Planning For The Next Recession (Oh, Wait A Second …)

Author : Daniel Shaviro

Date : September 1, 2020

Recession-Ready: Fiscal Policies to Stabilize the American Economy (Heather Boushey, Ryan Nunn & Jay Shambaugh eds., 2019), available at The Hamilton Project.

Legal scholars, in tax and elsewhere, have increasingly recognized the need for countercyclical policy instruments. (An important example is Yair Listokin's *Law and Macroeconomics: Legal Remedies to Recessions*.) Much of the tax system, of course, automatically responds to economic slowdowns, such as by generating less revenue when economic activity declines. In severe recessions, however, non-tax instruments become indispensable to delivering adequate stimulus and individual support.

In this regard, the Great Recession of 2007-2009 taught us several important things the hard way. One was that down business cycles are likely to be a recurrent feature of modern economic life. A second was that austerity makes absolutely no sense as a response to economic slowdowns. A third was that the political system cannot be trusted to respond adequately through discretionary policy changes.

The political economy concern used to be that Congress would simply act too slowly – as in the metaphor of a home heating system that has a six-month time lag, and hence that responds to a January deep freeze by turning on the boiler in July. But now there is also the threat of deliberate obstruction by Republicans whenever there is a Democratic president, alongside a rigid, non-reality-based ideology that tamps down responsiveness even when Republicans control both Congress and the White House. This creates an urgent need for the Democrats, if they win in 2020, to design automatic countercyclical fiscal policy changes that do not require any further discretionary enactment of legislative changes.

Luckily, an important recent book – *Recession-Ready: Fiscal Policies to Stabilize the American Economy*, edited by Heather Boushey, Ryan Nunn, and Jay Shambaugh and published by the Hamilton Project – offers a wide-ranging set of suggestions. These suggestions would merit serious consideration as cornerstones of a Biden Administration legislative agenda in January 2021.

Authors may sometimes, to their distress, find that their recently published books have lost timeliness with startling rapidity, as economic or political circumstances change. Here, however, it is the other way around. When *Recession-Ready* was published in May 2019, the editors and authors cannot possibly have known that the United States was only months away from entering from entering a downturn that would be vastly worse, and potentially more long-lasting, than the Great Recession of just over a decade ago that helped to inspire their work. Now, however, that we are in the midst (or early stages?) of the COVID Recession, their suggestions have only become timelier than ever. Consider the six main proposals that *Recession-Ready* offers:

1) Claudia Sahm's chapter, *Direct Stimulus Payments to Individuals*, anticipates many of the problems that arose in 2020. It therefore proposes legislating in advance that Congress provide that such payments, in amounts defined relative to GDP, are automatically issued whenever certain objective economic markers of a recession (such as a sufficient rise in unemployment) are met. The proposal would also provide for automatic follow-up payments, on an annual basis, absent the meeting of objective markers of economic recovery. Among other salient points, Sahm notes that having such a rule on the books would permit advance preparation with regard to the administrative challenges faced by reaching non-income tax filers.

2) Matthew Fiedler, Jason Furman, and Wilson Powell III's chapter, *Increasing Federal Support for State Medicaid and CHIP Programs in Response to Economic Downturns*, addresses what has proven to be among Congress's worst failures in responding to the COVID Recession: its not addressing adequately the fiscal strains faced by state governments. It would cause the federal share of Medicaid and Children's Health Insurance Program (CHIP) costs to increase automatically during recessions (again, as measured by objective criteria). The rise in federal contributions would automatically be tailored to particular states' unemployment rates, and would phase down automatically as states' economies recovered.

3) Andrew Haughwout's chapter, *Infrastructure Investment as an Automatic Stabilizer*, would give states incentives to denominate shovel-ready programs that could then be started automatically, under specified criteria, based again on objective economic markers of recession. This as well could have mitigated one of the Trump Administration's and 2020 Congress's egregious policy failures in response to the COVID Recession.

4) Gabriel Chodorow-Reich and John Coglianese's chapter, *Unemployment Insurance and Macroeconomic Stabilization*, could have mitigated another 2020 policy failure that was spearheaded by Republicans. It would automatically provide for suitable extension, enhancement, and federal funding of unemployment insurance when severe economic downturns (again, defined objectively) make this desirable.

5) Indivar Dhutta-Gupta chapter, *Improving TANF's Counter-Cyclicality Through Increased Basic Assistance and Subsidized Jobs*, proposes providing for increased cash, voucher and emergency assistance provision, along with direct and indirect employment aid (such as wraparound support services) when recessions strike.

6) Hilary Hoynes and Diane Whitmore Schanzenbach's chapter, *Strengthening SNAP as an Automatic Stabilizer*, would both limit or eliminate work requirements for receiving Food Stamps, and automatically increase their levels by 15 percent during recessions.

The precise details of all of these proposals are reasonably debatable, as all of the authors recognize. However, the need to provide for countercyclical fiscal policy changes automatically, *such as* the above six, is beginning to verge on being *not* reasonably debatable. We cannot afford to risk more of the policy malfeasance that needlessly immiserated millions of Americans in 2009, and then again, more gravely, in 2020 – with, perhaps, worse still to follow.

Cite as: Daniel Shaviro, *Planning For The Next Recession (Oh, Wait A Second …)*, JOTWELL (September 1, 2020) (reviewing **Recession-Ready: Fiscal Policies to Stabilize the American Economy** (Heather Boushey, Ryan Nunn & Jay Shambaugh eds., 2019), available at The Hamilton Project), https://tax.jotwell.com/planning-for-the-next-recession-oh-wait-a-second/.