October 8, 2019

Hearing: Strengthening Our Fiscal Toolkit

Policy Options to Improve Economic Resiliency

The American people expect their government to promote a strong, stable economy that provides opportunity for all. However, ups and downs in the business cycle are inevitable, economic inequality is widening, and no one knows exactly when a downturn might occur. Congress has a responsibility to ensure recessions are as short and shallow as possible; both to minimize suffering in the near term and to secure a stronger economy and increased opportunity in the future. On October 16th, the House Budget Committee will hear from four expert witnesses on options to strengthen our toolkit for fighting future recessions.

Recessions are costly and painful for American families — The Great Recession inflicted significant, lasting damage on Americans, and many families were left behind long after the recession officially ended. The bottom 50 percent of households have only just now recovered the wealth they had in 2007. Millennials – many of whom graduated college into the worst job market in a generation – have lower earnings and less wealth than the generations before them. The legacy of the Great Recession is seen in higher student loan debt, lower homeownership rates, greater economic inequality, and larger racial wealth gaps. We cannot afford a repeat.

Fiscal stimulus has a powerful role to play in fighting recessions — In the 10 years since the Great Recession, we have seen the triumphs and shortcomings of our response. When the economy was bleeding 800,000 jobs a month, the American Recovery and Reinvestment Act (ARRA) of 2009 – which increased government investment, bolstered transfer payments to households, and cut taxes for families and businesses – helped pull our economy out of the ditch. The Congressional Budget Office estimates that without ARRA, real GDP would have been up to 4 percent lower and the unemployment rate would have been up to nearly 2 percentage points higher in 2010.

We also know that states and local communities rely on the federal government to help them through hard times. During downturns, states face rising demands for services coupled with rapidly declining tax revenues. Most states have balanced-budget requirements, so timely federal support is critical for stabilizing state budgets during recessions.

We should have been more aggressive in 2009 — While ARRA was critical, a larger fiscal stimulus comparable to the depth of the crisis would have accelerated recovery. Stimulus also ended prematurely, depriving families of critical support before the economy had fully healed. In fact, fiscal policy became a *drag* on economic growth after 2011, when the unemployment rate averaged more than 8 percent. A more aggressive and sustained response to the last recession would have softened its impact and fostered a stronger recovery. Politics, however, prevented us from taking the necessary actions. We cannot afford to make the same mistake again.

Most economists believe the next recession – whenever it comes – will not be as severe as the Great Recession but fighting it may be more challenging — Interest rates are significantly lower today than they were before the last downturn, so monetary policy has little room to operate. Fiscal policy, or changes in government spending and revenues, will be the most powerful tool in our stabilization toolkit, so Congress will need to step up. The time to develop an evidence-based fiscal policy response is now, before a crisis hits.

Many of the most powerful fiscal stimulus tools are already in law, but Congress needs to strengthen them — During a downturn, Americans rely even more on programs like Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and Unemployment Insurance (UI) to help them meet their basic human needs. These programs are examples of automatic stabilizers – spending that is automatically triggered in an economic downturn – and are designed to increase support for American families when they need it most, without having to wait on policymakers to act. Importantly, the stimulus created by these programs turns on and off automatically, as enrollment rises and then subsequently falls. Strengthening automatic stabilizers can help minimize the severity and length of future recessions. Examples include:

- Strengthening the countercyclicality of existing programs that help people meet their basic human needs. This means that programs could provide more federal support during downturns and then return to normal once the economy has recovered.
- Providing aid to states in a way that can be used quickly and effectively, so states aren't forced to lay off teachers and police officers to fill budget holes.
- Creating automatic triggers for fiscal stimulus based on economic indicators. For example, federal support for job creation could automatically flow once unemployment reaches a certain level, rather than waiting for policymakers to act.

The Trump Administration is attacking critical programs that support families and the economy in downturns — The Administration has approved Medicaid work requirements in nine states and proposed making the SNAP work requirement even more onerous. A separate proposed regulation could cut off as many as 3.1 million current SNAP recipients. In addition, the Administration is considering changing how the federal government measures poverty in a way that could eventually cut or eliminate vital assistance for millions of people.

Congress must reject these proposals and instead focus on strengthening programs that deliver timely support to families. At this upcoming hearing, the Budget Committee will learn more about these and other policy proposals to strengthen our recession-fighting toolkit. Expert witnesses who will inform our discussion are:

- **Doug Elmendorf, Ph.D. – Dean and Professor of Public Policy, Harvard Kennedy School**
- **John Hicks – Executive Director, National Association of State Budget Officers**
- **Olugbenga Ajilore, Ph.D. – Senior Economist, Center for American Progress**
- **Douglas Holtz-Eakin, Ph.D. – President, American Action Forum**