Are we ready for the next recession?

Introductory remarks by David Wessel
March 21, 2016
Change in real GDP
1965-2015

Source: U.S. Bureau of Economic Analysis, Federal Reserve Economic Data (FRED)
Our question today:

What could fiscal and monetary policy do if the next recession hits in the next 1-3 years?
A few fiscal facts...

Debt
1940-2041, Percentage of GDP

Source: CBO (2010), CBO (2016), Auerbach and Gale (2016)
A few fiscal facts...

Total Deficits or Surpluses
1966-2026, Percentage of GDP

Source: CBO, 2016 Budget and Economic Outlook
A few fiscal facts...

U.S. 10 Year Treasury Yields
2006-2016

Source: Exchange
Automatic stabilizers during and after the Great Recession

Automatic Stabilizers During and After the Great Recession

Billions of US$

Source: CBO

Hutchins Center on Fiscal & Monetary Policy at BROOKINGS
## Discretionary Fiscal Policy During and After the Great Recession

<table>
<thead>
<tr>
<th>Programs</th>
<th>Originally Committed</th>
<th>Ultimate Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>TARP</td>
<td>600</td>
<td>40</td>
</tr>
<tr>
<td>Economic Stimulus Act of 2008</td>
<td>170</td>
<td>170</td>
</tr>
<tr>
<td>American Recovery and Reinvestment Act (ARRA) of 2009</td>
<td>808</td>
<td>832</td>
</tr>
<tr>
<td>Cash for clunkers</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Additional emergency UI benefits</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Education Jobs and Medicaid Assistance Act</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Other stimulus</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010</td>
<td>189</td>
<td>189</td>
</tr>
<tr>
<td>Temporary Payroll Tax Cut Continuation Act of 2011</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Middle Class Tax Relief and Job Creation Act of 2012</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2060</strong></td>
<td><strong>1524</strong></td>
</tr>
</tbody>
</table>

Note: ARRA excludes AMT Patch
Source: Center on Budget and Policy Priorities (CBPP)
Could we do it again if we needed a fiscal stimulus?
Monetary Policy

Effective federal funds rate

(Percent)

Monthly, Not Seasonally Adjusted
Source: Board of Governors of the Federal Reserve System (FRS)
Fed Balance Sheet

Federal Reserve Assets
Trillions of US$

Source: Board of Governors via FRED

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Negative Rates
(policy rate, as of March 2016)

Source: Respective central banks, Goldman Sachs Research
Global real interest rates

Source: Bank of England. Black line is taken from King and Low (2014), based on the average 10-year spot yield on inflation-linked bonds in the G7 (ex. Italy).
Could the Fed do more?