

# BUSINESS INSIDER

## **We're about to find out what happens when you give poor people basic income for life**

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Over the past decade, interest has grown in an ostensibly unorthodox approach for helping people who don't have much money: just give them more of it, no strings attached.

In the old days of policymaking by aphorism—give a man a fish, feed him for a day!—simply handing money to the poor was considered an obviously bad idea.

*How naïve—you can't just give people money. They'll stop trying! They'll just get drunk!*

The underlying assumption was that the poor weren't good at making decisions for themselves: Experts had to make the decisions for them.

As it turns out, that assumption was wrong. Across many contexts and continents, experimental tests show that the poor don't stop trying when they are given money, and they don't get drunk. Instead, they make productive use of the funds, feeding their families, sending their children to school, and investing in businesses and their own futures.

Even a short-term infusion of capital has been shown to significantly improve long-term living standards, improve psychological well-being, and even add one year of life.

On the other hand, well-intentioned social programs have often fallen short. A recent World Bank study concludes that “skills training and microfinance have shown little impact on poverty or stability, especially relative to program cost.”

Moreover, this paternalistic approach is often for naught: Jesse Cunha, for example, finds no differences in health and nutritional outcomes between providing basic foods and providing an equally sized cash program. Most importantly, though, the poor prefer the freedom, dignity, and

flexibility of cash transfers—more than 80 percent of the poor in a study in Bihar, India, were willing to sell their food vouchers for cash, many at a 25 to 75 percent discount.

As a result of this evidence, the winds are shifting in the world of development policy: The European Commission recently suggested that policymakers “always ask the question, ‘Why not cash?’ ” U.N. Secretary-General Ban Ki-moon has argued that “cash-based programming should be the preferred and default method of support.” In other words, the hard evidence behind cash has provoked a healthy debate about how to reform the infrastructure of anti-poverty programming and foreign aid.

So where do we go from there? The organization that we founded, GiveDirectly, has decided to try to permanently end extreme poverty across dozens of villages and thousands of people in Kenya by guaranteeing them an ongoing income high enough to meet their basic needs—a universal basic income, or basic income guarantee.

We’ve spent much of the past decade delivering cash transfers to the extremely poor through GiveDirectly, but have never structured the transfers exactly this way: universal, long-term, and sufficient to meet basic needs. And that’s the point—nobody has and we think now is the time to try.

This idea of a basic income guarantee is being debated around the globe, with pilots being considered by Finland’s center-right government and Canada’s liberal party, and support from across the political landscape, including libertarians from the Cato Institute and liberals from the Brookings Institution. The Swiss will vote in a referendum on June 5 on whether to make a basic income the law of their land.

The stakes in these debates are enormous, with trillions of dollars of social spending under review. Should we move from a patchwork system of overlapping poverty-reduction programs, administered separately to address different issues (nutrition, housing, employment) to simply guaranteeing a basic income? What would happen if we did?

The advocates will tell you that a basic income is the most efficient form of social assistance: It neither introduces perverse incentives discouraging work nor does it mandate work to receive benefits; the system’s simplicity likely reduces the bureaucratic overhead of managing complicated social programs; and, better yet, it avoids the paternalism of many social programs.

Others, including many members of the tech community, believe that such an overhaul of the social safety net will be required to deal with the increasing automation of work and the potential unemployment that may result. Still others, including Judith Shulevitz, see basic income as a means of “edging us to a more gender neutral world.”

Skeptics, on the other hand, raise many of the typical concerns surrounding cash handouts: Most commonly, they argue that the poor can’t be trusted not to waste the money. More sophisticated

critics will raise questions about the affordability of a basic income, or ask whether it wouldn't be more efficient to simply provide all the capital upfront to the beneficiaries. But fundamentally, the question should be an empirical one: What are the impacts of a universal basic income? And how do they compare with other forms of assistance?

We're planning to find out. To do so, we're planning to provide at least 6,000 Kenyans with a basic income for 10 to 15 years. These recipients are some of the most vulnerable people in the world, living on the U.S. equivalent of less than a dollar. And we're going to work with leading academic researchers, including Abhijit Banerjee of MIT, to rigorously test the impacts.

By "rigorous" we mean a few things. First, the test must be *experimental*, so that we generate unbiased and transparent estimates of impact. Second, the guarantee must be a long-term commitment. We already know quite a bit about the beneficial effects of giving people money for a few years; the key question is how the knowledge that your livelihood is secured for more than a decade affects your behavior now.

Do you take more risk? Get more schooling? Look for a better job? Third, the guarantee needs to be universal within well-defined communities, since the goal is as much to understand social dynamics as individual behaviors. While various other basic income pilots have been conducted in the past, none so far have met all three of these criteria.

We think the rigorous evaluation will cost roughly \$30 million, of which around 90 percent of the funds will go directly to extremely poor households with the rest spent delivering that money to them (e.g., staff, office, payment fees).

Running the project in an emerging market, where meeting basic needs is far cheaper, will make it affordable to enroll enough people to generate statistically robust evidence (a similar sized project in the U.S. would cost closer to \$1 billion). At the same time it will let us directly inform policy debates in those emerging markets. The effort will thus complement the plans for experiments by the Finnish and Canadian governments, as well as those by startup incubator Y Combinator.

To get started, we're putting in \$10 million of our own funds to match the first \$10 million donated by others. At worst that money will shift the life trajectories of thousands of low-income households. At best, it will change how the world thinks about ending poverty.