

Here's what happens when you give cash to the extremely poor

Giving cash directly to people in extreme poverty has been [proven effective again and again](#), by study after study. But, this solution often provokes visceral reactions in people, as it runs contrary to the values in society—that people should earn their money, and anything else is unfair.

This fetishization of self-reliance, however, is only one part of why people chafe at giving money directly to those in extreme poverty. A more common refrain: They'll squander the money on booze, cigs, and drugs. However, it's just not true.

In the study "Cash Transfers and Temptation Goods," researchers David K. Evans of the World Bank and Anna Popova of Stanford University show this assumption to be false by examining spending on "temptation goods" like alcohol and cigarettes after cash transfers to people in extreme poverty. Their findings showed that when given cash, the consumption of these temptation goods can actually go down.

Previous studies on the efficacy of cash transfer programs to poor communities focused on recipients' well-being—looking at increased education and consumption as measurements, not whether the money was spent on vice.

The results of Evans' and Popova's research and analysis are global in scope, using 19 studies from around the world. "Almost without exception, studies find either no significant impact or a significant negative impact of [cash transfers] on expenditures on alcohol and tobacco," they write.

Explaining this isn't so difficult, it turns out. When money is transferred with strings attached, it cannot be used on temptation goods—it's earmarked for things like education, health, and other betterment investing. But even when there aren't any strings attached, the money motivates people to redirect money they would spend on alcohol, for instance, to other things.

"By giving households sufficient cash at one time to open a small retail business, cash transfers create the opportunity to invest cash that might otherwise be spent in small doses on temptation items," write Evans and Popova. To put it another way and paraphrase Warren Buffett, the utility and personal value of money changes depending on how much you have. Additionally, the programs' messaging about how the money *should* be used is stressed—a strategy that appears to be successful.

The results have been similar for GiveDirectly, a [top rated charity by Give Well](#) that

facilitates cash transfers. “The more than 50,000 extremely poor families GiveDirectly has transferred cash to are an example of what this research shows: that myths about the poor being irresponsible, lazy, and welfare queens are dead false,” Max Chapnick, a spokesperson at GiveDirectly, told Yahoo Finance. “Maybe the reason we expect the poor to spend cash grants on alcohol is that some of us might, but turns out they have more pressing needs to worry about.”

Why do we think everyone will buy booze and drugs?

It’s not hard to understand where that thinking comes from: Alcoholism and drug abuse, especially in urban poverty is very visible. The study didn’t get into where these assumptions come from but the authors have some ideas.

“Let’s say you are a Kenyan policymaker and you took a trip to a slum for a few hours. It’s certainly possible that you might see an intoxicated poor person,” Evans told Yahoo Finance. “Of course, seeing that person doesn’t tell you anything about how often poor people are intoxicated or whether there is a causal relationship, but it’s the kind of image that may stand out in your mind and lends itself to a simple narrative.”

Those perceptions are powerful, but there’s probably even more going on, something called the “Self-Serving Bias,” Evans says. It’s essentially when people overestimate their own roles in their success—ignoring the “good draw” they may have received at birth. “A complementary narrative is that poor people are poor because of bad choices,” he says. And again, it comes back to visibility. “If you met or heard about a given poor person who had an alcohol problem, it’s then easy to attribute their poverty to that and generalize. It feeds into a narrative that I’m well-off largely because of my choices, and they are poor largely because of theirs, and here’s an obvious choice that I saw a poor person making.”

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The third part of the knee-jerk reaction against giving money directly may come from people looking for reasons not to sacrifice their own income or tax dollars on programs like this.

“We never argue that ‘not a single poor person will ever spend their transfer on alcohol. Only that on average across the beneficiaries, it doesn’t happen anywhere,” says Evans. “The existence of a single poor person who drinks or uses drugs allows you to say, ‘Well, I’m not sure the money will be well spent,’ and that excuse makes it easy not to take action to enact a welfare program that will cost you resources.”

These findings could be vital for the new economy

What Evans and Popova found isn't just important for fighting poverty in the developing world—it could have impact on our future economy. Many people, including former Treasury Secretary Lawrence Summers, think millions of jobs are on their way to being lost to technological advancements. "Job destruction caused by technology is not a futuristic concern. It is something we have been living with for two generations," he [wrote on his blog in September](#). "A simple linear trend suggests that by mid-century about a quarter of men between 25 and 54 will not be working at any moment."

This doesn't have to be a bad thing; technology usually makes things cheaper and more efficient. But if the robots make tons of jobs obsolete faster than new jobs can be thought up, how will people make money to live? There is one answer that's gaining momentum (in some [countries](#)) and some bipartisan support. The idea is to provide a basic income for everyone to supplement income from low-paying jobs that have become the hallmark of a shrinking middle class. It would be essentially like Social Security, but for everyone, and the monetary gains from an automated future would pay for it, as well as reduced government costs.

Some [political conservatives](#) see doling out cash as a way to cut government bureaucracy and costs (handing out cash is really cheap) and the social safety-net part appeals to the left. But it's only it's been done on a very small scale a few times—Quartz [has a great graphic](#) showing where and how it's been tried..

On Dec. 8, a group called the [Economic Security Project](#), composed of tech executives like Y Combinator's president, Sam Altman, Facebook co-founder Chris Hughes, and many activists and professors, met to pledge \$10 million for further research on the idea of a universal basic income. A pilot project led by Sam Altman in Oakland, will begin with a few dozen people getting \$2,000 per month for a year. The learnings from that will lead to a larger trial.

Of course, for any for any of this to actually gain popularity, it's important that money is actually spent wisely and effectively, and this study's result is powerful—and useful—evidence.

"There are reasons to believe that cash transfers are not a silver bullet," says Evans. "You may believe they need to be complemented with ensuring that the poor have access to savings accounts and business training and quality schools, so that they have productive markets in which to spend their cash. But the fear that the cash will go to beer and cigarettes is not one of those reasons."

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