

# **Designing the safety net**

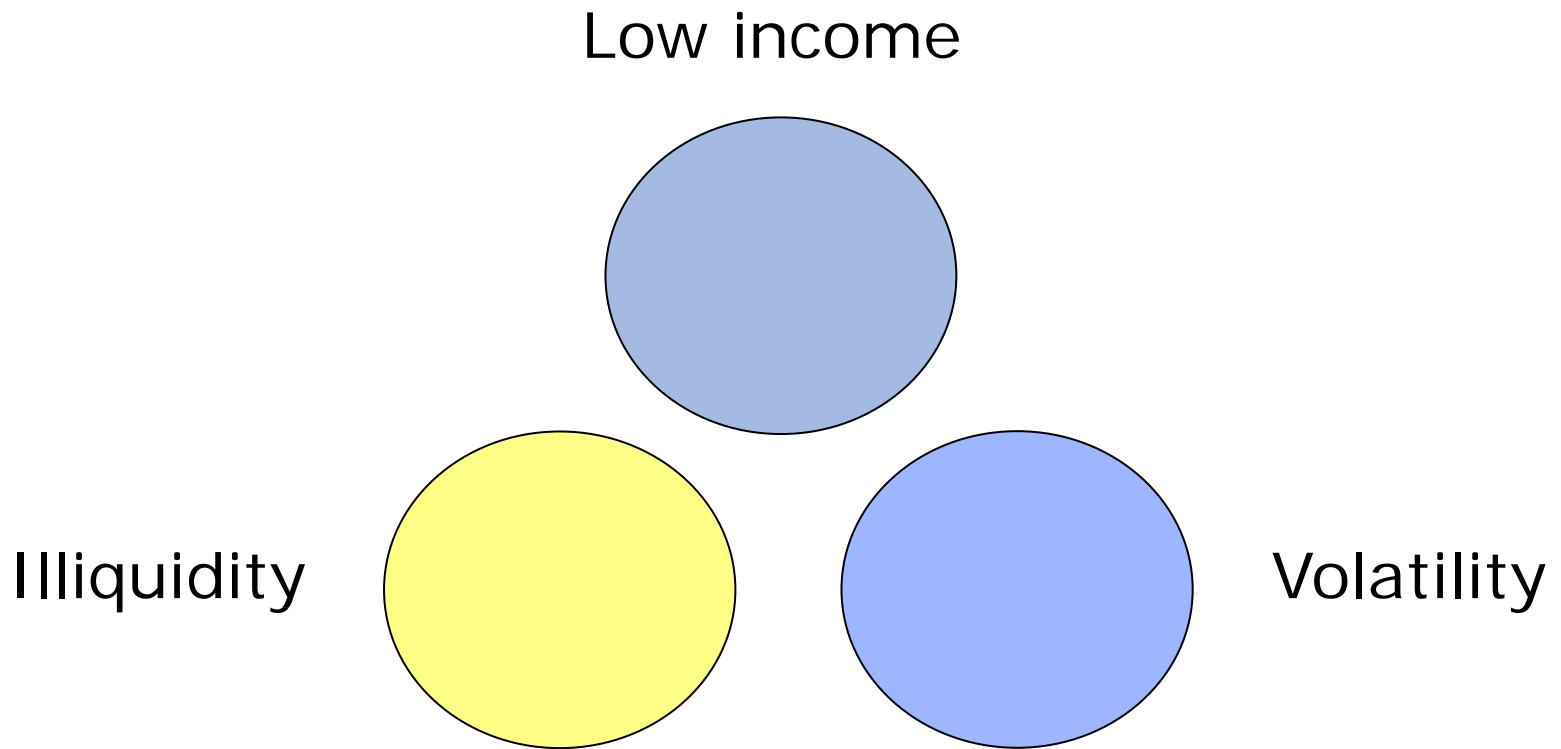
## Reflections on the Compton Pledge

**Jonathan Morduch**

New York University

Toward an Inclusive Recovery: Improving financial security panel  
2021 Federal Reserve Community Development Research Seminar Series  
August 3, 2021

# Household financial challenges during the year



# Financial Diaries Methods

For a full year, 235 households allowed us to track every dollar they earned, saved, borrowed, shared, and spent.



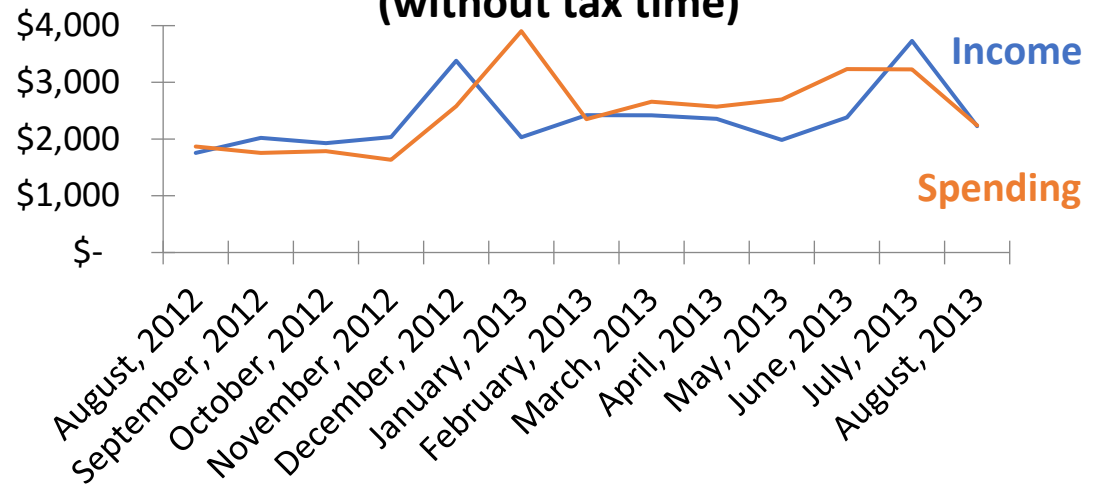
# Becky and Jeremy



- Annual income: \$35,000
- Four children
- Rural Ohio
- 131% of (supplemental) poverty line
- Poor five months

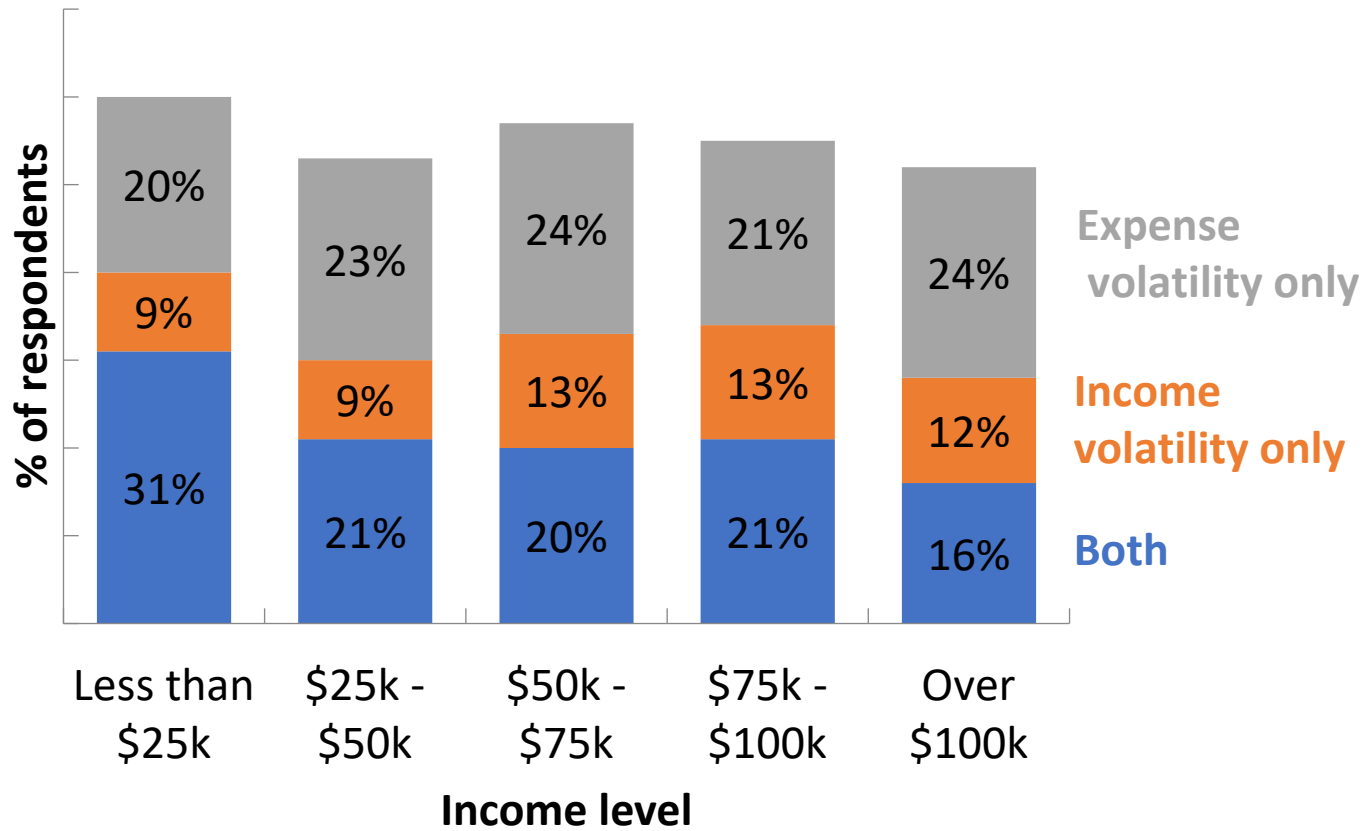


### Monthly Income and Spending (without tax time)



# Income and Spending Volatility

2015 Survey of Household Economics and Decision-making (SHED)



Federal Reserve, SHED 2015. Sample size n=5,542

# Transfers: How and when?

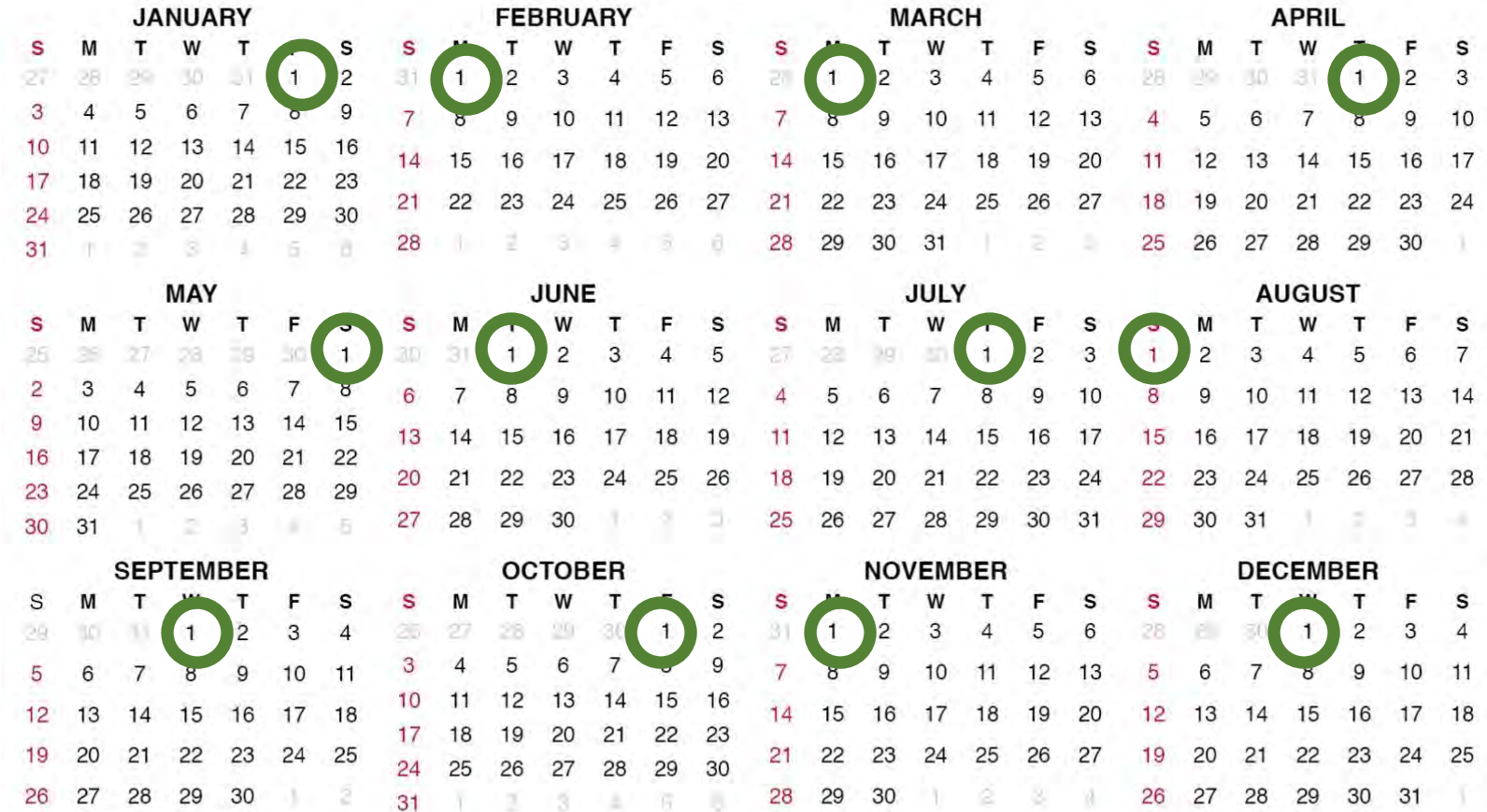
## 2 distinct financial problems

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

**Spiking:** How to aggregate resources for meaningfully large purchases?

# Monthly transfers

UBI proposals/pilots. Social security, SNAP (food stamps)





# Smoothing

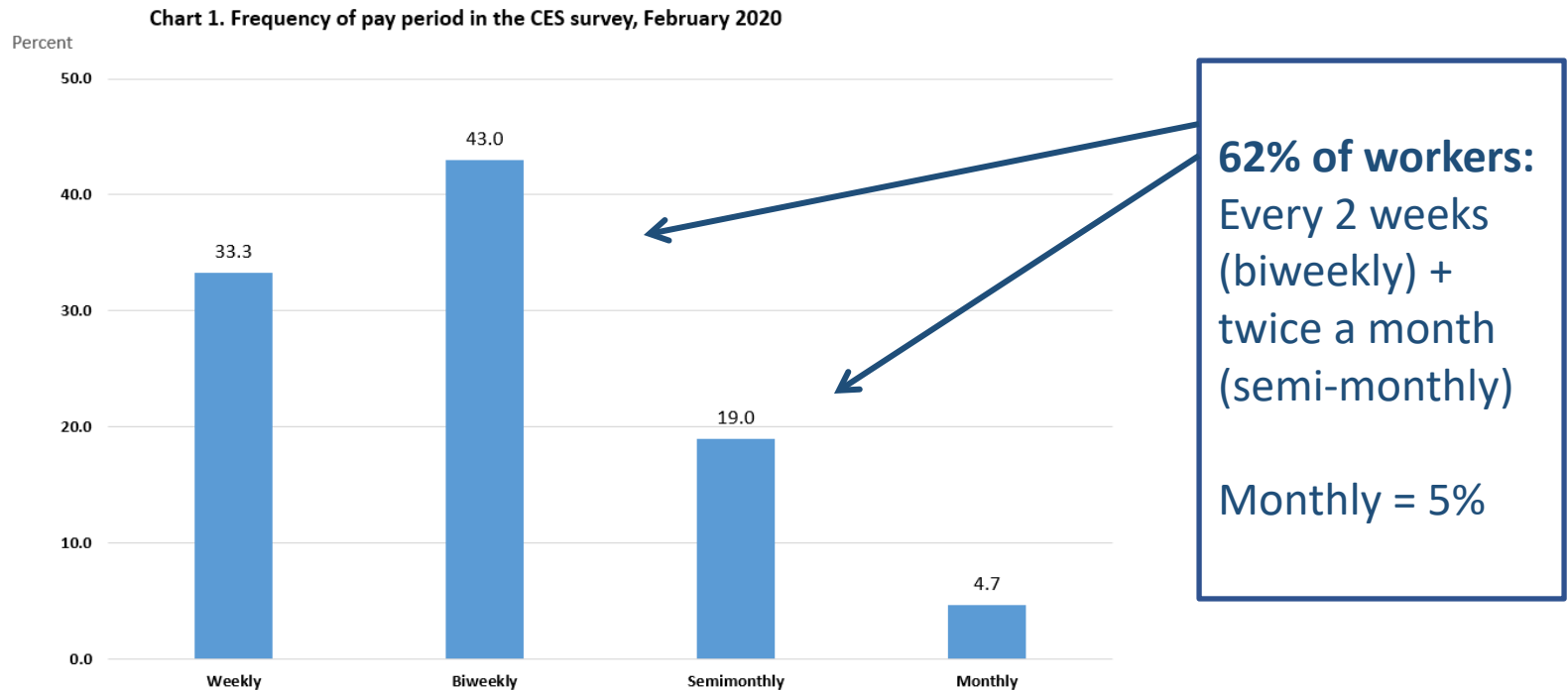
Stretching resources to cover times when income is low.





# Pay Frequency

United States. Private Employers, 2020

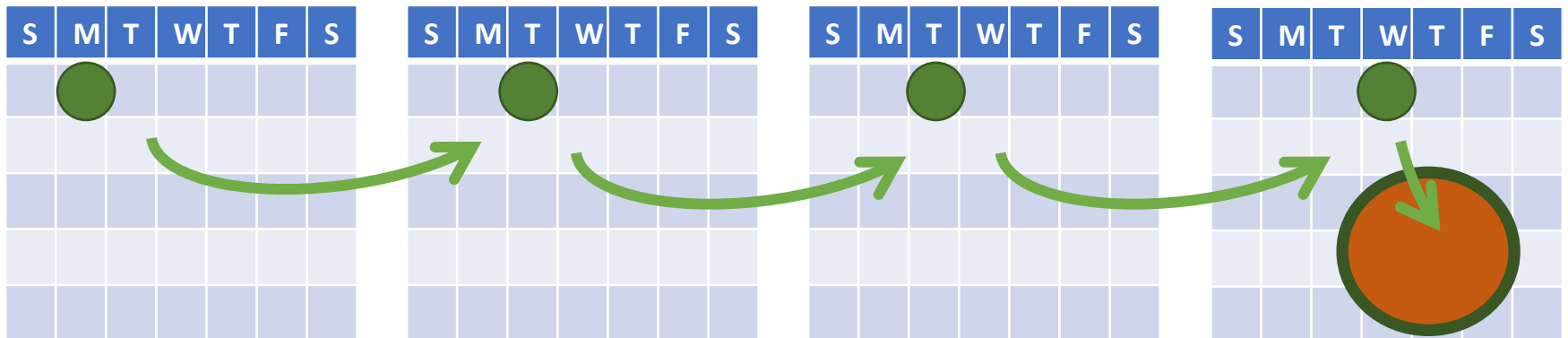


Source: U.S. Bureau of Labor Statistics, Current Employment Statistics survey

US Bureau of Labor Statistics. <https://www.bls.gov/ces/publications/length-pay-period.htm>. CES: data from about 144,000 businesses and government agencies. Represents about 697,000 individual worksites or establishments. About 1/3 of non-farm payroll employees in USA.

# Spiking

Aggregating resources for meaningfully large purchases



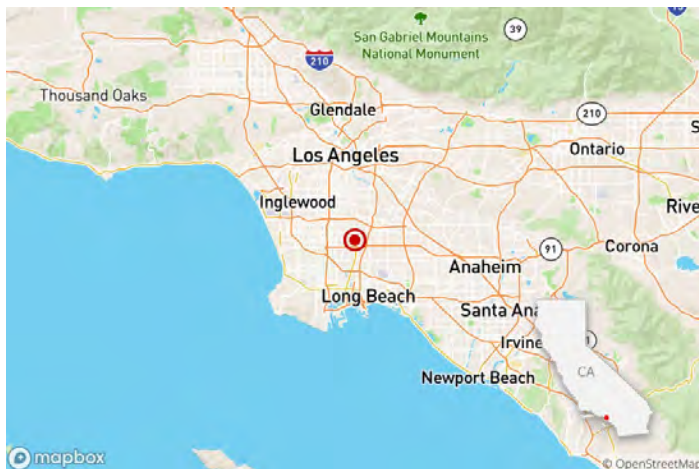
# Annual transfers

Earned Income Tax Credit



JANUARY							FEBRUARY							MARCH							APRIL						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
27	28	29	30	31	1	2	31	1	2	3	4	5	6	28	1	2	3	4	5	6	28	29	30	31	1	2	3
3	4	5	6	7	8	9	7	8	9	10	11	12	13	7	8	9	10	11	12	13	4	5	6	7	8	9	10
10	11	12	13	14	15	16	14	15	16	17	18	19	20	14	15	16	17	18	19	20	11	12	13	14	15	16	17
17	18	19	20	21	22	23	21	22	23	24	25	26	27	21	22	23	24	25	26	27	18	19	20	21	22	23	24
24	25	26	27	28	29	30	28	1	2	3	4	5	6	28	29	30	31	1	2	3	25	26	27	28	29	30	1
31	1	2	3	4	5	6	28	1	2	3	4	5	6	28	29	30	31	1	2	3	25	26	27	28	29	30	1
MAY							JUNE							JULY							AUGUST						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
25	26	27	28	29	30	1	30	31	1	2	3	4	5	27	28	29	30	1	2	3	1	2	3	4	5	6	7
2	3	4	5	6	7	8	6	7	8	9	10	11	12	4	5	6	7	8	9	10	8	9	10	11	12	13	14
9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14	15	16	17	15	16	17	18	19	20	21
16	17	18	19	20	21	22	20	21	22	23	24	25	26	18	19	20	21	22	23	24	22	23	24	25	26	27	28
23	24	25	26	27	28	29	27	28	29	30	1	2	3	25	26	27	28	29	30	31	29	30	31	1	2	3	4
30	31	1	2	3	4	5	27	28	29	30	1	2	3	25	26	27	28	29	30	31	29	30	31	1	2	3	4
SEPTEMBER							OCTOBER							NOVEMBER							DECEMBER						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
29	30	1	1	2	3	4	26	27	28	29	30	1	2	31	1	2	3	4	5	6	28	29	30	1	2	3	4
5	6	7	8	9	10	11	3	4	5	6	7	8	9	7	8	9	10	11	12	13	5	6	7	8	9	10	11
12	13	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18
19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25
26	27	28	29	30	1	2	24	25	26	27	28	29	30	21	22	23	24	25	26	27	19	20	21	22	23	24	25
3	4	5	6	7	8	9	31	1	2	3	4	5	6	28	29	30	1	2	3	4	26	27	28	29	30	31	1

# 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**

- Held office 2013-2021
- People just need money
- No strings attached
- Trust people to choose priorities
- Priority on disadvantaged communities

**COMPTON  
PLEDGE**

# Independent Evaluation

## Principal Investigators

**Sidhya Balakrishnan**, Jain Family Institute

**Sewin Chan**, New York University

**Sara Constantino**, Princeton University

**Johannes Haushofer**, Stockholm University

**Jonathan Morduch**, New York University

# Compton Pledge Transfers

## Transfers:

Children	Annual Sum
0	\$3600
1	\$5400
2+	\$7200

Pilot: 2 years

## 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



# Compton Pledge

2100 households. Example of a 2 adult/2+ child household. 2 years duration.

**698 households**

\$7200 per year  
(=\$1800/quarter)



4 lump sums  
349 households

\$7200 per year  
(=\$600/month)



Every 2 weeks  
349 households

**Control group**  
1402 households

# Household financial challenges during the year

