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Researchers Find A Remarkable Ripple Effect When You Give Cash To Poor Families

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Denis Otieno and his daughter plant a cypress sapling purchased with money received from the charity GiveDirectly back in 2017. More recently, the charity teamed up with researchers to study the impact of cash grants on the wider community.

Nichole Sobecki for NPR

Over the past decade there has been a surge of interest in a novel approach to helping the world's poor: Instead of giving them goods like food or services like job training, just hand out cash — with no strings attached. Now a major new study suggests that people who get the aid aren't the only ones who benefit.

Edward Miguel, an economist at the University of California, Berkeley, and a co-author of the study, says that until now, research on cash aid has almost exclusively focused on the impact on those receiving the aid. And a wealth of research suggests that when families are given the power to decide how to spend it, they manage the money in ways that improve their overall well-being: Kids get more schooling; the family's nutrition and health improves.

But Miguel says that "as nonprofits and governments are ramping up cash aid, it becomes more and more important to understand the broader economy-wide consequences."

In particular, there has been rising concern about the potential impact on the wider community — the people who are not getting the aid. A lot of them may be barely out of poverty themselves.

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"There's a fear that you just have more dollars chasing around the same number of goods, and you could have price inflation," says Miguel. "And that could hurt people who didn't get the cash infusion."

So Miguel and his collaborators teamed up to conduct an experiment with one of the biggest advocates of cash aid. It's a charity called GiveDirectly that, since 2009, has given out more than \$140 million to impoverished families in various African countries.



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The researchers identified about 65,000 households across an impoverished, rural area of Kenya and then randomly assigned them to various groups: those who got no help from GiveDirectly and a "treatment group" of about 10,500 families who got a one-time cash grant of about \$1,000.

"That's a really big income transfer," notes Miguel. "About three-quarters of the income of the [recipient] households for a year on average." It also represented a flood of cash into the wider communities where they lived. "The cash transfers were something like 17% of total local income — local GDP," says Miguel.

Eighteen months on, the researchers found that, as expected, the families who got the money used it to buy lots more food and other essentials.

But that was just the beginning.

"That money goes to local businesses," says Miguel. "They sell more. They generate more revenue. And then eventually that gets passed on into labor earnings for their workers."

The net effect: Every dollar in cash aid increased total economic activity in the area by \$2.60.

But were those income gains simply washed out by a corresponding rise in inflation?

"We actually find there's a little bit of price inflation, but it's really small," says Miguel. "It's much less than 1%."

The study — recently released through the website of the National Bureau of Economic Research — also uncovered some evidence for why prices didn't go up: A lot of local businesses reported that before the cash infusion they weren't that busy.

"They may be a shopkeeper that doesn't really have that many customers [because] it's a poor area. They may be someone working at a grain mill that only has one or two customers an hour."

So when they suddenly get more customers, they don't have to take extra steps like hiring more workers that would drive up their costs — and their prices. In economic parlance, there was enough "slack" in the local economy to absorb the injection of cash.

Eeshani Kandpal is an economist with the World Bank who has done research of her own on cash transfers — including a study that found that a cash aid program in the Philippines *did* drive up the cost of certain perishable food items.

But Kandpal says the lens she and her collaborators applied was narrow — focusing on a limited set of food items in an area where local businesses were particularly isolated. This meant they were likely to face extra difficulties shipping in additional supplies to meet stepped-up demand.

By contrast, the new study has a far broader scope, says Kandpal — encompassing not just a much larger number of participants but a vast range of goods and businesses whose pricing practices the researchers meticulously monitored.

"It's a super credible, interesting study," says Kandpal. "And very carefully done."

Her main caveat about the results concerns the timing.

"I'd be curious to see if they persist in the longer run," she says. "Eighteen months is certainly not short. But it's not terribly long either."

Indeed, some studies of one-time cash grants have suggested that over time those who did not get the aid ultimately catch up to those who did — reaching similar levels of income and other measures of well-being.

But Michael Faye, co-founder and president of GiveDirectly, says even if it turns out that a one-time cash infusion provides only a temporary boost, "I don't think that's necessarily a bad thing." After all, he points out, during the period people are getting the boost, their lives are substantially better. And that has become all the more significant "when we now know that the people not receiving cash may also be benefiting indirectly."

The finding also adds a new twist to an argument that GiveDirectly has been making about how donors should judge their noncash aid programs. The charity has long maintained that donors should ensure that any noncash program provides more benefits than simply giving recipients an equivalent amount of cash.

This study, Faye says, suggests donors should also gauge how much spillover benefit any noncash program brings to the broader community.

Miguel agrees. In the competition between traditional aid programs and cash aid, he says, "cash just became a lot more effective."

cash aid

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