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Strengthening the Safety Net to Mitigate the Effect of Future Recessions

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Lessons Learned from the Great Recession

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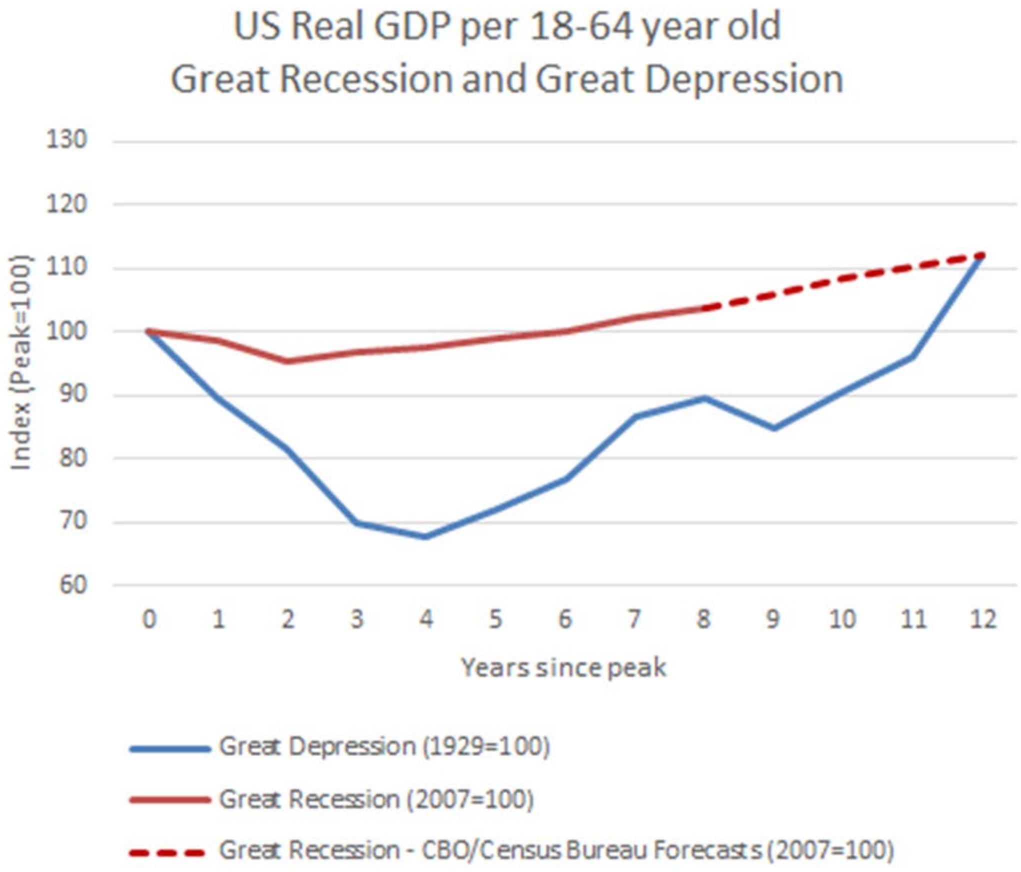
Fiscal Policy and Recessions

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

	2 Years	3 Years	5 Years
Japan	**30%**	**40%**	**54%**
Germany	**53%**	**74%**	**98%**
UK	**28%**	**40%**	**63%**
US	**43%**	**63%**	**88%**

*From 1970-on

Sources: NBER, Economic Cycle Research Institute

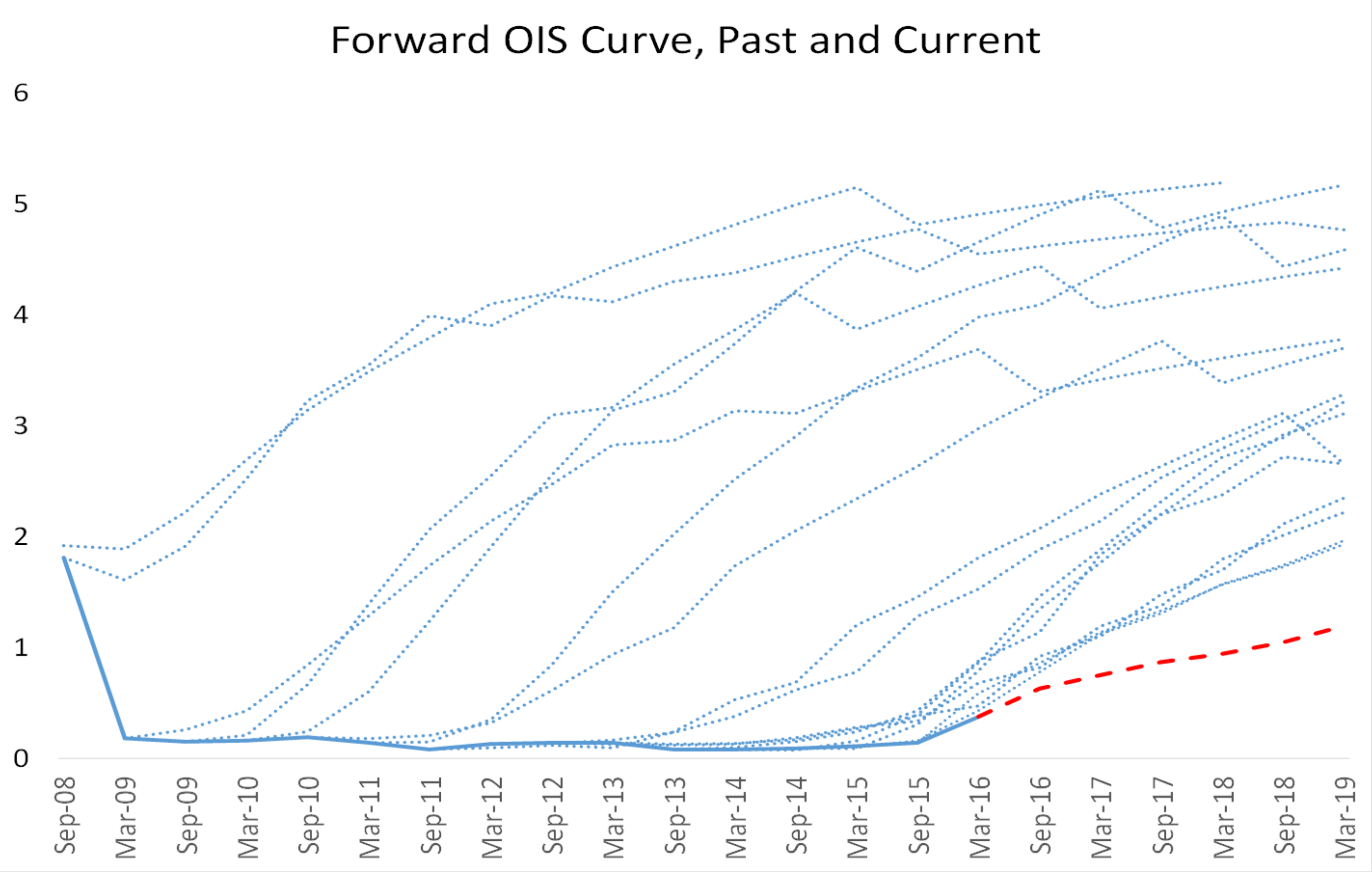
Large Rate Cuts Are Often Necessary

Real Funds Rate Easings

	Start	Final	Easing
May-60	1.9	-0.1	2.0
Aug-66	3.1	0.7	2.3
Nov-70	4.5	-0.9	5.4
Nov-74	6.4	-1.6	8.0
May-81	8.7	-0.1	8.8
Sep-84	7.6	3.4	4.2
Nov-90	5.5	0.1	5.4
Dec-00	4.8	-0.4	5.2
Aug-07	3.3	-1.1	4.4
			5.1

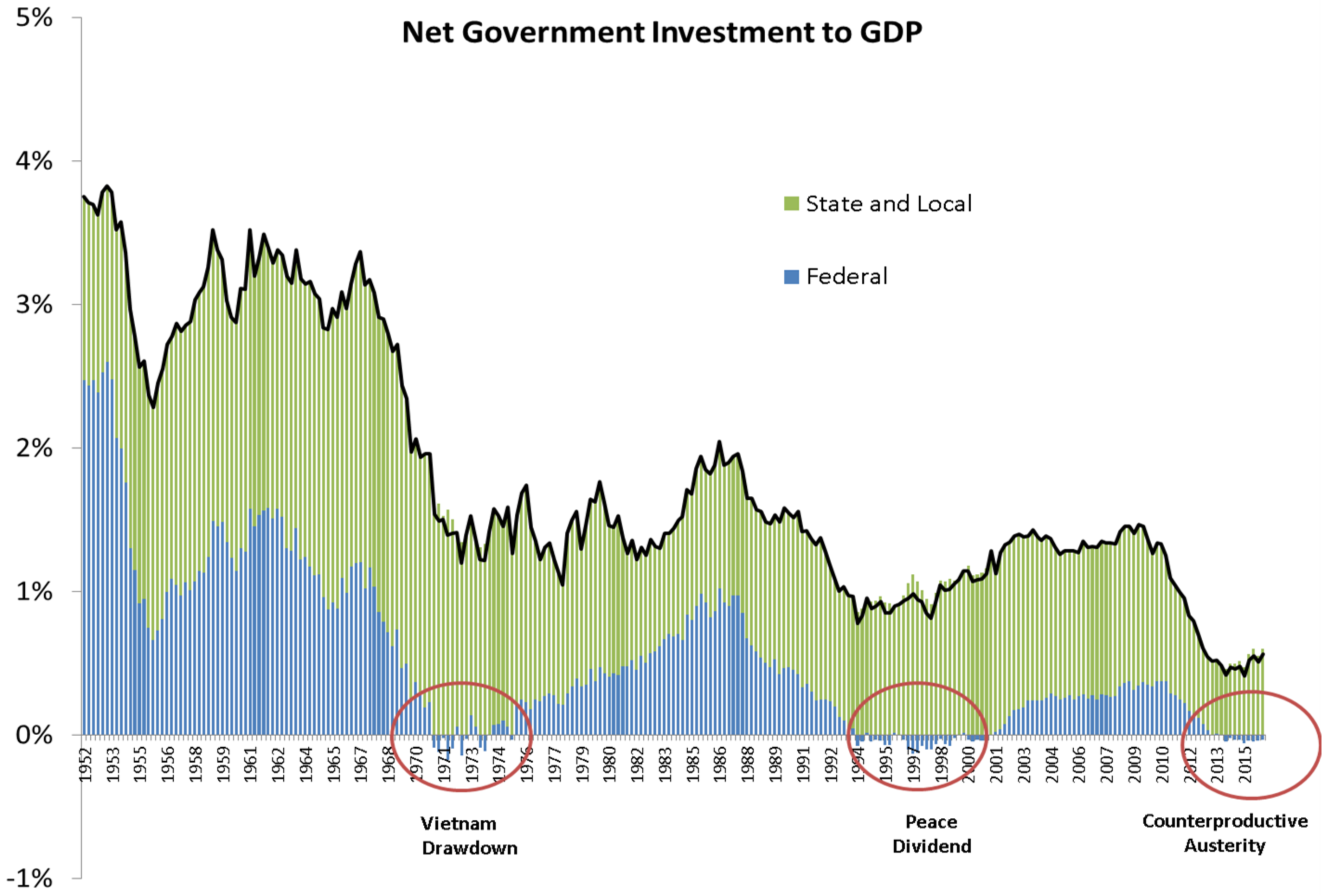
Sources: Bloomberg, Core PCE Deflator from Bureau of Economic Analysis

But The Market Does Foresee Rates Above 2 Percent



Source: Bloomberg

Net Federal Investment Negative



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Policy Options for Strengthening SNAP and TANF

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Strengthening Temporary Assistance for Needy Families

Marianne Bitler and Hilary Hoynes

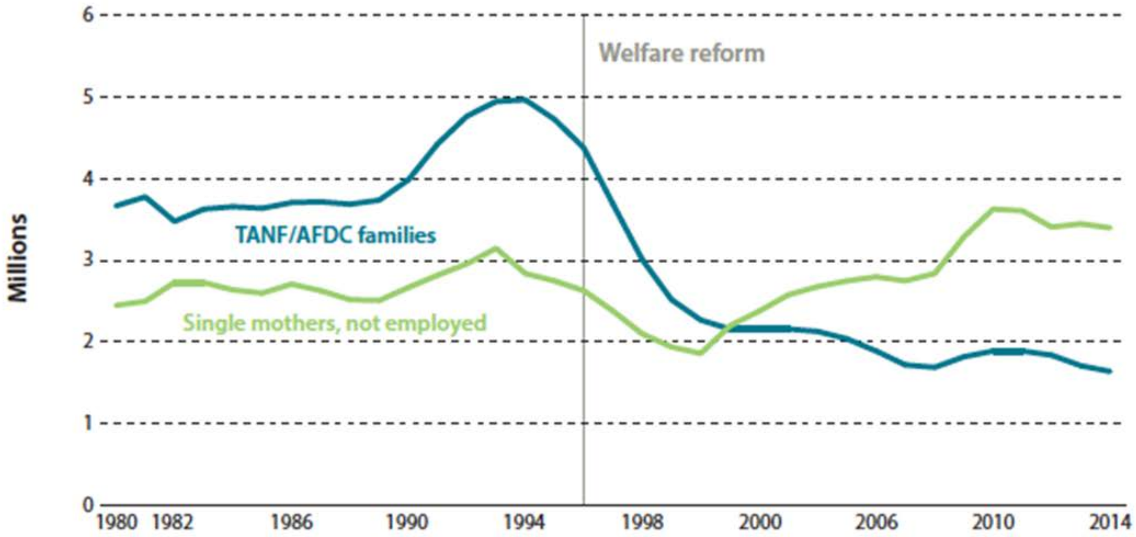
UC Berkeley and UC Davis

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

Number of Families Receiving TANF/AFDC and Number of Single Mothers not Employed, Aged 20–54, 1980–2014



Source: Authors' calculations from the 1981–2015 March CPS; HHS 2016.

Note: Employment is measured annually and is defined as having worked at least one week during the calendar year preceding the survey year; not employed corresponds to having worked no weeks during the preceding calendar year.

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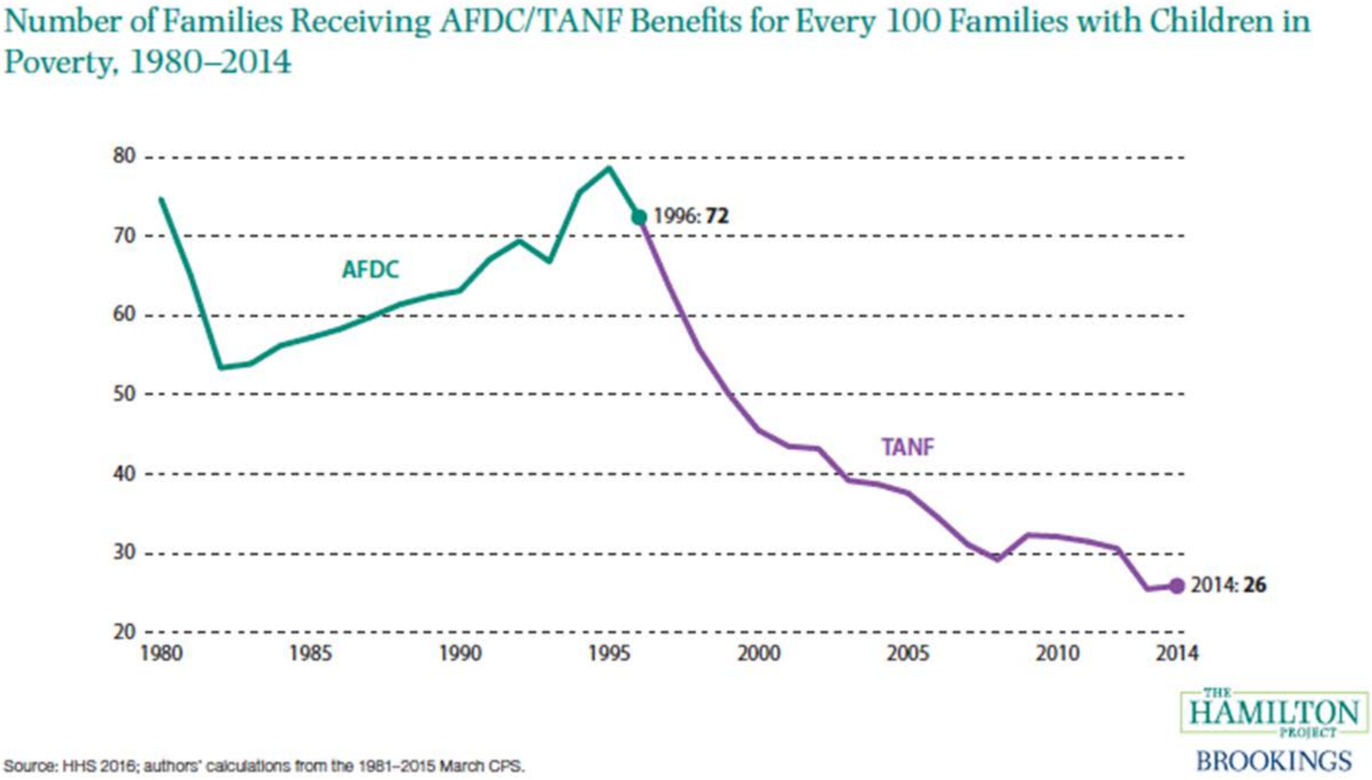
2. TANF Reaches Fewer Poor Families

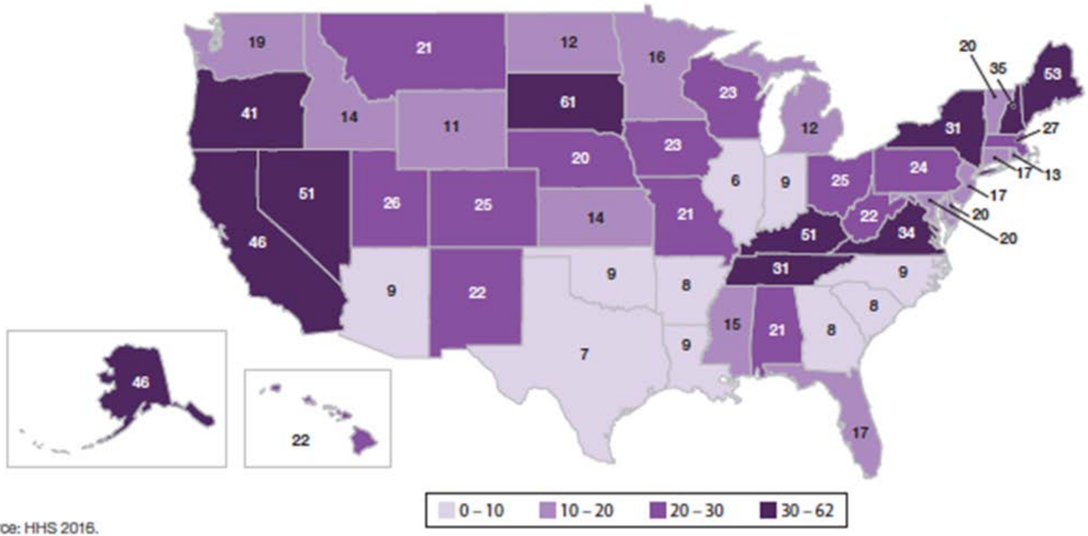


Source: HHS 2016; authors' calculations from the 1981–2015 March CPS.

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

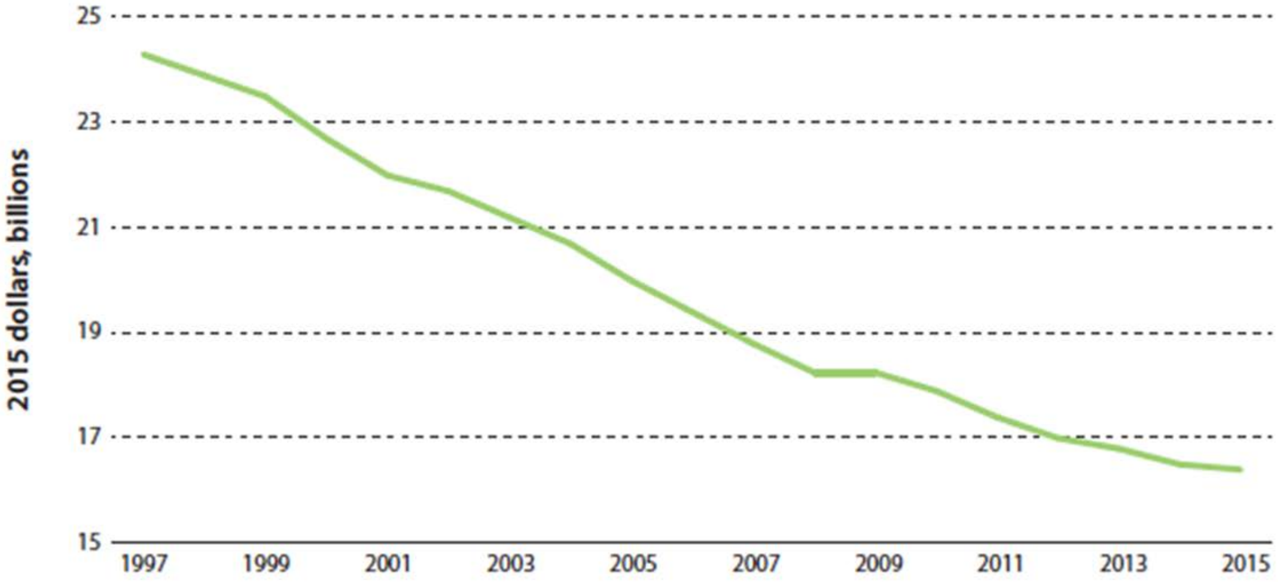
Cash Assistance as a Share of Total TANF Spending, by State, FY2014



Source: HHS 2016.

4. The real value of the block grant has decreased by one-third

Real Value of TANF Block Grant, 1997–2015



Source: HHS 2016.

Note: The data are adjusted for inflation using the Consumer Price Index.

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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

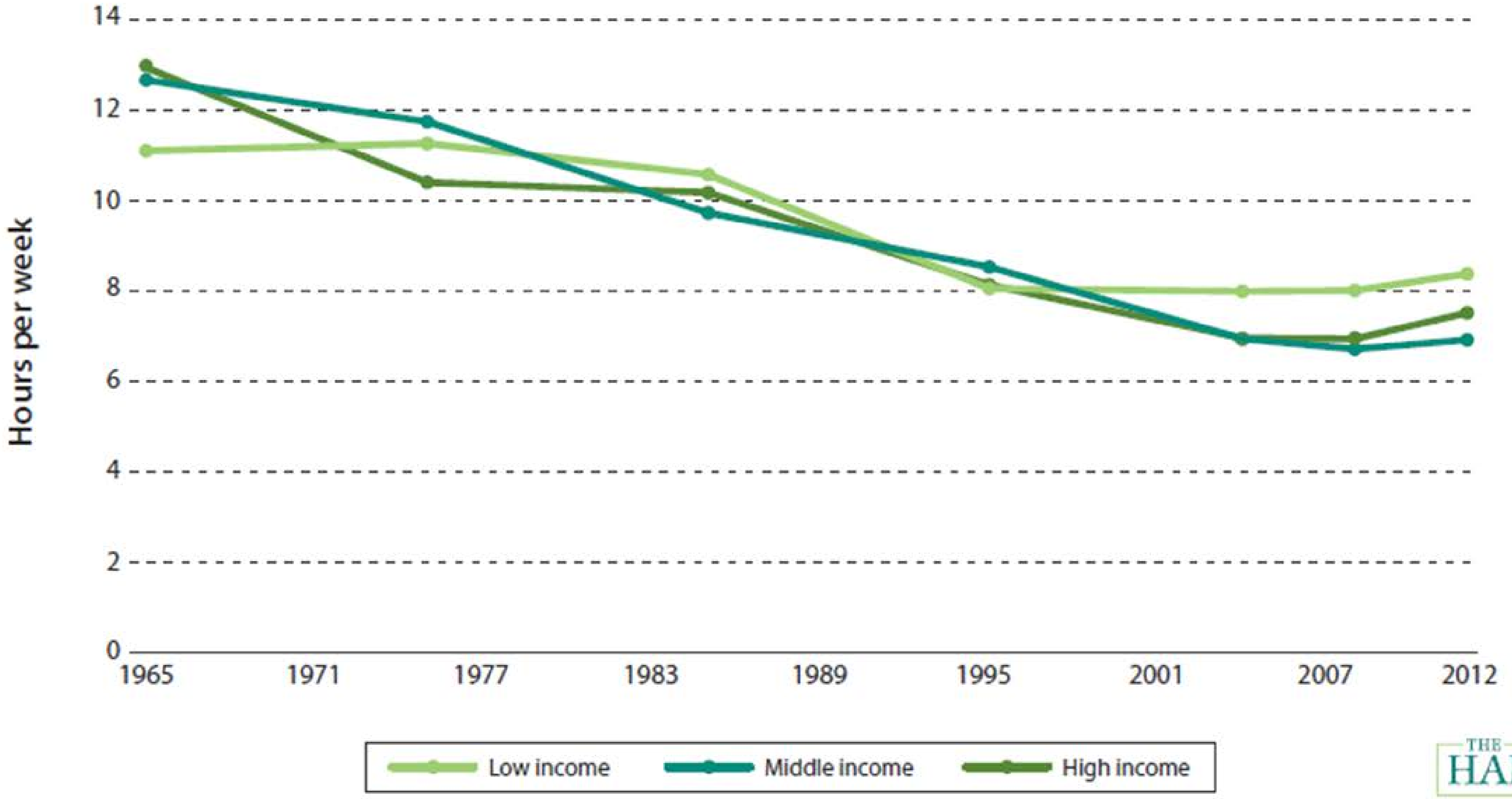
The Thrifty Food Plan

- 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.

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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

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Fiscal Policy Reconsidered

Alan S. Blinder
Princeton University

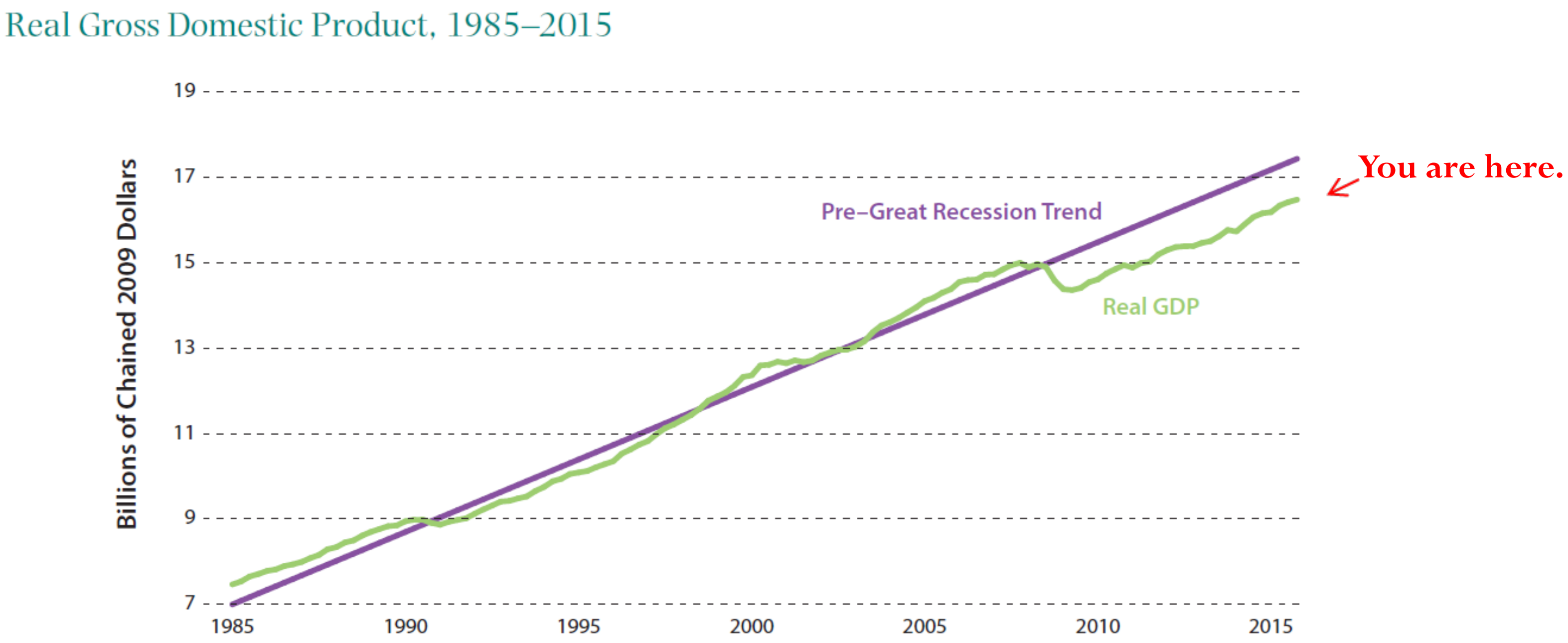
Two pillars of the case against fiscal policy

- 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.



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