THE BROOKINGS INSTITUTION
BROOKINGS CAFETERIA: PREPARING FOR THE NEXT RECESSION
Friday, May 24, 2019

PARTICIPANTS:

Host:

FRED DEWS
Managing Editor for New Digital Products
The Brookings Institution

Guests:

JAY SHAMBAUGH
Director - The Hamilton Project
Senior Fellow - Economic Studies
The Brookings Institution

HEATHER BOUSHEY
Executive Director and Chief Economist,
Washington Center for Equitable Growth

MOLLY REYNOLDS
Senior Fellow, Governance Studies
The Brookings Institution

(MUSIC)

DEWS: Welcome to the Brookings Cafeteria, the Podcast about ideas and the experts who have them. I'm Fred Dews.

When the next recession comes, and it certainly will, how will policy makers respond? During The Great Recession that started in late 2007, household wealth and jobs evaporated across the country and in many parts of the world. The U.S. Federal Government responded with a mix of monetary policy changes and fiscal stimulus that stopped and reversed the decline.

We are now in the 10th year of the recovery from that recession, but today the Federal Reserve's monetary policy options, including cutting interest rates, are more limited, leaving only fiscal policy, spending and taxes, in the Government's recession response toolkit.

In a new volume of policy proposals from The Hamilton Project at Brookings, and The Washington Center for Equitable Growth, a group of experts propose new and updated anti-recession solutions to boost the economy and save jobs. These ideas center on the concept of automatic stabilizers, which are simply policy responses that trigger when a crisis is starting, and when policy makers may be too overwhelmed by the crisis to respond.

Here to talk about these ideas are Jay Shambaugh and Heather Boushey. He is a Senior Fellow at Brookings and Director of The Hamilton Project. She is Executive Director and Chief Economist of The Washington Center for Equitable Growth.

Also on today's show, Senior Fellow Molly Reynolds discusses what steps the House of Representatives would have to take in any impeachment process, and also other business that Congress is pursuing, including a budget deal.

You can follow the Brookings Podcast at work on twitter @PolicyPodcasts to get information about and links to all of our shows, including the current, plus Dollar and Sense, and Our Events podcasts. If you like the show, please go to Apple Podcasts and leave us a review; it helps others find the show, and now on with the interview.

Jay Shambaugh, Heather Boushey, welcome to the Brookings Cafeteria.

BOUSHEY: Thank you.

SHAMBAUGH: Thank you for having us.

DEWS: So, let's do introductions first. Heather, this is your first time on the Brookings Cafeteria Podcast. Can you tell us about yourself, and also what is The Washington Center for Equitable Growth.

BOUSHEY: Yes, certainly. It's really great to be here today. I'm an economist and I run this organization called The Washington Center for Equitable Growth. We are a non-profit and research

organization dedicated to advancing evidence-backed ideas in pursuit of growth that is strong, stable, and broadly shared. We do work with researchers, mostly economists from all across the country, and we take that research and evidence from the scholars that we work with and we work to make it accessible to the policy making community.

We are a young organization. We're just in our 6th year, and this is our first big collaboration with The Hamilton Project, and very excited to be here today.

DEWS: Sure thing. And Jay, Director of The Hamilton Project, you've been on the show before but can you just reintroduce yourself to listeners and also The Hamilton Project.

SHAMBAUGH: Sure, thanks. Jay Shambaugh, Director of The Hamilton Project at Brookings and also a professor at GW, and The Hamilton Project, as some of your listeners probably know, is a research center within Brookings that is dedicated to trying to take good evidence and analysis and turn it into concrete policy proposals that are aimed somewhat similar to the Equitable Growth at trying to make sure we have growth, and trying to make sure it's broadly shared and improves people's lives.

DEWS: So, the starting point for our conversation today is a new book. You're both coeditors, along with Ryan Nunn, another Brookings scholar, and the book is titled, *Recession Ready: Fiscal Policies to Stabilize the American Economy*. So I want to talk about some of your ideas contained in the book, but let's talk about some definitional items first for our listeners. Can you first establish what is fiscal policy -- and we often think about it in relation to monetary policy; so what is fiscal policy, and what is monetary policy?

SHAMBAUGH: Within macroeconomic policy you have these two main levers, fiscal policy and monetary policy. Monetary policy is the things the Federal Reserve does; changing interest rates to affect the money supply and affect, basically, the borrowing and lending rates people face in the economy.

Fiscal policy is tax and spending, and so when we're talking about fiscal policies to stabilize the economy, what we're looking at is changes in programs, whether it's social programs or spending programs, or any way the Government spends money, on the one hand; or it could also be fiscal policy includes your tax policy as well.

DEWS: The title of the book, *Recession Ready*, suggests another recession is coming. Heather are you and your coauthors suggesting another recession is likely?

BOUSHEY: Well, okay, first of all, let's take a step back. Right now, of course, the economy is continuing to hum along nicely, and unemployment is at historic lows, so we certainly aren't in a recession. But we are on the verge of this being the longest economic recovery on record, if I'm not

mistaken, and so we know that it won't last forever.

We know that recessions will happen. We have not eliminated the business cycle, and we also know that when they happen they can be devastating for workers and families, for the people that are hurt by the loss of unemployment, for the communities that experience the loss of jobs and firms.

And so we want to make sure that we are starting to think in advance of that happening. What is it that we need to do? So, I'm not saying it's going to happen tomorrow, but it is likely to happen at some point in the not too distant future.

SHAMBAUGH: I would just add that I feel quite confident that if I bet you dinner we will have a recession, at some point you'll buy me dinner.

BOUSHEY: (Laughter).

SHAMBAUGH: It may not be next year, but you'll buy me dinner sometime.

DEWS: Well I read in the introduction to the paper that you released at your event last week to launch this book --

SHAMBAUGH: Mm hmm.

DEWS: That there have been seven recessions in the last 50 years, including The Great Recession of 2007 to 2009, which was the largest since The Great Depression.

SHAMBAUGH: The U.S. economy basically spends 15% of the time in a recession, not quite one in six. I always like to think if you role a die, if it comes up six, you have a recession. It's most of the time not going to come up six, but it does sometimes, so we have them. And that's, I think, the whole notion here is, we should be ready. And as Heather said, it's better to take the opportunity when you're not in the middle of a recession to get ready.

DEWS: Well, let's talk in a general way about what are some of the fiscal policy tools that Government does use typically to respond to a recession. What kind of policies are we talking about?

SHAMBAUGH: There are two types of policies you can broadly think of; discretionary policy and automatic policy. Discretionary policy would be just the recession comes along and Congress decides to do something. They say, hey, we need to do something, the economy is in trouble.

Alternatively, you have these automatic policies. The automatic policies, the classic automatic stabilizer people talk about, is Unemployment Insurance. So you run into a recession, more people are unemployed so more people are collecting Unemployment Insurance. That means the Government is spending more money. In good times, fewer people are unemployed and, in fact, because they're employed they're paying these Unemployment Insurance taxes, and so you're kind of going the other direction. You're spending less, and actually taxing a little more.

So you can have these policies that do this automatic, what we call counter-cyclical policy, meaning that you spend more or tax less when times are bad and you tax more and spend less when times are good. And the goal is that the Government is providing more demand for the economy when it needs it, and less demand for the economy when it doesn't need it as much; when the private sector is doing a lot of spending.

DEWS: For a concrete example most people remember The Great Recession just 10 years ago, 12 years ago; what was the Government's response to that crisis and how does it fit in with this model of discretionary response versus automatic response?

BOUSHEY: Well, certainly there were a lot of different responses. I mean, early on the Government started to reduce the interest rate, and also send out some automatic payments to individuals. But I think the biggest thing we all remember that really changed the course of The Great Recession was the American Recovery and Reinvestment Act. It was put into place in February of 2009 right after President Obama was elected, and it was the single largest piece of legislation I think ever done in dollar terms.

It was this massive stimulus to the economy, and it included a wide variety of things. It included both tax cuts and it included aid to the states in a variety of forms, mostly through helping them with their Medicaid payments. It included infrastructure investment, and it included ways to shore up a lot of the automatic stabilizers that we talk about in this book, to individuals; expansions of the Welfare Program, the Temporary Assistance to Needy Families, Food Stamps, now known as the Supplemental Nutritional Program; and the Unemployment Insurance system.

So during that period we used all the tools in the tool box, and I want to note that embedded in that is that there were some of these discretionary policies, and some of these automatic stabilizers, so we did a little bit of both during that period.

DEWS: And there were some tax cuts as I recall as well.

BOUSHEY: Yes.

SHAMBAUGH: Substantial tax cuts as well, and then as the recession kind of dragged on longer and longer, there were additional tax cuts on both the payroll side and we continued to extend Unemployment Insurance benefits over time. So there were kind of some additional policies stretching out after, but there was never another big push aimed at jobs. There were attempts at it; they just never made it through Congress. But ARRA, the American Recovery and Reinvestment Act really was this one big shot at trying to -- as Heather said, I think, really an important thing is, it was not one thing.

BOUSHEY: Yes.

SHAMBAUGH: It was one big shot, but it was a lot of different things embedded in this one big bill.

BOUSHEY: And it's worth noting that it was put together very quickly, right. So it was put in place in February of 2009. The President had been in office I think less than a month when this piece of legislation was passed. So, it was something that people were really doing on the fly to deal with the fact that we were losing more jobs than we had ever seen in the post-World War II history. So it was a lot of work for economists and policy makers who were trying to, on the fly, come up with what is the right package of things that we should be doing.

SHAMBAUGH: And not only was it though -- it was put together really quickly as Heather said -- but I think one of the things that motivates some of what we're getting at in this book is, it also wasn't passed until well after a year after the recession started, right.

So the recession technically started in December of 2007, and so there were some things done, as Heather mentioned, some direct payments to households that were done relatively quickly. But then we're in an election season so we just can't really do anything. And so we go through this long period of not responding as the economy is getting worse and worse.

Monetary policy is doing something; the Federal Reserve is cutting interest rates, but we're not responding with fiscal policy when we probably should have been, in part, just because in October of 2008 there's just no way you're passing some new big bill. And then especially in December you're not doing it either, right; now you've got a new President, you have to wait till they come in. So the more we can do that is automatic, we can make it timed to the economy instead of timed to our political cycle.

BOUSHEY: Certainly, and just one more piece of texture there, of course, that fall as that election is happening, we're watching the financial sector implode, the Federal Reserve is taking all of these extreme steps to shore it up, and those of us who've spent our careers watching recessions and thinking about you, you know that coming down the pipeline were going to be these job losses, we knew that we needed to do something but we didn't have the political capital at that moment, or the political focus because there were so many other crises happening all at once.

DEWS: So then looking ahead at this inevitable next recession, what lessons did we learn from the response to ARRA, and then what kind of arguments are you making in your book, *Recession Ready*, for how to be prepared for that next recession?

BOUSHEY: One of the things that we didn't have time to do in the Recovery Act was to not only expand the discretionary and automatic stabilizers in that legislation, but take the time to make them

also work for the next time. And that's, I think, a lot of the inspiration behind this book is, how can we shore up these automatic stabilizers so they start to work faster, they turn on -- trigger on, if you will -- faster, and then trigger off when the economy is back up and running.

I think, you know, one lesson learned is that you actually need to start having those debates and those conversations about all the pieces early on so that you can start kicking the tires, and have a good sense at, well, how is it that we need to shore up the Unemployment Insurance system, or how is it that we would need to think about the SNAP Program in order to not only make it serve individuals and families in good times, but to be a better automatic stabilizer. So I think that's one piece of the puzzle.

SHAMBAUGH: I would say one other important thing that we learned actually is, we've now had a decade to study it --

BOUSHEY: Yes.

SHAMBAUGH: And that economists have spent a lot of time, and spilled a lot of ink, looking at what were the effects. I think we learned two things really important. One is fiscal policy can have an effect on demand in the economy, right; and that's really important. And also, though, that that effect is bigger when we're in a recession and when the Federal Reserve has lowered interest rates all the way down to zero. So, it's in a particularly important time to make sure that you're getting your fiscal policy right.

Cutbacks, when you're in a recession and interest rates at zero, are really painful and expansions of fiscal policy can be particularly helpful when you're in a downturn like that. And so I think that's one really important motivating thing.

The other thing, I think, that we learned about ARRA was that it cut off too soon. So, as you're crafting this in you know, December of 2008, January of 2009, you're kind of taking a stab in the dark, how bad is this going to be? Is this 2001 again, or is this 1982 again? Right, how bad of a recession am I looking at here? It's a little hard to say.

And so, they passed what was, I think many people would argue, the largest thing they thought they could get through, right. And then, as it turns out though, it ends at a certain point, the money starts to taper off when the unemployment rate is still really high.

As you mentioned, we did some other things; we did some additional tax cuts, some payroll tax cuts, but if you look at fiscal policy on average in the United States, especially if you add in what the states were doing, it was a lot more restrictive in 2011 and '12, than kind of an optimal economic model would say it should be. And so one big advantage to making things more automatic, as Heather mentioned is, it's going to time to the business cycle both on the turning on and on the turning off.

BOUSHEY: I want to underscore one thing that Jay just said here about the fact that we know what worked, right. Because I think, you know, a listener might think, oh, well, economists hadn't been studying that before, or -- we've known, or we've hypothesized since John Maynard Keynes, that you actually do need to spend money in times of economic downturns and you need to pull money out of the economy, if you will, you know, raise taxes or not spend as much during good times.

You know, it's really different now, and what's different over the past decade is the fact that economists have developed access to a lot more data sources, and we have the computing power to analyze it all, and new sophisticated tools. So a lot of the cutting edge research that's happened since The Great Recession has used new methods, new data, to actually look at these policies and we able to say, to show causality, that actually giving direct payments to people had this effect on consumption and, therefore, on the aggregate economy.

So I think this is also a testament to the moving forward of the economics profession and the lessons that we've learned. I think we are able to say we know a lot more about what works in recessions than at any point over the last 100 years.

SHAMBAUGH: And it also goes back, Fred, to your very first question, which was about fiscal versus monetary policy, and I think there was in the economics profession -- at least in some parts of it -- a view that, look, let the FED handle it, right. If you have a recession, the FED does its job. I don't think that was universally held, but there were definitely some people who held that view.

What we ran into in The Great Recession was the FED running into its own constraints and all of a sudden the interest rates hit zero and the FED is casting about for other tools. I think even people who believe those other tools they used were effective will say -- straight out -- they are not perfect substitutes to cutting interest rates. And so when you're at interest rates of zero it becomes even more important to do sound fiscal policy.

And on that front I would just emphasize when you said, why might we need to do something different this time, earlier on, the last seven recessions we've had since 1970, the Federal Reserve has cut interest rates by at least 5 percentage points. Your listeners, some of them may be aware, right now the Federal Funds rate is at 2.4%. They are not going to cut interest rates 5 points the next time we have a recession. And because of that it puts even more of an onus on policy makers to make sure that they're getting the fiscal policy right.

DEWS: I'm going to stay on this point of fiscal expansion in a recession for just one more moment. Heather, you mentioned Keynes, you mentioned data; it strikes me, though, that the argument that a lot of people still make against expansionary fiscal policy is austerity. Am I right in

making the contrast between expansion and austerity? And despite all the data in bad economic times, a lot of governments till try to cut spending and pursue an austerity approach. What are the ramifications of continuing with that kind of philosophy?

BOUSHEY: Certainly, the ramifications in terms of the human toll are significant, right. If you are not doing enough to support demand in periods of high unemployment, or when all the capacity in the economy isn't being used, that's leaving people out of the economy, it's ideas that aren't being brought to commercial uses. I'm assuming there's a cost both in terms of humans and the economy more generally.

I wanted to just actually bring this back to something that Jay just noted, which is that there was this period where a lot of people were arguing that fiscal policy isn't the best tool in a recession, that monetary policy could do it all, and a tough lesson learned in the United States and around the world is that there is this very important role for fiscal policy.

So a lot of the calls for austerity were happening; governments like the United States had gone out, done the big thing, like doing the Recovery Act, spend a lot of money, debts going up, people were starting to get a little anxious, the economy is starting to improve. And I think that economists weren't able to give really clear, concrete advice on when we should be pairing spending back.

And that's one of the beauties of the automatic stabilizers, and why Jay and I were so excited to partner on this and to bring a bunch of really interesting scholars into this conversation. Because what these do is that they automatically will trigger on when things get bad, but then they also trigger off and so that question about austerity puts it in its right context, which is that it is not the case that deficits of any magnitude are always good, but it's also not the case that they're always bad.

You have to always be talking about this within the context of where an economy is in the business cycle. Alongside of all the other reasons that you want to tax and spend, because you want to make investments, or because you have other reasons as a government to do so; putting those into the context of the business cycle, I think, is what we're trying to do with this policy. But also the research evidence has moved forward, which I think will change that conversation moving forward.

SHAMBAUGH: I would agree and I would just add that part of it is sometimes people get worried about debt levels. And they get worried that the markets will get worried about debt levels, and they say, well, we can't keep spending like this forever. And that's often the statement: we can't spend like this forever. They're right; you can't do it forever. And the whole point of having these things done automatically is both for your own knowledge and for the markets knowledge. People lending to you know that this is not a permanent ratchet-up in deficit levels, and you don't have a trajectory where

the debt is going to grow indefinitely.

You say, no, look, for this period of time while the economy is hurting, we will spend more and tax less, and then we'll go back to normal. And that should provide people with more confidence, both confidence that they don't need to worry, is this going to get worse and worse, am I going to lose my job, and they don't have to worry that, well, I don't know what they're doing with fiscal policy and they don't know what they're doing with fiscal policy, and I'm nervous.

It hopefully takes it out of that kind of conversation and puts it, as Heather said, squarely with the evidence of, we know it can work, we know when it should work, and that's when we should be doing it.

DEWS: So what does that system look like that anticipates the next recession, triggers the automatic responses in the fiscal policy toolkit on at the right time, and then triggers them off at the right time. How do you design that system?

SHAMBAUGH: So there are two things you can say. Some automatic stabilizers are what you call smooth automatic stabilizers. So, the Unemployment Insurance system, if tomorrow one more person is unemployed, it is going to be spending a little bit more money. You don't need a huge trigger on and off for the overall aspect of it.

At the same time there are some programs where you might want to say, okay, it's getting bad, let's flip the switch. And so one of the things that we really, I think both Heather and I are very excited about in this book is, one of our authors, Claudia Sahm, spent a lot of time thinking about, how would you trigger these things.

There are different rules of thumb people had in their head about, well, two quarters of GDP growth being negative, that means you're in a recession. Or some of us knew, well, boy, if the unemployment rate is going up quickly, that's bad. Claudia formalized that second one a little bit better and said, all right, look, here's the deal: half a point increase in the unemployment rate, relative to its low over the last year, you're in a recession.

It's honestly just never been wrong in the last 50 years. We've had seven recessions, it called them all correctly. You know things are bad when this happens and so it's the kind of thing you could use to say, trigger changes in your policy.

So again, some might be smoothly shifting, but there might be others where you say, okay, this is now different. We need to throw everything we've got at the economy to try to stop the recession, stop this damage -- that Heather was referring to earlier -- to individuals, to firms, to balance sheets; let's shift the gears altogether. Looking at a policy like that helps you realize, all right, now we should

change things suddenly.

DEWS: You talked about programs like SNAP, Unemployment Insurance, TANF, another area of fiscal policy that you have talked about is infrastructure. It seems like infrastructure is talked about a lot in Washington. Can you explain how infrastructure fits into the policy toolkit?

SHAMBAUGH: Sure, one of the things we tried really hard in this book is, and this may sound odd, is to not do anything too new.

DEWS: Mm hmm (laughter).

SHAMBAUGH: We wanted this all to be stuff that we could honestly go to people and say, we either have done this before, or we are already doing it, and the things we are already doing we could do better; or the things that we have done before, we could make automatic, instead of kind of coming up with them on the fly. And the infrastructure is the classic example.

Transportation infrastructure bills get passed almost every time we have a recession. We always try to say, oh well, this is a good time to spend because it is. It's a good time to spend money on permanent investments in the economy. Not only that, there are a lot of unemployed construction workers usually.

One of your fears about doing too much infrastructure in good times is you might kind of crowd out private investments because they are only so many firms who are doing this type of work, where you don’t worry about that in a recession. But one of the challenges with it is, again, do you pass it at the right time or does it take too long to pass, and then once you pass it how long does it take to actually start spending the money; this whole kind of question about what's shovel ready.

So Andy Howard who's at the New York FED wrote a proposal for us where he said, look, we already have this program called Build, it used to be called Tiger; it was created in ARRA, and it's this program that a lot of people like. It was temporary in ARRA but people kind of liked it so they kept it around and states put together applications to the Federal Government. They said, here is an infrastructure project we think is a really good one. We've got all the permits, we know what we're going to do, we're ready to go but we need money, and they put those applications in. The Department of Transportation goes through and ranks them in terms of their cost-benefit ratio, which ones really make sense to invest in, and then it funds those.

What you could do is simply add this counter-cyclical element to that and say, hey, in a recession let's fund more. They're already costed out, they're already permitted out, and we're ready to go. In good times, maybe we don’t need to do them all right now; maybe we'll do them in a year or two. In bad times, let's go; let's do all the ones that make sense.

And so that's kind of the goal there, is to take a program we know how it works, and change it to make it a little bit more counter-cyclical to make sure we're doing this automatic fiscal policy.

DEWS: Will it require, though, legislation by Congress now to set up the possibility that in the future recession these programs will automatically trigger on? So, in other words, there is a discretionary component that has to get done today in this Congress that will enable these policies to actually take affect whenever the next recession hits?

BOUSHEY: It's a really great point. So, yes there is. Congress has discretion no matter what we do. It's a really important point.

You know, as we were putting together the essays for this book and thinking about giving advice to policy makers on them -- and this came out in the event we did last week -- that there are two paths forward. Either path requires some action on the part of Congress.

One is to sit down now and lay out, here's the set of things we need to do, let's put this legislation in place now, let's make sure that we're changing the way that we think about infrastructure so that we're prepared. And, quite frankly, for this idea, that pulling forward these proposals would require that we take action now, not wait for a recession, so for that to work. Alternatively, we could wait for the recession, but we could make sure that the next time we do an infrastructure package we are adding to that this future automatic stabilizer component.

I think I would certainly prefer that we take steps now to shore these things up and to be prepared, but a second best -- and I think this comes back to the conversation we had at the beginning about the Recovery Act, which was that while people had a good sense of what the automatic stabilizers we had were, and what we could potentially do, there wasn't a lot of attention to shoring up the stabilizer components permanently in the Recovery act. And that feels like a big missed opportunity.

And so we want to make sure that next time, if we do direct payments, or if we do infrastructure investment, that we're building that in for future recessions as we move through the whole century here.

DEWS: It feels like this book is your road map to try to influence Congress and other decision makers in implementing some of these policies today.

BOUSHEY: Certainly it's a road map both for getting folks to implement it, but also to push a conversation. I want to hear from other policy experts and economists who don't agree, perhaps, with all of the policy recommendations. I want to make sure that we're really thinking deeply about the best ways to do this. And so by getting this out now with a lot of time we could make sure that we're putting forth the best evidence-backed advice.

I tend to think that what we've done here is excellent, so, not to diminish it in any way, but we do want to make sure that we create space for folks to engage with this as well.

SHAMBAUGH: I would just add, I think, part of that, of why we want more of a conversation is part of this book came out of a conversation between Heather and myself where there are a lot of people, if you go around macro conferences these days, who will say, we need more automatic stabilizers, right.

We're not the first people to point out interest rates are low. We're not the first ones to say they are going to be lower than they've been for a while and, therefore, we're going to hit the zero lower bound more often. That's a view lots of macroeconomists have. And they usually follow that up by saying, so, we need some more automatic stabilizers. That's kind of a starting point, not an end point to us.

BOUSHEY: Right.

SHAMBAUGH: That's then saying, okay, how are you going to do it? Heather is a real expert on a lot of these social safety net programs, and so, you know, as she is always pointing out to me, you know, you can't just say you're going to do more UI; how are you going to do UI? And I would even say I think I learned a lot in this book in particular on that point.

You know in my head I had, well, back in ARRA, we had a lot of fights about extending Unemployment Insurance and making sure that it lasted longer. So normally it might cut off after 26 weeks, but then we extended it, and we extended it even more, it went out to 99 weeks. Well, we just need to get that fixed and that would help a lot.

And our authors who wrote on this, Chodorow-Reich and John Coglianese, were really, I think, frankly, very persuasive pointing out, look, that's great and you may want to do that for individuals because being unemployed for 80 weeks in the midst of The Great Recession is terrible, right, and you don't want to cut off that person. But that's not going to save the economy, because there just aren't that many of those people, especially at the start of a recession.

And so it really helped, to me, highlight this idea that just saying you want more automatic stabilizers is not enough. You've got to think hard about how you want to design them to make sure that money is flowing early in a recession to a wide variety of people to really throw some power at the economy.

DEWS: Heather, I want to go back to something that you said right at the start of this conversation. It has to do with the impact of a recession on people, on workers, on income, on families. Specifically, there are different kinds of people and families and recessions hit them harder; especially

based on, say, their race or ethnicity, where they live in the country. How can automatic responsive take all that variety into account?

BOUSHEY: I'm so glad you asked this. You know, one of the things that we thought a lot about as we put together the chapters of the book is that there is no single magic bullet. And I think it's hard sometimes in policy debates; Congress, and the individuals that are policy makers can only think of so many things at one time. And so you kind of get stuck on, well, the one thing that’s going to solve the problem is extending UI, or the one this is if we do infrastructure. And what we know as economists is that is simply not true.

You need a wide array of policies for the following reasons. One, recessions play out across place very differently. I mean there were some states that never really recovered from the 2001 recession before The Great Recession started, and so, having a set of policies that are targeted at people who happen to live in places that are slow to recover, or who may actually have never experienced the recession; that’s a really important piece of it.

So things like the UI system, Unemployment Insurance; the expansions that are proposed in the book to Welfare, to the TANF Program and to Food Stamps, those are all targeted at individuals in places where there's going to be higher unemployment.

The other thing that you also just mentioned, of course, is this going to play out differently for families. A lot of the spatial issues play our across race and especially families of color tend to be harder hit by unemployment. We know that it's sort of a stylized factor of the U.S. economy that whatever the unemployment rate is for whites, it's double that for blacks, and that’s been true for as long as we've been measuring the unemployment rate. So the good news, especially these programs that are targeted at individuals, is that you're going to see more of those funds going to those families that are hit the hardest, and that’s in good times and in bad.

But I think that it's worth noting on the other side, some of the direct payments, the infrastructure proposals, they are more national. When the whole economy triggers over into a really big recession, you're going to sort of have that big push at the national scale. So we really try to balance all of those and to make sure that those who are hurt the most are getting that bang, but without neglecting that when the recession hits you might need to go much broader than that.

DEWS: Let's stock up our conversation by looking ahead. What is the next step that you hope to take with your research, with your collaborators, with this book; what happens now?

SHAMBAUGH: I would say I would love to keep having conversations like this. I would love to have conversations with policy makers like this to try to make, to build a bigger consensus to people that

it's important to be ready. I think that there are a lot of conversations going on right now about monetary policy and about changes to monetary policy, and that's terrific and important. But I think it's also incumbent on us to really think hard about what is our fiscal policy response the next time we have a downturn, and how much of it can we accomplish ahead of time.

You know, in my dream world, we just pass all six proposals in this book tomorrow and that's great. That's probably not the political reality we live in, but there are lots of these things that can be fixed in small increments along the way; building counter-cyclicality into programs where we can along the way, I think, is really important.

And then, as Heather mentioned, just making sure that we have really thought through how to we want to respond to a recession the next time it happens so that instead of forcing people to come up with things on the fly, there's stuff as simple as -- and it always strikes us as odd -- well, the administrative complexity of fixing the computer programs that actually crank out the checks, and things like this.

You actually want to think these things through ahead of time. It's really helpful to pass the legislation ahead of time so that agencies can do this. But at the very least, you want to think through how to do it ahead of time, so that you can move more quickly.

And so I think that's the goal to me. It's to keep having the conversation, to push it forward so that we can either do parts of this now, or at least we're ready to go when something happens.

BOUSHEY: Let me add, I 100% agree with Jay on all of those points. He noted that there is this national conversation happening about monetary policy led by the institution that does monetary policy.

Fiscal policy is very different. Congress has a lot of things on their mind. All of these policies are also economically important for reasons that have nothing to do with the business cycle, right. We think that if people are hungry then they need food support, whether or not it's good times or bad, right. We think that we're going to build roads and bridges because these are important things for our society.

So I think that one of the challenges of this automatic stabilizer conversation is to keep it moving and to keep people talking about it in a deep way, even though there isn't one institution that is really focused on it as its only goal, in the same way that we have on monetary policy.

So that's actually why I've been so excited about this partnership, about the attention that it's already received. But I think that, certainly The Washington Center for Equitable Growth is committed to continuing to work to elevate these issues in a very real way in the years to come.

SHAMBAUGH: And I would just add to that, there are also important parts to the conversation

of not breaking what we have.

BOUSHEY: Oh yes.

SHAMBAUGH: In all seriousness, that we have some automatic stabilizers and we don't want to undermine them. And so I think a really important example of this comes up in SNAP, formally the Food Stamp Program, the authors, Diane Schanzenbach and Hilary Hoynes point out here that if you expand work requirements and you take away the waivers from work requirements that should be there in a recession, then people lose their jobs and they can't get these social safety net programs.

So the whole point is these programs both to save those individuals from a lot of hardship, but also to help the economy or the regions they live in, it's really important these things function. And so we need to make sure that we don't undermine the automatic stabilizers we have, and I think that's an important part this conversation gets to.

And especially along the lines of, when should we worry it's important, because if people say, well, look, fine, if the unemployment rate gets to 7%, then we'll worry.

BOUSHEY: No.

SHAMBAUGH: No, that's not the right way to think about it. If we do from 4 to 4.5 rapidly, we are in trouble. The unemployment rate never goes up that quickly and stops, it just keeps going. And so we want to make sure that we are triggering these things in the right way and at the right time, and that we don't undermine what we've got here.

DEWS: Well, it's fascinating and important policy research and policy recommendations. The volume is titled, *Recession Ready: Fiscal Policies to Stabilize the American Economy*, edited by Heather Boushey, Ryan Nunn, and Jay Shambaugh; co-released by The Hamilton Project and The Washington Center for Equitable Growth. Jay, Heather, thank you so much for spending time at the Brookings Cafeteria today.

BOUSHEY: Thank you, this has been great.

SHAMBAUGH: Thank you.

DEWS: You can download the entire book, *Recession Ready: Fiscal Policies to Stabilize the American Economy,* at hamiltonproject.org. To learn more about The Washington Center for Equitable Growth go to equitablegrowth.org. And now here's Molly Reynolds with another edition of What's Happening in Congress.

REYNOLDS: I'm Molly Reynolds, the Senior Fellow in Governance Studies at the Brookings Institution. The Trump Administration continues to largely stonewall Congressional requests for information and witness testimony related to the Mueller investigation, with negotiations between the

House Intelligence Committee and the Justice Department involving certain counter intelligence materials being an important exception.

With member feeling frustrated, calls for impeachment have escalated from some House Democrats. The Speaker of the House, Nancy Pelosi, remains, for the moment at least, committed to continuing to pursue investigations without shifting to impeachment. If the House does choose to pursue impeachment, the likely first step in the process would be for the House to launch an impeachment inquiry to be conducted by the House Judiciary Committee.

When the House undertook impeachment inquiries with respect to President's Nixon and Clinton, the inquiry was launched by a vote of the full House and followed potentially by hearings, depositions, and reviewing of documents. In both these earlier cases, the President himself was granted procedural rights as part of the process. If the Judiciary Committee followed early precedence that could mean that President Trump's lawyers would be given a chance to participate in the process.

Ultimately, the Committee would choose whether or not to report out articles of impeachment for consideration on the House floor. If one or more articles are approved by a simple majority of the House, action would shift to the Senate where two-thirds of the majority is required for a conviction and removal from office.

The discussions about how to examine President Trump's behavior, whether through investigations or impeachment proceedings, are far from the only important business that Congress is conducting at present.

(Inaudible) from both parties in both chambers, along with Secretary of the Treasury, Steve Mnuchin, acting White House Chief of Staff, Nick Mulvaney, and others from the Administration have been engaging in talks in a budget deal that would increase the amount Congress could spend above levels currently in place. The deal would also potentially raise the debt limit. Current projections give Congress until sometime in October or early November to complete that task.

Without a deal to relax the current spending caps, defense and non-defense programs will see cuts of, on average, 13 to 11 percent from 2019 levels, respectively, next year after adjusting for inflation.

Why is reaching a budget deal important? Avoiding default from the debt, should an increase to the debt ceiling be included in the measure of raising the spending caps, is vital as it prevents calamitous effects on the economy. Beyond that, settling on overall spending numbers for defense and non-defense sides of the Federal budget is an important pre-cursor to actually passing spending bills. After all, it's difficult to divide up the Federal pie into different pieces for various programs unless you are

certain how big the pie is going to be.

If the House, Senate, and White House reach an agreement soon, and that remains a big "if", it would represent the first time in the current budget caps arrangement that Congress and the President did so this early in the year.

The other three previous rounds of negotiations over relaxing the budget caps in 2013, 2015, and 2017, didn’t end until much later in the year, or in the case of the 2017-2018 round, the beginning of the following year. Any hopes, however small, the House and Senate of completing any of their appropriations work on time this year, a feat they accomplished last year for the first time in roughly a decade, rely on large part on reaching a budget deal quickly.

Even in the absence of finalized, overall budget numbers, the House Appropriations Committee has begun drafting legislation using preliminary spending targets that could be adjusted later. The process of drafting these bills is important, not just because they determine how much is available to spend on various Federal programs, but because they are also a way for legislators to try to achieve policy change by limiting how that money is spent through order known as riders.

Take, for example, language in the Houses' draft version of the bill funding the Department of Transportation and Housing and Urban Development. Their block of the Trump Administration rule involving undocumented immigrants in public housing by stating that, "none of the funds made available in the measure could be used to implement the rule."

The draft spending bill for the Department of Defense provides another useful example of this power of Congress as it includes language preventing funds from being spent on a wall, fence, border, barrier, or border-security infrastructure around the southwestern border.

It remains to be seen what, if any, of these types of provisions targeting Trump Administration policies remain in the legislation as it moves along. But it's important to remember that the appropriations process remains an important policy making avenue in Congress.

Once more, reaching a budget deal and completing appropriations bills don’t exist in a separate congressional universe from debates about investigation and impeachment.

President Trump purportedly told congressional democrats that he would not, for example, negotiate with them on an infrastructure bill until they stopped investigating him, which is a good reminder that as always, the President plays a role in determining what's happening in Congress.