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

Intended policy based on information at time of enactment

Actual policy based on current information

Threshold for correction by Congress
The Great Recession: Initial Expectations Versus Reality

<table>
<thead>
<tr>
<th>Difference from Natural Rate of Unemployment:</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>What Was Projected in January 2009 Versus What Transpired</td>
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<tr>
<td>January 2009 Projection</td>
<td>+2.9%</td>
<td>+3.2%</td>
</tr>
<tr>
<td>What Transpired (Removing CBO's Estimated Effect of Stimulus)</td>
<td>+3.9% to +4.3%</td>
<td>+4.3% to +6.1%</td>
</tr>
</tbody>
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Note: * This unemployment rate estimate excludes both the effects of ARRA and the additional discretionary stimulus later approved and in effect in 2010.

Source: Author's calculations.
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.
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

Payroll Taxes as a Percent of Gross Medicare Under Current Law

By contrast: In both scenarios, Medicare premiums would remain roughly constant at 10 percent of gross Medicare spending.

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.

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<th>Responsive to economic conditions</th>
<th>Easy for Congress to initiate</th>
<th>Reduces uncertainty</th>
<th>Holds Congress accountable</th>
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</table>

![Legend](legend)
Budget Policy Moving in Fits and Starts

Annual Real Percent Change in Budget Authority
by Subfunction, 1947-2013

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.