Abstract

Conditional cash transfers (CCTs) are a popular type of social welfare program that make payments to households conditional on human capital investments in children. Compared to unconditional cash transfers (UCTs), CCTs may exclude the poorest households, as access is tied to the consumption of normal goods. However, we argue that conditionalities based on children's schooling may actually improve the targeting of transfers to low consumption households. Sending a child to school can result in a discrete loss of child income, so that schooling is negatively correlated with household consumption. Thus, schooling decisions may act as a useful "tag" for cash transfers. The size of the targeting benefit is directly related to two elasticities already popular in the literature: the income effect of a UCT and the price effect of a CCT. We estimate these elasticities for a large CCT program in rural Mexico, Progresa, using variation in transfers to younger siblings to identify income effects. We find that the targeting benefit is almost as large as the cost of excluding some low income households; this implies that if the only benefit of imposing conditions is improved targeting, 55% of the Progresa budget should go to a CCT over a UCT.