In Good Times and Bad: Designing Legislation That Responds to Fiscal Uncertainty

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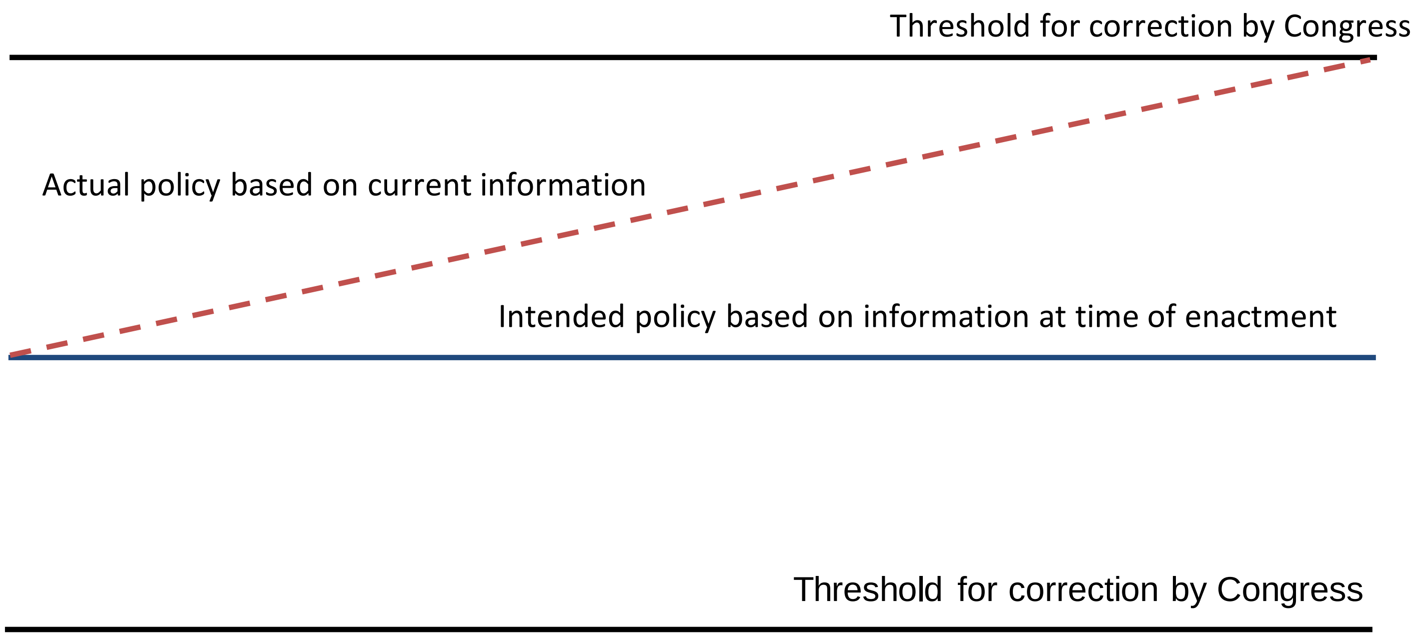
Presentation at Brookings Hutchins Center on Fiscal and Monetary Policy
12/15/14

Policy Drift: Simple Illustration

Policy Drift as Time Passes and New Information Is Received



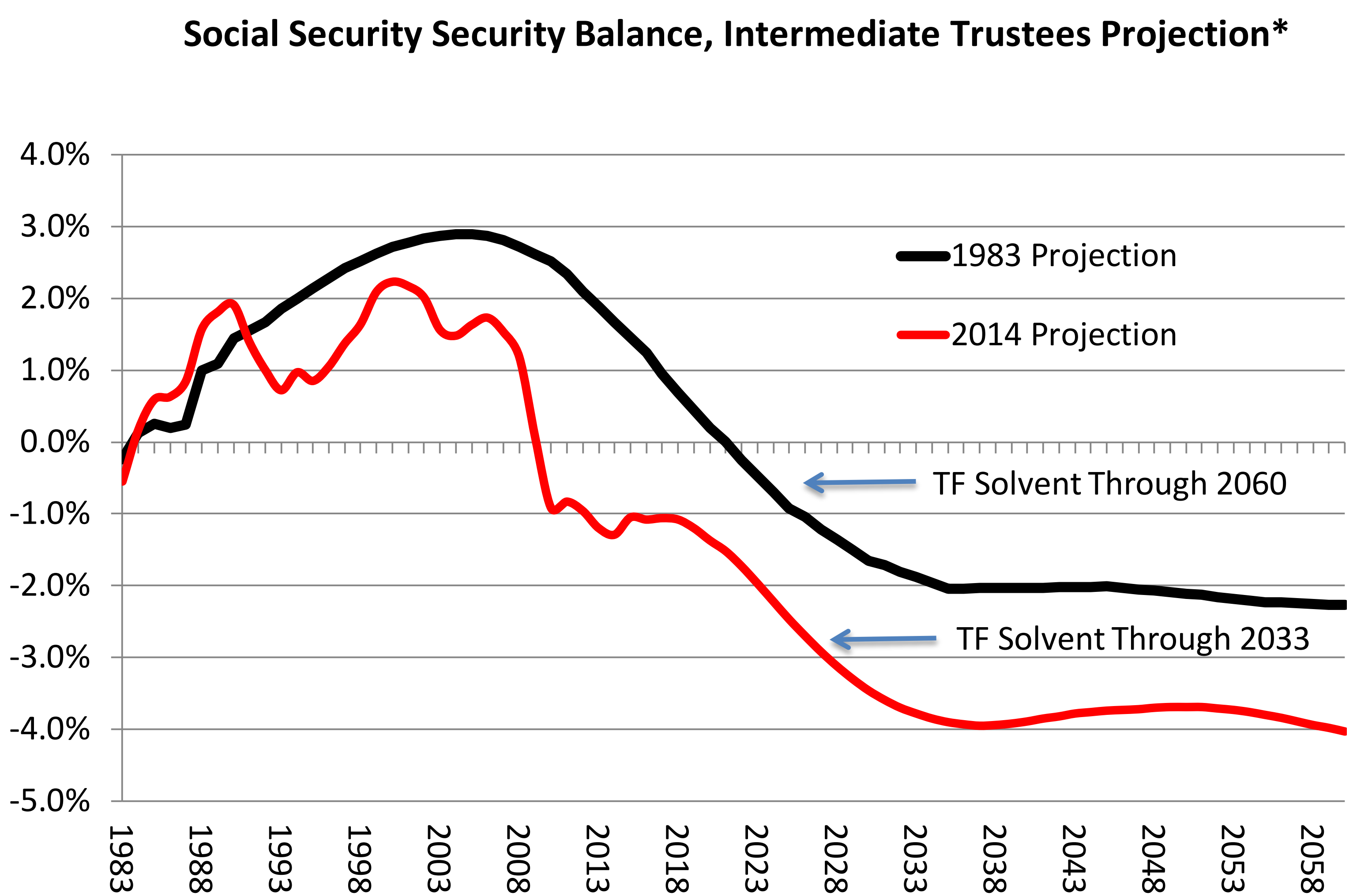
The Great Recession: Initial Expectations Versus Reality

Difference from Natural Rate of Unemployment: What Was Projected in January 2009 Versus What Transpired		
	2009	**2010**
January 2009 Projection	+2.9%	+3.2%
What Transpired (Removing CBO's Estimated Effect of Stimulus)	+3.9% to +4.3%	+4.3% to +6.1%

Note: * This unemployment rate estimate excludes both the effects ofARRA and the additional discretionary stimulus later approved and in effect in 2010.

Source: Author's calculations.

1983 Social Security Projection Versus Today's



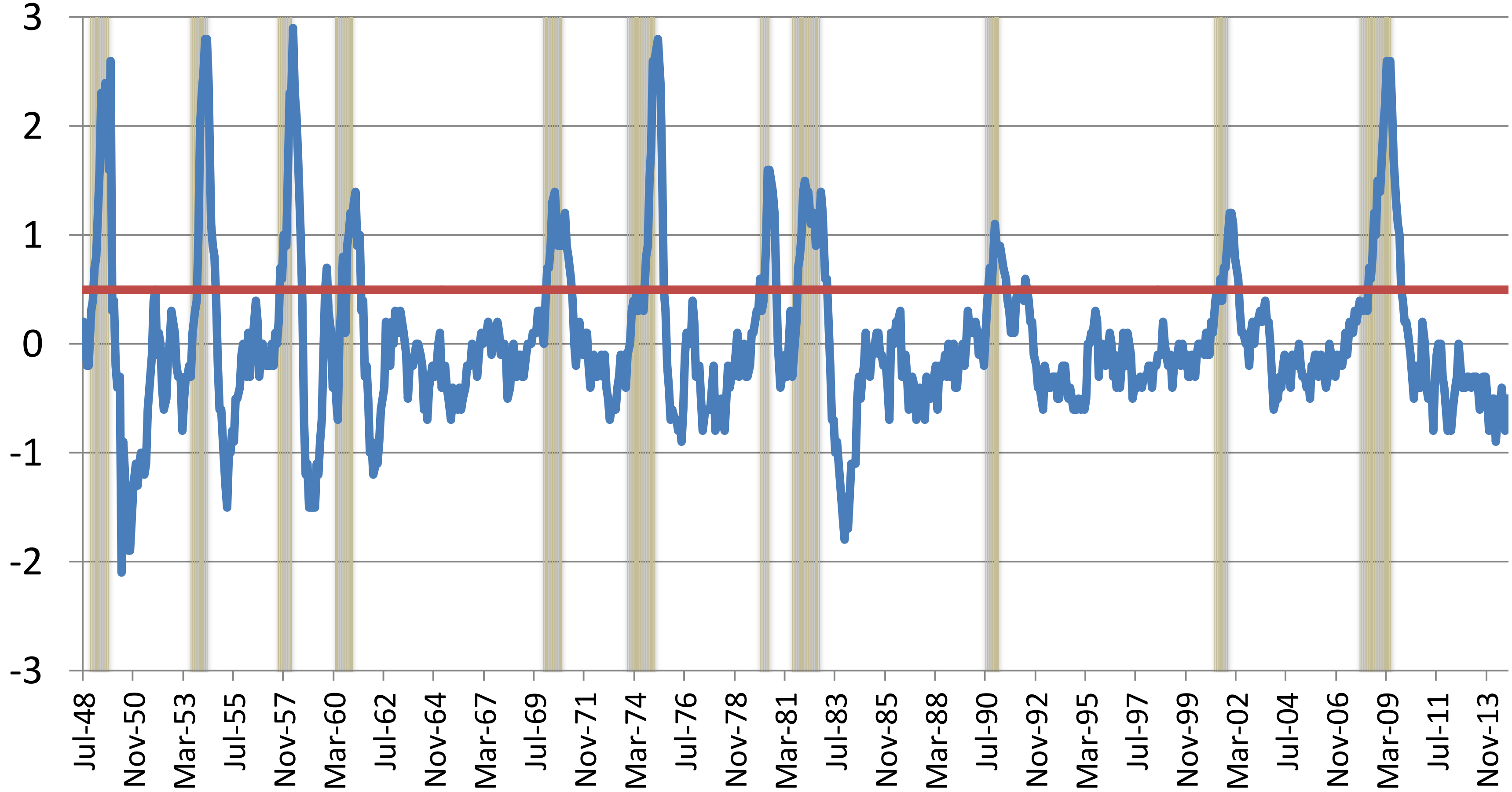
Note: * The 1983 Trustees report gave two intermediate projections. This shows the more pessimistic of the two.

Source: 1983 and 1984 Social Security Trustees Reports.

Unemployment Rate as Trigger

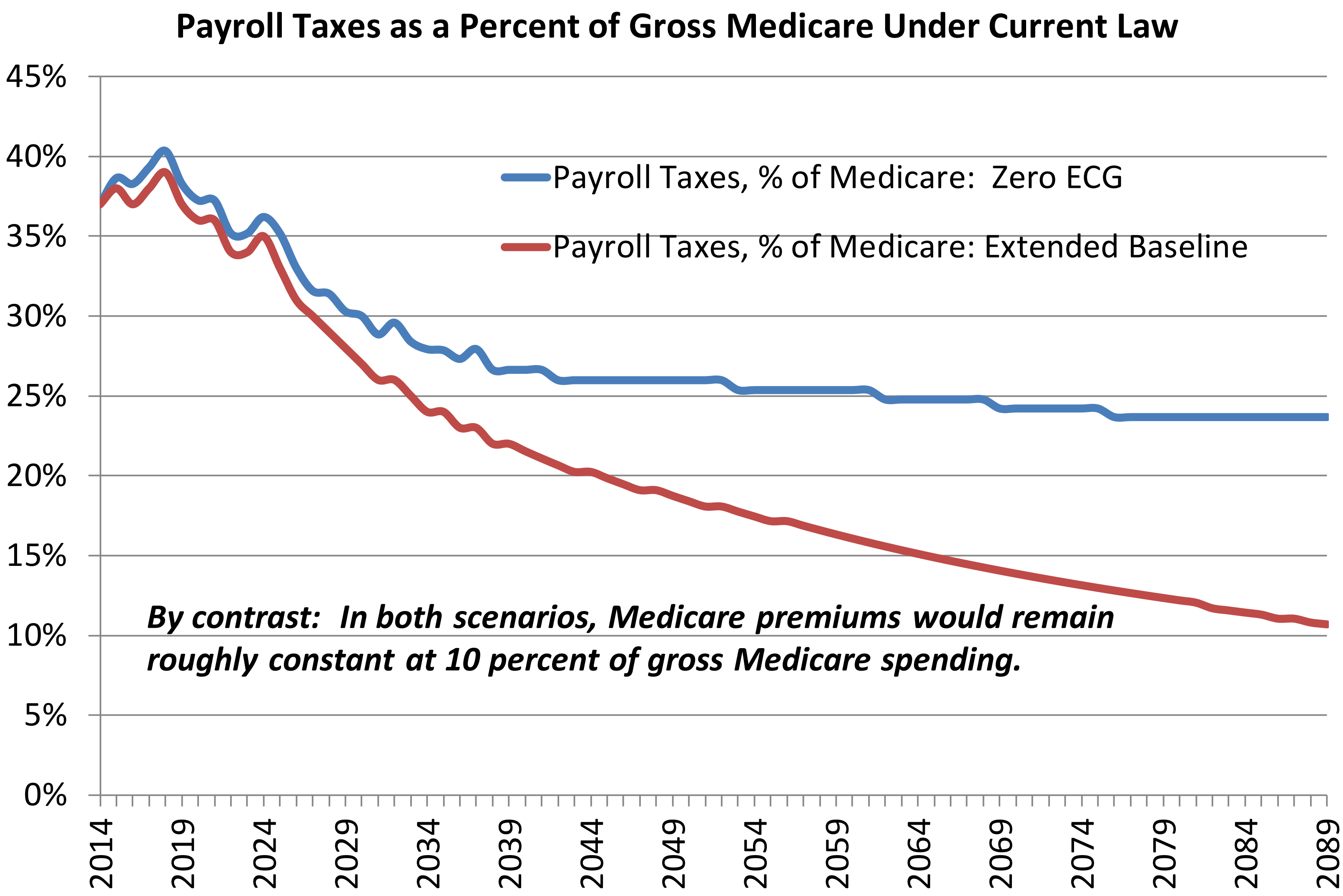
On average, unemployment rate over a 6 month period increased by 0.5 percentage points in 3.5 months after the start of a recession and crossed below the threshold in 5 months after the end.

6 Month Change in the Unemployment Rate
(Shaded Areas Show Periods of Recession as Designated by the NBER)



Source: Author's calculations based on BLS data.

Making Payroll Taxes and Income Taxes Responsive to Health Cost Growth



Source: Author's calculations based on the 2014 CBO Long-Term Outlook.

Family of Tools for Addressing Policy Drift: Some Better Than Others

- ***Priority should be given to automatic-adjustment triggers, though not appropriate in all circumstances (see Medicare reimbursement and benefits).***

- ***Alarm-bell triggers should be used with caution—can worsen drift if Congress fails to respond.***

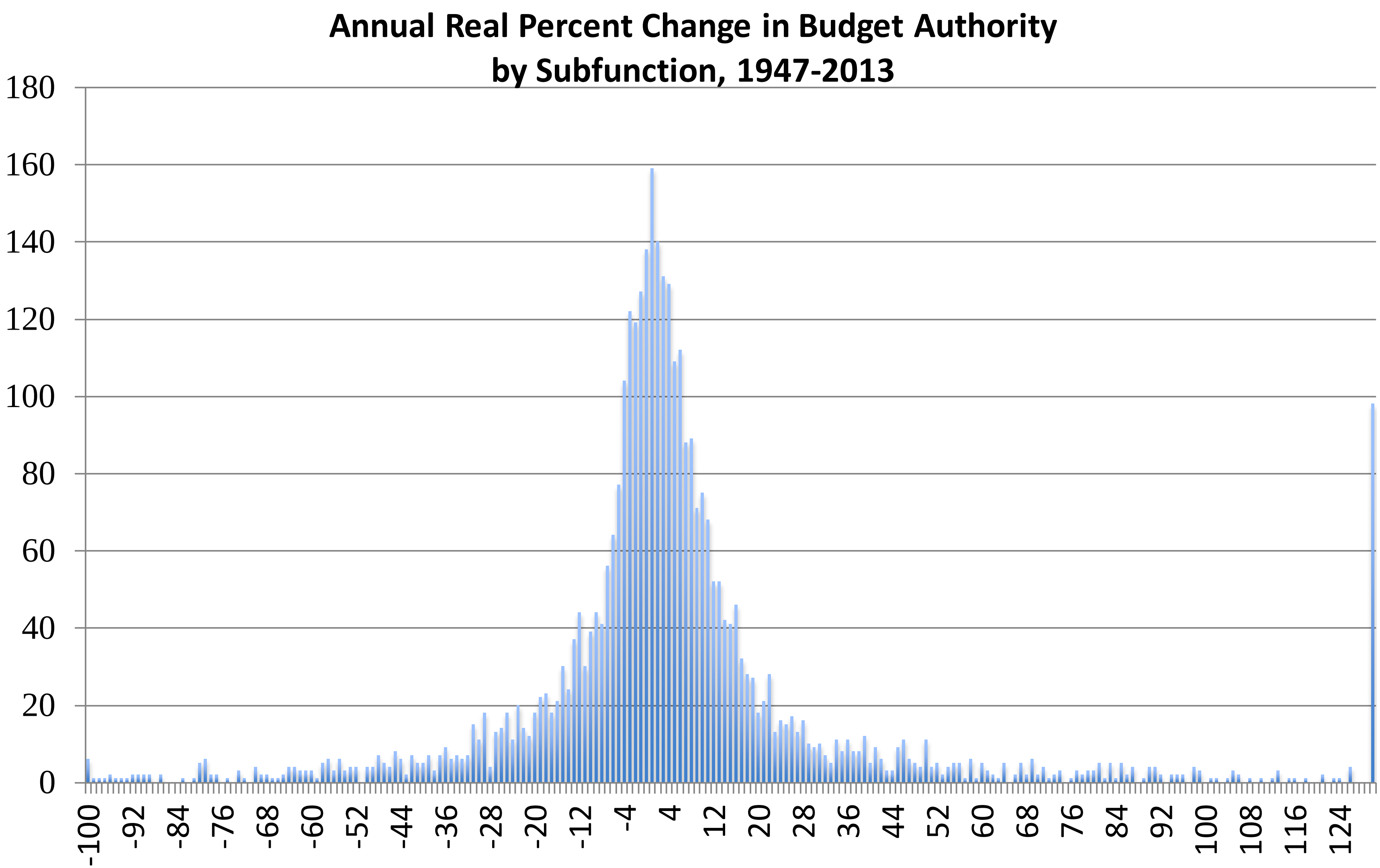
PREVENTING POLICY DRIFT

The pros and cons of mechanisms that could prevent policy inertia, the tendency of Congress to stick with policies that are no longer appropriate.

	Responsive to economic conditions	Easy for Congress to initiate	Reduces uncertainty	Holds Congress accountable
1. Delegation of legislative authority	mixed	yes	no	no
2a. Automatic-adjustment triggers	yes	no	yes	mixed
2b. Alarm bell triggers	no	mixed	no	yes
3. Expiration dates for legislation	mixed	yes	no	yes
4. Indexing	yes	no	yes	mixed

● = yes
○ = no
◒ = mixed

Budget Policy Moving in Fits and Starts



Source: This is a version of Figure 4.14 in Jones and Baumgartner (2005). It relies on updated data made available here: http://www.policyagendas.org.