

Poor families first: Challenges of the ‘stimulus checks’ in the United States’ COVID-19 response¹

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Economic Impact Payments (EIPs)—commonly referred to as ‘stimulus checks’—were one of the key measures adopted by the US government to ease the crisis resulting from the COVID-19 pandemic, when the unemployment rate reached 14.7 per cent (in April 2020) and there was a real threat of recession. By May 2022, USD817 billion had been distributed to about 85 per cent of US households. The benefits were disbursed as lump sum payments in three rounds between 2020 and 2021, with amounts ranging from USD500 to USD1400 per individual.

Personal data on tax filers and pension recipients already figured in the Internal Revenue Service (IRS) databases and, therefore, these people did not need to manually apply for the benefit. They were the first to receive payments in each round. The Department of the Treasury estimated that 14 million Americans had no data available to generate payments and could not receive the benefits automatically. Therefore, those who did not declare taxes, such as workers in low-paying and unstable jobs, had to access the IRS website, fill out forms and provide a bank account—a non-trivial procedure considering an audience with precarious access to the Internet and low educational attainment. Many, including immigrants and homeless people, had no permanent address, identification documents or even bank accounts.

Thus, those most in need faced many obstacles to receive payments, or never received them at all. Despite fitting the eligibility criteria, only 87.1 per cent of lower-income households (earning less than USD25,000 per year) received the benefit in 2020.

The adoption of cash transfers to households as a fiscal stimulus measure in emergency contexts is supported by two main justifications: to ensure enough income to meet their basic needs and to allow them to keep purchasing goods and services in case of a recession.

Poor households should receive stimulus checks first because they are the most in need of basic goods and services. In addition, they tend to spend the benefits almost immediately and fully, which helps preserve jobs and ensure tax collection. The higher the income level of households, the more likely they are to save—rather than spend—the benefit.

Critical conditions for the implementation of the EIPs include enabling instruments that act quickly and accurately not only to identify the appropriate target audience, but also to get the cash to beneficiaries fully and quickly. In addition to the difficulties some people face while applying for the stimulus checks, the US experience also underscored problems with the initiative’s design. The first and second rounds

excluded immigrant families by requiring a Social Security number with a work permit. Compounding the issue, the federal government did not coordinate with state and local governments or provide legal authorisation to use the databases of existing social programmes in an active search for poor households.

According to a projection by the Urban Studies Institution, stimulus checks alone would have been responsible for keeping 12.4 million people out of poverty in 2021 (Wheaton, Giannarelli, and Dehry 2021). It defined the same income cut-off point and benefit values for all states in the country, which makes its effect relatively greater in lower-income localities. Regarding antipoverty policies, COVID-19 plans also expanded the allocation of resources to pre-existing initiatives. However, they were not able to reach all poor household profiles, as some are restricted to specific audiences and/or do not meet their needs in terms of cash transfers.

Although the US experience has proven mostly successful in dealing with recession when the most restrictive COVID-19 measures were in place, stimulus checks prioritised people above the poverty line to the detriment of poor individuals—who received the benefits late or not at all.

Future uses of this tool should address some crucial issues to allow for poor households to receive the benefit first. To properly identify the appropriate target audience, it is necessary to waive application requirements, providing legal authorisation for the IRS to access social programme databases to include poor individuals into the automatic payment schedule. It is important to have a federal database featuring all individuals (and not only taxpayers), as well as their bank accounts, if possible. Individual states could help by creating matching grants and using their own agencies for existing social programmes that deal daily with this audience to reach those that could not apply for stimulus checks by themselves. Finally, to deliver cash fully and quickly to beneficiaries, it is also necessary to make zero- or low-cost bank accounts available to reduce the unbanked population, and improve electronic payments, avoiding government checks and further refining pre-paid card schemes.

Note:

1. All data mentioned in this One Pager are fully referenced in Licio (2022).

References:

Licio, E. C. 2022. “Poor Families first: challenges of the ‘stimulus checks’ in the United States’ COVID-19 response”. *Policy Research Brief* No. 88. Brasília: International Policy Centre for Inclusive Growth.
Wheaton, L., L. Giannarelli, and I. Dehry. 2021. *2021 Poverty Projections: Assessing the Impact of Benefits and Stimulus Measures*. Washington, D.C.: Urban Institute. <https://www.urban.org/sites/default/files/publication/104603/2021-poverty-projections_0_0.pdf>. Accessed 8 August 2022.