The Impact of Unconditional Cash Transfers on Consumption and Household Balance Sheets in the United States

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Sector(s): Finance

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Location: Dallas, Texas and northern Illinois

Sample: 3000 individuals

Target group: General

Outcome of interest: Household finance

Intervention type: Cash transfers

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Many people living in poverty face challenges paying for everyday goods and services and saving for their financial future. Researchers conducted a randomized evaluation testing the impact of monthly cash transfers of $1,000 to low-income individuals in Texas and Illinois on household expenditures, debts and assets, and financial health. The study found that receiving the cash transfer increased spending by $310 per month, primarily on expenses related to housing, food, and cars. The treatment had no overall effect on net worth but increased short-run, self-reported financial health.

Policy issue

In 2022, the US Census Bureau defined the poverty threshold for a family of four including two children under eighteen as earning less than US$29,678 per year. This same year, 37.9 million people in the United States were living in poverty (11.5 percent of the US population). Poverty impedes people's ability to pay for basic goods and disproportionately impacts many marginalized groups, such as people of color, disabled people, and formerly incarcerated people.

Cash transfers offer a potential solution to addressing the gap between what people want to spend money on and what they can afford to spend money on. Evidence on cash transfers in low- and middle-income countries has found positive effects on health,[1] household purchasing power,[2] and well-being outcomes.[3] At the time of this study, rigorous evidence on how unconditional cash transfers impacts household consumption in higher-income countries was limited.

The Covid-19 pandemic heightened the focus on cash, as federal programs such as increased unemployment insurance, the expanded child tax credit, and Covid-19 relief payments put cash directly into the hands of many Americans. Additionally, several local entities used federal recovery funds and private philanthropic dollars to pilot their own cash transfer programs.

Understanding how cash is used—or saved—and the long-term impacts it has on recipients are important considerations when deciding how or if to continue such programs and in understanding the challenges faced by low-income households more broadly. This study seeks to understand how US households living in poverty use an unconditional cash transfer and explores the relationship between income and consumption.

Context of the evaluation

Researchers partnered with two nonprofit organizations to administer a privately funded cash assistance program to individuals living in eighteen counties within Illinois and Texas. The eighteen counties included nine counties in and around Chicago and nine counties in and around Dallas. Counties chosen encompassed large cities (Chicago, Dallas, and Fort Worth), medium sized cities (Waco, TX and Rockford, IL), suburban, and rural areas. In 2022, 11.9 percent of people living in Illinois and 14.0 percent of people living in Texas had experienced poverty in the last twelve months

Woman and man picking out produce at a grocery store.

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Details of the intervention

Researchers evaluated the impact of receiving US$1,000 of unrestricted cash per month for three years on individuals' spending and financial health. Individuals in the comparison group received US$50 per month for the same period of time. These monthly payments were not conditional on participant behavior or study participation. Treatment and comparison group individuals also received separate payments to encourage survey responses.

Eligibility was limited to individuals 21–40 years old, living in eighteen counties in Illinois and Texas, whose household income was less than 300 percent of the federal poverty level. Researchers recruited participants via mailers, geographically-targeted Facebook advertisements, and advertisements embedded within the FreshEBT mobile application. The study sample was broadly representative of the young, low-income population of the United States when compared to demographics from the American Community Survey. Renters were over-represented in the study sample (79 percent versus 66 percent).

In October 2020, 1,000 individuals were randomly assigned to the treatment group and 2,000 individuals were randomly assigned to the comparison group. Payments began in November 2020 and ended in October 2023.

Study data was obtained through two primary sources. First, participants completed extensive surveys including monthly online surveys and comprehensive midline and endline surveys. Surveys collected data on expenditures, financial health, and well-being. Second, researchers matched participant data to credit histories which provided detailed historical data on debt and repayment.

Results and policy lessons

The study found that households used the transfer to increase spending on food, cars, housing and neighborhood mobility. There were no statistically significant overall changes in net worth. The average credit score of the treatment group increased by 6.28 points. The following results are divided into four sections: expenditures, financial health and resilience, household balance sheets, and credit and financial behavior.

Expenditures

Participants who received the $1000 monthly cash transfer increased total measured spending in the survey data by an average of $310 per month over the study period (a 7.78 percent increase relative to the comparison mean of $3,979). Survey data showed that spending increased in three categories: food and non-alcoholic beverage consumption increased by an average of $67 per month (a 6.93 percent increase over the comparison mean of $967); rent expenditures increased by an average of $52 per month (an 8.64 percent increase over the comparison mean of $602); car payment and insurance expenditures rose an average of $30 per month (an 8.20 percent increase over the comparison mean of $366). The researchers note that self-reported expenditure surveys often underestimate true spending, particularly on more irregular or less salient types of expenditures. Consequently, these estimated effects on spending are likely a lower bound of the full effects of the transfer on spending.

In addition to increased spending on housing, the likelihood of moving housing units over the study period increased by 4.1 percentage points (a 9.53 percent increase relative to the comparison mean of 43.3 percent) and moving neighborhoods increased by 4.4 percentage points (an 11.28 percent increase relative to the comparison mean of 39.0 percent).

Financial Health and Resilience

Researchers developed a tool to estimate financial health and resilience, composed of indices that measured exposure to financial hardship, savings relative to income, self-reported financial health, and financial resilience. Overall, receipt of the monthly cash gift resulted in an increase in financial health and resilience by 0.05 standard deviations relative to the comparison group. These effects were driven by increases in years one and two; by year three the financial health index was lower in the treatment group than in the comparison group.

Specifically, participants increased their self-reported financial health by 0.67 points on the Consumer Financial Protection Bureau Financial Well-being Scale (a 3.68 percent increase relative to a comparison group mean of 18.19). Additionally, financial resilience increased by .03 standard deviations.

Household Balance Sheets

Combining data on assets and debt, the researchers estimated the effect of the cash on net worth, finding no statistically significant impact overall.

Credit and Financial Behavior

The study did not find any statistically significant effects of the cash on bankruptcy and foreclosure, credit utilization, or credit delinquencies. Using credit bureau data obtained from Experian, researchers found that credit scores in the treatment group rose by 6.28 points, a 1.0 percent increase relative to the comparison mean of 630.21.

The results suggest that large, recurring, time-limited cash transfers increased spending on basic needs, improving self-reported financial health, and equipping low-income households to handle short-term financial shocks. However, transfers of this size, frequency, and duration may not increase wealth or improve financial outcomes in the long term for low-income households.

https://www.nber.org/papers/w32784

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1. Abdul Latif Jameel Poverty Action Lab (J-PAL). 2020. "Using cash transfers to improve child health in low- and middle-income countries." J-PAL Policy Insights. Last modified May 2020. https://doi.org/10.31485/pi.2523.2020

2. Abdul Latif Jameel Poverty Action Lab (J-PAL). 2014. "Comparing Cash and Voucher Transfers in a Humanitarian Context: Evidence from the Democratic Republic of Congo." J-PAL Evaluation Summary. Last modified April 2023.

3. Abdul Latif Jameel Poverty Action Lab (J-PAL). 2018. "Giving directly to support poor households." J-PAL Evidence to Policy Case Study. Last modified October 2018.