

# The impact of cash transfers

Investigating how money affects children's development in the UK and other high-income countries



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# Contents

|  |           |
|--|-----------|
| <b>1. Background and aims</b>  | <b>3</b>  |
| <b>2. Findings</b>   | <b>4</b>  |
| 2.1 Experimental evidence for cash transfers in the early years in high-income countries | 4         |
| 2.2 UK policy interventions for changes to families' income in the early years           | 7         |
| <b>3. Next steps</b>   | <b>11</b> |
| <b>4. Endnotes</b>   | <b>12</b> |

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# 1. Background and aims

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Children living in poverty, on average, have poorer early developmental outcomes when compared to their better-off peers<sup>1</sup>. These income-related gaps emerge early in life, span children's socioemotional, cognitive, behavioural and physical skills<sup>2</sup> and can lead to poorer outcomes across the lifespan<sup>3</sup>. With 3.4 million children in the UK (29 percent of children) growing up in poverty<sup>4</sup> and approximately one million of these children in destitution as of 2022<sup>5</sup>, there is a radical need to address the support available to families, to help ensure all children can thrive.

Nesta believes that [additional financial support](#) for families early in a child's life may be an important tool for closing the early outcomes gap, alongside other interventions, and that families facing deprivation deserve the sense of security and agency that comes from financial stability.

What we don't yet know, and want to discover, is what the best form of support to families living in economic disadvantage in the UK would look like. What impact would additional income have on children's early developmental outcomes, relative to other forms of support? Are funds better invested in more or better services for families, in financial support for families, or a combination of both? If funds are best invested in financial support for families, what is the optimal way of providing this support? We believe these questions are crucial and urgent to policy-making, especially when considering the importance of the first 1,001 days of a child's life, the period when a child's development is most rapid and intervention holds the most potential for large, long-term impact<sup>6</sup>.

As part of a multi-year effort to answer these questions, we have reviewed the current evidence base for cash-based interventions. Previous systematic reviews concentrate solely on the impact of cash transfers on school-age outcomes or focus on evidence from contexts vastly different from the UK, such as low and middle-income countries, where families living in poverty may face different challenges to those in the UK. We therefore decided to review:

1. Experimental evidence for cash transfers in the early years in high-income countries; and
2. UK policy interventions that have changed income for families with young children.

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## 2. Findings

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### 2.1 Experimental evidence for cash transfers in the early years in high-income countries

Currently, we do not have robust causal evidence from the UK assessing the impact of cash transfers to low-income families on children's development. This means that we don't have a good estimate of whether, and by how much, children in disadvantaged families in the UK would benefit from additional cash. Nonetheless, randomised control trials in other high-income countries provide causal evidence and overall implementation learnings that could generalise to UK contexts.

To inform our understanding of the likely impact of cash transfers on low-income families in the UK, we conducted a review of randomised evaluations from other high-income countries. We identified eight randomised controlled trials that specifically look at the impact of regular payments (a minimum of three per year) to families with a child under five on children's early developmental outcomes. We chose to also include trials that were ongoing or without published results to help us identify upcoming evidence which may be useful in answering our questions of interest and any learnings related to the design of the trial. These trials are briefly described in Table 1 and are compared by cash payment size and duration in Figure 1 below.

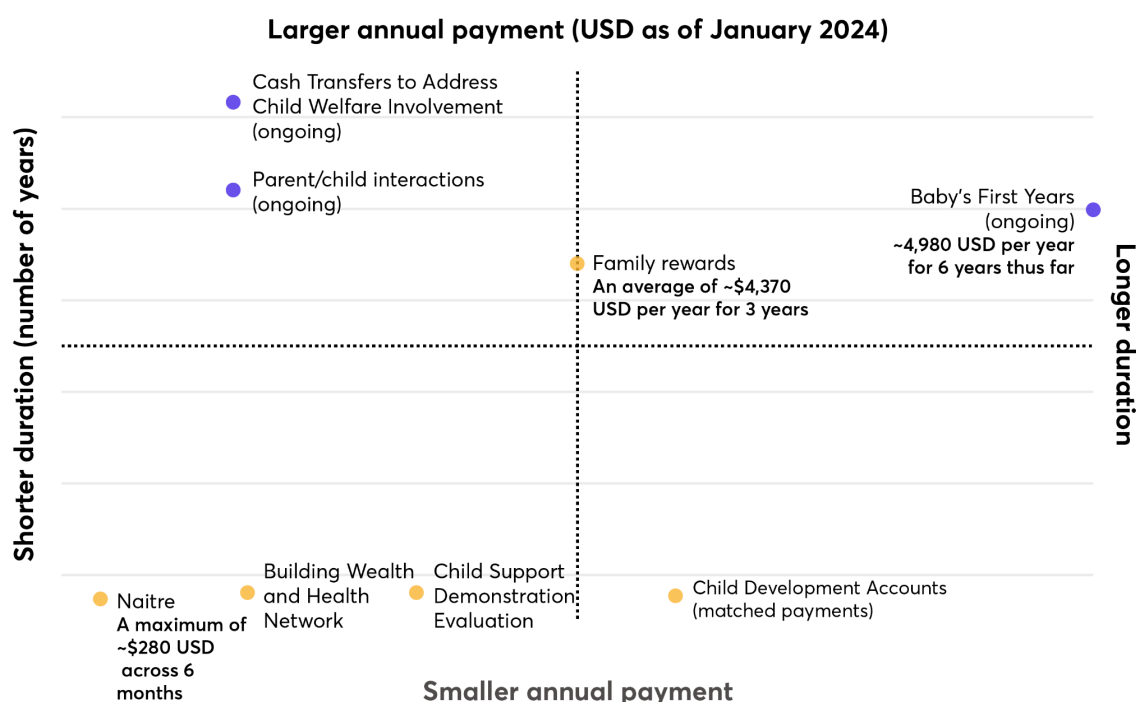
*Table 1. A brief description of identified cash transfer interventions*

| Intervention   | Nation | Description   |
|--|--------|---|
| <b>Cash Transfers to Address Child Welfare Involvement</b> | USA    | Intervention group received unconditional monthly cash transfers of \$500 USD.  |
| <b>Parent/child Interactions</b>                           | USA    | Intervention group received unconditional monthly cash transfers of \$400 USD.  |
| <b>Baby's First Years (BFY)</b>                            | USA    | Intervention group received unconditional monthly cash transfers of \$330 USD.  |
| <b>Naitre</b>  | France | Intervention group received €30, conditional on attending prenatal appointments for up to a maximum of 6 visits (€180). |

| Intervention                                     | Nation | Description  |
|--|--------|--|
| <b>Building Wealth and Health Network (BWHN)</b> | USA    | Intervention group received up to \$20 per month in a savings account, financial education, plus trauma-informed empowerment classes.  |
| <b>Family Rewards</b>                            | USA    | Intervention group received conditional payments of varying amounts for a range of behaviours (health, employment and education).  |
| <b>Child Development Accounts (CDA)</b>          | USA    | Intervention group had a savings account of \$1,000 USD opened for their children at birth, with contribution towards future college costs. They could also opt-in to an additional savings account, with an opening incentive of \$100 USD and matched payments for contributions by lower-income families. |
| <b>Child Support Demonstration (CSD)</b>         | USA    | The intervention group can retain all child support payments with no clawback through the welfare payments system.   |

**Figure 1. A comparison of interventions by cash payment size and duration**

Conditionality of payments ● Unconditional ● Conditional



Note. Payment amounts are inconsistently reported across studies and are not directly comparable. For Naitre, Building Wealth and Health Network and Child Development Accounts, the maximum annual payment amount a family in the intervention group could receive is plotted. For Family Rewards, the maximum average annual payment a family received is plotted. For the remaining interventions, the average annual payment amount to families is plotted. All payments have been adjusted for inflation and represent the value of payments in USD as of January 2024.

Note 2. Child Development Accounts also included a payment of 1,000 USD to families in to a state owned account at the start of the intervention. Only matched payments in to family-owned savings accounts are plotted above.

**We wanted to understand the impact of unconditional or conditional payments, and how much money makes a difference – but there is insufficient evidence to answer these questions.**

As illustrated above, the identified cash transfer interventions varied in terms of payment amount, duration and conditionality. Only three of the eight studies provide unconditional, guaranteed payments (ie, there are no conditions for families to fulfil in order to access cash payments). These studies, Cash Transfers to Address Child Welfare Involvement<sup>8</sup>, Baby's First Years<sup>9</sup> and Parent-Child Interactions<sup>10</sup> are ongoing and will be crucial to track, as not only do they provide the most generous payments to families but, they are also able to isolate the impact of additional cash to families on child or parent outcomes without presenting other confounding factors (namely, conditions attached to payments).

While variation in payment amount and duration might have been helpful in comparing the effectiveness of different interventions, several of the identified studies have not yet been completed or did not report comparable outcome measures, and so it has not been possible to ascertain what payment amount and for what duration might make a significant difference to early developmental outcomes. Moreover, the studies identified are all US-based; given the differences between the socio-political landscapes of the US and UK (including childcare, healthcare and welfare systems), generalising of study findings to the UK must be done with some caution.

**Most studies report differences favouring those who receive income increases, but the majority of these do not reach statistical significance.**

The cash transfer trials we reviewed found differences between the control group and intervention group, such that when compared to families not receiving cash, families receiving cash demonstrated greater gains across a number of outcomes of interest. For example, studies showed greater infant brain activity (Baby's First Years)<sup>11</sup>, greater reduction in maternal depressive symptoms (Child Development Accounts)<sup>12</sup> and greater child coverage by health insurance (Family Rewards and Child Support Demonstration)<sup>13,14</sup>.

However, very few of these relationships reached statistical significance, meaning we cannot conclude that the differences observed between families are due to receiving or not receiving the cash transfer, rather than due to chance. Thus, overall,

there is very little we can confidently conclude about the impact of the cash interventions on these outcomes.

Moreover, while we would ideally have liked to combine information across all of the studies to come up with an estimate of the average effect of cash transfers on child development outcomes, the evidence from the studies we identified does not allow us to do so, due to insufficient or inconsistent reporting across studies.

While this leaves us with uncertainty, we also know that there are ongoing trials, such as Baby's First Years, which will continue to build the evidence base and may help us better infer whether the impact of unconditional cash transfers to families in the UK would be, or at least could inform future UK-based work in this area.

## **2.2 UK policy interventions for changes to families' income in the early years**

As mentioned earlier, no randomised trials have taken place in the UK that analyse the link between cash-based support and child development. Nonetheless, the UK's benefits system already provides means-tested financial support to low-income households, with some of these benefits specifically received by low-income families with children. For example, low-income families in the UK are eligible for the child element of Universal Credit (for their first two children), those on low and higher incomes are also eligible for Child Benefit and in Scotland, families on qualifying benefits with children under 16 receive the Scottish Child Payment. Impact evaluations of these benefits to families with young children can therefore inform our understanding of how money might affect children's development in the UK.

With the UK's child poverty rates rapidly rising<sup>7</sup>, it's critical to investigate how the current benefits system is affecting families' financial hardship and the early outcomes gap. Table 2 briefly summarises some of the financial support sources we have identified and discussed for low-income families in the UK.



Table 2. A brief description of some financial support sources for low-income families in the UK

| Financial support  | Nation                              | Description   |
|--|-------------------------------------|---|
| <a href="#"><u>Child element of Universal Credit</u></a> | All UK                              | Parents receiving Universal Credit can get the child element for each of their dependent children born before 6 April 2017. The <a href="#"><u>two-child limit policy</u></a> means parents can only receive the child element of Universal Credit for their first two children, if their third child onwards is born after 6 April 2017 and does not qualify for an exemption. |
| <a href="#"><u>Child Benefit</u></a>                     | All UK                              | Parents responsible for a child under 16 or under 20 if in approved education or training can receive £25.60 for the eldest or only child and £16.95 for younger children a week (as of 6 April 2024). Child Benefit is reduced if one parent earns more than £60,000 per annum.  |
| <a href="#"><u>Best Start Grant</u></a>                  | Scotland                            | Three one-off payments available to low-income parents or carers to support with the costs of having a child at key transition points (after 24 weeks of pregnancy, when a child is between 2 and 3.5 years and when a child is old enough to start school).  |
| <a href="#"><u>Scottish Child Payment</u></a>            | Scotland                            | A payment of £25 a week, paid monthly to low-income parents with a child under 16   |
| <a href="#"><u>Healthy Start vouchers programme</u></a>  | England, Wales, or Northern Ireland | Vouchers aimed at supporting low-income families with children under 4 to better access a healthier diet. Vouchers are exchangeable for fruits, vegetables, and infant formula. The voucher value is £4.25 per week during week 10 of pregnancy to birth and for children between year 1 to 4. The value increases to £8.50 per week from birth to 1 years old.                 |
| <a href="#"><u>Health in Pregnancy (HiP) grants</u></a>  | All UK                              | A lump-sum transfer of £190 to all pregnant women, introduced in April 2009 and abolished in April 2011   |

**Preliminary evidence suggests that cuts to benefits are harming families in the UK, while additional payments to families are enabling parents to better support their children's development.**

The availability of different forms of support with overlapping but inconsistent eligibility criteria creates a complex patchwork of support for families with young children in the UK. Researchers have begun to disentangle these forms of support, assessing each of their impact on early child development outcomes.

Qualitative research from the Larger Families study on the impact of the two-child limit and the benefit cap shows how parents affected by these policies struggle to afford essential items for their children, including food, clothes and heating.

With limited financial support to make ends meet for their family, parents reported accruing higher levels of debt, including council tax, water, energy arrears, and credit card debt. Nesta and the Institute for Fiscal Studies are currently undertaking a study to evaluate the impact of this policy on early childhood development.

The Scottish Government has begun to evaluate both the Best Start Grant and Scottish Child Payment. However, as these initiatives are relatively new - set up in 2018 and 2020 respectively - the initial focus of evaluations has been on short-term outcomes, particularly the application process and fund utilisation. Qualitative interviews with parents and carers in receipt of the benefit highlight positive effects, such as decreased parental stress, improved children's emotional well-being, and enhanced physical health. Notably, the cash transfers enabled some families to afford better food, address hunger issues, engage in healthy activities like swimming, and assist parents of disabled children in covering essential medical and transport expenses. Researchers highlight the need to incorporate quantitative data into later evaluations of the payments - we would welcome this research and encourage the use of quasi-experimental methods to help build evidence of the causal impact of cash transfers.

**More work is needed to better understand how implementation of payments might be contributing to impact.**

At Nesta, we are actively exploring the most effective ways to support low-income families. There is a recognised need for optimised support, considering that preliminary evidence indicates varying levels of success among different cash transfer schemes in the UK. The different impacts of the Health in Pregnancy Grant

and the Healthy Start Vouchers provide a useful example for how different approaches generate different effects, and the importance of exploring the most optimal approach to supporting families.

A recent analysis of the Health in Pregnancy Grant for mothers in England and Wales between 2009 and 2011 revealed noteworthy positive outcomes, namely significant increases in birth weight and decreases in the proportion of babies born with low birth weight (<2500g). The author also found that younger mothers living in more deprived areas were most likely to benefit; in this group, the average increase in birthweight was 29g and there was a 1 percentage point reduction in rates of low birth weight<sup>19</sup>.

On the other hand, the Healthy Start vouchers program has generated conflicting findings on whether they influence changes in food spending<sup>20, 21</sup>, meaning it is unclear whether the program affects household behaviour differently from an equivalent cash transfer. However, qualitative evidence indicates reduced food insecurity among recipients. A more thorough understanding of the nuances associated with diverse financial support mechanisms is therefore essential for the development of interventions that effectively address the needs of low-income families.

As set out in the following section, we will continue to draw insights from past and current cash transfer schemes in the UK to understand how to design additional support that could better serve families, whether it be the impact of current initiatives on child development, the potential return on investment of different combinations of financial and non-financial support, or the most optimal delivery mechanisms for financial support.

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## 3. Next steps

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The high number of children living in poverty in the UK is alarming and more needs to be done to support families through financial hardship. Ensuring families are able to afford the essentials is important, regardless of whether this support has measurable impacts on early childhood development. However, high rates of child poverty are even more concerning when we view it in light of the link between poverty and early development: the early years are a key period in children's physical, cognitive and emotional development, and a lack of resources during this key period can have lifelong impacts.

Still, it is hard to draw clear conclusions as to what type, timing and level of support would best contribute to children's early development, given the lack of rigorous evaluation of cash-based interventions. From our review of the current evidence base, it is clear that further research is needed in the UK context, alongside monitoring of ongoing studies in the US, to allow us to assess the impact of cash transfer schemes on early childhood development. With the early outcomes gap showing no sign of closing<sup>22</sup>, we are determined to continue this work.

As a next step, we plan to further examine the impact of changes in welfare benefits in the UK on child outcomes through available data and previous evaluations. As welfare benefits changes have come on- or off-stream at different time points, this analysis should help us explore the relationship between these specific cash transfer programs and child outcomes. We'd then like to build on this work, by beginning to [estimate the wider economic returns of policies that change income for families with young children in the UK](#).

As we delve deeper into this work, we are keen to engage with different individuals or organisations also investigating and addressing the impact of income on families' lives. We invite any researchers, policymakers, service providers, campaigning organisations, consumer and parent advocates, or others working in this space, both in the UK and globally to reach out to us at [earlyyears@nesta.org.uk](mailto:earlyyears@nesta.org.uk).

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