Just give people money.
But how and when?

Implications for the pandemic recovery

Jonathan Morduch
New York University
Finance and distribution

Tools of finance

Social protection
Finance and distribution

Microfinance

Tools of finance

Social protection
Finance and distribution

Tools of finance

Social protection

Cash transfers
Finance and distribution

Tools of finance

Cash transfers

Social protection
Plan

1. Post-pandemic recovery
2. The nature of insecurity: Insufficiency x instability x illiquidity
3. Instability and Illiquidity
   1. The right money at the right time
   2. 2 money problems: Smoothing and Spiking
4. Cash transfers as financial substitutes
5. Cash transfer design: The Compton Pledge (USA)
6. Global evidence
7. Conclusion
I. Post-pandemic recovery
Give people money

• During and after the pandemic, people need financial resources to invest and rebuild.
• Tajikistan, Moldova, Uzbekistan, Georgia, Ukraine, North Macedonia
• USA: Child tax credits: $250-$300 per child per month in 2021
• Compton, CA, USA: $300-$600/month on average, 2021-23
Cash transfer design

To who? (Targeted? Who is the main recipient?)
How large?
For how long?
With conditions?
From government? NGO?
Payment method? Cash, direct-deposit, card?
How predictable?
Timing and frequency?
Uzbekistan

- 1 million + households received low-income family allowances, totaling $51.8 million (11/20-2/21)
- 75,000 + unemployment benefit payments, totaling $3.7 million (12/20-5/21)

<table>
<thead>
<tr>
<th>Program</th>
<th>Size</th>
<th>Frequency</th>
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<tbody>
<tr>
<td><strong>Child care allowance</strong></td>
<td></td>
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<tr>
<td>(ages 0-2)</td>
<td>UZS 344,480 ($31.75)</td>
<td>Monthly</td>
</tr>
<tr>
<td><strong>Children allowance</strong></td>
<td></td>
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<tr>
<td>(ages 3-13)</td>
<td>1 child - UZS 86,120 ($7.94)</td>
<td>Monthly</td>
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<td>2 children - UZS 137,792 ($12.70)</td>
<td>Monthly</td>
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<tr>
<td></td>
<td>3 children - UZS 172,240 ($15.87)</td>
<td>Monthly</td>
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<tr>
<td><strong>Financial Assistance</strong></td>
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<td></td>
<td>Basic - UZS 258,360 ($23.80)</td>
<td>Monthly</td>
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<td>Complex - UZS 516,720 ($47.60)</td>
<td>Monthly</td>
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</tbody>
</table>

Alternative payment schedules

**Monthly:** Brazil, Bolsa Família and many others

**Every 2 months:** Mexico, Oportunidades. Colombia, Familias en Acción. Turkey, Social Risk Mitigation Project

**Quarterly:** Cambodia, JFPR and CESSP. Indonesia, Program Keluarga Harapan

Hybrid: Biden child tax credit, USA

2021:
- July
- August
- Sept
- Oct
- Nov
- Dec
  - July-August: $250-$300

2022:
  - March 2022
  - March 2022: $1500-$1800

https://www.whitehouse.gov/child-tax-credit/
2. The nature of insecurity
Feeling economically secure

Sufficiency
  x
Stability
  x
Liquidity
Material insecurity

- Insufficiency
  - Instability
    - Illiquidity
3. Instability and Illiquidity
   • The right money at the right time
   • 2 money problems: Smoothing and Spiking
Transfers: How and when?

2 distinct financial problems

Smoothing: How to stretch money for times with low income?

Spiking: How to put together resources for meaningfully large purchases?
2 distinct saving problems: flows and lumps

• Smoothing is a problem of **distribution**. How to create **flows** when needed

• Spiking is a problem of **aggregation**. How to create **lumps** when needed

• **Smoothing** is assumed to be the main concern of low-income households. But households worry about **spiking** because they also have lumpy expenditure needs.
Smoothing
Stretching resources to cover times when income is low.

<table>
<thead>
<tr>
<th>Sunday</th>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
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<td>30</td>
<td>31</td>
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</tbody>
</table>
Pay Frequency
United States. Private Employers, 2020

62% of workers: Every 2 weeks (biweekly) + twice a month (semi-monthly)
Monthly = 5%


Spiking
Aggregating resources for meaningfully large purchases
Annual transfers
Earned Income Tax Credit

Worth up to about $6700.
Average is around $2500.
Most people do not want it in monthly installments.
The Financial Diaries
How AMERICAN FAMILIES COPE in a WORLD of UNCERTAINTY
Jonathan Morduch and Rachel Schneider

"An invaluable look at the profound economic uncertainties of our era." —JACOB S. HACKER, author of The Great Risk Shift

US Financial Diaries. 235 Households
Eastern Mississippi
Need to smooth and spike
4. Cash transfers as financial substitutes
View from economics of information

• Assumption: People would prefer to consume/invest sooner but cannot borrow due to moral hazard and adverse selection

• Assumption: Moving cash transfers closer in time has 2 advantages:
  • **Flexibility:** people can save if they want to consume later
  • **Financial substitution:** cash transfers received sooner relax borrowing constraints and so are particularly valuable

• Yet, what may be more important than having money sooner is getting it in the form of a **lump-sum**.
View from behavioral economics

• Assumption: People have difficulty saving, mainly because of self-control issues (and sometimes protecting saving from others)

• Moving cash transfers later in time has 2 advantages:
  • Inflexibility: people want some inflexibility as a discipline mechanism
  • Financial substitution: cash transfers received later relax saving constraints and so are particularly valuable

• Yet, what may be more important than having money later is getting it in the form of a lump-sum.
## Frequency and savings

<table>
<thead>
<tr>
<th>Design</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>(Brune, 2021): “Pay me later”&lt;br&gt;Simple savings scheme where workers have the option to delay receipt of part of their wages for three months without interest and receive it in a <strong>lump-sum later</strong>.</td>
<td>• Increased savings during deferral period&lt;br&gt;• Greater spending on lumpy goods in the post disbursement period.&lt;br&gt;• Significant downstream outcomes in investment in durable assets, such as home improvements.&lt;br&gt;• Implies lack of good alternatives for savings options</td>
</tr>
<tr>
<td>(Casaburi, Macchiavello, 2019): “Demand and Supply of Infrequent Payments as a Commitment Device”&lt;br&gt;Examines the role of infrequent, or <strong>lump-sum payments</strong> for frequently provided goods and service as a device for saving for lumpy expenses.</td>
<td>• Producers (farmers) will take on significant costs in order to receive infrequent payments as a commitment from the customer to purchase their goods.&lt;br&gt;• Overall savings increased and money was spent on durable goods such as housing investment.</td>
</tr>
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</table>
Sum

• People think in terms of creating lumps and flows, aggregation and distribution of money

• Economics show problems borrowing and saving. Both are hard. They are tools to achieve other goals: to create lumps and flows.

• The timing of money may matter less than its form.

• Delaying payments to deliver lump-sums can be valuable.
5. Cash transfer design: The Compton Pledge
Compton, California

- 95,000 residents
- “Acutely faces many of the issues that have defined the national conversation about racial injustice and structural inequality.”
- 30% of residents are Black and 68% are Latino
- High rates of unemployment (22% since Covid), poor pay, ineligible for government assistance. Reliance on food banks.
- Median household income = $53,000. Per capita income = $17,000
- Poverty rate = 23% (All US: 10.5%)
Mayor Aja Brown

- 2013-2021

- People just need money
- No strings attached
- Trust people to choose priorities
- Priority on disadvantaged communities
Randomized controlled trial (RCT) principal investigators

Sidhya Balakrishnan, Jain Family Institute
Sewin Chan, New York University
Sara Constantino, Princeton University/Northeastern
Johannes Haushofer, Stockholm University
Jonathan Morduch, New York University

Research Partner: University of Southern California CESR (Center for Economic and Social Research)

Qualitative research team
Jose Castillo, Ajay Chaudry, Sara Constantino, Kaytlin Ernske, Mia Hernandez, Jonathan Morduch, Sara Restrepo
Many are not eligible for robust safety net programs (e.g. SSI and TANF)

Only some receive in-kind benefits such as SNAP and Medicaid

May not have time or resources to take advantage of training or other services due to unstable financial situations or lack of time
Compton Pledge Transfers

Transfers:

<table>
<thead>
<tr>
<th>Children</th>
<th>Annual Sum</th>
</tr>
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<tbody>
<tr>
<td>0</td>
<td>$3600</td>
</tr>
<tr>
<td>1</td>
<td>$5400</td>
</tr>
<tr>
<td>2+</td>
<td>$7200</td>
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</table>

Eligibility

- Below 220% of the federal poverty line.
  - 2021 Federal poverty line for 4-person household = $26,500.
  - $7200 / $26,500 = 27%
- Do not need to be a citizen
- Age 23 - 57
- Working with groups that support immigrants, recently incarcerated people, low-wage workers
- Not using SSI, SSDI

Pilot: 2 years
Control group

Smoothing
$7200 = $300 \times 24$

Spiking
$7200 = $1800 \times 4$
Initial qualitative results
6. Global evidence
Cash transfers in Kenya

Flows: Nine $45 payments in a year

Spike: One $405 payment

Increased food security, somewhat higher saving, differences diminish with time

Sustained increase in asset holdings, more livestock, non-land assets

Pensions in Mexico

Flows: Payment every month
- Helped smooth food expenditure and reduced incidence of hunger spells.
- Increased doctor visits

Spikier: Payment every 2 months
- Expenditures fell on food between paychecks.
- Increased ownership of durable goods.

Cash transfers and education in Colombia

**Flows:** Bimonthly $30 transfers conditional on children’s secondary school enrollment and attendance.

**Spikier:** Recipients must save $10 from each $30 transfer. Receive savings timed for college enrollment. (Budget neutral.)

- Typical conditional cash transfer. No impact on tertiary enrollment.

- Increased tertiary education, persistent human capital advantages.

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6. Conclusion
Finance and distribution

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Social protection

Cash transfers
Transfers: How and when?

2 distinct financial problems

**Smoothing:** How to stretch money for times with low income?

**Spiking:** How to put together resources for meaningfully large purchases?
**Sum**

• Monthly transfers are not a neutral choice
• They make some actions easier for households but make others harder

Other possibilities may be budget neutral:
• Weekly transfers provide useful flows
• Quarterly transfers provide useful lumps
• Hybrid schedules may be even better, delivering both flows and lumps
Hybrid: Biden child tax credit, USA

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- Dec

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