STRENGTHENING THE SAFETY NET TO MITIGATE THE EFFECT OF FUTURE RECESSIONS
LESSONS LEARNED FROM THE GREAT RECESSION
Fiscal Policy and Recessions

Lawrence H. Summers

Harvard University
Nearly a Lost Decade

Sources: Bureau of Economic Analysis, NBER, CBO, Census
Always A Decent Chance of Recession Intermediate Term

Three+ Year-Old Expansions
Percent of Time Recession Within

<table>
<thead>
<tr>
<th>Country</th>
<th>2 Years</th>
<th>3 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>30%</td>
<td>40%</td>
<td>54%</td>
</tr>
<tr>
<td>Germany</td>
<td>53%</td>
<td>74%</td>
<td>98%</td>
</tr>
<tr>
<td>UK</td>
<td>28%</td>
<td>40%</td>
<td>63%</td>
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<tr>
<td>US</td>
<td>43%</td>
<td>63%</td>
<td>88%</td>
</tr>
</tbody>
</table>

*From 1970-on

Sources: NBER, Economic Cycle Research Institute
Large Rate Cuts Are Often Necessary

<table>
<thead>
<tr>
<th></th>
<th>Start</th>
<th>Final</th>
<th>Easing</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-60</td>
<td>1.9</td>
<td>-0.1</td>
<td>2.0</td>
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<tr>
<td>Aug-66</td>
<td>3.1</td>
<td>0.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Nov-70</td>
<td>4.5</td>
<td>-0.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Nov-74</td>
<td>6.4</td>
<td>-1.6</td>
<td>8.0</td>
</tr>
<tr>
<td>May-81</td>
<td>8.7</td>
<td>-0.1</td>
<td>8.8</td>
</tr>
<tr>
<td>Sep-84</td>
<td>7.6</td>
<td>3.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Nov-90</td>
<td>5.5</td>
<td>0.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Dec-00</td>
<td>4.8</td>
<td>-0.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Aug-07</td>
<td>3.3</td>
<td>-1.1</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Sources: Bloomberg, Core PCE Deflator from Bureau of Economic Analysis
But The Market Does Foresee Rates Above 2 Percent

Source: Bloomberg
Net Federal Investment Negative
LESSONS LEARNED FROM THE GREAT RECESSION
Policy Options for Strengthening SNAP and TANF
Strengthening Temporary Assistance for Needy Families

Marianne Bitler and Hilary Hoynes
UC Berkeley and UC Davis
Welfare Reform

- In 1996, 4.3 million low income families with children received $20.3 billion in cash assistance.

- Federal welfare reform converted AFDC to TANF with a fixed nominal block grant and:
  - Lifetime limit of 5 years or less
  - Work requirements
  - Financial sanctions for failing to adhere to work requirements
  - Flexibility to change eligibility and benefit rules

- The combination of welfare reform, the expansion of the EITC and the strong labor market led to historic increases in employment rates among single mothers with children.

- Beginning in the early 2000s and particularly with the Great Recession, it is clear now that TANF is not well serving the needs of the poor and needs to be strengthened.
1. TANF No Longer Acts as a Stabilizer
2. TANF Reaches Fewer Poor Families

Number of Families Receiving AFDC/TANF Benefits for Every 100 Families with Children in Poverty, 1980–2014

Source: HHS 2016; authors’ calculations from the 1981–2015 March CPS.
3. A small share of the TANF block grant is used for cash assistance

- Only 25% of the TANF block grant is cash assistance
- Less assistance is going to the poorest families
4. The real value of the block grant has decreased by one-third
Our proposal

- Expand the reach of TANF
  - Require at least 25% is spent on cash assistance and at least 50% on the core support categories (cash, child care, work related activities)
  - Require all spending reach those below 150% poverty

- Improve accountability measures
  - Track what income groups receive benefits, why people are denied assistance

- Make TANF more responsive to economic downturns:
  - Suspend work requirements and time limits for individuals and work participation rate targets for states during downturns
  - Create Automatic Emergency Fund to increase the block grant during downturns

- Restore and preserve the value of the block grant
Modernizing SNAP Benefits

James P. Ziliak
Center for Poverty Research
University of Kentucky
The Supplemental Nutrition Assistance Program (SNAP) is the largest food assistance program in the United States.

The Thrifty Food Plan (TFP) is a minimal-cost food budget constructed by the USDA.

SNAP benefits are provided based on a maximum benefit linked to the cost of the TFP.
Challenges with the TFP

- The TFP assumes SNAP recipients have unlimited time to prepare food at home because it values time at a cost of $0.
Time Spent Cooking per Week, by Income Level (Females Only), 1965-2012

Source: American Heritage Time Use Survey n.d.
Additional Challenges with the TFP

- It assumes constant cost across plan years
- It does not account for high food cost areas
- It relies on data that is biased downward toward lower consumption
The Proposal

- I propose a 3-stage process to strengthen SNAP by updating how the Thrifty Food Plan (TFP) is constructed
Stage 1: Account for Time

- Introduce an immediate 20 percent inflation factor to the Thrifty Food Plan (TFP) to account for the cost of time.
Stage 2: In Addition to Time

- Relax the constant cost constraint
- Introduce geographic price adjustments
- Use a less economically disadvantaged sample to anchor consumption
- Replace an adolescent with a teenager in the reference family
Stage 3: Research

- New developments on geographic price indices
- New data sources such as FoodAPS
LEVERAGING FISCAL POLICY TO MITIGATE THE EFFECT OF FUTURE RECESSIONS

@hamiltonproj
#NextRecession

BROOKINGS
Fiscal Policy Reconsidered

Alan S. Blinder
Princeton University
Two pillars of the case against fiscal policy

- Monetary policy can always do the job by itself.
- Fiscal policy is too slow and too political.
Some ways to improve fiscal policy

- More automaticity (reduces delays and politics)
  - There is room for more automaticity in UI, SNAP, FMAP, ...

- More attention to “bang for the buck”
  - SNAP and UI score highly.
  - Business tax cuts score poorly.

- Don’t pull the plug on stimulus too soon.
  - As we did in 2010

- “Cash for clunker” it where (if) possible.
  - Can this extend beyond cars?
If hysteresis is important, shortening recessions is super-important.
LEVERAGING FISCAL POLICY TO MITIGATE THE EFFECT OF FUTURE RECESSIONS
Leveraging Fiscal Policy to Mitigate the Effect of Future Recessions