



The Daily Dish

Stimulus and Lessons for Program Design

DOUGLAS HOLTZ-EAKIN | JANUARY 11, 2021

Eakinomics: Stimulus and Lessons for Program Design

The Internal Revenue Service (IRS) is in the midst of sending out the \$600 checks recently passed into law by Congress. I have all sorts of reservations about the policy – the checks aren't targeted well enough to be genuinely effective relief from the financial travails of the pandemic recession; neither does traditional “stimulus” make any sense in an economy supply-constrained by the coronavirus. But, in addition to being an unattractive policy, it appears that the execution is riddled with [problems](#). As the IRS itself put it, “Because of the [speed at which the law required](#) the IRS to issue the [second round of Economic Impact Payments](#), some payments may have been sent to an account that may be closed or, is or no longer active, or unfamiliar.”

Perhaps that is understandable, but the fact that the same problems arose with the first round of checks in spring 2020 makes me wonder if maybe the entire enterprise isn't ill-designed. Perhaps we shouldn't expect the government to be so intrusive as to be able to pinpoint exactly where every American lives, the bank account (or electronic payment or cash) they use, and deliver the dollars with no error. In fact, I'm sure that is right.

A while back there was a trendy tax reform called the [Fair Tax](#), the heart of which was a flat national sales tax. To introduce some progressivity into the system, the idea was to exempt some base amount of purchases so there were two effective tax brackets. The mechanism for exempting was a “pre-bate” – a check sent to every household to cover the sales tax on a base amount of purchases. Among the many arguments against the Fair Tax was that this would never work – the government simply couldn't find every household and send those checks in a timely and accurate fashion. The evidence is now in.

A similar issue has arisen with proposals to reach universal health insurance coverage by automatically enrolling every uninsured American in a basic health insurance policy. It sounds great in theory, but it seems impossibly daunting as a matter of practice. The reality is that the private sector – households and businesses – has to be integral to effective policies. People who want to have health insurance should have to identify themselves as potential recipients of the policy. People who want to get an Economic Impact Payment should have to show their eligibility (for example, not be dead) and tell the government where to send it.

I suspect we are likely to revisit this issue in a number of areas over the next several years as the Biden Administration-to-be seeks to expand the size and scope of government. For example, it appears to favor eliminating the need to file tax returns for large fractions of the citizenry – we'll just let the Treasury do it! But should we? I don't think so.

This situation also underscores concerns of many at the prospect of enlarging the IRS's role to include a government-controlled automated tax return system that would make the IRS the preparer, collector, and auditor of tax returns at all times.