adults and the high level of disconnection from educational and labor activities, focusing on this group of citizens should be an important component of policies that seek to address poverty in New York City.

A more in depth analysis of the “disconnected youth” of New York City demonstrates that the trends of disconnection are particularly alarming for demographic groups within this age cohort viewed as at risk for poverty. First, it is perhaps not surprising that low educational achievement also characterizes disconnected young adults in the city. Nearly 52 percent did not graduate from high school, and the highest educational achievement of another 32 percent is a high school diploma (Levitan, 2005, p. 20). Second, although the disconnection rate for both sexes has now converged to around 16 percent, opposite trends are noticeable between males and females, with males consistently remaining above the national average in terms of disconnection. Figures 4 and 5 compares the rate of disconnection in New York City to the national average and average among major American cities. For males, Figure 3 demonstrates that a higher percentage of young males in New York City are disconnected than in the nation as a whole as well as in other cities. While other cities have tended to have a fairly consistent rate of

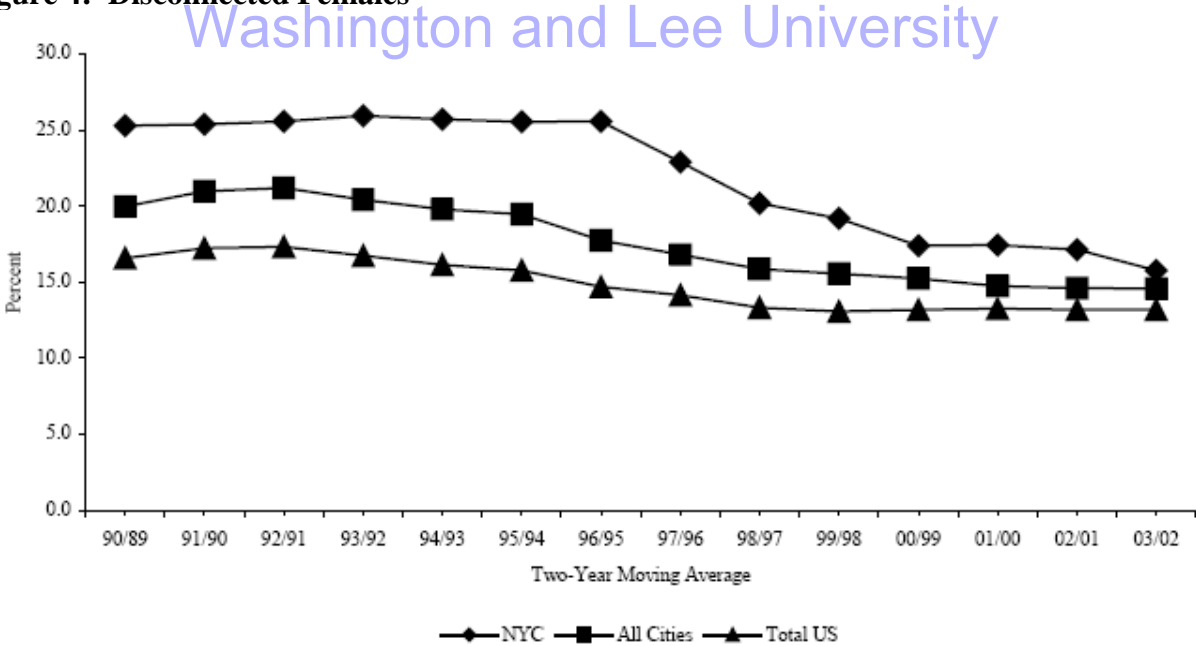


Figure 3: Disconnected Males



Source: CSS tabulations from the Current Population Survey.  
Source: Levitan, M. (2005). “Out of school, out of work...out of luck? New York City’s disconnected youth.” p. 6

Figure 4: Disconnected Females



Source: CSS tabulations from the Current Population Survey.  
Source: Levitan, M. (2005). “Out of school, out of work...out of luck? New York City’s disconnected youth.” p. 7

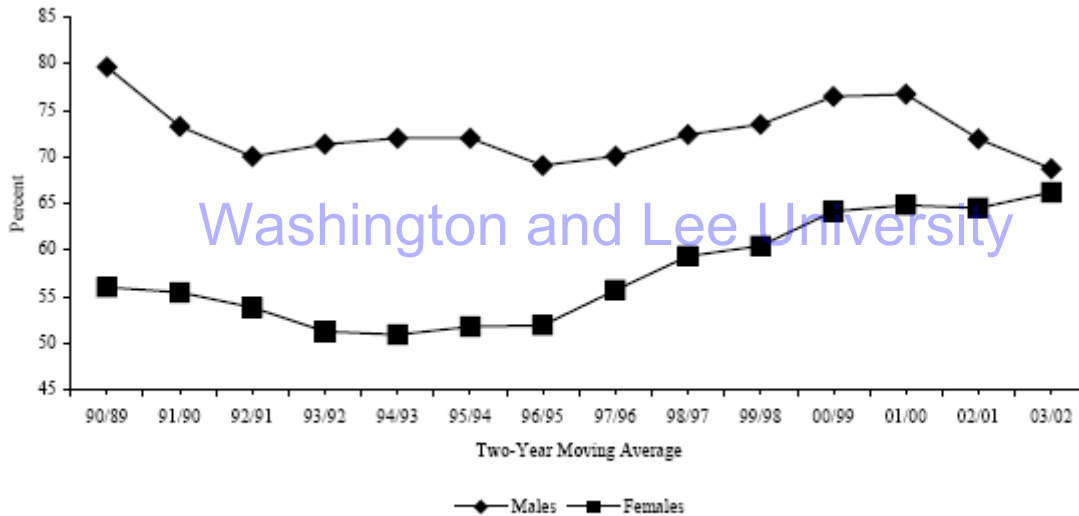
disconnection over the past decade and a half (approximately 8-9 percent), in New York City, the disconnection rate among males has fluctuated in accordance to business cycles and has remained consistently higher than in other parts of the country. However, even at its low point at the peak of the 2000/2001 business cycle, the rate in New York remained 3.5 percentage points above the average for American cities at approximately 12 percent, and since then the disconnection rate among males has soared to over 16 percent in 2002/2003. On the other hand, as demonstrated by Figure 4, the female rate of disconnection has seen the opposite trend over the past decade. Although the female disconnected rate also remained higher in New York City than in other urban areas by over 5 percentage points throughout the early 1990s, the rate of disconnection among females has dropped significantly since 1995/1996: “moreover – in stark contrast to the pattern for males – the recession and jobless recovery did not reverse the convergence of New York City with the national disconnected rates” among females (Levitan, 2005, p. 7). Finally, the degree of disconnection is remarkably higher among minority groups. Overall, 31.8 percent of the disconnected are African American, 42.1 percent are Hispanic (of any race), and only 16.2 percent are White, even though the total racial/ethnic makeup of this age group is 24.6 percent African American, 33.6 percent Hispanic, and 27.1 percent White (Levitan, 2005, p. 20). Consequently, disconnection is a problem particularly among males (if current trends persist), minorities, and the low educated.

Reports suggest that the trends of disconnection and accompanying poverty among youth in New York City are due to differing trends in school enrollment and labor force participation. According to Levitan’s (2005) report, the school enrollment rate in New York City has remained higher than the national average and the national city average by several percentage points for the past decade and a half. However, the male enrollment rates have stagnated and even declined

in recent years and have thus converged with the national average of 48 percent in 2002/2003 (p. 9). On the other hand, female enrollment rates remained higher than the national average and city average, and these rates have continued to climb over the past several years to approximately 53 percent in 2002/2003 (p. 10).

In terms of labor force participation (those who are employed or looking for employment), there has been a convergence in recent years by males and females who are either employed or actively seeking employment, as Figure 5 demonstrates. Unfortunately for males, this convergence has arisen largely due to a precipitous drop in male labor participation and a

**Figure 5: Labor Force Participation Rate, Out of School NYC Youth**



Source: CSS tabulations from the Current Population Survey.

Source: Levitan, M. (2005). “Out of school, out of work...out of luck? New York City’s disconnected youth.” p. 10

steady climb of female labor force participation. Compared to other cities, both male and female labor force rates in New York City remain significantly lower than both national average and city average when controlling for economic fluctuations. In 2002/2003, only 68.2 percent of young adults were in the workforce in New York City compared to 82.8 percent for U.S. cities (pp. 12-13). Levitan (2005) synthesizes these observations:

For males, the direction of the data is troubling; their school enrollment rate is no longer rising and their labor force participation rate (measured from business cycle peak to peak) seems to be edging down. This stands in stark contrast with the rise in both school enrollment and labor force participation for females. Although there is still ample room for improvement relative to the nation's disconnection (and labor force participation) rates, the closing of the gender gap represents a dramatic change. (p. 15)

Consequently, one can trace the high rates of disconnection in New York City and divergent trends for males and females to school enrollment rates and labor force participation rates.

Several factors likely account for the divergence in disconnection among New York City young adults. Although Levitan's (2005) report argues that the influx of immigration and welfare reform has had only minimal direct impacts on the current disconnection trends, other explanations perhaps stand out (pp. 29-32, 33-34).<sup>1</sup> First, high stakes testing mandated by the No Child Left Behind Act might have had an effect on the stagnation and decline of male school enrollment in New York City. According to Rankin (2003), the implementation of the statewide achievement tests (known as the Regents) has been accompanied by increases in the drop out rate, particularly in poor performing schools:

The fear that it might is borne out by the evidence: in 2002, New York City's high school dropout rate reached 20.3 percent, up from 15.6 percent for the class of 1998. Even more troubling, the dropout rate was much higher for some groups and individual schools. ... The connection between higher standards and higher dropouts in New York City is seen in similar trends in other parts of the state. (p. 1)

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<sup>1</sup> Although Levitan (2005) argues that welfare reform has probably had only minimal direct effects on the disconnection rate for females due to the fact the rate has improved mostly due to higher school enrollment rates, he suggests that welfare reform could have created a "cultural transformation" that has induced young women to stay in school (pp. 33-34).

For those students in poor performing schools and poor neighborhoods, the effect of the Regents tests might then be quite negative—particularly for males. Although the connection between the new higher stakes tests and increases in the dropout rate has not been definitively confirmed, early studies suggest that this might be the case, and such an argument seems plausible.

Second, changes in the structure of the New York City's economy have arguably played an important role in the divergent trends of disconnection among the city's young adults. As Levitan (2005) points out, occupational roles still remain quite segregated by gender. As a result, as certain parts of the economy grow and detract, it is conceivable that the job market will provide more opportunities for one gender than the other. An analysis of gender densities of various industries and the rate of growth of such industries suggests that there has been significant growth in female dominated occupations over the past decade and a stagnation of male dominated industries during the same time period:

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When aggregated in this fashion, the results are stark; industries that have tended to provide employment opportunities for male youth failed to grow from 1990 to 2000. By contrast, industries that tend to provide employment for young females captured nearly all (98.2 percent) the employment growth over that period. Male dense industries such as durable goods manufacturing and transportation and public utilities contracted dramatically over the decade, while the decline in female dense non-durable manufacturing and banking was more than offset by job growth in other finance, personal services, healthcare, and other professional services. (Levitan, 2005, p. 35)

Thus, job opportunities in traditionally male occupations have been decreasing over the past decade, and as a result, the opportunities for young males have also decreased. As a result, one

could argue that the lower rate of labor market participation among young adults and subsequent disconnection is related to this change in the local economy.

Third, real wages at the bottom income levels have declined over the past half decade, and still have not increased to their peak in 2000. According to Levitan (2007), the lack of wage growth for lower and middle income workers has occurred even though upper income earners have seen gains:

Looking at the percentage change in real wages from 2001 to 2005 at these three points in the wage distribution indicates that wages fell more dramatically at the bottom of the wage distribution than at the middle and upper tiers, 6.1 percent versus 3.8 percent and 3.0 percent, respectively. There has been some recovery in wage rates from 2005 to 2006; ... The net result of these changes is that, compared against 2001, real wages for workers at the bottom and middle rungs of the wage ladder are down by 3.3 percent, 3.2 percent, respectively. (p. 18)

Consequently, not only are job prospects worse for lower income males, but wages are also making those jobs that are available both less appealing and less fulfilling economically. Combined with higher standards at schools, these changes have probably increased disconnection and poverty among young adults, and in particular among minority males.

### *3.0 Addressing Poverty and Disconnection*

With the release of the CEO's report in September 2006, Mayor Bloomberg announced his intentions to make addressing poverty and disconnection among young adults in New York City a priority in his anti-poverty efforts. The mayor embraced several proposals that specifically target improving educational and work opportunities for young adults. These programs include ones that focus on keeping young adults in school, providing more

opportunities for apprenticeships and job training programs, strengthening programs that help those who have dropped out of high school to earn a GED, and offering more programs that focus on college preparation. Along with additional work support programs, the Mayor's plan demonstrates an aggressive approach toward reengaging New York City's young adults with education, the labor market, and society in a more general sense (CEO, 2006, pp. 31-35).

Perhaps the most remarkable trait of the Mayor's strategy is its focus experimenting with new approaches to poverty and disconnection coupled with requirements of demonstrable results and assessment. As Deputy Mayor Linda Gibbs said, "The Mayor has delivered a unique opportunity to test new ideas. ... There are no easy answers but there are many exciting strategies in the Mayor's plan that offer promise for poor New Yorkers. We will test ideas, then nurture and expand those that produce results" (Mayor's Office, 2006a). In keeping with this spirit, Bloomberg announced the creation of the Center for Economic Opportunity, which will have administer a \$100 million "Innovation Fund" that will test new approaches to addressing poverty and disconnection. With regard to young adults, perhaps the most emblematic of policies to emerge from this "innovation" approach is the conditional cash transfer program. Although the idea has received some criticism, the Bloomberg administration believes that it can be an important tool for reconnecting with at risk young adults in the city (Mayor's Office, 2006b).

Based on positive results in the developing world, Bloomberg argues that New York should put into place a conditional cash transfer pilot program. In his announcement of the CEO's report in September 2006, Bloomberg suggested that a CCT program could work in the New York City context: "This policy is called 'conditional cash transfers' and it is designed to address the simple fact that the stress of poverty often causes people to make decisions...that

often only worsen their long-term prospects. Conditional cash transfers give them an incentive to make sound decisions instead” (Mayor’s Office, 2006a). According to the Mayor’s office, these conditional cash transfers would be used to provide incentives for school attendance, higher scores on standardized tests, participation by young first time parents in a health education program, participation in preventative medical care programs, among other possibilities (Mayor’s Office, 2006a; Cardwell, 2006). Although the details of the proposed conditional cash transfer programs have yet to be released, officials have suggested that payments could range from \$50 to \$1,500 depending on the program (Cardwell, 2006). Altogether, the administration plans to spend \$25 million privately raised dollars on pilot conditional cash transfer programs under guidance of the newly established Center for Economic Opportunity (CEO). Like the rest of the programs that will be funded within the CEO’s annual \$100 million Innovation Fund, the conditional cash transfer programs will be subject to rigorous evaluation to insure that the programs achieve their concrete goals (Mayor’s Office, 2006b).<sup>2</sup>

#### 4.0 CCT in Theory and in Practice

<sup>2</sup> Since work on this paper began, the mayor’s office provided additional details about the administration’s proposed pilot conditional cash transfer plan. As a result of the close deadline for this paper, its main focus remains on what the administration had previously announced. The mayor’s office (2007) announced several key new details on March 29. The program will be known as Opportunity NYC, and the CEO has raised \$42 million of the \$50 million in private funding that will be used to finance the CCT program. The initial pilot program will include 5,000 families (half in a control group) in the following neighborhoods: Central and East Harlem in Manhattan; Brownsville and East New York in Brooklyn; and Morris Heights/Mount Hope and East Tremont/Belmont in the Bronx.

The conditions for the cash transfers will focus on three areas. First, “education incentives will promote superior attendance and good behavior in school, achievement and improved performance on standardized tests, and parental engagement in children’s education.” Second, “health incentives will be offered to maintain adequate health coverage for all children and adults in participant households as well as age-appropriate medical and dental visits for each family member.” Third, “employment and training incentives will promote increased employment and earning or combine work activities with specific job training activities.”

According to the press release, the transfers will range from \$50-\$300 per completed activity, and participating families can expect to receive between \$3,000-\$5,000 per year. Seedco, “a national community development intermediary that focuses on creating opportunities for low-wage workers and their families” helped to design the program, and it will implement and manage Opportunity NYC. Another chief designer, MRDC (an educational research non-profit), will provide a “vigorous” assessment of the program under the direction of the CEO. Furthermore, leading outside academics will also review the pilot effort. Finally, Mayor Bloomberg and Deputy Mayor Gibbs plan to visit Mexico City on April 24 “to observe first-hand how Mexico’s conditional cash transfer program works” (Mayor’s Office, 2007).

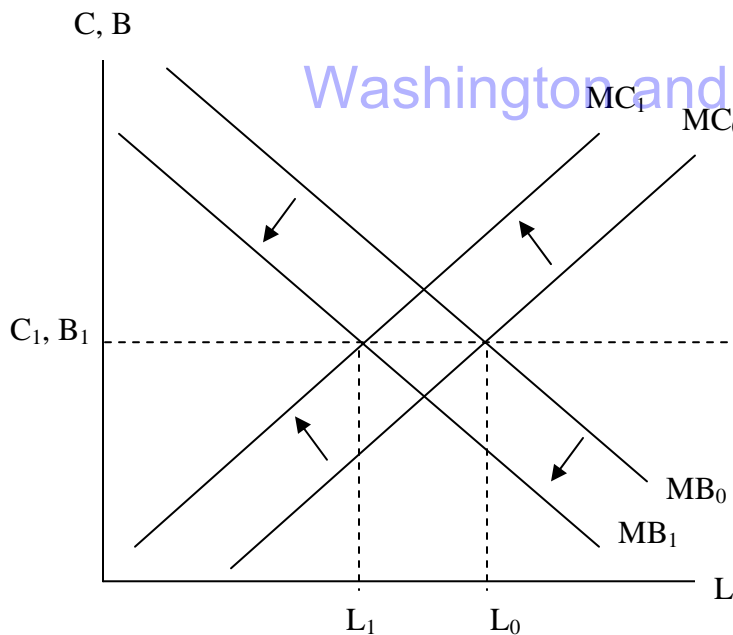


The theoretical underpinnings of conditional cash transfer programs help to illustrate how many such programs have shown success in various developing countries. As the name implies, conditional cash transfers provide cash to people in exchange for the acceptance of certain conditions that society deems important. In the public policy context, CCT programs seek to decrease the incidence of poverty by providing incentives for greater human capital investment (i.e. education, health, and nutrition). From a classical economic standpoint, macroeconomic theory states that (1) savings is approximately equal to investment, that (2) investment is an integral part of GDP, and that (3) investment in human, natural, and physical capital (with accompanying technological developments) drives economic growth. In other words, investment in human capital is a fundamental ingredient in promoting economic growth. As Lustig, Arias, and Rigolini (2002) argue, economic growth is integral to reducing poverty from the perspective of income, and investments in human capital demonstrate a positive effect on economic growth. From the human capabilities perspective advocated by Sen (1999), investments in human capital not only can improve income generating capacity, but are fundamental ends unto themselves since they improve the capabilities of the poor to engage in society. For Sen, then, investments in human capital increase a person's human capabilities, which he conceives as much more encompassing than human capital. Increases in capabilities not only provide greater opportunities in the work force, but they also increase a person's capability to engage in a lifestyle worth living. From this sense, increases in human capability allow greater engagement with society within the social and political realms as well. Since CCT programs seek to improve health and educational achievement, such programs arguably also expand a person's capability set for living a life worth living. Consequently, poverty programs such as CCT programs fit into

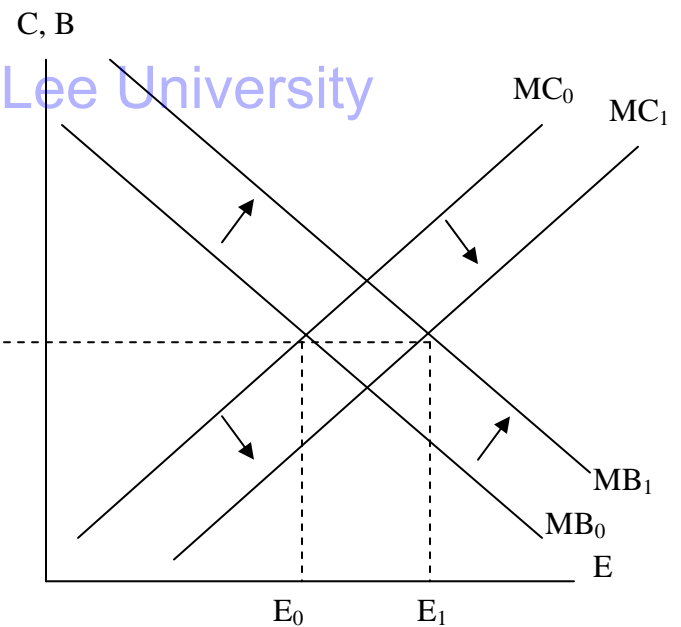
the burgeoning evidence regarding the significance of addressing poverty through human capital and human capability investment.

In theory, CCT programs provide cash incentives for households or individuals to engage in investments in human capital in which they would not or could not participate without the program. A simple illustration can demonstrate the incentives that CCT programs can create for increasing school enrollment and decreasing child labor. In many instances in developing countries, poor families likely do not have enough income to save, and as a result all income goes toward consumption. In fact, basic consumption requirements often exceed the amount of income generated by adults in the household, meaning that to even reach such minimal requirements, the family's income would have to increase. Thus costs of sending a child to

**Figure 6**



**Figure 7**



school—including the opportunity cost not working—would not be feasible for such a family.

The cost-benefit graphs in Figures 6 and 7 demonstrate this problem. Figure 6 provides the cost benefit analysis of child labor for this family. At the equilibrium point at the intersection of the

marginal cost and marginal benefit curves ( $MC_0$  and  $MB_0$ ), the quantity of child labor consumed is at  $L_0$ . Similarly, in Figure 7, the marginal cost and benefit curves of education show that the consumption of education by children would be at point  $E_0$ . One could assume that this combination of education and child labor would be suboptimal from the standpoint of human capital investment, since the child would have to spend a significant amount of time working rather than attending school.

However, conditional cash transfers can reshape this equilibrium, since a CCT would represent an increase in the marginal benefit of sending the child to school, since in doing so the family receives a cash benefit. Similarly, the cash benefit also reduces the marginal cost of sending the child to school since it helps to defray educational costs (materials, transportation, etc.) and eliminate or reduce the opportunity cost of decreased child labor. Naturally, the opposite occurs with the consumption of child labor: the opportunity costs of child labor increases, while the benefit of such labor decreases. Thus, the  $MB_0$  curve shifts to  $MB_1$  and the  $MC_0$  curve shifts to  $MC_1$  in both figures. This increased income incentive leads to greater consumption of education by children with a shift from  $E_0$  to  $E_1$ , and a decrease in child labor consumption from  $L_0$  to  $L_1$  (Casey, 2006). It is also important to note that the conditionality of the cash transfers is important in the above outcome. Without the education condition, the rational decision of the family would still be to send their children to work, since the family would receive both the transfer and additional income from child labor. Empirical evidence appears to uphold the importance of the conditionality of CCTs, which suggests that they are not just a response to opportunity costs, but also are important strategies for providing information to the poor (Das, Do, & Ozler, 2005, p. 58). Consequently, CCT programs address both short and long term causes of poverty: “Conditional cash transfer programs address both future poverty,

by fostering human capital accumulation among the young as a means of breaking the intergenerational cycle of poverty and current poverty, by providing income support for smoothing consumption in the short run” (Rawlings & Rubio, 2005, p. 33). Thus, CCT programs in theory provide lucrative incentives for poor families to engage in human capital accumulation that they would not otherwise choose to do.

In practice, CCT programs generally focus on two main aspects of human capital investment for the poor: education and health. Rawlings and Rubio (2005) provide a succinct overview of such programs, particularly in Latin America. In the education field, CCT programs generally provide cash payments to families with primary school age children in exchange for an 80-85 percent attendance rate at school, and in Brazil, such aid is contingent on participation in after-school programs as well. Some countries also provide cash grants for secondary school age children, and such grants tend to be higher than the primary school grants due to higher opportunity costs for foregoing labor opportunities. The size of the cash transfer varies among different countries, and they usually cover direct costs—school supplies, transportation, etc.—and cover opportunity costs partially or in full. In Mexico, grants are higher for female students as well, due to the program’s goal to decrease educational inequality (p. 34). From the health and nutrition dimension, CCT programs tend to focus on young children from infants to age 3 or older. They seek to improve healthy food consumption and access and utilization of health care services:

Receipt of the cash transfer is conditional on compliance with a pre-determined number of health center visits and health and nutrition workshops. Children’s health care visits are linked to growth monitoring and often to vaccination protocols. Health care visits for

pregnant and lactating women seek to ensure appropriate prenatal, childbirth and puerperal care. (Rawlings & Rubio, 2005, p. 34)

Like the educational grants, the size of health transfers varies widely across different countries, with some countries calculating the amount based on direct costs of taking a child to a clinic, using the same amount as educational grants, or utilizing the extreme poverty line as determinative (p. 34).

Over the past decade, CCT programs have become integral parts to many developing countries' poverty reduction strategies. After realizing that many traditional supply side approaches to increasing human capital investment—including investments in new schools and health infrastructure—had not increased human capabilities as much as expected, developing countries turned toward demand side CCT programs to provide the proper incentives for utilizing educational and health services (Rawlings & Rubio, 2005, p. 30). According to Holzmann (2006), approximately twenty developing countries currently have implemented CCT programs, and around the same number are currently experimenting with pilot CCT programs. Although developing countries across the globe have implemented CCT programs, some of the most successful and most studied programs are in Latin America. According to Rawlings and Rubio (2005), these programs have become central pillars in poverty reduction strategies. For example, the PROGRESA (now called *Oportunidades*) program in Mexico has grown from covering approximately 300,000 in 1997 to over 4 million families in 2002. By 2002, the budget for PROGRESA had increased to \$1.8 billion. Similar results have occurred in other countries such as Brazil (*Bolsa Escola*), Jamaica (PATH), and Colombia (FA), and in recent years other countries such as Argentina, Honduras, and Nicaragua have looked toward CCT programs for addressing poverty (Rawlings & Rubio, 2005, p. 38; Gertler & Boyce, 2001, p. 1). Along with

these programs, countries have increased supply side investments in education and health in order to complement the greater demand for services generated by the CCT programs (Rawlings & Rubio, 2005, p. 36). Consequently, CCT programs have taken on new prominence in developing countries in recent years.

The reason for this surge in the number and size of CCT programs in developing countries during recent years is simple: they are supported by both empirical evidence and theory. Although developing countries have implemented a wide variety of strategies to combat poverty, many programs have not shown solid positive results. Studies suggest that unconditional cash transfer programs do not significantly increase human capital investment since such programs neither provide the proper incentives for nor the needed information about participation in programs that society deems valuable. On the other hand, CCT programs provide incentives for people to engage in activities in which they would not normally participate, with or without a cash subsidy (Das, Do, & Ozler, 2005, p. 57). Many countries, most notably Mexico, have applied rigorous impact assessments to evaluate the outcomes of their CCT programs. According to Holzmann (2006), these assessments have been overwhelmingly positive: “The results strongly suggest these programs deliver what they promise. The programs have been well-targeted, with impressive shares of the benefits going to the poorest. Poor people’s incomes are raised commensurately with the size of the transfer.” The programs have generated marked increases in school attendance, and have been fundamental in retaining students who are in transition years, in higher grades, extremely poor, and/or girls. Although the evidence is not quite as consistent in the health realm, many programs have demonstrated increases in health attainment and utilization of health services. This more mixed outcome has resulted in many cases from both healthcare access and quality deficiencies; in

other words, while the CCT programs have increased demand, the supply side of the equation did not satisfactorily meet the necessary levels (Holzmann, 2006). On the whole, though, CCT programs have demonstrated notable success in achieving increased human capital investment.

More specifically, the 2001 evaluation of the PROGRESA program by Schultz provides perhaps the most rigorous analysis of a CCT program. In a series of paper published in 2000-2001, he demonstrates that enrollment rates in communities with PROGRESA increased up to 9.4 percent during transition years in primary schooling, and increased approximately 3-5 percent during other years. At the secondary level, enrollment rates increased by 7.5 percent for boys and 11 percent for girls (Schultz, 2001a, pp. iv-v). Similarly, Gertler and Boyce (2001) find that the health component of the PROGRESA program resulted in significant increases in the utilization of preventative health services and a decrease in hospital visits. Thus, the program increased the health of *both* children and other members of their families, with participating children experiencing 12 percent lower rate of illness than children in control groups and adults demonstrating significantly fewer days of illness. Taken together, these gains in education and health represent improvements in human capital accumulation that demonstrate a remarkable return on the investment in the program:

If the current urban wage differentials approximate what the Program beneficiaries can expect to earn from their schooling in terms of future percentage increases in their wages, a rough estimate of the internal rate of return to the educational transfers provided by the program is 8 percent per year in real terms (adjusted for inflation). This would appear to be a reasonable rate of return if the program were designed only to foster human capital investments. But it is clearly more than this, since it is channeled to the poor and

operates to reduce current poverty and raise current consumption levels. (Schultz, 2001b, p. 14)

These surprisingly positive results helped to induce the expansion of the PROGRESA program to the *Oportunidades* program, which has sought to replicate the success of PROGRESA in the urban setting. With a demonstrated rate of return of 8 percent, not to mention the short term effects on basic goods consumption, the results of the studies on PROGRESA demonstrate both the effectiveness and attractiveness of CCT programs as integral parts of poverty reduction strategies in other developing countries.

### *5.0 Criticism of CCT approach in NYC*

Although the proposal to experiment with a CCT program in New York City has generally received positive commentary in the media and by foundations that focus on poverty reduction, Bloomberg's plan has also been met with stiff criticism. While these critics concede that CCT programs have demonstrated positive results in the setting of developing countries, they argue that the differences between the developing world and one of the wealthiest cities in the world is both important and overlooked by the mayor's office. *City Journal* columnist Nicole Gelinas (2006) captures this sentiment in the title of an article critical of the program: "New York isn't Mexico." For her, Bloomberg's CCT plan operates on the false premise that conditional cash transfers will allow the poor to make better decisions that they currently are incapable of making due to "the simple fact that the stress of poverty often causes people to make decisions . . . that often only worsen their long-term prospects" (Gelinas, 2006, quoting Bloomberg). Instead she argues that the different socioeconomic environments between the developing world and New York mean that the New York program is based on flawed assumptions:



But in nations like Mexico and Bangladesh, where the programs originated, conditional cash transfer schemes just don't do what Bloomberg and the *Times* want them to do in New York. Rather than paying people to stop making bad, irrational decisions and start making good, rational ones, as such a program inevitably will try to do in Gotham, the third-world programs encourage poor people to make rational long-term decisions they could not have otherwise made, by compensating them for the very real short-term costs of doing so.

For Gelinas and similar critics, then, the problem with introducing a CCT program in New York or in any other city in the United States is the idea that in New York, poor young adults disengage from school and work out of “bad, irrational” choices, while in places like Mexico, these choices are not even an option. Thus, “there’s just no applicability to poor New York families, who don’t face the same opportunity costs in making decisions about the future” (Gelinas, 2006). Rather, contrary to the positive effects envisioned by the Bloomberg administration, Gelinas argues that establishing a CCT program in New York City could alter the behavior of poor youth in a detrimental fashion. Instead of merely creating positive incentives for remaining in school or taking advantage of preventative medicine, CCT programs would only take away funding from more effective anti-poverty measures. Consequently, due to the differing incentive structures between New York City and places like Mexico City, critics fear that a CCT program would not work as well as its advocates suggest.

Although critics might rightly point out that the incentive structures in Mexico and New York are different, such arguments do little to undermine the merit of attempting a CCT program in New York City. Indeed, Bloomberg’s statements regarding the capability of the poor to make good choices is perhaps somewhat exaggerated: although one could argue that the “stress of

poverty” in inner-city New York could contribute to harmful decisions, it is certainly not as large of a factor as in places such as Mexico. However, the argument seems to be more one of degree than of a black and white difference. Indeed, according to a recent national survey of high school dropouts, nearly a third cited having to get a job to earn money, more than half point to the low quality of their school learning environments, and around half suggest low parental involvement in education as primary reasons for dropping out (Bridgeland, Dilulio, & Morison, 2006, pp. 4-7). With these figures in mind, the reasons for dropping out perhaps are not as “irrational” as critics make such decisions out to be. If students do not believe that graduating from high school will make much of a difference in their life prospects and do not have involved adults to reinforce the value of graduating from high school, then from a rational point of view, such poor students will not finish secondary school. Furthermore, as noted previously, even in the developing world, CCT programs do not simply address opportunity costs. They also provide the necessary information to poor families regarding the value of investment in human capital. As evidenced by the high dropout rates in New York City, the need for providing better information to the poor about the importance of human capital investment remains clear, and a CCT program could help provide this information. Consequently, while the environment of New York City might not be as bad as in Mexico City for the poor, this does not mean that the “stresses” that the poor face in each setting are fundamentally opposed.

Furthermore, these criticisms ignore similar, commonly accepted programs employed in the United States that seek to provide incentives for the poor to engage in socially “valuable” behavior. The most prominent of these is the Earned Income Tax Credit (EITC), which provides low income workers essentially with a cash transfer in exchange for working. Indeed, in their description of the theory behind CCT, Das et al (2005) argue that workfare such as EITC is

“conceptually identical to conditional cash transfers” (p. 62). Given that work support programs like EITC are popular across the political spectrum, it is not too much of a stretch to argue that other, similarly conceived programs that reward “good behavior” by the poor would receive similar support in the American context. However, while it may be true that CCTs do not cause people to engage in “virtuous behavior for its own sake,” given the potential positive advancements in education and health for disconnected youth in New York City through the conditional nature of CCT programs, this objection has less weight (Gelinias 2006). Just as welfare reform and the large expansion of EITC over the past decade have arguably reinforced the moral standing of work among the poor, CCT programs that focus on reducing dropouts and increasing job training could also provoke a “cultural transformation” with regard to the value of education (Levitan, 2005, pp.33-34). . Thus, the combination of both market incentives and information about education can facilitate better rational decisions among the poor Since Americans have embraced conceptually similar programs that seek to reward socially positive behavior in both public and private in recent years, appealing to the negative perceptions of pre-welfare reform entitlement are not as convincing.

### *6.0 Making CCT Work in NYC*

Although the criticisms leveled at the proposed CCT program in New York City should not derail Bloomberg’s experimental pilot program, they should help to frame the way in which his administration implements the program. Indeed, it is undoubtedly significant that the target group in New York City is an increasingly large group of disconnected young adults, whereas in many developing countries, CCT programs work with those in extreme deprivation. In other words, the CCT program in New York City must take into account the manners in which poverty and disconnection manifest themselves in the city. While the experiences from developing

countries can help provide some guidance for the creation of a CCT program in the United States, such inferences have their limits. Thus, the CCT program in New York City will undoubtedly function more as an experimental new public policy program than merely as an existing approach adopted from other countries. Consequently, the need for rigorous targeting and assessment of results is necessary to determine the real impact of the program. With these considerations in mind, New York City officials should ensure that several distinctive features are included in the pilot program.

First, due to the differences between the incentive structures in New York City and developing countries, the conditions attached to the cash transfers in New York City should go beyond those required in developing countries. As noted previously, the cash transfer programs in developing countries are generally focused on compensating families for the very real opportunity costs that prevent many poor families from sending their children to school or taking them to the doctor. The primary goal then in these situations is to increase attendance and participation in programs that increase human capital. However, within the incentive structures in the United States, such opportunity costs, while not totally absent, are certainly substantially less than in the developing world. While a CCT program in New York would obviously seek to decrease the dropout rate by giving cash transfers for regular school attendance, improving the educational achievement of such at risk youths is important as well. Indeed, many of the disconnected youth in New York City have graduated from high school. However, without adequate job training or educational preparation for college, such youths are vulnerable to disconnection. The CCT program might address this issue by using the cash transfers for more than just attendance. While officials could still utilize attendance as the baseline for eligibility for cash transfers, they could offer significant bonus cash transfers for good behavior, grade

increases, and improved test scores. In doing so, the transfers would not only provide a greater incentive not to dropout in the first place, but they would also encourage students to place a greater effort on getting a better education and improving their educational environment. With these greater incentives in place, the potential for better preparing the city's youth for adulthood and work would increase.

Second, the CCT program should link rewards to job training, apprenticeship, and college preparation programs. As noted above, one of the key reasons that the disconnection rate has been increasing over the past decade is the decline of the employment rate among out of school males. As the availability of traditionally male occupations has been declining in the city, the need for preparing youth for the new realities of the job market is increasingly manifest. Thus, the CCT program could tie cash transfers to satisfactory participation in such apprenticeship programs for both students and out of school youth. To determine the focus of such apprenticeship programs, officials should look to local business leaders for input so that young adults are trained for occupations that are in demand. As Levitan (2005) notes, the booming construction industry has high potential for such an apprenticeship program (p. 39). Finally, increasing the rate of youth who go on to college after high school should also be a goal of the program. Tying cash transfers to satisfactory participation in such programs could provide an added incentive for students to gain a better understanding of the college application and admission process. By conditioning some cash transfers on participation in such job and college preparation programs, the program could conceivably reduce the vulnerability of youth to disconnection upon completion of secondary schooling.

Third, the supply side of both educational and apprenticeship programs would naturally need to increase in quantity as well as in quality. As noted by studies of CCT programs in

developing countries, those programs that performed the best generally also were complemented by improvements on educational and health infrastructure. Theoretically, a CCT program in New York City would necessarily lead to increased demand for schools and job training programs, and this would require a commensurate increase in supply and quality of such services. Furthermore, to increase the impact of the expressive aspect of CCT programs, it might prove particularly important for schools to transform into more valuable institutions in their own rights, without consideration of the incentives that CCTs would provide for increased demand. In other words, if the goal of CCTs is to increase the value of education in the eyes of youth, the chance of meeting such a goal would be enhanced significantly if students could also see an improvement of quality of public schools.

Fourth, city officials should rigorously assess the outcomes of the pilot CCT program in order to evaluate its effectiveness and determine ways in which the city could improve its performance if and when it is scaled-up to include a larger swath of the city's poor neighborhoods. Several indicators might be used to evaluate both the short- and long- term effectiveness. For short term measurements, officials might examine statistics that demonstrate participation in the programs that the CCTs would influence. For schools, this would mean examining dropout and attendance rates as well as behavioral reports. For job training and college preparation programs, the participation rates would suffice. More long term measurements would look toward the effects of increased participation in school and in the other programs. Officials should examine academic achievement through both grades and scores on the state's Regents tests. Looking at the placement rates for job and college applicants could serve for the other programs. Finally, measuring the trends in the disconnection rate of young adults—and particularly of minority males—would also provide an overall picture of the impact

of the CCT program. Although these latter measurements would need to be assessed after several years, they undoubtedly would speak more to the real impact of the CCT program. With these vigorous assessments in place, the mayor's office can truly assess if the city's investment in CCT's is worthwhile.

### *7.0 Concluding Remarks/Implications*

Mayor Bloomberg's decision to appropriate an anti-poverty strategy from the developing world demonstrates his administration's clear determination to attack the dual problems of youth disconnection and poverty in an innovative fashion. Indeed, looking toward "dramatic interventions" for young adults seems increasingly attractive for public policy experts, who have struggled to identify successful ways to address poor education and job preparedness (Rankin, 2003, p. 4). Although CCT programs have demonstrated remarkable success in the developing world, it does not necessarily follow that a CCT program in New York City would have similar positive results. Indeed, as critics of the proposal point out, there are significant differences between the situation of the poor in New York City and in Mexico City. Nonetheless, if city officials design the CCT program with special attention to the realities of disconnection and poverty for New York City's young adults, the likelihood of success in the developed world setting will increase. Based on the recently announced details of the *Opportunity NYC* program (see footnote 2), it appears that the mayor's office has been careful to design the plan with this in mind. Indeed, the pilot plan in many ways mirrors the recommendations forwarded in this paper; it also goes beyond these recommendations by including a healthcare component. Finally, given that the pilot program will be financed entirely by private funding, the argument for not experimenting with the CCT program in New York City becomes even weaker. With the

promise of thorough impact assessments of the program, the city can determine if the developed world can really look toward poor countries to learn how to combat persistent poverty.

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