The Daily Dish

The Power of Targeting Relief

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Eakinomics: The Power of Targeting Relief

I continue to be puzzled by the economic and public health logic underlying the Biden Administration's proposed $1.9 trillion request for COVID-19 response. As I noted previously, "The bottom line is that the Biden proposal is inconsistent with the current and projected strength of the economy, ignores economic support that is in the pipeline, spends over a trillion on problems that the vaccination program is intended to solve, and contains numerous extraneous proposals. Any legislative compromise that will pass Congress will have to be much better designed."

Perhaps for these reasons, there are reports that House Democrats may instead vote next week on a bill that contains only money for vaccinations and $2,000 checks (or, more precisely, $1,400 added to the existing checks to bring the total to $2,000). The former is a good idea, but the latter is a wasteful solution in search of a problem. As I also noted previously, it will not be effective stimulus.

If, instead, it is meant as relief for those financially burdened by the pandemic, it should be targeted on those who face such difficulties. The current checks go to individuals even if they did not miss a day of work or a single paycheck. A simple way to better target the money would be to ask state unemployment offices to report the names of those individuals who were unemployed for, say, 4 months or longer in 2020. (Notice by focusing on the past, there will be no poor incentives for labor market participation in 2021.) Checks could be targeted on this population.

Let's do some math to get a notion of what is at stake. The Congressional Budget Office estimates that the current checks will cost $163 billion in 2021. Assuming that behavior is unchanged, topping the checks up to $2,000 would cost an additional $380 billion. What happens if we target this money on the unemployed? Well, the latest monthly

employment report indicated that there were 10.7 million people unemployed in December. One could send every one of them a check for over $35,000 with the same money that produces $2,000 checks. Of course, not all will have been unemployed for very long. Indeed, the Labor Department data indicate that nearly 4 million have been unemployed for 27 weeks or longer. That is a much narrower base of the truly long-term unemployed. Each of them could receive a check of over $96,000 with the same pool of money.

Obviously, I don't envision Congress voting for $96,000 checks. For example, $2,000 more to the long-term unemployed would cost only $8 billion. The real message is that it makes a lot more fiscal sense to identify the population genuinely in need and provide the appropriate support much more cheaply.