



## **Eat the Rich and Pay the Poor**

Rosa Brooks  
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“The rich are different from you and me,” a starry-eyed F. Scott Fitzgerald is said to have observed to Ernest Hemingway.

“Yes,” replied Hemingway. “They have more money.”

He didn’t remind Fitzgerald that the poor are different, too: they have less money.

Hemingway presumably considered this too self-evident to mention, but today many seem to have lost sight of this seemingly obvious fact. Over the last five decades, pundits and policymakers have instead fretted endlessly over the “culture of poverty,” blaming American poverty on everything from the decline of marriage to high rates of substance abuse among the poor. Meanwhile, federal and state governments have spent an estimated \$22 trillion on anti-poverty programs, many focused either on addressing the presumed causes of poverty (inadequate job search skills, poor parenting practices, etc.) or on paternalistic efforts to help the needy while at the same time preventing them from behaving disreputably.

Thus, federal law prohibits the use of food stamps to purchase cigarettes — bad for you! — or “hot food,” which is presumably less morally nourishing than food the poor have to cook themselves. Similarly, most states subject the needy to a variety of humiliating and intrusive requirements, from drug testing to criminal background checks, before permitting them to access public assistance.

But most anti-poverty programs ignore the obvious: the best way to help the poor is to give them money.

That’s it. Give them money — then leave them alone. Don’t give them drug tests; don’t require them to purchase only approved food items, don’t force them to take parenting classes or resume-writing classes or abstinence-based sex education classes.

Just. Give. Them. Money. Preferably, a lot of it: enough to transform their lives.

No, it's not a crazy idea. On the contrary: it's been tried already in nations around the world, and international development experts increasingly acknowledge the value of direct, unconditional cash transfers over more indirect and paternalistic anti-poverty programs.

But wait, you say: how can that be? If you just give money to poor people, won't they squander it? Waste it on drugs or alcohol, fritter it away on wide-screen TVs, blow it on feckless get-rich-quick scams?

Some poor people do just that. But most, it turns out, don't: instead, they use their windfalls to invest in small businesses, send their children to school, purchase livestock, shore up their crumbling houses, or just buy more and better food for their kids.

For instance, one recent study looked at poor rural Kenyan households that were randomly selected to receive unconditional cash transfers from GiveDirectly, a U.S.-based NGO. (The recipients were given amounts varying from the equivalent of at least two months worth of average household consumption expenditures to about three times that). Over a period of two years, it found that those households that received the unconditional cash transfers “increased both consumption and savings (in the form of durable good purchases and investment in their self-employment activities). They increased food expenditures close to proportionally to overall non-durable expenditure ... and health and education expenditures more than proportionally. Alcohol and tobacco expenditures did not increase.” Unsurprisingly, recipients of the cash transfers also reported higher rates of psychological well-being, and, when tested, had lower levels of stress hormones.

Similar programs, from Uganda to South Africa, have shown equally promising results. And though most unconditional cash transfer programs have been implemented too recently for scholars to be able to assess their long-term results, preliminary studies suggest that even one-time transfers can produce enduring gains for the poor.

Despite growing evidence of their efficacy, some argue that unconditional cash transfers might nonetheless be inefficient compared to anti-poverty programs that provide indirect or conditional aid to the poor. Even if most recipients use their windfalls wisely, skeptics note, some recipients will inevitably “waste” the money, making transfers to those individuals or households little more than money down the drain.

But as with everything in life, it's all relative. Unconditional cash transfers surely lead to some “wasted” money, but creating indirect support programs (such as health and education programs), providing in-kind aid (such as food), and establishing and enforcing conditions — such as requiring that cash transfer recipients keep their children in school, or get annual health check-ups, or remain drug-free — all involve time-consuming and expensive processes.

Monitoring compliance, for instance, requires the establishment of a substantial bureaucracy: it requires salaried employees, record keeping, office space and a hundred other costly things. Money spent on drugs or gambling is “wasted” insofar as it doesn't help people out of poverty, but many anti-poverty programs “waste” even more money on cumbersome bureaucracies.

For every dollar donated to GiveDirectly, for instance, \$0.91 goes directly to impoverished households. Contrast this with major U.S. charities such as World Vision, which only manages to get \$0.82 per dollar to its programs (the rest goes to fundraising and administrative costs), or the Wishing Well Foundation, which spends more than 95 percent of all funds raised on administrative costs. And don't even ask about state and federal government overhead. Perhaps just as bad, requiring recipients of cash transfers to comply with burdensome and intrusive conditions tends to breed resentment rather than gratitude.

This may help explain an irony: in the United States, residents of states that receive the highest amount of federal benefits are more likely to vote for Republicans than residents of states that receive less in federal benefits, who are more likely to vote for Democrats. In other words, people who receive more federal assistance are more likely to vote for the party that generally wants to reduce federal assistance. But consider the multiple small and large burdens and humiliations we inflict on those seeking assistance: the endless forms and documentation requirements, the long waits, the baffling rules, the drug tests and home visits, the encounters with surly bureaucrats.

As the libertarian CATO Institute noted in a 2012 report, “there are 33 housing programs, run by four different cabinet departments, including, strangely, the Department of Energy,” not to speak of “8 different health care programs, administered by five separate agencies within the Department of Health and Human Services.” Similarly, notes a report on federal nutritional programs produced by the left-leaning Center for American Progress, there are “15 different nutrition assistance programs run by the U.S. Department of Agriculture alone, each of which have different eligibility requirements, application procedures, and physical locations that people must visit to apply. This system requires far-reaching bureaucracies and vast mountains of paperwork to administer ... costing the government billions of dollars in unnecessary administrative costs. Meanwhile, antifraud measures ... cost the government more to implement than they save.” Little wonder that those who receive the most federal assistance may harbor the most negative feelings towards it.

Despite their promise of greater efficiency (and lower humiliation), some argue that unconditional cash transfers to the poor nonetheless present a moral hazard. Surely everyone would enjoy receiving a nice cash windfall — why do poor people “deserve” such a windfall, instead of those of us in the hard-working middle class? Won't unconditional cash transfers to the poor breed irresponsibility or dependency, sending the message that it's not necessary to work hard to acquire money? Isn't attaching conditions to cash transfers just morally better?

I've never found such arguments compelling. For one thing, anyone who thinks being poor doesn't involve hard work ought to try it some time. Scrambling for life's necessities — shelter for the night, food for the children, transportation from one place to another — is time-consuming, exhausting, and stressful. When it comes to brain development and health, poverty is, literally, toxic. What's more, the poor pay their social dues far more than most Americans realize: they're the group hit hardest by regressive sales taxes and flat fees for vital services, from drivers' license applications to court fees.

Anyway, whoever said life was fair? Most of America's poor people never came close to that legendary "level playing field." They started at birth with multiple disadvantages: inadequate health care, inadequate nutrition, inadequate education. They didn't "deserve" those disadvantages any more than those lucky enough to be born rich deserve their inherited wealth. True, unconditional cash transfers to the very poor may make some of us middle class workers wish that Santa would drop by our homes, too — but inherited wealth and the outsized profits reaped by hedge fund manager and corporate CEOs aren't exactly merit-based, either.

Here in the United States, we should take note of the success of unconditional cash transfers in the developing world. But as the founders of GiveDirectly acknowledge, there's still a lot we don't know about how best to reduce severe poverty: we still don't know if one-time lump sum payments are more effective than spacing payments out over months or years, or if it matters whether payments go to individuals or to households. We know that relatively small amounts of money don't make much permanent difference, but we don't know how much money it takes for the results to be truly transformative. (The equivalent of three months expenditures? Six? Twelve? Twenty?). And we don't know how enduring the gains will be.

But in a nation that has already spent \$22 trillion on anti-poverty programs that have, in many cases, had little enduring impact, what's the downside to trying something new? If nothing else, we should consider a series of experimental programs, in different regions, to seek answers to some of the questions posed above.

Oh, and where will we get all that money to give to the poor, you ask?

I'm thinking we should get those trust fund kids and hedge fund managers and corporate CEOs to pitch in. After all, as everyone knows, the rich are different: they have more money.