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Democracy Dies in Darkness

What would happen if we randomly gave \$1,000 to poor families? Now we know.

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What happens to one of the world's poorest places if you randomly pick more than 10,000 poor families out of an eligible pool and give them \$1,000 each, no strings attached?

It sounds like a plan some mad scientist might hatch, but no: It was actually a group of researchers from the University of California at Berkeley, Princeton and the University of California at San Diego who came up with it. They have just unveiled the results of a sprawling, first-of-its-kind study that ought to put to bed some enduring myths about the effects of giving cash directly to the very poor in rural Africa.

Dozens of studies have already shown conclusively that just handing very poor people a considerable sum of cash can transform their lives in lasting ways. That is hardly surprising. But this study set out to ask a different question: What about their neighbors?

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Say you're living in deep poverty in rural Kenya, and the poorest people in the village next door to yours get a big cash transfer, but you don't. Does that do you any good at all? Or is your neighbor's luck your misfortune, because local prices jump, say, leaving you worse off than before? Setting aside the direct recipients, what do cash transfers do to local economies?

Working in Siaya County, in rural western Kenya, researchers Dennis Egger, Johannes Haushofer, Edward Miguel, Paul Niehaus and Michael Walker spent five years and more than \$10 million to find answers to these questions.

In partnership with GiveDirectly — a charity I've written about before — they carried out detailed surveys of thousands of people both in villages that had been randomly picked to receive cash transfers and in those that didn't get them. This allowed them to do something no researcher had tried before: Use a randomized controlled trial to identify and measure the impacts of handing out cash on the entire area.

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Their findings are significant: Cash transfers benefited the entire local economy, not just direct recipients. As money made its way through the area, both families who did and did not receive cash ended up substantially better off.

Just as importantly, they could find little in the way of adverse effects from the experiment, either in villages that got the cash or in those that didn't. Spending on temptation goods — such as cigarettes, alcohol and gambling — did not increase. People didn't work less. Rates of domestic violence didn't change, nor did more children drop out of school. Local income inequality levels did not change. And contrary to a common fear, the program had minimal effect on prices: Inflation increased less than 1 percent over and above Kenya's overall rate.

What made the study really path-breaking, though, is that it was huge: The money handed out amounted to more than 15 percent of the GDP in the treatment area, reaching 10,500 of the 65,385 households there. Dump that much cash into a local economy, and you would certainly expect it to grow. But by how much?

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That, it turns out, is a hotly disputed question. You might recall the furious debate after the 2008 financial crisis about the “fiscal multiplier” to stimulus spending in the United States: Economists tussled endlessly over just how much extra economic activity the government would generate from each extra dollar it spent.

In the United States, depending on the study, researchers usually put that number in the range of 1.5 to 2.0 — meaning that every \$100 the government spends, between \$150 and \$200 worth of economic activity is generated. Back in 2013, researchers had estimated the number might be in the same ballpark in Kenya.

But this study found a much bigger impact: Every \$100 given directly to the poorest households was generating between \$250 and \$270 in GDP. That's a fiscal multiplier in the range of 2.5 to 2.7 18 months after the money was spent — a huge number by global standards.

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How come? Because the very poor spend their money locally, and the shops they spend it at, in turn, spend it locally again, a chain effect that stimulates demand and lifts revenue for the tiny businesses throughout the area. The research found some evidence — though not conclusive — that local wages had risen, perhaps more strongly in villages that directly received cash than in their neighbors.

This is, of course, just one study in one area of one country, and generalizations are always perilous. Studies on this scale are expensive to carry out and take years to analyze, a key reason nothing like this had been attempted before. But these results suggest that could change, as donors and developing governments catch on to the elegant simplicity of giving the poorest cash.

“There’s more and more interest in running these programs at scale,” Berkeley’s Miguel, one of the study’s authors, told me in a phone interview in November. “More and more governments are coming around to the benefits of cash transfers.”

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One by one, the prejudices against direct cash transfers to the very poor have fallen, as research shows the myths about the indolent poor are just that: myths. As the doubts clear, more and more actors in international development need to come around to the insight that the simplest, cleanest intervention often has the greatest effect.

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