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DIRECT CASH PAYMENTS in the NEXT RECESSION

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INTRODUCTION

In the teeth of the coronavirus pandemic, American policymakers initiated a series of large, direct cash transfers. A bipartisan coalition in Congress approved on three occasions economic impact payments (EIPs) in 2020 and 2021. Alongside an expanded child tax credit (CTC), the Congress authorized a total of nearly $1 trillion of direct cash transfers.[1] Most Americans received about $3,000 over the course of three payments, with parents of children under 18 also receiving the monthly child tax credit of about $300 for one year (U.S. Department of the Treasury 2020).

These payments had a humanitarian and a macroeconomic rationale. In the midst of a very unstable time for American families, the cash transfers provided immediate, direct income support, regardless of employment status. Policymakers also designed the transfers to have a macroeconomic stimulative effect, an attempt to support an economy in freefall by encouraging consumers to spend.

Popular and effective in their humanitarian and macroeconomic functions, cash-based stimulus payments have increasingly become a favored policy among legislators, particularly in acute moments of economic crisis. Federal agencies have generally been able to quickly distribute the funds, and legislators have been able to target them to families most in need (see, for example, Haughwout 2019, Boushey, Nunn and Shambaugh 2019, McKay and Reis 2013, and Maravalle and Rawdanowicz 2020). The COVID-era payments drew on a number of historical and institutional precedents. President Bush signed a bill passed by Congress distributing cash payments in the Great Recession in 2008, although the amount was significantly more modest and narrowly distributed.[2] Existing cash transfer programs, such as the Earned Income Tax Credit, Child Tax Credit, and Social Security benefits add up to $244 billion per year.[3]

The COVID support payments dramatically alleviated poverty and improved the household balance sheets of many middle-class families. They also supported a remarkably resilient labor market, helping unemployment remain at historically low levels despite major interest rate hikes initiated by the Federal Reserve in 2022. By the end of 2021, the U.S. supplemental poverty measure stood at 7.8 percent, down from 11.8 percent in 2019, the last pre-pandemic year (Vaquer 2022). Once the economic impact

1 This support began with the CARES Act of March 2020, which included $250 billion of funds distributed in the form of $1,200 support payments to individuals making less than $75,000 annually, as well as an extra $600 a week for individuals claiming unemployment insurance. It was followed by a series of executive orders in August 2020—which ordered a further $400 increase in weekly unemployment insurance—and the Consolidated Appropriations Act of December 2020—which mandated a further $300 increase in unemployment insurance for 11 weeks, as well as additional $600 direct payments to individuals. The American Rescue Plan of 2021 authorized an additional $1,400 support payment per person, bringing the total spent on support payments across all legislation to approximately $1 trillion.

2 President Obama authorized additional payments to families in the form of the Making Work Pay tax credit, which was authorized by the American Recovery and Reinvestment Act of 2009 and provided 95 percent of working families a tax cut of $400 per person or $800 per couple in 2009 and 2010 (Bernstein 2010).

3 As of 2019. Consisting of $70 billion for EITC (Peter G. Peterson Foundation 2021a), $118 billion for the CTC (Peter G. Peterson Foundation 2021b), and $56 billion for Social Security (Social Security Administration 2020).

payments and child tax payments stopped, poverty skyrocketed, reaching 12.4 percent in 2022 (Schrider and Creamer, 2023). The expanded CTC payment alone is estimated to have moved almost six million children out of poverty, using the supplemental poverty measure (Parolin et. al. 2021). Once it was extinguished, childhood poverty doubled from 5.2 percent in 2021 to 12.4 percent in 2022 (Schrider and Creamer, 2023).

CTC PAYMENTS REDUCED MEASURES OF POVERTY BY:

17.1%
for Black children

20.7%
for Hispanic children

These poverty-fighting benefits were particularly pronounced for people of color. The CTC payments reduced measures of supplemental poverty for Black children by 17.1 percent and for Hispanic children by 20.7 percent (Burns et.al. 2022). More broadly, COVID relief measures lifted more than 8 percent of Black and Hispanic people above the poverty line who otherwise would not have been. Between December 2020 and December 2021, the number of households who reported not having enough to eat fell by about 30 percent for Black and Hispanic adults (CBPP Staff 2022). These policies meaningfully helped poor and middle-class households, while also ensuring that the broader economy did not incur significant scarring that would otherwise take years to recover from.

The impact of the payments, however, was significantly hobbled by major design flaws. The support payments were largely billed as temporary, crisis-fighting measures, making it difficult for recipients to enjoy the stability that regular payments would have afforded.[4] Congressional Democrats hoped that the child tax credit expansion could be made permanent, but their effort to make such a change failed in intraparty negotiations in the summer of 2022. The payments were, by definition, unreliable over the long-term since they were structured as one-time payments in the case of the stimulus checks or a single-year expansion of the child tax credit. Congress required the Internal Revenue Service and Social Security Administration to distribute the payments, saddling two agencies already stretched thin with new, broad responsibilities. The payments were also very broadly targeted, meaning that married couples making up to $150,000 received them. Many of these funds were saved by the middle class, undermining the expected stimulus effects (Robertson 2022).

Now that well over a year has elapsed from the final disbursements, this is the moment for

4 Congressional Democrats hoped that the child tax credit expansion could be made permanent, but their effort to make such a change failed in intraparty negotiations in the summer of 2022.

policymakers to evaluate the effectiveness of the COVID cash transfer programs in order to lay the groundwork for future programs that might more effectively stabilize the financial lives of families and fight future recessions.

In this report, we argue that the federal government should build on the remarkably successful recession-fighting programs of 2020–21 and develop plans today for our next recessionary moment. We propose that Congress should create a program of automatic, cash-based stabilizing payments, equivalent to about 2 percent of GDP. Payments should commence automatically upon the realization of clearly defined trigger events, rather than requiring additional Congressional action. This design serves a dual technical and political purpose. Technically, it will enable the federal government to prepare for cash transfer events so that the methods for efficient delivery are in place. Politically, working in more prosperous times to plan for the next crisis will help ensure that a robustly debated and considered policy is ready to be deployed in a crisis moment. We no longer will have to stand by and hope that Congress can break partisan deadlocks to help people in need.

A similar philosophy undergirds many existing government programs. Unemployment insurance, food stamps, and some Social Security and healthcare benefits are all designed to automatically "kick in" in moments of economic recession without new legislation.

The idea of cash-based automatic stabilizers has been discussed for several years. In 2019, the economist Claudia Sahm provided a framework for defining the onset of a recession—the so-called "Sahm Rule"—that can be used as a detector of trigger events for automatic stabilizer programs. Specifically, she proposed that when the three-month average national unemployment rate rises by a half point relative to its low in the previous 12 months, the federal government should immediately activate a system of quarterly payments to American adults and children equivalent to 0.7 percent of GDP (about $161 billion in 2021 dollars) (Sahm 2019). This report builds on Sahm's pioneering work. We propose a set of income-targeted monthly cash payments, the automatic commencement and duration of which is determined using a Sahm Rule framework.

THE "SAHM RULE"

A framework by economist Claudia Sahm

When the **3-month** average national unemployment rate rises by **½ pt.** relative to its low in the previous **12 months**, the federal government should immediately activate a system of **quarterly payments** to American adults and children equivalent to **0.7%** of GDP.

We believe that economic policies of this nature must be built on an analytic foundation that places emphasis on the needs of Americans of color. Black Americans in particular are significantly more likely to lead lives of economic precarity. They tend to be employed in occupations that are more sensitive to recessionary downtowns, making them often the first to be laid off when a recession arrives and the last to be hired when the economy recovers. Black families continue to experience a persistent and yawning income and wealth gap, depriving them of the basic foundation of stability that other Americans enjoy. They are less likely to gain access to unemployment insurance and other government programs with significant levels of administrative burden. For these reasons, we believe any cash-based automatic stabilizer must pay special attention to ensuring that the benefits of the program reach people of color, with a particular focus on Black Americans (Aaronson et. al. 2019).

We examine three scenarios where the Sahm Rule would have been triggered in the recent past: the COVID pandemic contraction, the Great Recession of 2007-08, and the bursting of the Dot Com Bubble in 2001.[5] For each scenario, we model a distribution of automatic payments significantly more robust than what Sahm originally proposed, with more narrow targeting to help poorer families and families of color. Our results indicate that a direct cash transfer program triggered in recessions amounting to 2 percent of GDP would boost the income of the average family in America between 3.2 and 4 percent, depending on the recession. The average Black family in America would see their income boosted between 6.6 and 8.3 percent, and those at the 10th income percentile would see their incomes boosted by an average of 60 percent.[6]

Our proposed

DIRECT CASH TRANSFER PROGRAM WOULD

BOOST

INCOME BY

+3.2–4%

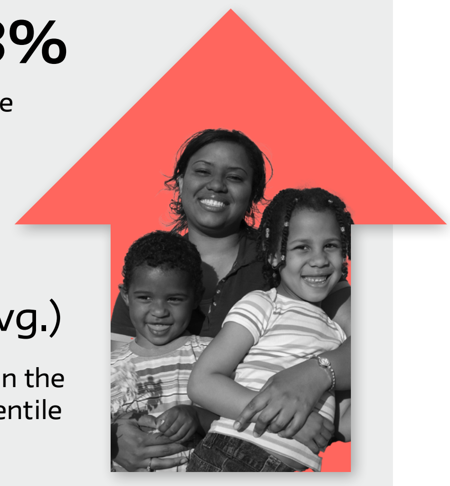
for the average family in America

+6.6–8.3%

for the average Black family

+60% (avg.)

for Black families in the 10th Income Percentile



5 The even more recent COVID recession is excluded because of its uniquely sudden and extreme nature.

6 White families would also benefit, seeing their average incomes boosted by an average of 3 percent, with White families at the 10th percentile boosted by an average of 33 percent.

WHY EXISTING PROGRAMS ARE NOT ENOUGH

The term "automatic stabilizer" encompasses a wide range of government programs that activate automatically without requiring new legislative action. Congress has designed these programs to cushion the financial effects of adversity in prosperous and recessionary times alike. Social Security, for instance, provides regular cash payments to the elderly and disabled, regardless of economic growth. In recessionary times, however, these funds act as a buffer, propping up consumer demand precisely because they are not reliant on the labor market. Another automatic stabilizer, unemployment insurance, by contrast, responds to change in the labor market by increasing expenditures as terminations increase, buffering the shock of widespread layoffs. Similarly, the structure of the income tax code works as a kind of automatic stabilizer, lowering the tax burden in years of adversity when incomes are lower and raising them in times when more families are flush.

Historically, legislators have not authorized automatic cash support payments for a number of reasons. Firstly, broadly-targeted cash-based payment programs are expensive, which is a natural disincentive. Their costs will be overestimated to the extent that they are assessed by economic analyses that do not adequately capture the programs' macroeconomic stimulus effects.

Secondly, legislators historically expected that the unemployment insurance system would solve many of the issues raised by cyclical unemployment. The onset of the COVID pandemic dramatically demonstrated the extent of the design flaws in the existing system of unemployment insurance. In March and April of 2020, unemployment skyrocketed, rising from 3.5 percent in February to a peak of 14.7 percent in April.[7] The unprecedented wave of applications led to state-based unemployment insurance systems failing, with phone lines jammed. Websites in New York, Oregon, and elsewhere crashed, leaving people unable to process their applications (Zakrzewski 2020). Many newly unemployed people found that they did not qualify for insurance due to a series of byzantine exemptions: the self-employed, gig workers, undocumented workers, students, and people who worked fewer than six months in the previous year are typically not eligible. People who had recently moved to a new state encountered similar problems (Long and Bhattarai 2020). Many workers voluntarily left employment out of fear of contracting the coronavirus, disqualifying them from receiving unemployment benefits.

Even those who did qualify for unemployment insurance faced underfunded and overwhelmed infrastructure. Even after submitting a successful application, many were left waiting several months for their money to arrive (Iacurci 2020). Emboldened by these delays, there were cases of criminal organizations attempting to steal funds through identity theft (Cohen 2020).

The challenges in the American unemployment system in 2020 were not just problems caused by a once-in-a-generation pandemic; they exposed long-standing problems within the system. Deliberate inefficiencies have been built into the unemployment insurance system, often as part of

7 See https://fred.stlouisfed.org/series/UNRATE

a cynical attempt by politicians to hold down their state's official unemployment figures (Adamczyk 2020 and Fineout and Caputo 2020). Even before COVID struck, this resulted in only a minority of people without jobs receiving unemployment insurance. Nationwide, pre-pandemic, less than 30 percent of unemployed people received unemployment insurance. In one particularly egregious state, North Carolina, this figure was less than 10 percent (Evermore 2020).

Other anti-poverty programs that function in addition to unemployment insurance, like the Supplemental Nutrition Assistance Program (SNAP), known colloquially as "food stamps," are critical in moments of recession, but they are modest in size and unnecessarily restrictive. The average SNAP-recipient family received only $239 for the fiscal year 2019,[8] and, in most cases, families with a gross monthly income over 130 percent of the Federal Poverty Level (which can be as low as $1,473 per month) do not qualify for any assistance (United States Department of Agriculture 2022a). The American Rescue Plan introduced a temporary 15 percent increase in SNAP benefits for all recipients, around $27 per month per person (United States Department of Agriculture 2020). Over 41.5 million people made use of SNAP in 2021, a large increase on the 35.7 million who had done so in 2019 (United States Department of Agriculture 2022b). While helpful as an anti-poverty device, the size and scale of the SNAP program is far too small for the pronounced needs of struggling Americans in recessionary times.

8 See https://www.fns.usda.gov/SNAP-household-state-averages/2019

THE IMPORTANCE OF AUTOMATIC STABILIZERS

Policymakers have no crystal ball and cannot predict when the next recession will arrive or how deep it will be. We do know with certainty, however, that America will continue to experience periods of economic contraction in the business cycle. America has experienced four recessions in the past 30 years, and more will occur given the nature of our economy.

Automatic stabilizers are uniquely powerful because of their ability to help mitigate the effects of economic adversity without new legislative action. In some recessionary moments, bipartisan agreement can come quickly. As the full scale of COVID's humanitarian and economic consequences dawned in the spring of 2020, Republicans and Democrats alike were quick to agree to large public investments totaling trillions of dollars, largely on a bipartisan basis. After the inauguration of Joe Biden in January 2021, however, bipartisan agreement broke down. Republicans refused to engage constructively with the American Rescue Plan and favored austerity. Over a decade prior, Republicans cared little about deficits under George W. Bush but performed a swift about-face under Barack Obama, refusing to support his administration's stimulus plan. In a time of increasing polarization, it is simply not acceptable to ask American families to rely on a vague hope that the next crisis will again create a moment of bipartisan agreement.

Even if that were possible, it's wise to use relatively prosperous moments in the economy like the one we're experiencing today to think carefully and judiciously about how best to structure recessionary programs. The urgency of crises often means that important decisions must be made in haste, creating a structural tilt toward solutions that are simple and easy to reach through compromise. High income thresholds, for instance, are a powerful tool to curry more political support for cash transfers in crisis moments, because more of any given politician's base will receive the payments, theoretically boosting their popularity. This is often not good policy, but the expediency of a crisis requires compromises of this nature.

Similarly, planning in prosperous times enables implementing agencies to develop the programmatic frameworks to ensure that cash distributions happen as effectively and efficiently as possible. Ensuring that everyone who qualifies for payments receives them as quickly as possible is a high priority goal for policymakers and the agencies of government responsible for implementation alike. This requires investment in state capacity to ensure effective program administration. It requires investing in program staff and building a technical framework to ensure efficient distribution and minimize any problems. It also requires building a customer service and quality assurance program to handle any failures or issues. All of these programs are easier to administer if they have been built in non-emergency periods and stand ready to be utilized when a recession hits.

Recessions vary immensely, and no two are alike. Some come fast and clearly, while others are more gradual and lack a clear precipitating event. Some are caused by exogenous shocks and are far-reaching; others may be more modest in scope and duration. Even when a slowdown is in full flow, there are occasionally academic disputes over whether or not a recession is even happening, which can further delay action.[9] To some skeptics, automatic stabilizers are not appropriate because they provide a one-size-fits-all approach to all recessions. We want countercyclical fiscal policy designed for a specific moment in time, they argue.

This is a false choice. Automatic stabilizers are critical to have as a foundation for responding to recession, but there is no reason that Congress could not step in to design supplementary countercyclical policy that fits the needs of the moment—or even to alter the nature of the automatic stabilizer in that moment. Unemployment insurance provides a crisp example of how this works in practice today. Workers who lose their jobs in a downturn immediately gain access to the unemployment insurance system, but Congress often chooses to increase the size of the benefits in certain moments of economic contraction. In 2020, Congress also made more individuals eligible to receive these benefits, recognizing the patchwork nature of policies of the time. Importantly, however, the creation of the automatic stabilizer means that the default if Congress does nothing is meaningful support for American families, rather than stagnation.

The triggering of the cash-based automatic stabilizer could well serve as a useful catalyst for further policy action, a kind of "early warning" system for recessions that are slower or more gradual. The Sahm Rule, for instance, would have been triggered immediately before every recession since the Second World War.[10] The beginning of disbursements of large-scale cash assistance to millions of American families might move policymakers to focus their attention on the specifics of a given crisis and develop policies to mitigate its effects.

9 See the disputes as to whether the U.S. entered a recession in 2022 after two consecutive quarters of contraction as a recent example.

10 See https://fred.stlouisfed.org/series/SAHMCURRENT

DESIGN

Our proposal for cash-based automatic stabilizers will be designed with five main goals in mind: timeliness, size, stability, targeted/anti-racist, and additive. The cash-based benefits need to be triggered early enough to ensure that the recession's effects on unemployment are as moderate as possible, elevating the importance of timeliness. Our focus on size is not as simple as "bigger is better." We believe the cash transfers need to be right-sized to help as many American families as possible and to support the macroeconomy, without wasting dollars on those not in need or causing the economy to overheat. Finally, research shows that cash payments have the strongest psychological and economic effects when they are regular and predictable. Stability of the program means that everyday Americans should be able to clearly understand when they turn on and off, and they need to be able to rely on a distribution system with relatively few issues.

We believe that any cash-based automatic stabilizer program should be anti-racist in its design, management, and implementation. That means it should be crafted to account for the historical effects of structural racism in the development of the American political and economic system (Chelwa, Hamilton and Green, *see full report here*). The design of any just political program must take into account who stands to benefit, with priority given to those who have been historically marginalized by public policy. When it comes to direct cash transfers, the distribution of their benefit should reflect the promise of a progressive political economy that prioritizes people of color.

1 TIMELINESS

The Sahm Rule provides a useful benchmark for ensuring timely activation of a cash-based automatic stabilizer program. When the three-month moving average of the national unemployment rate rises by 0.5 percent or more relative to its low during the previous 12 months, the government would begin to distribute payments. When the Sahm Rule is triggered, the Secretary of the Treasury can issue a one-time pause of up to 30 days, but only legislative action could put a hold on payments after the initial window has expired.

In the original paper setting out her rule, Sahm proposed that payments would initially be made on an annual basis for one year. A second round of annual payments would be made if the unemployment rate were 2 percent or more higher than when the Sahm Rule was triggered. In Sahm's framework, payments would continue annually until the unemployment rate dropped to within 2 percent of the rate at which they were originally triggered (Sahm 2019, 76-77).

The support payments proposed in this report meaningfully differ in structure from those laid out by Sahm in her paper. Most prominently, we propose monthly payments rather than annual ones, for reasons we discuss in our consistency and reliability sections. **We propose that the payments continue until the three-month moving average of the national unemployment rate begins to decrease, signaling the start of a labor market expansion.**

2 SIZE AND FINANCING

Over the course of 2020-21, Congress authorized about $1 trillion of emergency cash support payments in response to the COVID pandemic. The first tranche of Economic Impact Payments (EIPs) was authorized by the CARES Act, providing for payments of up to $1,200 per adult and $500 per child under age 17. Congress authorized the second round of EIPs in December 2020 in the COVID-related Tax Relief Act, with amounts up to $600 per eligible adult or child under 17. The final round of EIPs came in March 2021, authorized by the American Rescue Plan. Eligible individuals received $1,400 and eligible married couples filing jointly received $2,800 (plus a further $1,400 for every qualifying dependent). In all cases, payments were reduced for individuals with adjusted income greater than $75,000, or $150,000 for married couples filing a joint return (U.S. Department of the Treasury 2020).

In addition to the Economic Impact Payments, Congress significantly expanded the child tax credit, providing between $250 and $300 monthly to each child for one year.

A single, eligible person would therefore have received $3,200 across the three rounds of payments, while a married couple (filing jointly) and two dependent children ages five and under would have received $18,600 over a two-year period, about $9,300 a year.

The total cost of the Economic Impact Payments was $838 billion, and the expanded child tax credit cost $94 billion, making the total cost of pandemic-related cash transfers $931 billion. Given that the payments occurred over an approximate two-year period, the average annual cost was $465 billion, or 2.02 percent of annual GDP (Government Accountability Office, 2022).

The cash transfers of the COVID crisis were generous by historic standards, eclipsing the levels of cash assistance in previous recessions. Some economists believe that the size of the cash assistance was a major factor in spurring the subsequent inflationary surge that began in 2021 and continues today (Davis 2021). There is little evidence, however, that this is true. The best estimates of the causes of inflation suggest that supply chain effects and geopolitical instability accounted for the bulk of the inflationary surge, with only a modest amount attributed to increased demand as a result of fiscal stimulus (Stiglitz and Regmi 2022). Until the end of 2021, nearly 75 percent of inflation could be explained by COVID-related supply shocks to specific industries, notably automobiles (Manheim Used Vehicle Value Index 2020), oil, and meat production (United States Department of Agriculture 2022c). Since February 2022, inflationary shocks have been exacerbated by the Russian invasion of Ukraine, which disrupted global energy markets and markets in semiconductors (Alper 2022) and grain (Klein 2022). Meanwhile, the Omicron COVID surge in China, put more than half of that country's productive capacity under some form of quarantine (Harding 2022) and disrupted global shipping lines (Koh and Varley 2022).

For the sake of future policy planning, we use 2 percent of GDP as our baseline target for the overall size of a cash transfer program. Using 2021 GDP of 23 trillion as our baseline, the cash program would be capped at total annual spending of $430 billion, about 6.8 percent of total federal government budget expenditures (Bureau Economic Analysis, 2022).

We target our automatic stabilizer cash payments to families making less than $78,000 of household income (see section 4 on page 16).

Families receiving the full benefit would receive about $3,200 for each adult or child in the family. A family at the 25th percentile of income distribution who makes $33,280, for instance, would receive $6,384. See the table below for more information.

Automatic Stabilizer Distributions by Household Income

Household Income Distribution	Household Income *(2021 CPS Data)*	Benefit Amount, Per Capita
1%	$0	$3,665
5%	$9,396	$4,618
10%	$15,616	$4,884
25%	$33,281	$6,384
50%	$68,000	$3,939
75%	$123,025	$0
90%	$201,830	$0
95%	$275,020	$0
99%	$505,686	$0
Mean	$97,394	$3,503

Legislators have multiple options when it comes to deciding how to pay for the automatic stabilizer. In the COVID pandemic, policymakers financed the entire cost of the cash payments, effectively borrowing the trillion dollars in a time of duress. This made sense given that short- and long-term rates hovered near historic lows. Legislators might follow a similar route and choose to finance the entire cost of a future automatic stabilizer program, premised on the belief that issuing debt in a recessionary moment can be a helpful countercyclical fiscal stimulus.

By contrast, legislators could attempt to pay for the cost of direct cash payments by increasing taxes when the economy is performing well. There are a variety of options for raising revenue, including increases on income tax levels (which could be financed in a legislative decision in 2025 not to renew the Trump-era tax cuts), a financial transfer or carbon tax, or more inventive methods like a wealth tax. Legislators could even choose to levy a tax that would only kick in when the economy is humming as a way of creating a natural damper to the expansionary cycle.

Just as the automatic stabilizer would act in a countercyclical fashion in the recession, so too would its pay-for in expansionary times.

Finally, legislators could attempt a blended approach, partially paying for future expenditures through increased taxes and paying for the rest through government debt. All of these scenarios are workable. A decision about how to pay for the automatic stabilizer is fundamentally a political one that Congress will have to face in the legislative process. There is no shortage of ways to find the funds to make direct cash payments of this size possible.

3 CONSISTENT AND RELIABLE

Economic support payments in moments of financial crisis have generally been designed to provide one-time infusions to American households. Policymakers usually identify an imminent recession and incorporate cash payments as part of a broader stimulus package. Unsure of how the economy might evolve or how much of an impact the payments might have, legislators have generally chosen not to make the payments recurring.

An important exception to this was the Child Tax Credit (CTC) expansion, passed as part of the American Rescue Plan. Legislators increased the maximum amount to $3,000 per qualifying child aged between 6 and 17, and to $3,600 per qualifying child under the age of 6. Payments were made monthly (up to $300 per month for children under 6, and $250 per month for 6–17-year-olds), and the credit became fully refundable, meaning even those without labor income could receive the full benefit (IRS 2021). Most Democrats had hoped to make the CTC expansion permanent in subsequent legislation in 2022, but the effort failed in legislative negotiations.

When cash transfers are one-time events, they do not generally shift recipients' expectations of future income, making recipients more likely to use the payment for an immediate, near-term expense or save it. This can work against the intent of policymakers, who tend to want cash transfer payments to be spent in the short term rather than saved to give a countercyclical boost to the economy. By contrast, consistent payments that recipients can reliably anticipate can help families plan, either not to reduce spending despite a downtown or even to increase it depending on the family's situation. In a Chicago pilot of a direct cash transfer program, 90 percent of families preferred regular cash transfer payments to receiving a single lump sum (Bellisle 2015).

Recurring payments also have a higher poverty-fighting effect. Research from Columbia University has shown that recurring, monthly payments of the child tax credit lift 30 percent more kids out of poverty than a single lump sum (Hamilton et. al. 2022a). By smoothing payments over the course of the year, it enables families to benefit from ongoing infusions of cash to help with expected and unexpected costs alike. The recurring nature of these payments also reduces reliance on payday lenders and other high-cost credit products (Hamilton et. al. 2022b).

Policymakers and economists have often shied away from the idea of recurring payments, even in moments of crisis, because of concerns about disincentivizing work. These same concerns plagued the creation of the unemployment insurance program nearly a century ago, and they became somewhat pronounced in 2021 as labor markets returned more sluggishly to pre-pandemic employment levels than many had expected. Analysis of what caused this sluggishness, however, finds no causal relationship to cash transfer programs or enhanced unemployment insurance. Recipients of the monthly child tax credit in late 2021 were no less likely to work than those who did not receive the benefit (Ananat et. al. 2021). Similarly, states that reduced the size of unemployment insurance payments early in the pandemic did not see higher labor force participation rates than states that retained the supplementary benefit (Dube 2021 and Iacurci 2021).

For payments to be reliable and consistent, government agencies tasked with distributing cash transfers need to be prepared. In the COVID pandemic, legislators were able to issue direct cash transfers by repurposing existing systems. Government agencies performed well by almost any standard, although additional time and preparation could have improved performance even more.

The Internal Revenue Service (IRS) distributed most cash transfers in the COVID crisis by directly transferring funds to commercial bank accounts. The IRS already uses taxpayers' commercial bank accounts to process tax refund payments, meaning that the agency had this information on file for more than 80 percent of taxpayers when the pandemic began (benefits.gov 2023). Those without the information on file received checks. About 73 million households do not pay federal income tax, and they are not required to file federal tax returns (Gleckman 2022). These individuals were able to access a portal page created by the Treasury to file streamlined tax returns, thereby enabling them to access the economic impact and child tax credit payments.

Recipients of social security and railroad retirees, who typically do not file tax returns because of their low income levels but who have details on record with the Social Security Administration (SSA), were not required to fill in these simple tax forms. Instead, the SSA shared their information with the IRS, who distributed the support payments (AARP Staff 2020).

The Treasury was able to begin disbursements of the first Economic Impact Payments about two weeks after legislation was signed. By the time the third set of payments were authorized, the Treasury began sending out payments the following day (Gelman and Stevens 2022 in Edelberg et. al. (eds.) 2022, chapter 3), a noteworthy example of government efficiency and evidence of how advance notice can help government act even more efficiently.

An estimated 89 percent of recipients with incomes less than \$25,000 received their Economic Impact Payments, while 95 percent of recipients with incomes between \$35,000 to \$99,999 received theirs. Recipients who did not receive the benefit fell into two categories: those who did not file taxes or receive Social Security benefits, and those who remained unbanked. (Approximately 4.5 percent of American households remain unbanked, see FDIC 2022.) With additional time to prepare, the Treasury and IRS could prioritize outreach to non-filing and unbanked families to ensure that they receive the cash-based benefits.[11]

11 The easiest solution might be for either the Treasury or the Federal Reserve to create a system of checking accounts for every American resident. This would enable the government to simply credit money to the relevant accounts, and allow the owners of the accounts to access the money easily (see Crawford, Menand, Ricks 2021).

Cash-based automatic stabilizers need to be reliable and consistent to have the maximum impact on families and the maximum amount of macroeconomic effects. Planning in prosperous times will help ensure that all Americans who qualify for these benefits will receive them, and that they do so in a recurring fashion.

4 TARGETED AND ANTI-RACIST

Cash-based automatic stabilizers offer a powerful opportunity to combat the structural racism that has been central to American political economy for centuries. People of color have been systematically excluded or deprioritized when it comes to many government-run social and economic programs (Katznelson 2006 and Hamilton 2019). Black workers in particular have historically been excluded from many of the benefits of the American welfare state, including the exclusion of classes made up disproportionately of Black workers from various New Deal programs in order to appease Southern conservatives (Kazin 2022, 186-187), through to racist redlining practices in the postwar decades (Rothstein 2017, 93-94). For public policy today and in the future to be anti-racist, policymakers must consider its impacts on racial stratification and purposefully design it to address historical injustices.

The racial income and wealth gap in the United States is pronounced. In 2020, the median Black income was $45,870 compared to $74,912 for White non-Hispanics (Shrider et. al. 2021), and in 2021, 84 percent of total American wealth was held by White individuals, compared to only 4 percent by Black Americans (Federal Reserve, 2023). Black households' median wealth is less than 13 percent that of White households, at $24,100 and $188,200, respectively (Federal Reserve 2019).

Black and Hispanic families are also disproportionately likely to be poor in America. In 2019, Black families made up 13 percent of the total population in the United States, but 24 percent of the population living in poverty. Similarly, Hispanics represented 19 percent of the total population but 28 percent of the population in poverty (Creamer 2020).

The high correlation of people of color and poverty means that cash-based automatic stabilizers that are exclusively targeted by income will help a disproportionate number of recipients who are people of color. We propose that automatic stabilizer payments should be distributed to households making less than the median household income, with a gradual phase-out beginning with households with income at the 48th percentile and phasing out completely with households at the 56th percentile. Using 2021 data, this would correspond to payments being made to households earning less than $78,000, with the phase-out range beginning at $64,800.

In choosing the appropriate breadth of the American population to provide direct transfers to, we seek to balance the desire to maximize the size of payments going to the poor with a recognition that many lower middle-class Americans live paycheck to paycheck and need cash support in recessionary times. We intend to avoid providing payments to households doing comparatively well to ensure that the funds go to those most in need. Our income cut-offs are significantly more restrictive than those implemented in the COVID period, which had a phase out of $198,000 for married couples filing jointly. Given that our overall expenditure is roughly in line with the COVID payments, this means that poor and lower middle-class recipients receive disproportionately more. A family of four with $33,000 of income would receive $15,300, about double the level of funds they received in the COVID-era Economic Impact Payments and child tax credit.

Because these payments would be targeted to the poor and lower middle-class, recipients would be disproportionately more likely to spend the funds, enhancing the multiplier effect of the fiscal expenditure. We saw this clearly in the case of COVID stimulus funds, where lower-income Americans were disproportionately likely to spend their payments quickly. Almost 86 percent of households making less than $25,000 a year reported using their COVID payments primarily for day-to-day spending, including on food, utilities, and necessary household supplies such as cleaning products. Only 55 percent of households earning more than $200,000 a year did the same (Boutros 2021, 7–8). People mostly used the cash assistance for day-to-day necessities: about 80 percent of people used the funds for food, and 78 percent reported spending the funds on rent, mortgage or utilities (Perez-Lopez and Bee 2020). Fewer than 10 percent of households used the cash assistance to pay for household or recreational goods such as televisions, toys and games. Only 3 percent of households making less than $50,000 a year used their COVID payments mostly to add to savings, a number which rises to almost 30 percent of households making $200,000 a year (Boutros 2021).

Targeting along these lines disproportionately helps people of color. While 72 percent of the funds go to White Americans, 18 percent go to Black families, and 9 percent to other families of color. White and Black families would receive the same amount of money on a per capita basis if they had the same incomes, but because Black families' incomes are lower, they would receive more funds. Black families on average would see their incomes increase by 6.6 percent with the automatic stabilizer payments, while White families on average would see their incomes increase by 3.1 percent.

These levels follow a similar pattern to previous recessions. Using the same automatic stabilizer design for the Great Recession, each individual making less than $50k would receive approximately $2,300 annually, and in the Dot Com recession of 2001, each individual making less than $42k would receive $1,780.[12] In both recessions, Black families would have received 18 percent of the overall distribution amount, with an 8.3 percent boost to average Black family income in the Great Recession and a 7.3 percent boost in the Dot Com recession. White families would have seen their incomes boosted on average by 2.9 percent in the Dot Com recession and 3.3 percent in the Great Recession.

Targeting automatic stabilizer payments to families making $78,000 or less significantly enhances their power to help the families most

12 All of the individuals in these ranges would be below the phase-out range, meaning that they would receive the full amount of the benefit.

in need, spur countercyclical spending patterns, and combat the racial income and wealth gap. Some might argue for even more narrow targeting, with payments going to households making only up to 130 percent of the poverty line. (For a family of four, this would be $38,935.[13]) While we understand that rationale, we believe that targeting payments to households making up to $78,000 balances the goals of helping poor Americans and building resilience for families struggling to stay a part of the middle class.

5 ADDITIVE

Cash-based automatic stabilizers should be designed like other automatic stabilizers to supplement and enhance other government programs that help struggling families in difficult moments. They are not meant to replace other critical programs like food stamps, unemployment insurance, or Social Security payments. As the economy exits a period of contraction and begins to grow again, the cash-based payments are designed to shut off. The average duration of a recession over the past 40 years—excluding the highly unusual COVID experience—is a little over 12 months (Radin 2021). Using the Sahm rule framework and our proposed policy design, the average duration of cash-based automatic stabilizers for those four recessions would have been 11 months.[14] Even after a recession is officially over, millions of individuals would still remain unemployed or in working poverty even though the economy is technically expanding again, and so it is essential that existing government programs continue to function in both good times and bad. If an automatic stabilizer were used to replace existing programs, it would risk creating a more byzantine structure for government support. In contrast, an additive automatic stabilizer can help to transform government support into a highly impactful, relatively simple and efficient program.

Finally, for maximal effect, Congress should follow the same protocol it used with COVID economic impact payments and child tax credit enhancements and ensure that the income from cash-based automatic stabilizers is not treated as taxable income.

13 See https://www.census.gov/library/visualizations/2023/comm/well-being.html

14 The payment duration would have been nine months between November 1981 and October 1982, November 1990 and July 1991, 7 months between June and December 2001, and 16 months between April 2008 and July 2009 (in all cases inclusive). In addition, the rule would have been triggered briefly for 3 months between June and August 1992, and for 2 months between April and May 2002. During the COVID-induced recession of 2020, automatic stabilizers would have been triggered for 3 months between April and June 2020

CONCLUSION

With some initial distance from the COVID pandemic, we are now able to assess the impact and effectiveness of a range of programs that the government initiated in 2020 and 2021. The direct cash transfer programs of the pandemic emergency policies were by all accounts massively effective in helping families retain their purchasing power despite extreme labor market volatility, and in significantly shortening the duration of the pandemic contraction. Household balance sheets improved over the course of the pandemic, and the total number of American jobs returned to their pre-pandemic high midway through 2022. By July 2023, the American economy had increased the overall number of jobs from before the pandemic by 4 million (Center on Budget 2023). Millions of families were able to escape poverty. The failure to extend the expanded child tax credit resulted in a rise in child poverty over the course of 2022 (Parolin 2022), however overall rates remain lower than they were in 2019 (Burns et. al. 2022).

We can build on the COVID experience to create enduring cash transfer programs that will benefit Americans when the next recession arrives. We recommend a design that ensures that cash transfers are distributed as soon as a recession threatens, where the payments are significant, consistent, reliable, and targeted to the Americans who need them most. The next economic contraction will likely send millions of Americans into joblessness, but a program of automatic direct cash payments could help the Americans whose economic position is most precarious, and significantly aid in shortening the downturn.

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