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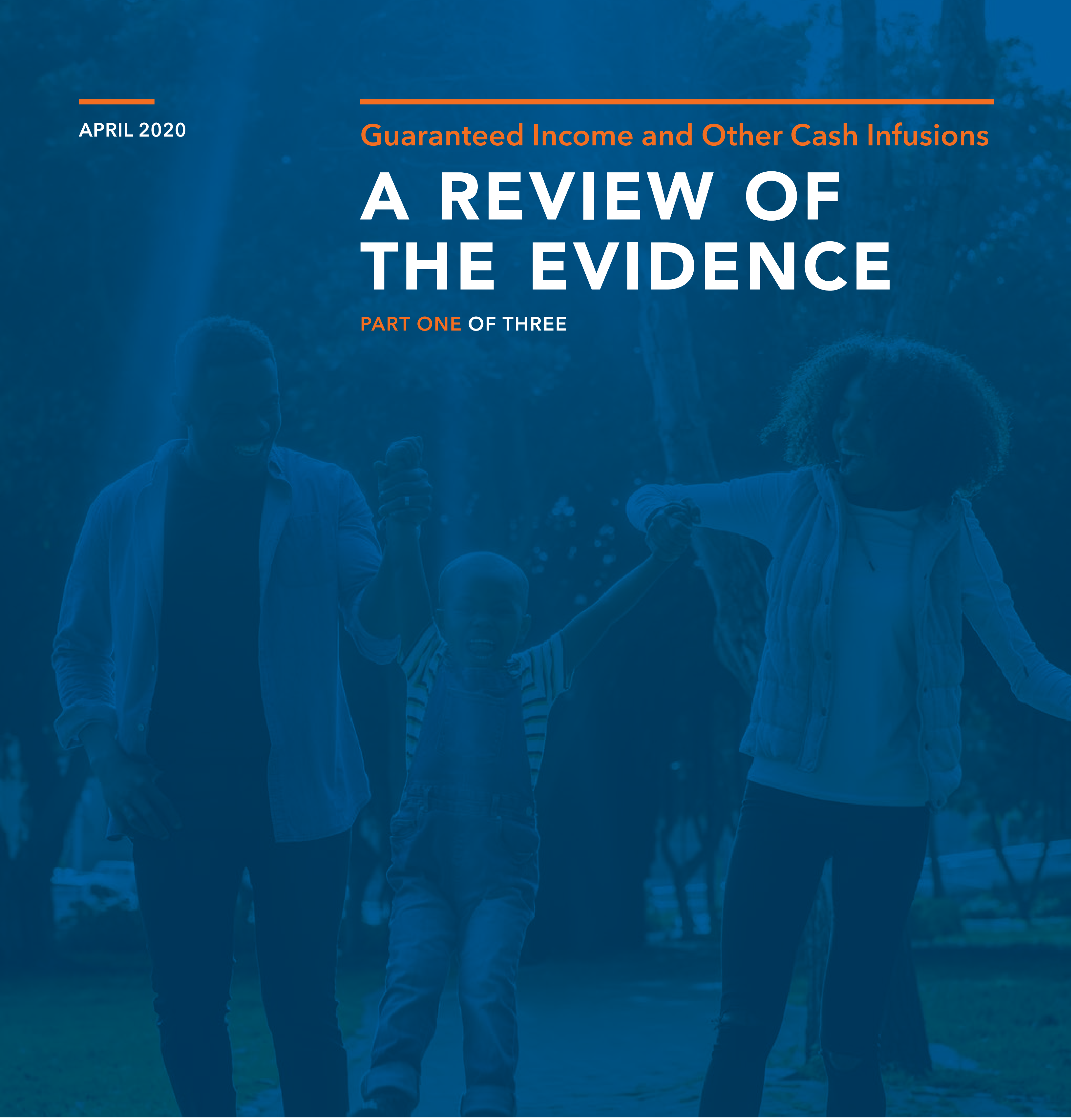
Guaranteed Income and Other Cash Infusions

A REVIEW OF THE EVIDENCE

PART ONE OF THREE



THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

CONSUMER INSIGHTS

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ABOUT THIS BRIEF

This brief is the first in a set of three publications that explore how direct investments via cash infusions and transfers boost individual and family financial well-being. These briefs are designed to pull together what is known about the need for, the innovations in, and the effects of cash infusion and transfer programs on the financial security of recipients, their families, and their communities. They are intended to inform a diverse set of US-based stakeholders, including policymakers, employers, funders, researchers, and public, private, and nonprofit program designers interested in boosting financial security for residents, workers, and families in the face of widespread economic insecurity.

The first brief illuminates the importance of positive cash flow in household finances, the second brief is a set of two case studies of small, unrestricted cash transfer programs, and the third brief explores options to scale up cash transfer programs. All of the briefs can be found here: **https://www.aspeninstitute.org/publications/guaranteedincome**.

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ABOUT ASPEN FSP

Aspen FSP's mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.

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Introduction

This issue brief examines the reasons behind the growing interest in and the conceptual value of access to guaranteed income and cash infusion programs. The paper reviews definitions related to these programs and the evidence from previous studies of cash infusion programs in the United States and abroad. This brief is intended for policymakers, funders, program and product designers, and others interested in learning more about the evidence base from programs that provide unrestricted funds to individuals.

In this series of publications, we focus on the households missing the critical financial cushion of routinely positive cash flow—where income typically exceeds expenses—to combat financial instability. For these households, the issue is not about managing the money they have, but instead, about not having enough money in the first place. Those with positive cash flow may be able to address their short-term financial needs via high-quality credit and borrowing, but for those without it, borrowing can lead to a debt trap.[1] That is, the premise of borrowing is that although you do not have the cash available now, you do expect to have it in the future. These briefs focus instead on potential solutions to the growing challenge facing US households: a constant struggle to make ends meet, even if they are working, and move up the economic ladder.

Why Is Interest in Guaranteed Income and Similar Programs Growing in the United States?

In recent years, guaranteed income and cash infusion programs and policies have become a hot topic in the US for influential stakeholders ranging from policymakers and researchers to Silicon Valley entrepreneurs and labor market economists. Proponents across the political spectrum are supportive of these policies to address a variety of issues, including growing financial insecurity, persistent poverty, and other concerns regarding the changing nature of the labor market and people's ability to work.

MANY AMERICANS ARE STRUGGLING TO MAKE ENDS MEET

The idea of providing households with money has gained traction within policy circles to counter wage stagnation or to bolster the wages of low- and moderate-income families, as families struggle to keep pace with the rising cost of typical expenses and changes in the labor market.[2] Despite a strong US economy over the last decade, characterized by economic growth and low unemployment, many families continue to struggle with financial insecurity.[3] The US Financial Health Pulse survey finds that in 2019, 135 million people (54 percent) in America struggled with at least some aspects of their financial lives, and an additional 43 million people (17 percent) struggled with all or nearly all aspects of their financial lives.[4]

Moreover, at the national level, only 53.5 percent of Americans report that their spending is less than their income.[5] This phenomenon is more pronounced among households with less than $30,000 in annual income, where just 38.5 percent report that their spending is less than their income, meaning that almost two-thirds of these households lack routinely positive cash flow.[6] Making matters worse, more than half (53 percent) of US households have no emergency savings account.[7]

A major factor in the growing financial insecurity of US households is that fewer jobs provide family-sustaining wages than in the past, meaning that even when additional earners are present in the household, many families still struggle to afford today's cost of living.[8] A new Manhattan Institute report illustrates this: In 1985, it took 30 weeks of male income to cover one year of expenses for a family of four, but by 2018, it took more than a year to do the same (53 weeks).[9] For women, these statistics are even worse: In 1985, the typical female worker had to work for 45 weeks to afford these living costs, and in 2018, she needed to work over 66 weeks.[10]

According to a new analysis by the Brookings Institution, more than 53 million workers qualify as "low-wage" and nearly two-thirds of them are in their prime working years of 25 to 54 years old, meaning that for the vast majority of these workers, the primary support for their households is their low-wage work.[11] The inadequacy of these low-wage earnings to pay for a family's basic needs has been a major driver of interest in cash transfers as a supplement to household income.

IN THE UNITED STATES, POVERTY PERSISTS

Other proponents of giving people money see it as a way to address persistent poverty.[12] In 2018, 38.1 million people were in poverty in the US, or 11.8 percent.[13] In the same year, 28.9 percent of people—nearly one in three US households—had family incomes below 200 percent of the federal poverty line, which demonstrates that the population living in poverty or near poverty is large.[14] People move above and below the poverty line often, with approximately 75 percent of those households below the poverty line able to move up within four years.[15] Moreover, repeated poverty spells are common, and the likelihood increases with more time spent in poverty.[16] Time limits, eligibility restrictions, asset limits, and other program design features of most existing anti-poverty programs hinder their ability to set families on an upward economic trajectory. As a result, there is increased interest among many stakeholders in experimenting with programs that would provide more eligibility and fund-use flexibility to families experiencing poverty and allow them to amass savings and invest in their own mobility and well-being. Additionally, some experts argue that removing restrictions on existing anti-poverty and safety net programs would reduce the cost of administering such programs.

"Fewer jobs provide family-sustaining wages than in the past, and many families struggle financially as a result."

Financial Precarity Is Not Uncommon

Many households are also facing severe liquid asset poverty. For instance, 50 percent of the customers at the nonprofit financial coaching provider The Financial Clinic are living in severe liquid asset poverty: Fifty percent of their customers report having no liquid assets and 75 percent report having total assets of less than $500. Many customers also experience regular income volatility in addition to asset poverty.[17] What these data demonstrate is that living in financial precarity is not uncommon.

UNRESTRICTED FUNDS CAN FILL LABOR MARKET GAPS

In addition to the arguments being made in favor of expanding access to unrestricted cash to counter persistent poverty or to bolster the wages of families, some experts suggest this money could address other labor market needs. For instance, unrestricted funds could encourage individuals to realize their full creativity and potential and work in sectors they may not have pursued otherwise, as the additional funds would improve the pay differential across other positions, boosting the supply of talented workers across all sectors of the economy.[18] Moreover, providing families with additional funds could provide the slack in their budgets and time needed to pursue retraining or education.[19] Some experts believe that cash infusions could help address the gender and racial wealth gaps by improving wage parity.[20] For instance, unrestricted cash may enable more caregiving work—such as eldercare, a demand that is expected to increase by 36 percent in the next 10 years—whose jobs have historically been underpaid, and most often held by women, especially women of color.[21] Futurists and technology sector workers argue that providing unrestricted cash to individuals may be necessary to prepare for a future where artificial intelligence replaces the current reliance on human labor.[22] Lastly, some policy researchers see targeted infusions of money as a tool to deploy during economic downturns to help stabilize the economy.[23]

What Is the Importance of Unrestricted Cash in People's Lives?

Cash on hand improves financial well-being in myriad ways, providing a financial buffer against unexpected expenses and creating the possibility for investment in mobility- and wealth-enhancing efforts. Giving people access to reliable unrestricted liquid funds allows them to intentionally plan and spend in ways they may not have the capacity to do otherwise.* Unrestricted funds also eliminate other complications, such as receipts or reimbursements, and thereby reduce the cost to administer programs and lessen the burden for program participants.

Importantly, cash puts dignity, creativity, and choice back into the hands of those receiving it. Recipients can spend the money in the way that best works for them, without having to justify the expenses and their intentions. Moreover, cash is flexible: Families can start an emergency fund, save for the future, invest in education or a business, take a family trip, or choose some combination of these actions and others. Cash can also provide some relief to individuals by lifting the weight of the stress due to having little or no financial cushion.

Unrestricted funds:

- **Help families maintain their current financial positions and consumption levels and build resilience against financial shocks**. The slack created in family budgets from having cash available can be used to build savings and maintain their current financial standing and consumption when faced with expense spikes, income dips, or unforeseen emergencies that might otherwise threaten their financial stability. For instance, families can apply these funds toward needed medical care, car or house repairs, to keep food on the table, or whatever their specific need is at the time.
- **Create opportunities to invest in mobility-enhancing efforts that can boost or stabilize household income**. Having cash on hand can help individuals pay for one-time expenses such as business license fees or career-related trainings or certifications. Greater cash reserves can also help families make larger self- and family-investments, such as to pay for school tuition or start their own business.
- **Provide flexibility and dignity to families and give them the agency to address their unique situations**. When families receive no-strings-attached cash, they can use the money in whatever way is best for themselves, whether that be toward school uniforms for children or making a family excursion to a local park or museum. The reality is that each household has unique needs and wants, and unrestricted cash allows households to best meet their individual situations. For instance, the charity GiveDirectly found that in the aftermath of a hurricane, had recipients received the most common bundle of goods and services purchased, only 6 percent of them would have had all of their needs met. Instead, by providing unrestricted funds, families themselves can decide how to use the funding to address their idiosyncratic circumstances and needs.[24]

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* For instance, if a program provides funds for prospective students to pursue higher education, but only allowed the money to be spent on tuition (restricted funds), the aspiring student may face barriers in the immediate term because of the other upfront costs of schooling—including textbooks, transportation to and from school, and other non-tuition fees—that could prevent some aspiring students from pursuing the opportunity, or from successfully completing the program. Thus, even with tuition fees waived, the potential student may not have the means to pay for the opportunity. Instead, if a program gave individuals unrestricted cash, they could utilize the funds in the way that works best for their current financial situation.

Types and Attributes of Cash Transfer and Infusion Programs

It is in this context of households struggling to maintain positive cash flow, with many falling in and out of poverty, struggling to maintain financial stability, or facing income and expense volatility, that discussions around cash transfer policies and programs begin. Cash transfer programs can be **conditional** or **unconditional** in their eligibility, and **restricted** or **unrestricted** in their use. Programs are conditional when receiving the cash is dependent on certain eligibility requirements or compliance with certain program requirements, such as working a specified amount, children maintaining a certain attendance record in school, or adults participating in financial coaching or other program activities. Unconditional programs do not require specific actions to undertake or qualifications to access the funds. Whether a program is restricted or unrestricted is based on whether there are rules around how the recipients can use the funds. While conditionality refers to how people qualify for the dollars on the front end, restrictions refer to the way funds can be spent once received. Funds from restricted programs must be utilized for specific purposes and purchases—such as on food or healthcare spending, or savings—and unrestricted programs allow the recipients to use the funds in any way they choose. See the Definitions textbox for more details.

DEFINITIONS

Throughout these briefs, we refer to cash transfers, cash infusions, direct investments and grants interchangeably to refer to a policy or program that provides money directly in some form (perhaps electronically on a prepaid debit card or via a check) to participants. In this series, we are agnostic about the actual form of the funds, and in the briefs, refer to "cash" as meaning having funds available, whether that be physical or digital, or in some other form. The following definitions describe specific program or policy design features of different ways to give people money directly.

Basic income: The cash provided is expected to cover a person's basic needs, such as the costs of food, shelter, utilities, and other living expenses.

Guaranteed income: In these programs, a steady, predictable, and unrestricted amount of money is provided to recipients. A guaranteed income does not necessarily meet basic needs.

Targeted: Programs designed to service a specific population, such as households below a certain income threshold.

Universal: Programs that are universal are available to people broadly within a given community, without having to meet other specific qualifications.

Universal basic income: A universal basic income program, or UBI, would provide a financial stipend to individuals, regardless of need or other qualifying characteristics.

Conditional: A conditional program requires the recipient to meet certain eligibility requirements, such as having a young child, or maintaining a specific attendance record for school.

Unconditional: Unconditional programs have no behavioral or action-oriented requirements to be eligible for the program.

Restricted: Restricted programs limit the way that received funds can be utilized, such as by requiring the money to be used only to pay for housing or education costs or to start a business.

Unrestricted: Unrestricted programs have no limitations directing how the money can be used by recipients.

What Do We Know About the Impact of Cash Transfer Programs?

Guaranteed income and other cash infusion programs and experiments are cropping up in cities across the United States, and in other countries including Canada, Finland, India, and Kenya. While these programs may seem new, the underlying idea of providing cash has a long history across the political and ideological spectrum and has been employed for decades, through programs including the Earned Income Tax Credit in the US and as a vehicle for international aid in the developing world.[25] These programs vary widely in scale, duration, restrictiveness, and dollar amounts transferred. The section below reviews the evidence of what is known about the impact of cash transfer programs, policies, and experiments, both in the United States and abroad.

SOCIAL SAFETY NET PROGRAMS CAN BOLSTER INCOME OR REDUCE EXPENSES FOR FAMILIES

Public benefits have traditionally aimed to help families address household financial instability by supplementing income directly or providing an important consumption floor through in-kind support to subsidize basic expenses, such as those for food, housing, and medical care.

Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), and Unemployment Insurance (UI) are three federal programs meant to help individuals and families increase available cash (or cash-like) reserves.

Temporary Assistance for Needy Families, or ***TANF***, is an assistance program that provides cash benefits to low-income families with children. The program has strict work requirements and lifetime limits for program receipt,[26] and the Urban Institute estimates that only about 1 percent of the total population received cash assistance from TANF in an average month in 2016.[27] TANF has shrunk since its creation in 1996: In 2018, only 22 percent of families in poverty received any TANF assistance, down from 68 percent when it was first enacted, meaning most people living in poverty do not receive these funds.[28]

The ***Supplemental Nutrition Assistance Program (SNAP)***, formerly food stamps, provides a monthly benefit to low-income families to boost their household's food budget. Although SNAP is not an unrestricted cash transfer—since the benefits received must be spent on food and certain grocery items[29]—the benefits provided by the program are a critical resource to receiving families. In Fiscal Year 2019, over 34 million people in more than 17 million households received SNAP benefits in a typical month, and the average monthly SNAP benefits per household was $257.85.[30]

Unemployment Insurance (UI) provides temporary financial assistance to eligible workers, who find themselves unemployed by no fault of their own.[31] The program provides recipients temporary wage replacement while they look for work, typically up to half of a worker's previous earnings, up to a maximum benefit level.[32] The program is time limited to 26 weeks in most states, but the program length, benefit amounts, and eligibility can vary state by state, as states administer their own programs within federal law guidelines.[33] The program provides critical support for individuals to maintain purchasing power while they are unemployed.[34]

Analyses of these programs and others demonstrate that they alleviate material hardship for those unable to meet basic needs and provide a foundation for better future outcomes.

Federal Safety Net Receipt Improves Material Hardship and Well-Being Outcomes

Research demonstrates the positive impact of these programs on alleviating material hardship and financial stability. For instance, a JPMorgan Chase Institute study finds that the additional liquidity Unemployment Insurance provides families substantially mitigates the impacts of short-term job loss, softening the associated drop in income from 46 percent to 16 percent and averting 74 percent of the potential drop in spending absent benefits.[35] When UI benefits are exhausted, spending declines across a wide variety of categories including groceries and healthcare, suggesting that families have a meaningful decline in their well-being after benefits run out.[36]

Similarly, Urban Institute researchers find that participating in TANF, SNAP, Medicaid, or the State Children's Health Insurance Program "reduced material hardship by 48 percent among low-income households with children."[37] Moreover, researchers have found that SNAP reduces the prevalence of food insecurity by about five to 10 percentage points.[38]

Safety Net Programs Also Boost Financial Security and Economic Mobility Outcomes for Recipients and Their Families

Federal social safety net benefits also improve financial well-being and longer-term economic mobility prospects. For instance, The Financial Clinic has found that TANF and Supplemental Security Income—a program that provides monthly cash assistance to people with little income and few assets that are elderly, blind, or disabled—in particular, support financial security building for clients, by increasing savings, increasing credit scores, reducing debt, and helping them achieve financial goals.[39] In addition, a new analysis demonstrates that customers on the Clinic's financial coaching platform ChangeMachine that report receiving either TANF, SNAP, Medicare, Medicaid, or Supplemental Security Income and Social Security Disability Insurance are roughly 12 percent more likely to increase their savings and reduce their debt when they work with a financial coach, compared to similar clients that do not receive such benefits.[40] By helping families purchase food, SNAP both reduces poverty—in 2015, it was estimated that SNAP helped move 8.4 million people out of poverty—and allows families to spend their available resources on other necessities including housing and medical care.[41] There is also evidence that children who received benefits from the Food Stamps program before age five experienced long-term benefits to economic self-sufficiency, such as reduced likelihood of income from public assistance in adulthood and higher rates of homeownership.[42]

The Restrictiveness of These Safety Net Programs Reduces Their Impact

A number of public safety net programs are time-bound, others require participants to routinely demonstrate continued eligibility including demonstrating that their assets do not exceed very low state and federal limits, and in some cases, benefit receipt can vary widely from state to state, limiting their intended impact. For instance, federal law prohibits most families from receiving TANF benefits beyond 60 months.[43] TANF benefits vary widely by state and this has strong implications for receiving families: In fiscal year 2018, TANF benefits averaged $423 nationally, but ranged from $137 in Mississippi up to $707 in New Hampshire.[44] In general, a small shift in hours worked or in pay can push a family's wages above the eligibility threshold for various safety net programs, a phenomenon known as a "benefits cliff. This can trigger a reduction or complete loss of benefits that then contributes to income volatility as benefit amounts vary throughout the year.[45] Together with the requirement that recipients not build up any meaningful savings lest they run afoul of program asset limits, benefits cliffs create a significant barrier to economic mobility for the economically vulnerable households these programs are intended to help.

Another way in which program design deeply reduces the impact of safety net programs is the difficulty of enrolling and continued participation. This can be seen in the gaps in participation rates for various programs, where resource dollars are being left on the table instead of benefiting those that they are intended to help. For example, the EITC participation rate among eligible households was approximately 78 percent in 2016 and SNAP participation in fiscal year 2016 was 75 percent.[46] Because states set and administer their own rules for many safety net programs, which impacts both who is eligible and how much those individuals and families can receive, participation rates also vary widely by state.[47] These varying limitations of safety net programs as they exist today hinder their ability to best meet families' needs for both short-term financial stability and longer-term economic mobility.

EVIDENCE FROM UNRESTRICTED CASH TRANSFER PROGRAMS

Given the importance of these safety net programs on household financial outcomes, let's turn to the evidence from less restrictive cash infusion and guaranteed income programs. There is a long history of programs that provide cash to individuals and families, with and without conditions attached, both in the United States and abroad. Extensive studies of these cash transfer programs exist and demonstrate that these cash infusions:

- **Increase funds for savings and investments**. Recipients used the cash influx in ways that improved their financial health, such as by creating short- and long-term savings and paying down debt, or moving to better neighborhoods, or making productive investments that led to higher earnings.
- **Have little effect on working hours**. For several studies, there was no effect on labor force participation from cash infusions or guaranteed income, and in others, there may have been a slight uptick or decrease in hours worked. Importantly, in cases where fewer hours were worked, these hours seem to have been devoted to finding other employment, providing needed childcare, and mothers taking more time to return to work after giving birth.
- **Provide needed slack to cover basic needs**. Recipients often use the cash to pay for needed goods and services, such as to pay for postponed medical care.
- **Reduce poverty**, especially for vulnerable populations.
- **Boost health outcomes** for infants, children, and mothers, including improved maternal mental health and children's emotional and behavioral health.
- **Improve educational attainment for children** and improve their performance on cognitive tests.

Lessons from US-Based Programs

The following section details research from four state, tribal, and federal cash transfer programs and experiments in the United States. It details each of these programs and the findings from these unrestricted cash transfer programs.

Alaska Permanent Fund Dividend

The Alaska Permanent Fund Dividend (PFD) has provided an annual check to Alaskan adult and child residents since 1982.[48] The check amount varies year to year, but typically ranges from $1,000 to $2,000.[49, 50] Since the dividend is distributed per person, the average family receives about $3,900 annually.[51] The distributed funds are unrestricted and are given to all residents regardless of need or working status, making it the only statewide, permanent, and universal program discussed in this paper.

In Alaska, poverty rates typically remain under 10 percent for urban Alaskans, but rural poverty averages around 20 percent.[52] A study of the PFD found that the dividends have reduced poverty in the state by 2.3 percentage points, and has been most beneficial for the most vulnerable populations, which includes children, the elderly, the disabled, Alaska Natives, as well as those residents living in rural regions, where the cost of living is often much higher. The PFD has been especially successful at reducing rural poverty: Without it, researchers estimate that "more than one in five rural Alaskans would be pushed below the poverty threshold."[53]

A 2017 survey commissioned by the Economic Security Project found that 72 percent of PFD recipients report using their dividend in ways that promote their financial health, such as by saving it for essentials or emergencies, for future activities like retirement or education, or to pay off credit card or other debt. Just 1 percent of employed Alaskans believe the PFD makes them work less.[54] Consistent with this finding, researchers found that the dividend had no effect on overall employment rate in Alaska; however, they found that part-time work increased by 1.8 percentage points, or 17 percent, relative to how much they worked prior to the PFD.[55] This could reflect that workers went from full-time to part-time work, or that residents joined the labor force on a part-time basis.[56] Their research suggests that this permanent and universal cash transfer has limited adverse employment impact.

The Eastern Band of Cherokee Indians Casino Dividend

The Eastern Band of the Cherokee Nation owns two casinos and issues a dividend to members from the profits, typically amounting to payments between $4,000 and $6,000 annually. This large payment represents between one-fourth and one-third of the income for many members' households.[57] A study on the effects of this permanent household income increase suggests an improvement in child outcomes, with increases in child educational attainment at ages 19 and 21 and reduced criminal behavior at 16 and 17 years of age.[58] A separate study also found large positive changes on children's emotional and behavioral health as well as positive changes to personality traits, such as an improvement in conscientiousness. This study also found evidence that a subsample of the population moved to census tracts with better income levels and educational outcomes following the improved household income.[59] Importantly for the discussion on cash infusions, the study found no effects on labor force participation for receiving families, meaning that this income boost has not resulted in recipients reducing their labor force participation.[60]

The Earned Income Tax Credit

Tax refunds are a large source of income for many US households, and for low-and moderate-income working families with children, a large proportion of that refund comes from the Earned Income Tax Credit (EITC). The EITC is considered the largest anti-poverty program for low-income working adults.[61] It is a refundable tax credit program that provides the largest benefits to families with children, though childless workers are also eligible for a very small credit.[62] In 2018, the maximum credit the EITC provided was $519 for eligible workers without children and up to $6,431 for workers with three or more children.[63] Research finds that the EITC dramatically increases the number of hours worked for single mothers and that it removes more children from poverty than any other program.[64] The Center on Budget and Policy Priorities finds that, "In 2018, the EITC lifted about 5.6 million people out of poverty, including about 3 million children. The number of poor children would have been more than one-quarter higher without the EITC."[65] By putting more cash into these households, the EITC also has effects beyond the benefits to household balance sheets such as improved physical and mental maternal health,[66] children's performance on cognitive tests,[67] and infant health.[68]

In addition to this federal credit, the District of Columbia, more than half of the states, and Puerto Rico have supplemented the federal EITC with their own.[69] Studies of tax returns by the JPMorgan Chase Institute demonstrate the importance of these refunds on consumer spending, and illustrate that many households defer spending until they receive their tax returns, which indicates how cash-starved families are. (See the textbox below for more on these findings on tax returns.)

Tax Refunds Greatly Impact Household Spending and Balance Sheets

In two separate reports, the JPMorgan Chase Institute observes that tax refunds—often the largest cash infusion households see in a year—impact families' saving and spending in important ways far beyond tax season. Equal to almost six weeks of take-home income, the tax refund generates a sharp increase in expenditures immediately following its receipt, and a significant fraction is also set aside to savings, with an average of 28 percent remaining even six months later.[70]

Notably, out-of-pocket spending on healthcare services jumps by 60 percent in the week after a tax refund is received. Most of this additional spending takes place in person at healthcare service facilities, indicating that families defer at least some of their healthcare consumption until after they have this additional liquidity. Further illustrating this point, the increase in healthcare spending after the arrival of the tax refund was twentyfold larger for families with less than $500 in liquid savings compared with those with $3,500 or more.[71]

Negative Income Tax Experiments

Between 1968 and 1980, the United States tested a guaranteed minimum income via four cash transfer program experiments in the form of a negative income tax (NIT), or refundable tax credit, to low-income individuals.[72] Under an NIT, households with an income below a predetermined threshold receive an income supplement to boost earnings up to that guaranteed income level.[73] The payments were associated with increased household assets, improved school attendance records and children's test scores, and reduced child malnutrition.[74] Unlike findings in developing countries and in other US-based programs, there was a small decline in household working hours associated with these programs, primarily among second- and third-wage earners in a family, rather than the primary earner.[75] Specifically, the fall in labor supply for husbands (typically the primary wage earner) was approximately two weeks of full-time employment, three weeks for wives and single female household heads, and four weeks for youth.[76] Of note, the extra earnings beyond the guaranteed minimum income were being taxed at rates between 30 to 70 percent, yet in response, men's hours worked decreased by less than 10 percent.[77] This decline in hours for non-primary earners could reflect families optimizing their time and finances, as these decreases were concentrated among mothers who took more time to return to the labor force after giving birth.[78] Moreover, researchers found that those workers that did decrease their hours, used that time to look for work or provide childcare.[79] Canada ran a similar program with similar findings.[80]

Lessons from International Cash Transfer Programs Offer Further Evidence About the Benefits of Cash Transfers on Recipients and Their Families

Similar to the findings from United States-based programs, studies of cash transfer programs from abroad—from India,[81] Uganda,[82] Brazil,[83] Mexico,[84] Kenya,[85] Finland,[86] and Canada,[87] among others[88]—show that unrestricted cash programs have positive impacts on a range of outcomes, such as improved long-term income prospects, including higher earnings due to productive investments made. In many cases, working hours were unaffected, or in some cases, increased and thus boosted earnings. Some of these programs have been especially successful at combatting poverty, such as the Bolsa Família program in Brazil that more than halved the country's extreme poverty rate from 9.7 to 4.3 percent.[89] Overall, the research demonstrates that the flexibility of the funds also assists households to smooth consumption, put food on the table, pay down debt, and purchase needed items, such as school supplies and children's clothing.[90]

Results also demonstrate better educational attainment, including increased school attendance, grade progression, and high school education completion. Health outcomes improved under these programs, as measured by increased prenatal care visits, immunization coverage, reduced child mortality, and reductions in hospitalization rates, among other outcomes.

The cash transfer programs also increased food sufficiency and children's nutritional outcomes. In some cases, cash was tested against providing in-kind assistance, and was found to improve outcomes for recipients and efficiency for the programs, some at lower cost than the traditional in-kind support programs.[91]

Does Giving People Cash Cause People to Stop Working?

The current share of working American adults lags behind other developed nations, such as Canada, France, Germany, Japan, and the United Kingdom. According to data from the US Bureau of Labor Statistics, 83.1 percent of adults in their prime working years (ages 25 to 54) were in the labor force in January 2020.[92] Some critics argue that public benefit provision discourages work, but economists across the aisle agree that the current US labor force participation rate is not due to the public benefits system.

When asked whether "the richness of our social programs" was to blame for fewer people looking for jobs or working, Federal Reserve Chair Jerome H. Powell stated, "It's very hard to make that connection, and I'll tell you why. If you look in real terms, adjusted for inflation, at the benefits that people get, they've actually declined during this period of declining labor force participation. It isn't better or more comfortable to be poor and on public benefits now; it's actually worse than it was."[93]

Furthermore, MIT Professors and recent winners of the Nobel Prize in Economics Esther Duflo and Abhijit Banerjee write that, "40 years of evidence shows that the poor do not stop working when welfare becomes more generous."[94]

These studies demonstrate that cash transfer programs have the potential to change a family's trajectory on a variety of measures, including maternal and child health, educational attainment, and financial measures such as greater savings and spending on mobility- and income-enhancing assets, as well as increased spending on needed basics such as food.

Conclusion

The absence of positive cash flow undermines financial stability and there is strong evidence that cash transfers can help

Families across the United States continue to face barriers to financial security and well-being, including unstable income or expenses, low or no savings, and the risk of financial shocks that can destabilize a family's finances. A lack of financial cushions—including routinely positive cash flow and liquid savings, or cash and money held in checking and savings accounts—poses a barrier for families to maintain and achieve short-term financial stability.[95] Without enough money coming in to cover basic needs, it is extremely difficult to build and replenish personal savings. Moreover, without cash reserves, it is difficult for individuals to undertake mobility- and wealth-enhancing steps.

International programs and those in the United States demonstrate that cash transfers are a program component that can help households boost savings and provide the financial buffers needed to weather financial shocks and pursue mobility strategies. The idea of incorporating cash transfers into programs and policies is gaining traction across the US and abroad, from those interested in raising the household income floor to others that are preparing for a future labor market that relies on artificial intelligence. The next brief in this series will review in detail evidence from the cash transfer programs that CIC members LIFT and Family Independence Initiative (FII) offer to members. The brief will explore the motivations, operations, and value of flexible cash infusions for recipients and their families. To read this brief, see https://www.aspeninstitute.org/publications/guaranteedincome.

Endnotes

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THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

CONSUMER INSIGHTS COLLABORATIVE

WHO IS THE CONSUMER INSIGHTS COLLABORATIVE?

The Aspen Institute Financial Security Program convenes the Consumer Insights Collaborative, an effort across nine leading nonprofits to collectively understand and amplify data for the public good, specifically about the financial lives of low- and moderate-income households. The Collaborative's vision is that data-driven insights will prompt a wide variety of actors to develop programs, products, and policies that help more people achieve financial security—and that the insights inspire more organizations to put their data to use for good.

commonwealth

Strengthens the financial security and opportunity of financially vulnerable people by discovering ideas, piloting solutions, and scaling innovations.
www.buildcommonwealth.org
Boston, MA

SaverLife (Formerly EARN)

Leverages financial technology and economic inclusion to empower low-income Americans to save and take charge of their financial lives.
www.about.saverlife.org
San Francisco, CA

Family Independence Initiative

Provides a technology platform for low-income families to strengthen social networks, record progress towards goals, and unlock dollars to accelerate their mobility.
www.fii.org
Oakland, CA

The Financial Clinic (Creators of Change Machine)

The Financial Clinic's mission is to build working poor people's financial security through an ecosystem of strategies that includes direct service, capacity building, and systems-level solutions fueled by financial technology.
www.thefinancialclinic.org
New York, NY

inclusiv

Promotes financial inclusion by providing capital, building capacity, and developing innovative products and services for community development credit unions (CDCUs).
www.inclusiv.org
New York, NY

LIFT

Builds relationships with parents to set and accomplish family career and financial goals, connecting them to the resources and networks that make those dreams a reality.
www.whywelift.org
Washington, DC

MAF

Creates a fair financial marketplace for hardworking people by building on what they have through financial products, coaching, and technology.
www.missionassetfund.org
San Francisco, CA

mypath

Equips young people of color growing up in financial deserts with the knowledge and financial tools they need to build wealth and get on the path to economic mobility.
www.mypathus.org
San Francisco, CA

NEIGHBORHOOD TRUST FINANCIAL PARTNERS

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www.neighborhoodtrust.org
New York, NY