The Brookings Institution
Recession Remedies Podcast

“Is the U.S. ready for the next recession?”
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Episode Summary:

The final episode of the Recession Remedies podcast sums up lessons learned from the COVID-19 downturn and looks ahead. How does rising inflation factor in to the assessment of the economic policy response? What lessons should, and should not, be taken from the pandemic to the next economic crisis? Host David Wessel is joined by Wendy Edelberg and Louise Sheiner. The three are senior fellows at Brookings and co-editors of the book *Recession Remedies: Lessons Learned from the U.S. Economic Policy Response to COVID-19*.

WESSEL: Welcome to the final episode of the Recession Remedies podcast, in which we explore lessons learned from economic policy responses to the COVID 19 pandemic. I'm David Wessel.

In previous episodes, we talked about specific elements of the response to the pandemic, the expansion of unemployment insurance, the stimulus checks, aid to homeowners and renters and to businesses. Today, we sum up what we learned and as best we can, we look ahead. My guests today are Wendy Edelberg of The Hamilton Project at Brookings and Louise Sheiner of the Hutchins Center at Brookings, who were my coeditors on the *Recession Remedies* book, which you can read for free at www dot Brookings dot edu slash Recession Remedies. So, welcome Wendy.

EDELBERG: Hi, Great to be here.

WESSEL: And welcome, Louise.

SHEINER: Hi, nice to be here.

WESSEL: So, we're now about two-and-a-half years past the onset of the pandemic. The pandemic, of course, was met with an extraordinarily large fiscal and monetary response. Between 2020 and 2021, Congress okayed about $5 trillion in COVID-related spending, and the Federal Reserve cut short term interest rates to zero and pushed long term rates down by purchasing $5 trillion worth of long-term treasury and mortgage-backed bonds. So, I think it would be good to start with our bottom line. Did all this fiscal and monetary policy work as hoped for to cushion the economic blow from the pandemic? How would you answer that, Wendy?

EDELBERG: I would say it worked tremendously well. It is a great achievement that here we are after this really spectacularly huge economic shock and the unemployment rate is at a multi-decade low. Household balance sheets are quite strong. The stock market has had some gyrations, of course, lately, but house prices and equity wealth are in good shape relative to where they were at the depths of the recession. We are in extraordinarily strong economic shape given what our economy went through.

WESSEL: And, Louise, do you agree?

SHEINER: Yeah, I definitely agree.

WESSEL: But there are some people who say we did too much and that's why we have so much inflation now.

SHEINER: Yeah, we may well have done too much. So, there's sort of two ways of looking at it. In prior recessions, we've done too little and people have suffered many, many years of unemployment, of bad credit because of the very slow recovery. We didn't have those problems this time. We sort of learned the lessons. It's possible that we did too much and we are now paying the consequences, and no policy is perfect. And clearly on looking back, there are things that you would do differently. But if you think about it in the whole, how did we do? We got to a very strong economy and now we have to figure out how to deal with the inflation.

WESSEL: Right, so, we're not in a recession now, at least doesn't look like it. Are there things that the federal government—Congress and the administration—should be doing now before the next recession hits, things that we learned during the pandemic that we weren't quite prepared for?

SHEINER: I think the biggest lesson we learned has to do with unemployment insurance. So we had a major, major expansion of unemployment insurance during the pandemic. And it was done in a way that was probably not optimal, which is that we raised benefits by $600 at first and then $300 later for everyone. And we did it that way because that's all we could do quickly.

But I think what we learned from the experience during the pandemic is something that we sort of knew, but we learned even more, which is that our unemployment insurance system without the actions taken during the pandemic was wholly inadequate. But that by really boosting unemployment insurance, what you can do is target people who have lost their jobs and protect them, their futures, their kids, from the biggest problems of recessions, which is that it really hurts people who lose their jobs. And it's something that we should be making part of our standard response. And to do that, we need to be getting ready for that now. We need to be changing our unemployment insurance system so that it is, one, providing greater benefits in all times and, two, flexible enough so that we may be able to increase benefits or increase eligibility during economic downturns.

WESSEL: Right, but Wendy we learned that the administrative apparatus for the unemployment insurance system was archaic and not very well equipped to deal with the kind of flexibility that Louise is advocating.

EDELBERG: No, that's absolutely right. And I want to key off of a really important word that Louise used, which is "targeting." We need to do a lot more right now to improve our social insurance system to better target. If we can put in administrative fixes—that are well understood that are necessary—into the UI system, we will be able to much better target the people who are financially hurt in the midst of a recession and make sure that they remain resilient until the economy is back on its feet.

What we learned is that if we do that effectively, we can really broadly help the economy so that we have to do much less for the business sector, for the housing sector, for state and local governments. Job number one is improving the UI system wholesale in order to be able to target the people who are hit first and hardest in the midst of a recession.

SHEINER: And let me just add one lesson about since we're talking about unemployment insurance that we haven't mentioned yet, which is the other thing that we learned through this experience of very generous UI benefits that were generous during the times when the economy was shut down and generous in the times when there was a huge amount of labor demand and the economy was really opening up, the thing that economists always worry about unemployment insurance is that it will make people not look for a job. And there was some evidence of that, but the effect was a lot smaller than what people would have predicted.

And so this idea that you can't have generous UI because it will sort of impede your recovery is not really very true. We can have a much more generous UI system than we have now and actually help the recovery as opposed to hurting it.

WESSEL: Hmm. So, Wendy, The Hamilton Project in the past has written quite a bit about what economists call automatic stabilizers, things that take effect when the economy turns down that don't require congressional action. Might be more aid to state and local governments, it might be an expansion of unemployment insurance benefits in a recession. Do you still think that's a good idea? And how would your advice about expanding automatic stabilizers change as a result of what we learned during the expansion, if it would?

EDELBERG : Oh, that is a really good question. So, not to be too redundant with what we've already been talking about, but expanding the unemployment insurance system so that it turns on and becomes more generous automatically in the midst of a recession if people lose their jobs, is tremendously helpful. It means that we have much more certainty now when we're not in a recession that policy will be there to do the right thing if we're in the midst of a downturn.

The same is true for, let's talk about aid to state and local governments. So, we had to do a lot of guessing in this past episode as to what would happen to the budgets of state and local governments. So, we had to do a lot of guessing where we guessed wrong and more aid went to state and local governments than was necessary if the goal was simply to make them whole. So, that was one error that we made because of the guessing.

But then on the flip side, state and local governments for a big part of the crisis had too little certainty about what kind of aid was going to be coming their way and how sustained it would be. And that really upended the decision-making that they could do and led to worse decisions by state and local government policymakers about what they should be closing, who they should be laying off, when they knew they would have the resources to reopen. So there, too, if you put in place effective automatic stabilizers now, then it creates a lot more certainty for policymakers to know that they will have the resources that they need in the midst of a downturn.

WESSEL: So, Louise, you spent a lot of time thinking about state and local governments. Do you think we should expand the automatic aid that goes to state and local governments?

SHEINER: Yeah, I would be in favor for exactly the reasons that Wendy said, which is both the certainty that the governments would have to know the money is forthcoming because state and local governments are very risk averse. They have to worry about balancing their budgets. And so they they're not like the federal government where they can just spend money because it's a recession. And so giving them certainty would really, really help them be able to plan and prevent some of the layoffs that we typically see during recessions.

And so one method that's been proposed to do that would be to have some automatic change in the federal share of Medicaid—that the federal government already pays part of Medicaid, pays a fraction, then that fraction depends on the state. So, it would be quite easy to have that lever to switch based on like a state unemployment rate, for example.

And I just want to go back to the unemployment insurance as an automatic stabilizer. I think it's important to remember, automatic stabilizers don't have to be just things that trigger on or off. So if we had a more generous unemployment insurance system at all times, right, so that the replacement rates were higher, so that you would get a larger share of your lost wages in unemployment insurance, that would in itself be a better automatic stabilizer because it would mean when unemployment is high, then the kick in of unemployment insurance would be bigger. So, you can think of it in two ways. One, you could just have a bigger UI system at all times. And two, you might want to think of an extra boost to UI during downturns. So, I think both components are important to think about.

WESSEL: So, of course, the advantage of unemployment insurance is that it goes to people who lose their jobs. So, it's targeted. Under what circumstances would you—Wendy, we'll start with you—recommend that Congress send another round of stimulus checks as they did during the COVID recession?

EDELBERG: So, stimulus checks, just by their nature, are untargeted. To be sure, you can set income cutoffs or income phase outs so that you're sending out checks to people lower on the income scale who you think are probably more financially vulnerable. But by their nature, you are sending out checks to people who are not necessarily the hardest hit.

It makes sense to send out checks under, in my mind, two circumstances. One, when your primary goal is to actually stimulate aggregate demand. You're not overly concerned about making sure that you're getting money to people who have been temporarily affected by the recession. You want to make sure that you're getting money to people who will turn around and spend it. And that is a worthy goal in the midst of certain kinds of recessions that are created by a lack of aggregate demand and you think that that's what's necessary to get the economy on a better track.

The other time the checks can be useful is if we're having a hard time figuring out or otherwise getting the money to the people who are most negatively affected in the moment. And that was certainly the case in the past episode. We had shockingly bad data on who was being most affected. And so, for example, lots of people have bad labor market outcomes in the midst of a recession, but not because they get they get fired or laid off, but because their hours get cut, for example. And unemployment insurance, at least our current version of the unemployment insurance system, doesn't do a very good job of getting help to those people. So, checks help.

People who take a huge financial hit and aren't employed, weren't employed before the recession, aren't unemployed during the recession, they're simply out of the labor market. We had a very hard time in the last two years identifying who those people were and if we could identify them we had a very hard time standing up programs in the midst of the downturn to get them relief. And so, checks were very effective.

We can do more right now to improve our data infrastructure and improve our policy infrastructure so that we don't need to rely so much on checks.

WESSEL: Louise, did you want to talk about the checks?

SHEINER: Yeah, I wanted to talk about one thing that Wendy didn't mention, which is that, something we've already talked about, which is one things the checks did at the beginning of the pandemic was the state unemployment agencies had a really difficult time getting unemployment insurance out for so many people. And so people had to wait a really long time for their UI. And so the checks were much quicker. And so it was a way of tiding people over, even the ones who would ultimately get very generous UI, it was a way of tiding them over. So, then again, if we fix the administrative system and we invest in that, that would mean you're going to want to do a bit less in terms of things like checks.

WESSEL: Right. It was pretty amazing how quickly the government could get checks or actually electronic bank deposits to millions of people. It actually made this recession quite different from past recessions when that technology wasn't available. I'm going to pick up on something Wendy said about data. Now, economists always want more data, that's a given. But one thing that runs through several of the chapters of *Recession Remedies* is that policymakers didn't have enough information to make wise decisions. So, I'm wondering—maybe Louise you can start—what specific kinds of data do you think policymakers need more of before we run this game again?

SHEINER: Well, I mean, I'm going to focus on something a little different than the real-time data, because that is a hard challenge that we can talk about to sort of set up new data during the pandemic. But we don't even know now looking back who was hurt and was helped by the checks but not UI. We have really not very good data on things like who got SNAP, who got UI. We have surveys where people self-report. And if you look at what share of the people sort of report that they got it, it's way different than administrative records. So, we really need to combine administrative data with some of our surveys like the Current Population Survey so that we can actually get much better data so that we could look back and say, okay, well, how well did the checks do? How well did the SNAP do? Who fell through the cracks? We don't even have the data looking back on doing that.

WESSEL: Wendy?

EDELBERG: I totally agree with what Louise is talking about. The lack of information we even have now, looking back at what the world looked like in 2020, is really quite depressing. Another area where things are particularly depressing is how little we know about renters. Even if we ask what the world looked like before the pandemic, we basically don't know what share of renters are delinquent or behind on their rent or at risk of being evicted in any given month—even in history, let alone then how that changed over the course of the pandemic. So, perhaps knowing that it shouldn't really surprise people that we have a very poor understanding about what the shortfall was, of how much people owed in terms of back rent in 2021, 2022. And that really made it difficult stand up effective programs to make sure that we were targeting the renters who were most hurt.

WESSEL: Right. I mean, it was pretty amazing that we couldn't tell whether rental delinquencies were up during the pandemic because we didn't know what they were before the pandemic. So, we didn't know if we had a problem to solve or we just had a long-term problem.

So, it's highly unlikely that the next time we have a recession, it will be because we have a pandemic. In fact, speculation now is that we might have a recession because the Fed is raising interest rates in order to slow the economy and bring down the rate of inflation. So, I'm wondering what factors you think fiscal policymakers—Congress, the White House, et cetera—should weigh when the next recession comes as they decide what, if anything, to do and what not to do? Wendy?

EDELBERG: Well, just to make contact with the current moment—we won't go too deep into this, but just make contact with the current moment—I think that there's one set of concerns that are just obvious that policymakers should have in the midst of any kind of recession, which is looking at the people who are most harmed and making sure that the social insurance system reaches those people to keep them from crisis, keep them from disaster. And so, that's all about targeting, and that is making sure that we make the administrative changes that we've talked about today and that we go into detail in the book, making sure that we can get help to people broadly through the unemployment insurance system. But that's all about reaching people who are most hurt, and that's just job number one of a government.

Separate is whether or not the federal government thinks that the highest priority in the midst of recession is to stimulate aggregate demand. That is typically true in the midst of a recession. It's a lot more complicated if we're in the midst of a recession and we simultaneously have high inflation. And so I will leave that aside as a more complicated issue for policymakers. But job number one is making sure that people are not in crisis.

WESSEL: Right, so … But I think what I had in mind is—you pretty much said it—no matter what the cause of a recession, there are people in our society who are very vulnerable, the people who lose their jobs or whatever. And it doesn't really matter what the cause is, we want to take care of them. It's a separate question whether we want to stimulate aggregate demand. And if we're in a recession that's caused because the economy is overheating, that might not be a priority.

And then I think there's a third thing—I'm interested what you think about this, it wasn't something that you particularly wrote about, but it was in the business chapter where the authors said, look, it turns out that the banking system was pretty strong, had a lot of capital and was willing to keep lending. So we didn't have to worry so much about big companies borrowing. But that's a diagnosis that you have to make, if the banking system is weak, as it was in 2007 and eight, then the government might have to do more on subsidizing business lending. So that it seems to me it really does depend on what your diagnosis of the problem is, and that implies what your solutions are. Louise, I don't know if you want to add anything to this.

SHEINER: So, I want to add a couple of things that may not really affect the recession we may be going into now, which is really so different, right? It's like coming from the Fed only. But I think what I'm really worried about is that policymakers will learn the wrong lessons from the pandemic recession. And I think they could learn the wrong lessons in two ways. One, as we just talked about, sort of the nature of the recession really does matter. And the pandemic recession had more in common with a natural disaster than do most recessions, which was not sort of understood at the beginning, at least not widely understood in the sense that the unemployment rate shot up in the spring of 2020, and usually when that happens it takes a very long time for the unemployment rate to come down. But that didn't happen. To some extent, that was because of the fiscal package. But I think even more importantly, it was because we shut down the economy and then we figured out how to reopen, or at least partially reopen.

And so all the things that people were worried about—governments not having enough money, people not be able to pay their mortgages, all the things that everybody was worried about—didn't come to pass. And I don't want policymakers to then get the lesson like, oh, we don't need to worry about stuff, because like the last time we spent all this money and it wasn't necessary. This was a very different kind of recession. The lessons that we learned from the Great Recession about having to stimulate the economy I think shouldn't be forgotten because maybe we did a bit too much and we maybe we did a bit too much considering the nature of the recession.

And the second piece, I think Wendy has kind of already mentioned, too, is that you can look at state and local, for example, you can look at piece by piece of the economy and say, oh, guess what, they didn't need help, and forget that part of that was because of the other components of the fiscal package. So, if we do a whole bunch of UI, yeah, maybe some of these other sectors of the economy don't do so much help, but if we don't do the UI, then they might. So, you have to be really careful when you're looking back and learning the lessons to take in the entirety of the fiscal response and the nature of the recession.

WESSEL: Yeah, I agree with that. I mean, I think that the consensus that fiscal policy was too tight fisted in the years following the Great Recession meant that there was more willingness, maybe even more eagerness. to spend a lot during the pandemic. And I worry that they'll make the same mistake in reverse the next time, which is basically what you're saying.

SHEINER: Exactly.

WESSEL: So, Wendy, any last thoughts? Is there anything in the project that surprised you or you think it's important that people take away from it that we haven't hit on already?

EDELBERG: Let's see. I mean, we've hit on we've hit on this point, but I just do want to reiterate it, is that the thing that most surprised me was the areas where we knew so little. It was distressing to me how for such a advanced modern data system that we have the big blind spots that we have that surprised me and distressed me.

WESSEL: Yeah, that's a good point. But I do think I want to end on what we said at the beginning—that this was a huge success, that many of us, and I would include myself in this, thought when the pandemic hit and we saw unemployment rates soar in the first couple of weeks of the pandemic, that we were in for a really, really long haul. Now, of course, there are still some people who are still suffering from the after effects of the pandemic economically. But by and large, the recovery was quicker and stronger than I anticipated, and indeed than in other parts of the world that also got hit by the virus.

And so I think that the bottom line that we started with is still the right one, that we did a great job, it wasn't perfect, there's some things we would do differently if we had it to do over again. But by and large, it was and should be seen as a huge success. How much of a success depends on how hard it is to bring down the inflation that was in part caused by the size of the fiscal stimulus, I think.

But with that, I want to thank Wendy and Louise both for this conversation and for all the work they put into the book *Recession Remedies*, which I think will be a very valuable resource for policymakers as we go forward. We learned a lot during the pandemic, and some things we need to remember and some things we need to recognize are pandemic unique. But in any event, the work was incredibly valuable, and it really wouldn't have been possible without the hard work you did. So, I recognize—

SHEINER: —and you as well, David.

WESSEL: Thank you.

EDELBERG: Cheers to us!

WESSEL: Cheers to us and—

SHEINER: —cheers to us.

WESSEL: And the book is available for free at www dot Brookings dot edu slash Recession Remedies. So with that, thank you both.

SHEINER: Thank you.

EDELBERG: Thank you.

WESSEL: I'm David Wessel, director of the Hutchins Center at Brookings. Recession Remedies is a joint project of the Hutchins Center and the Hamilton Project at Brookings, and is a production of the Brookings Podcast Network. Learn more about our other podcasts at Brookings Dot Edu Slash Podcasts and follow us on Twitter at PolicyPodcasts. You can send feedback to us at Podcasts at Brookings Dot Edu.

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