

# Are We Ready for the Next Recession?

## Considering a Fiscal Response

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March 21, 2016

# 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

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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.