

Stanford SOCIAL INNOVATION^{Review}

Research
The Impact of Cash for Infants
By Daniela Blei

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ECONOMIC DEVELOPMENT

The Impact of Cash for Infants

BY DANIELA BLEI



In recent years, a growing body of behavioral and social science research has stressed the importance of early childhood care and education for family and societal well-being. A sweeping study, *Baby's First Years*, is an ongoing, interdisciplinary collaboration among researchers at six institutions, designed to “assess the impact of poverty reduction on family life and infant and toddlers’ cognitive, emotional, and brain development.” The study’s initial findings have already confirmed that some policies targeting young children can have profound positive long-term effects.

A new paper by Andrew Barr, a professor of economics at Texas A&M University; Jonathan Eggleston, an economist at the US Census Bureau; and Alexander A. Smith, a professor of economics at the US

Military Academy, West Point, adds to this body of research. Specifically, it shows that an infant’s first year of life is a critical moment when additional liquidity, even a small cash transfer, to low-income, first-time parents can make an enormous difference to the long-term well-being of their children.

The researchers examined eligibility for the Earned Income Tax Credit, drawing on a sample of low-income families whose children were born around the January 1 threshold. Focusing on the period 1993 to 1998 and tracking two groups—those eligible for cash benefits in the child’s first year of life and those with a child born on the other side of the January 1 cutoff (making them ineligible until after their first birthday)—the researchers saw increases in parental earnings

and suggestive evidence of increases in marital stability, both of which likely contributed to better outcomes for children in the first group. By exploiting tax data, they were able to follow children into adulthood to estimate the effects of extra resources in the first year. The data showed a significant boost—1 to 2 percent—in the earnings of children whose families received the cash transfer in the first year of life, more than making up for the government’s expenditure.

“The size of the transfer in dollar terms is not huge, but relative to the average earnings in the families we studied, it’s significant,” Andrew Barr says. “And it comes at a time of heightened stress after the birth of a child, when earnings might be lower.”

The benefit that families received amounted to about \$1,300, or 10 percent of their earned income. When lower-income households face negative shocks, such as a medical bill or sudden unemployment, even a small benefit reduces financial stress and provides additional support that can improve outcomes of children later in life, according to Barr and his colleagues.

“Although a growing number of causal studies have linked income increases to improvements in children’s health, behavior, and school success, this is one of the first to investigate the effect of family income increases in the first year of life,” says Greg J. Duncan, an economist and Distinguished Professor in the School of Education at the

University of California, Irvine. “We know that children’s development is particularly sensitive to early-life adversity. This study shows that mitigating early-life economic adversity appears to confer lifelong advantages.”

Alongside US Census data, the researchers scrutinized North Carolina administrative schooling data to understand the medium-term effects of the cash transfer. This separate data source allowed the researchers to look at test scores, suspensions, and graduation rates, all of which improved for children whose families received the benefit. Their findings helped explain the magnitude of effects they saw for increased earnings later in life.

The researchers’ investigation suggests that child-related tax benefits should be available immediately, rather than structured according to when the tax year rolls over. “There is compelling evidence that this early period—the transition to parenthood—really matters,” Barr says. “We could still use more research to study the effects of potential benefits for the second or third child, or whether it’s the transition to parenthood where the impact is greatest.” Higher-income families also receive tax benefits, Barr explains, usually through the dependent exemption, but these families are often less liquidity constrained, which means similar long-term changes are not nearly as discernible, if at all.

The impact of the benefit in the first year of life was even more pronounced for males, the researchers also found. Some

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studies have indicated that the early childhood environment exerts a greater influence on boys, they write, but other factors, such as marriage age and the relative share of earnings of females who jointly file, might explain gender differences. To provide conclusive evidence, future research will be needed, Barr says. ■

Andrew Barr, Jonathan Eggleston, and Alexander A. Smith, “Investing in Infants: The Lasting Effects of Cash Transfers to New Families,” *The Quarterly Journal of Economics* (2022).

IMPACT INVESTING

Redefining the Corporate-Community Partnership

BY DANIELA BLEI

Ten years ago, Cristina B. Gibson joined a study tour at the University of Western Australia, where she was a new faculty member. The program, designed to foster collaboration between scholars and organizations, facilitated faculty visits to some of the country’s largest companies. During the tour, Gibson shared a long car ride with a director of corporate relations who spoke at length about the challenges he faced at his mining company, especially working with Indigenous partners in the community who were also landholders. Communicating and forming relationships with Indigenous community partners was difficult, the director said, because of Australia’s long history of oppressing and marginalizing Indigenous peoples.

The conversation inspired Gibson’s ambitious social impact research. In a new paper, Gibson, now a professor of management at Pepperdine University’s Graziadio School of Business, presents an evidence-based model for developing and sustaining mutually beneficial corporate-community partnerships. Around the world, companies invest billions of dollars in the communities in which they do business, “but it’s often a one-shot or arm’s-length approach,” Gibson says, “and the funds fail to address the priorities and needs of the community.” In some cases, corporate investment does more harm than good, management researchers have shown. Eschewing such failed approaches, Gibson devised a program that required corporate participants to spend six weeks to three months living in communities—many rural, remote, and at-risk—to establish meaningful ties to local partners there.

“In this spectacular article, Gibson asks an important question,” says Alan Meyer, a professor emeritus of management at the University of Oregon’s Lundquist College of Business. “How does the implementation of corporate community investment contribute to mutual development in corporations and communities?” Gibson’s methodology and model-building approach untangle the reciprocal process of social change.”

Beginning with a handful of small companies, Gibson enlisted a nonprofit organization to serve as a matchmaker between Indigenous

communities with specific needs for expertise and Australian corporations with the expertise needed. “What sets this program apart from others is that community members identified the priorities,” Gibson says. “This was not an external set of experts coming in to tell the communities how to develop their community.” Gibson was soon working with a consortium of 11 of Australia’s largest companies, all of which sought to achieve greater social impact and sustained returns on their community investments.

Gibson then used qualitative methods—reviewing interviews, observation notes, narratives, and reflection journals—to study what was happening in the community. She also monitored the behavior of company participants and followed what was transpiring within the corporation more broadly.

“Volunteers from the companies became members of the community,” Gibson says. “Companies continued to pay their salaries although they were not doing their corporate jobs. Instead, they were doing work in the community, spending time socializing with community members, having meals together, going to cultural and sporting events, and doing regular things people do in their neighborhoods.” This symbiotic approach spurred behavioral changes that led to long-term impacts for both the companies and communities.

After analyzing the data, Gibson developed a theory of successful codevelopment, whereby relational processes, such as “mutual perspective-

taking, reciprocating respect, and communal advocacy,” led to positive impacts for both sides. Indigenous partners gained dignity, proactivity, and strategic planning and capability. Corporate partners, in turn, saw increases in intercultural competencies, improvements in strategic behavior, and insights into where operations should be located and how they should unfold. The depth and longevity of development surprised the companies, Indigenous partners, and even Gibson. “Just as there was trepidation on the part of the corporate volunteers, there was trepidation on the part of the Indigenous partners,” she says.

The project has produced new aged care and youth facilities, literacy programs, and nutritional and substance abuse campaigns, as well as increases in high school graduation rates and reductions in crime in the communities. On the corporate side, there were improvements in employee performance, strengthened commitment to the organization, and reputational benefits for the company. Gibson’s model suggests that a willingness to engage with the community and spend time there understanding its priorities to codesign initiatives can create a deep and lasting impact.

“Gibson’s respect for her Indigenous informants—as well as that of the corporations she studied—are exemplary and inspiring,” Meyer says. “Research like this makes the world a better place.” ■

Cristina B. Gibson, “Investing in Communities: Forging New Ground in Corporate Community Co-Development through Relational and Psychological Pathways,” *Academy of Management Journal* (2022).