Give me money (That’s what I want): The case for cash benchmarking

BRIEFING PAPER

February 2021

SMF Social Market Foundation

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Despite growing enthusiasm in some quarters for cash transfers, and substantial evidence of their effectiveness in addressing the consequences of poverty, the British government remains reluctant to give citizens money as a way to achieve its objectives. This briefing suggests that ‘cash benchmarking’ – routinely comparing proposed policies to the alternative of providing cash transfers of equivalent cost to the proposal – could help bring about policies that more reliably meet the needs of those they are trying to support.

KEY POINTS

- Giving people money has two potential benefits over government provision of services in-kind:
    1. **Efficiency**: Individuals typically have a better understanding of their preferences and circumstances than the government.
    2. **Non-Paternalism**: Allowing people to make their own choices is often seen as better respecting their dignity and autonomy.
- As a result, development agencies increasingly engage in **‘cash benchmarking’: comparing programme outcomes against the alternative of giving people cash transfers of equivalent value.**
- The underlying logic of cash benchmarking is just as applicable to rich-country contexts like the UK: it makes cash more salient as an option, highlights the opportunity cost of policies and highlights and tests the underlying assumptions behind the policy.

RECOMMENDATIONS

- Cash benchmarking should be integrated into the policy process in three ways:
    1. **As a thought experiment:** people proposing policies should explicate why their favoured approach is better than giving cash.
    2. **In government impact assessments:** Officials should be encouraged to consider the option of cash transfers as a more challenging alternative to the ‘do nothing’ scenario.
    3. **In policy evaluations:** Experiments could involve a cash control group, or compare outcomes to established estimates for the impact of cash.

CONTEXT

Last month there was outrage over pictures of rather sorry-looking parcels delivered on behalf of the Government to families eligible for free school meals. "I could do more with £30 to be honest", one mother said in response, referring to the supposed monetary value of the parcels.[1] Several commentators agreed, arguing that the Government should have given the families cash, rather than trying to supply the food directly.[2]

The controversy is instructive. Government is in general too reluctant to use cash payments, and too often relies on less effective and efficient schemes like the food parcels. This briefing argues that the government (and those engaged in policy development more broadly) should address this problem by routinely comparing policy proposals to the alternative of providing cash transfers of equivalent cost to the proposal – a process called 'cash benchmarking'.

Direct cash payments have always been part of the British welfare state. Starting with the elderly and the unemployed in the early-20th Century, the government now makes transfers to support people it deems to need assistance with the costs of housing, living with disabilities, raising children, caring, affording fuel, as well as topping up low wages. The government's willingness to give people money has waxed and waned, depending on who those people are. The value of the state pension has risen consistently over the past 20 years, whereas unemployment and child benefits have fallen prey to cuts over the past decade.[3]

At the same time, there have been growing calls for governments to make more use of cash transfers in recent years.[4] Most prominently, these have come from advocates of a universal basic income, who propose a single payment to every citizen (though whether this would be in addition to or instead of existing payments depends on the proposal in question).[5] However, the case for targeted or conditional transfers has also strengthened, with social policy experts increasingly coming to the view that providing cash is the most effective way to help people in a range of situations. For example, a recent evidence review of studies in EU and OECD countries found that increasing household income often leads to improvements in children's education and health, especially for poorer families.[6]

WHY CASH?

The case for cash over other forms of support is simple. Insofar as social programs are dealing with the consequences of poverty, cash tackles the problem at its root. For example, the fundamental driver of child hunger is inadequate income: giving families money deals with that, rather than the symptom of food insecurity.[7] Similar arguments can and have been made in relation to initiatives that focus on 'period poverty' and 'fuel poverty' (people's inability to pay for sanitary products or heating) without addressing the more general poverty that prevents people being able to afford other goods.[8]

Critically, giving people cash allows them to decide for themselves which of their wants and needs to address. Given £30 instead of a food parcel, a parent might decide to prioritise replacing their children's clothes if they believe that is more urgent than getting food. Or they might spend it on food, but different food to what they receive in the parcel – perhaps they prefer rice instead of pasta, or peas over carrots. Since we would expect parents to have a better understanding of their family circumstances and preferences than the government, this makes it more likely that the money is spent well in a way that maximises the benefits to the recipient. Moreover, many believe that eschewing paternalism, and allowing people to make such choices for themselves better respects their dignity and autonomy, creating a moral argument for cash.

The purpose of this briefing is not to demonstrate the general superiority of cash transfers in all circumstances. Rather, it is to show that giving people money is *plausibly* often better than alternative ways of trying to help them and that by comparing proposed interventions to cash, we can better understand their rationale and evaluate their success.

In some cases, resistance to cash transfers may be grounded in a belief that a programme would be unpopular or politically infeasible, rather than any scepticism regarding its effectiveness. Whether or not cash transfers do in fact face these political challenges, and if so how to win consent for them, are interesting and important issues, but they are beyond the scope of this briefing, which focuses only on the question of how to make the best policies rather than how to defend them.

CASH BENCHMARKING IN POORER COUNTRIES

Arguments in favour of cash transfers have gained particular traction in low and middle-income countries, where both governments and aid donors have increased their use of direct payments to assist the poor.[9] The trend has been encouraged by growing evidence that giving people money is an effective way not just to reduce financial poverty, but to improve people's lives on a range of dimensions: leading to better diets, health, and educational outcomes.[10] That evidence base, in turn, has led to the increasing use of cash benchmarking within development.

Cash benchmarking has been most enthusiastically adopted by the US Agency for International Development (USAID). Since 2015, it has run a series of evaluations in which its interventions have been compared with cash payments.[11]

Cash benchmarking in practice: the Rwanda WASH Trial

In the first published cash benchmarking experiment, USAID examined the effectiveness of one of its programmes in Rwanda.[12] 248 villages were randomly allocated into four groups. In one, eligible households were given education on nutrition, health, sanitation and hygiene. In another, each household got a cash transfer equal to the cost of the education programme ($114 per household). In the third group of villages, people received a larger cash payment of over $500 per household. The fourth group of villages were a control, with no intervention at all. The study found that neither the main education program nor the equivalently-sized cash transfers had a significant effect on child health outcomes. However, the larger cash transfers did improve diets and child growth as well reducing child mortality.

On the basis of these results, USAID has worked to adapt the programme, prioritising providing access to clean water and increasing the frequency of messages in an effort to improve on its relative performance against cash.[13]

The findings of these specific evaluations matter less than the general principle: when we try to determine how effective a programme is at helping people, a relevant counterfactual is to consider what would have happened if we had used the cost of the programme to give them money directly. As Christopher Blattman and Paul Niehaus put it, cash should be the "index fund" of social programmes.[14] Just as we best judge the success of active investors by their performance relative to index funds that invest in the stock market as a whole rather than trying to pick winners, so we should judge the success of active government initiatives against the 'passive' option of giving cash.

There may be factors particular to low and middle-income countries which are particularly favourable to cash transfers over in-kind provision, such as weaker government capacity to directly deliver services or greater risk of corruption. However, the basic logic of cash benchmarking is as relevant to rich countries like the UK as anywhere else. As the issues with food parcels demonstrate, the British government is just as capable as any other of being inefficient and patronising its citizens by overlooking the benefits of cash provision. Like USAID, it should regularly ask itself whether its programmes are better than cash.

WHAT WOULD IT LOOK LIKE IN PRACTICE?

As should be clear from the discussion so far, cash benchmarking has generally been construed relatively narrowly as an approach to evaluating policies or programmes that have already been implemented. However, in drawing out how the concept can be adapted to British policymaking, we can envisage it being used in a broader sense: prospective as well as in retrospective, informally as well as formally. Specifically, there are at least three different ways that cash benchmarking could be incorporated into the policymaking process:

1. As **an informal reasoning tool**: a thought experiment to guide policy design.
2. As **a formal requirement of government impact assessments** of proposed policies.
3. As **a component of formal evaluations**.

1. Cash benchmarking as a thought experiment

The simplest way to use cash benchmarking is as an informal heuristic, folding it into the way that we draw up, think through and debate policies. Cash benchmarking in this sense is a tool that anybody involved in proposing policies – not just politicians and officials, but think tanks, advocacy organisations and academics too – can and should be using.

Its requirements are simple: whenever a policy is put forward, it should be accompanied by an explanation of why it is more likely to achieve its objectives than cash transfers of equivalent cost to the government. This would have the benefit of forcing people to be more explicit about both their policy objectives (which are not always as clear as they might be), but more importantly to be explicit about the model of behaviour, society and/or the economy that underpin it.

For example, in theory the government might be able to provide more food in packages than people can buy for themselves at equivalent cost because of its ability negotiate cheaper prices by negotiating in bulk. Using the cash benchmarking heuristic would encourage debate to focus on how likely the government would in fact be to achieve these cost efficiencies. Alternatively (as many suspect), the reason for providing families with food packages could be paternalistic, driven by a concern that a significant proportion of parents cannot be trusted to spend cash in a way that benefits their children.[15] If that is the reason, cash benchmarking would encourage the mistrust to be spoken plainly and justified, ideally with some evidence.

2. Cash benchmarking in government impact assessments

The vision of cash benchmarking being used more widely in policy discourse is an attractive one, but it is unclear how to bring it about beyond modelling it. A more concrete action would be to integrate it into the formal processes of government policymaking, and make it part of the civil servant's standard toolkit.

The most obvious way to do this would be to make cash benchmarking part of the regulatory impact assessments that the government typically produces to support major policy changes. At present, the government's regulatory impact form asks what other policy options have been considered, but the guidance under this question asks for "a description of the 'do nothing' option and non-regulatory options".[16] Focusing attention in this way on the 'do nothing' scenario of no regulatory action fails to account for the opportunity cost of investing in a policy. In short, it is one thing to show that the proposed course of action is better than doing nothing, but another thing entirely to show it is the best course of action compared to the alternatives.

Changing this part of the impact assessment to explicitly prompt officials to consider cash transfers as an alternative approach could have a couple of benefits. First, since impact assessments are often released prior to consultation, cash benchmarking can better expose the reasoning underpinning the policy and give stakeholders some guidance as to where to target their responses – for example, providing evidence to support or challenge anticipated efficiency gains from government provision or the need for paternalism. Second, it might encourage civil servants to think through the potential costs and benefits of the policy more conceptually and thoroughly, possibly mitigating the perceived narrowness of the current appraisal system, which the government has suggested focuses too much on quantifiable and economic outcomes.[17]

By nudging the government to more explicitly lay out the arguments for and against a policy in advance in impact assessments, cash benchmarking should also provide direction for post-implementation reviews to see how far the anticipated outcomes are realised. At present, there is a perception that post-implementation reviews are not carried out frequently enough, or are of poor quality.[18] Cash benchmarking could give them greater prominence and help frame them more clearly.

3. Cash benchmarking in evaluations

A recent report of the Regulatory Policy Committee identified a lack of post-hoc evaluation as a weakness in the current regime of impact assessment.[19] Government, it argued, does not adequately plan to monitor and assess the impact of its policies as it designs them. Cash benchmarking could encourage greater use of evaluations, and make the evaluations more effective.

The UK government could more regularly randomise exposure to a policy or stagger its roll-out so that its impact can be compared against a control group. As USAID has done, it could provide some of these control groups with cash transfers equivalent to the cost of the programme. Just as 'do-nothing' is not always the appropriate comparison for prospective appraisal of policies, giving cash transfers to control groups may be a better way of understanding how a policy compares to alternative uses of resources.

Experimental cash benchmarking of this sort, involving real rather than hypothetical payments, will clearly be far more expensive than the other forms of cash benchmarking. But for that reason, it will also be far more insightful and useful. Whereas the other forms involve speculative best guesses as to the relative effects of cash and in-kind provision, real life experiments can provide robust evidence to inform our understanding of policy. For example, if the effectiveness of food parcels was compared against a cash control group, we could test the theory that parents would not use cash to feed their children rather than relying on supposition.

The researchers involved in USAID's cash benchmarking programme have suggested that 'head-to-head' studies where one group is given cash and another exposed to an intervention will not always be the best use of resources.[20] Over time, they anticipate, the estimated effects of giving people cash should be consistent enough over a range of studies that we should have robust estimates for that scenario without having to run it in real-life. But until such estimates are established in the UK, experimentation with cash could be valuable.

Cash benchmarking in practice: free period products in Scotland

In January 2021, the Scottish Government passed legislation committing it to setting up a national scheme to provide period products free of charge to anybody who needs them. The Policy Memorandum accompanying the Bill does not explicitly compare the new policy to cash, but contains some arguments that would be relevant to a cash benchmark thought experiment.[21] Providing cash might be less stigmatising and allow recipients to better meet their specific needs and preferences. On the other hand, provision in-kind might be of greater benefit to those who may not have access to their own income (for example, because their partner withholds money or because they are embarrassed to raise the issue with their parent or carer). It could also be the case that universal provision on an 'opt-in' basis is better targeted at those who need it than cash. The Memorandum is not explicit on the point, but further hints at a paternalistic argument for direct provision by highlighting the educational and health benefits of using period products (perhaps implying that left to their own choices, individuals will not use enough of them).

The policy drew on a pilot scheme in Aberdeen in 2017/18 which attempted to deploy an element of cash benchmarking.[22] The 1,000 participants, recruited through community programmes like food banks as well as educational institutions, were supposed to be offered £3 per month in cash or pre-paid cards, redeemable at high street shops. However, in practice, relatively few received the cards and even fewer cash because the organisations delivering the scheme were often reluctant to offer them or had policies against handling cash. One charity staff member voiced opposition to pre-paid cards on the basis that "there's an awful lots of people that come to us because their lifestyles are pretty chaotic. They don't think straight".

Participants themselves were much more favourable towards cash, and, to a greater extent, pre-paid cards. Compared to in-kind provision, these were seen by many to offer greater choice and convenience and caused less embarrassment – although some worried that they would end up being spent on things other than sanitary products. In a survey prior to the scheme, 34% said that they would be interested in receiving cash and 47% that they would be interested in receiving a pre-paid card. Indeed, the card was the most popular of a range of options for delivering the products.

Yet even though the pilot suggested some appetite for cash or cash-equivalent cards, the Scottish Government has moved forward with in-kind provision. As it implements universal provision of free sanitary products, it should more thoroughly explore the cash alternative in impact evaluations.

Which sorts of policies is cash benchmarking appropriate for?

This briefing has generally discussed direct cash transfers and in-kind provision as the two alternative approaches to be compared in a cash benchmarking exercise. In some cases, it may also be helpful to compare cash and/or in-kind provision with intermediate options. For example, vouchers or pre-paid cards that can only be spent on particular goods (such as food) may offer a bit more choice and flexibility and in some cases be more efficient than the state directly trying to provide the service. They may also result in the money being 'better spent' than free cash, though at some cost to autonomy. Even more subtly we may wish to examine the impact of 'labelling' the cash transfer – for example, it has been estimated that cash received as Winter Fuel Payments is 14 times more likely to be spent on fuel than an equivalent rise in income from other sources.[23]

Cash benchmarking will not be an appropriate way to judge every type of policy. It is best suited to assessing initiatives that target individual-level outcomes like improving diet, health, financial resilience or education. Measures that aim to benefit people through deeper structural processes – building infrastructure, improving regulation – are less amenable to comparison against cash.[24] Certainly, policies of this sort are not well-suited to randomised trials or experiments. In some cases, the thought experiment of considering how they are an improvement on giving taxpayers their money back could be worthwhile, but that hypothetical comparison will not always be helpful. Cash benchmarking should therefore be used judiciously, and not over-extended.

Cash benchmarking does not mean ruling out in-kind provision

The proposal for cash benchmarking arises out of a belief that cash welfare is underutilised by the government. It is intended to normalise cash payments as a way of achieving policy objectives by making them more salient throughout the policy process. That does not mean that cash is always the right option. There is a brewing debate within social policy between universal basic income and universal basic services (greater state provision of housing, food, transport and telecommunications) as alternative approaches for governments to meet the needs of their citizens.[25] Cash benchmarking is not in itself a threat to the universal basic services model – rather, it is a challenge for it to prove why government in-kind provision is a better way of meeting these needs than giving people the money to buy them.

It is likely that many public services can pass this test. There are numerous market failures that cash provision cannot address. For example, it is better to vaccinate people for free than to give them money, since much of the benefit of vaccination is collective rather than individual.[26] While the claim that the government is a more efficient purchaser of food is dubious to say the least, it is more plausible to think that the government is an efficient purchaser of healthcare – and thus, that the NHS could pass the cash benchmarking test.[27] Cash benchmarking draws out paternalistic assumptions, but most people believe paternalism is not always wrong – sometimes, it can be an appropriate response to people's failures of rationality.[28] For example, grants and subsidised loans for higher education may be better than cash because we believe investment in education is a better use of the money than whatever else 18 year olds would spend thousands of pounds on.[29]

Cash benchmarking does not mean dismantling the welfare state as we know it or hollowing out government services. It just means thinking a bit more clearly about what we want and whether we are choosing the optimal means to achieve it.

ENDNOTES

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