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

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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<sup>1</sup> reached 14.7 per cent (in April 2020) and there was a real threat of recession. By May 2022, USD817 billion<sup>2</sup> had been distributed to about 85 per cent of US households.<sup>3</sup> The benefits were disbursed by the Internal Revenue Service (IRS), the institution responsible for stimulus check payments, as lump sum payments in three rounds between 2020 and 2021, with amounts ranging from USD500 to USD1400 per individual.

**TABLE 1**

Stimulus check payments amid COVID-19 relief plans (2020-21)

US COVID-19 Relief Plan	Benefit amount (USD)		Income threshold to receive payment (USD)*		
	Adult	Child	Single	Married couple filing jointly	Head of household
Coronavirus Aid, Relief, and Economic Security (CARES) Act (March 2020)	1,200	500	75,000	150,000	112,500
Consolidated Appropriations Act (December 2020)	600	600			
American Rescue Plan Act (ARPA) (March 2021)	1,400	1,400		Same as CARES Act	

Note: \*The income threshold could be a bit higher for eligible individuals with no qualifying children.

Source: IRS.

Personal data on tax filers and pension recipients already figured in the IRS databases and therefore these people did not need to manually apply for the benefit. They were the first to receive payments in each of the three rounds. The Department of the Treasury estimated that 14 million Americans had no data available to generate payments and could not receive the benefits automatically (Murphy 2021). As a result, 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 in this audience, including immigrants and homeless people, had no permanent address, identification documents or even bank accounts.

Therefore, those most in need faced many obstacles to receive payments, or never even received them. 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 (Keightley 2020). The Committee for a Responsible Federal Budget showed that, in May 2022, USD52 billion of USD869 billion earmarked for the three rounds of payments had not yet been executed, probably due to a lack of approved applications. Currently, those who have not yet applied for EIPs can only access the benefits through a recovery rebate credit.

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 (Stone 2020). Sahm (2019) recommends that stimulus checks should be paid automatically to a greater proportion of population and without the need for prior application. According to previous experience during the 2008 financial crisis, this requirement would have prevented 17 per cent of the eligible population from receiving benefits.

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. Based on US Census Bureau data, the Peter G. Peterson Foundation (2021) shows that the higher the income level of households, the more likely they are to save—rather than spend—the benefit. Moreover, the CBO (2020) estimated that the first round of stimulus checks boosted the country's economic output by 0.6 per cent.

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 from the government's perspective. Its 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.

Murphy (2021) states that, in December 2020, 74 per cent of payments were carried out through direct deposits to bank accounts, 22 per cent through mailed paper checks, and the remainder through mailed pre-paid cards. He estimates that one in 10 Americans may have received a paper check, even though they had a bank account capable of receiving direct deposits, probably because of outdated IRS databases. Moreover, due to high maintenance costs, 5.4 per cent of American households do not have access to a bank account (this percentage rises to 13.8 per cent among black households). Those who received the benefits via paper checks and, mainly, prepaid cards, did so much later (26 and 105 days on average, respectively) than those who received them through bank deposits (19 days). Pressing debt or a large volume of government checks to be cashed over a short period of time may have induced some beneficiaries to seek third parties that charge fees far above those of banking institutions, resulting in significantly less cash received. The author estimates that about 9 per cent of the recipients of paper checks (3.15 million people) paid fees that could be as high as USD195 per check in some states.

According to a projection by the Urban Studies Institution, stimulus check alone would have been responsible for keeping 12.4 million people out of poverty by 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, such as tax incentives (e.g., the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC)); the Supplemental Nutrition Assistance Program (SNAP); the Temporary Assistance for Needy Families (TANF); and housing programmes (Emergency Rental Assistance programmes). However, these initiatives were not able to reach all poor household profiles, as some are restricted in scope 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. Individual states could help by creating matching grants and using their own agencies for programmes such as TANF, SNAP and EITC, that deal daily with this audience, to reach those that could not apply for stimulus checks by themselves. 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.

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1. According to the US Bureau of Labor Statistics. Available at: <<https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm>>. Accessed 8 August 2022.

2. According to the Committee for a Responsible Federal Budget. Available at: <<https://www.covidmoneytracker.org/explore-data/interactive-table>>. Accessed 8 August 2022.

3. According to the U.S. Census Bureau's Household Pulse Survey (Week 12). Available at: <<https://www.census.gov/data/tables/2020/demo/hhp/hhp12.html>>. Accessed 8 August 2022.

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