SECTION III

STRONGER BALANCE SHEETS:
FINANCIAL SERVICES, CASH AND SAVINGS

Just Give People Money. But How and When?

BY JONATHAN MORDUCH AND RACHEL SCHNEIDER

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Just give people money. The idea is as simple as it is radical. At least it was radical until the coronavirus pandemic. With sluggish wages and household savings eroded by the pandemic, many struggling households simply need cash. Giving cash has turned out to be a powerful policy tool—its use is flexible, and households can spend it on their most pressing needs, whatever those are.

But not all money is the same. The amount matters, obviously, but the timing matters too. When you're threatened with eviction, to take an extreme example, having the right amount of money at the right time can be the difference between maintaining housing and experiencing homelessness. The same amount of money received even a few weeks later might not help.

To be successful in the long term, households need to be successful in the short term, too. Short-term cash flows need more attention.

That probably seems obvious, but policies designed to support the finances of American families do not focus much on cash flows and the challenges they create in getting through the month or year. The focus has been instead on building long-term saving, income and wealth. To be successful in the long term, however, households need to be successful in the short term too. Short-term cash flows need more attention.

That was one of the big lessons that we took away from spending a year tracking the financial lives of American families. Our research team spent a year with low- and moderate-income households in Ohio, Kentucky, Mississippi, California and New York. In *The Financial Diaries*, we explored how money moves through people's lives. What emerged was a picture of month-to-month volatility, with both income and spending needs rising and falling from month to month. The core challenge for families was often how to deal with the mismatch between earning and spending needs. On an annual basis, the families may have earned enough to cover the costs of their lives, but in any given month, they might be under water. They lacked the financial cushion, tools and basic predictability that would have made it possible to cope with bad weeks or months. Timing really mattered.

A group of mayors, from Newark to Los Angeles, has responded to America's money needs by forming a coalition, Mayors for a Guaranteed Income. All are committed to piloting programs that provide households with regular cash transfers. Unlike universal basic income, the money is targeted only to low-income residents. In some pilots, the transfers are $500. Sometimes $1,000. Usually monthly. These kinds of cash transfers would surely help the families we got to know.

But our research pushes us to ask, Why monthly? There's nothing sacred about steady monthly cash transfers. Some people with jobs are paid weekly. Others are paid regular amounts throughout the year and then get big year-end bonuses. Some government policies, like Social Security, provide steady resources month by month. Others, like the Earned Income Tax Credit (EITC), give large lump sums once a year.

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For some of the households we studied, a steady payment, perhaps $100-$250 every week, would be the best way to keep bills paid and food on the table. If that's the goal, then giving money in the form of steady flows makes most sense.

But if the goal is to foster big investments and build assets or protect from unpredictable or unavoidable harms, it may be the wrong policy. Receiving $100 for 50 weeks is not the same as receiving $5,000 at once. The extra $100 each week might melt right into weekly spending. A single $5,000 check, in contrast, is more likely to go toward a big expense like a car, a tuition bill or a security deposit that might otherwise be paid for with credit. It takes effort for people to turn small flows into big sums, which is why the large tax refunds associated with the EITC are one of the most powerful and popular parts of the current safety net.

Debates over flows and lumps already shape macro policy. In 2009, during debate over how to recover from the Great Recession, some argued for giving American households stimulus payments in small, regular installments that would likely be spent quickly. Others pushed for big, one-time, impossible-to-ignore checks with greater political salience. Advocates for small, steady flows won the argument.[1]

[1] President Obama reflects on the choice in *A Promised Land* (Crown, 2020, p. 524).

But when a similar question came up in the Biden administration's American Rescue Plan, policymakers split the difference between flows and lumps. A centerpiece of the proposal was a refundable Child Tax Credit for families. In the final law, the American Rescue Plan Act, half the money for the Child Tax Credit is to be distributed monthly, from July to December 2021, with the other half distributed as a large, single lump at tax time in 2022. If families want all the money as a lump, they can opt out of the monthly installments and get an even larger check in 2022. Tracing how families respond to these variations in the form and timing of funds will offer politicians useful insight as they weigh future versions of a child credit—or, of course, any other cash transfer program.

Insight is also coming from innovative pilots being run by cities. In Compton, California, for example, the way that timing matters is being tested by giving money to a group of low-income residents every two weeks for two years. Another randomly assigned group is instead getting the same money in total but disbursed as larger sums every three months. The pilot, called the Compton Pledge, will open another window on how the cadence of money—not just the amount—shapes households' outcomes.

Another way to think about the timing for cash support is to provide it at the moment it is most needed. Canary, a new social enterprise launched in response to the learnings of the *Financial Diaries* research, delivers cash transfers to workers in moments of financial hardship. This work will help us better understand how lump sums given in direct response to a specific need work to build financial security. Because the cash transfers are funded by employers and employees together, the fund aims to be less like a handout and more like a (collaborative) hand up. *Canary is built around the idea that money matters, timing matters and the source of the money matters too. Receiving emergency assistance from a collective pool is not charity; it is a draw from a shared resource.* In a similar way, part of the power of the EITC is that it is not just money; it is earned in exchange for hard work.

Technology and data processing are making it easier to make more of these ideas viable. In principle, it is now technically feasible to customize disbursements to households to exactly when and how they want to receive them. Some might want their EITC payments in one big lump, the way that they work now, for example. Others might prefer part of their EITC payment in the middle of the year when a tuition bill comes due or when the timing is right for a particular investment.

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As America imagines a 21st-century safety net—and the roles of governments, businesses and communities—some of the solutions will involve just giving money. The right amount of money at the right time can make a big difference for people, especially for working families without much financial slack. That requires beginning with the idea that in fact it's not *just* about money. How and when matter too.

Jonathan Morduch is a professor of public policy and economics at New York University's Wagner Graduate School of Public Service. He is a co-author of *The Financial Diaries: How American Families Cope in a World of Uncertainty* and a member of the research team evaluating the Compton Pledge.

Rachel Schneider is the chief executive officer of Canary. She is a co-author of *The Financial Diaries: How American Families Cope in a World of Uncertainty.*