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Why Copenhagen Consensus is wrong on cash transfers

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The think tank Copenhagen Consensus Centre is currently publishing a number of studies under its Bangladesh Priorities project, with the purpose of identifying the smartest solutions for the country, informed by Benefit-Cost Ratio (BCR) rating. The research aims to help set priorities for Bangladesh, giving planners and policy makers a tool to select best value for money options. The options are ranked solely based on BCR, with the general idea “to give a tailwind to the good ideas and a headwind to the worst”, according to Bjorn Lomborg, who runs the Copenhagen Consensus.

Cash transfers, which are the backbone of the social safety net system in Bangladesh, have been rated as a bad idea in the summary findings shared internationally in The Economist by the Copenhagen Consensus. BCR offers a measure of how large the benefits are relative to the costs. Cash transfers are shown to have a rock-bottom low BCR, with the investment of Tk. 1 giving a return of only 84 paisa; that is, costs exceed expected benefits.

However, even the authors of the BCR study covering cash transfers may disagree with this simplified conclusion. As a matter of fact, the poor BCR rating recorded for cash transfers is based entirely on evidence from other parts of the world and not from Bangladesh. The authors also clearly state that their study does not set out to come up with a conclusion that one approach is better than the other. They point to the lack of robust evidence of benefits and recommend generating better data on benefits of cash transfers. No data on costs and benefits of cash transfers in Bangladesh were used.

The Copenhagen Consensus has failed to measure much of what it needs to measure, and what it measures, it measures badly. The household benefit from cash transfers is assessed only as consumption gain, due to lack of data on gains in household assets and savings. This not only underestimates the material wellbeing benefits, but entirely misses other relevant benefits like empowerment, self-respect and the ability to make choices.

Such benefits are hard to measure by any yardstick and the BCR is more demanding; it requires monetised discounted values. Destitute recipients of Old Age Allowance and Widow Allowance in Bangladesh bear testimony that even if the allowance amount is small, it has given them new dignity in family and society. What is the monetised discounted value of a poor woman or man being able to “go about without shame” (an irreducible core capability in leading a fulfilled life according to Amartya Sen)?

The Copenhagen Consensus stopped at measuring material household benefits. But the impact of cash transfers is not limited to the wellbeing of recipient individuals and households. There are macroeconomic redistribution effects of public policies, including cash transfers provided by the state. Cash transfers also carry a potential to overcome structural barriers. They can be seedbeds of social change. There are second-round multiplier effects in the local economy as a result of increased demand for goods and services from households receiving the cash transfers. In short, cash transfers generate impacts that can contribute to attaining wider development goals.

The BCR, seemingly so precise, has many limitations. Benefit-cost analysis reflects costs and benefits as outcomes of market activities. Such analysis is not recommended when market prices are unavailable. Many impacts of cash transfers are not valued at any market. They are hence difficult to measure in monetary terms.

Looking at the wider macroeconomic impacts of cash transfers – which were totally overlooked by the Copenhagen Consensus study – what is the market price of inclusive growth with equity? Of attaining social cohesion or avoiding social unrest? Of reversing social exclusion and marginalisation? Such benefits need to be monetised for the BCR. Omitting them distorts the benefit-cost analysis. Cash transfers might not easily lend themselves to crude BCR measurement.

Still, planners might be swayed by the Copenhagen Consensus conclusion to play down cash transfers as an uncertain investment. It is then important to recognise that BCR results need to be interpreted alongside social and political imperatives. Why are social cash transfers used in the first place?

Experience over the past few decades has shown that people are vulnerable to market volatilities, natural disasters and other shocks and stresses in a way that markets fail to deal with, especially as regards to the protection of the poor. Worldwide, there is now strong awareness of the critical role the state has to play in providing social assistance to citizens in need. Only the state has the capacity, the required outreach and the mandate to provide comprehensive social protection. Predictable provision of social transfers to vulnerable people in the face of hardship is part of a social contract between citizens and the state.

Cash transfers are, therefore, a matter of constitutional entitlement, rather than a proposition to be negotiated by benefit-cost analysis.

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