Are We Ready for the Next Recession?
Considering a Fiscal Response

Phillip Swagel
University of Maryland
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Why was the recovery weak?

• Financial sector impaired
• Debt overhang on consumers and business
• Fiscal stimulus not big enough (more likely, quality too low)
• Disruptive political system such as debt ceiling threats and fiscal cliff
  • But 2010 Obama-Bush tax cuts extended and economy still slow.
  • Obama worked with R’s at times: student loans, Medicare doc fix.
• Recovery held back by policy choices
  • Layering on disruptive change in a recession – ACA, Dodd-Frank, regulatory surge, uncertainty about the rule of law (AIG, housing, energy)
• Weak recovery or diminished growth trajectory?
Fiscal response

• Addressing the source of the downturn
  • Housing sector in 2007-2008
  • Banks and broader financial sector in 2008-2009
    • TARP + Stress tests
    • Energy sector and links (financial etc.) in 2016-2017?
• Broad fiscal support: Tax cuts in 2001 and 2008 (and 2009)
• Targeted fiscal support: infrastructure and other spending
• Automatic stabilizers
• Monetary policy (next panel)
Infrastructure spending

• Americans agree that infrastructure investment should be part of fiscal response.
Infrastructure spending

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• They want to build a wall.
Quality of fiscal stimulus

- Quality of infrastructure and other spending matters.
  - Keystone XL
  - High-speed rail – crazy train to nowhere
  - Solyndra
- ARRA 2009 passed on high-quality stimulus according to Noam Scheiber.
- Didn’t suspend Davis-Bacon but went in the opposite direction with the minimum wage.
Fiscal room

• Elmendorf & Sheiner – ok to borrow when rates are low
• Depends on whether rates will stay low.
• One answer is no – there is not fiscal space. TPC evaluation of Republican tax plans says no growth effects because of crowding out. But current fiscal situation is unsustainable, suggesting that a meaningful spending impulse would lead to crowding out even if not permanent (since the existing status quo is unsustainable).*
• I disagree and think there is fiscal space, but useful to do both near-term and long-term policy together.
• Prepare for the next downturn now.
• Would be useful to have a growth agenda.