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Fiscal Policy Considerations for the Next Recession

June 20, 2019

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R45780

CRS REPORT
Prepared for Members and
Committees of Congress

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SUMMARY

R45780

June 20, 2019

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Fiscal Policy Considerations for the Next Recession

Although the United States is currently experiencing its longest economic expansion, history has shown that economic expansions inevitably give way to economic slowdowns. If the next slowdown is significant, the economy could enter a recession, which is typically characterized by falling output and rising unemployment. Short-term forecasts are predicting continued economic expansion, but predicting when the economy may transition from expansion to recession is notoriously difficult, as the ebb and flow of the economy is determined by many different factors, including a number that lie outside the country's borders.

This report identifies and summarizes options Congress may consider in response to a possible recession. Recognizing that the economy has the potential to return to full employment without intervention, one policy option is simply to allow the economy to correct on its own with the support of certain "automatic stabilizers" already in place. Automatic stabilizers work without congressional action to lower taxes and increase spending as the economy weakens. Examples include the progressive structure of the income tax system and Unemployment Compensation (UC) benefits, among others. Congress also has a range of other options it could consider when designing a stimulus package should a recession occur and automatic stabilizers are not sufficient to counteract it.

The options presented in this report are drawn from the Congressional Budget Office (CBO) and Moody's Analytics, both of which estimated the impact of specific policies or approaches in response to the Great Recession. While a general approach to stimulating a weakened economy with reduced taxes and increased spending is often advocated, specific policies have different impacts on the economy and differing administrative complexities. CBO's and Moody's estimates provide insight into which specific policy options may be most worthwhile to implement during the next downturn. The policy options presented—or variations of them—are ones commonly considered when designing a fiscal stimulus package and are not unique to either CBO or Moody's.

The United States' recent budget deficits and the country's long-run budget outlook could influence the size of any stimulus package. Large and persistent budget deficits can hamper economic growth by lowering the rate of capital formation via reduced national saving, and can potentially offset short-term economic stimulus. At the same time, high levels of debt relative to gross domestic product can constrain a country's borrowing capacity. There are no signs that federal borrowing capacity will be exhausted in the short term. However, the consequences of exhausted fiscal space may be worth considering in designing the next stimulus package since it would increase both deficits and the debt.

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Introduction

The United States is currently experiencing the longest economic expansion in its history. Although short-term forecasts are predicting continued economic expansion, some economists have expressed uncertainty over how long the expansion will continue.[1] History has shown that economic expansions inevitably give way to economic slowdowns. If the next slowdown is significant, the economy could enter a recession, which is typically characterized by falling output and rising unemployment.[2] Predicting when the economy may transition from expansion to recession, however, is notoriously difficult, as the ebb and flow of the economy is determined by many different factors, including a number that lie outside the country's borders.

Countercyclical fiscal policy may help to stabilize the economy when it enters a recession. Countercyclical fiscal policy refers to short-term tax and spending adjustments to stimulate consumer and business demand in an effort to counteract economic contraction and return the economy to its potential. Effective fiscal stimulus does not always require contemporaneous legislative action by Congress. There are certain "automatic stabilizers" that work without congressional action to lower taxes and increase spending as the economy weakens. As a result, an economic slowdown or recession does not necessarily warrant a policy response. However, Congress has a range of options it could consider when designing a stimulus package should a recession occur and automatic stabilizers are not sufficient to counteract it.

Countercyclical Monetary Policy

Some economists argue that the Federal Reserve's use of monetary policy is the preferred option for smoothing out short-run economic fluctuations. The Federal Reserve may be limited in its ability to use traditional monetary policy to combat the next recession, however, because its primary policy tool, the federal funds rate, is already low. The Federal Reserve has alternative policy options, but it may be hesitant to implement them during a mild recession. Fiscal and monetary policies are not mutually exclusive, and both have been used to combat past recessions to varying degrees.

This report identifies and summarizes options Congress may consider in response to a recession. The analysis begins by reviewing the features effective countercyclical fiscal policies are commonly thought to have, and then distinguishes between countercyclical and growth-oriented policies. Next, the report summarizes and evaluates potential fiscal policy options that Congress could consider. The options presented are drawn from those policies considered during the Great Recession for which estimates of their potential economic impact exist. The report concludes with a brief discussion about enacting fiscal stimulus in the context of the country's long-run budget outlook.

[1] See, for example, Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029*, January 28, 2019, at https://www.cbo.gov/publication/54918; National Association for Business Economics, *NABE Outlook Survey-June 2019*, at https://www.nabe.com/NABE/Surveys/Outlook_Surveys/June_2019_Outlook_Survey_Summary.aspx.

[2] The National Bureau of Economic Research (NBER) dates recessions. Its website states, "The NBER does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." The National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," at https://www.nber.org/cycles.html.

Effective Countercyclical Fiscal Policy

Effective fiscal policy in response to recessions of average duration and severity is usually considered to have three general features: it is timely, targeted, and temporary.[3] For fiscal policy to be effective in returning the economy to its potential, it must stimulate the economy at the appropriate time. Implemented too early, and there is a risk that fiscal tools are wasted and not available if the downturn becomes more severe. Implemented too late, and there is a risk that the downturn becomes so severe that much more fiscal (and monetary) stimulus is needed to stabilize the economy. Alternatively, the economy could have already returned to a path toward full potential on its own, in which case untimely stimulus risks overheating the economy. Timely implementation of fiscal policy is made inherently difficult by three well-known lags: the lag in recognizing a recession, the lag in negotiating and implementing a policy response, and the lag between policy implementation and when the economy is affected.

A targeted fiscal stimulus will produce the most "bang for the buck," or, in economics jargon, involve changes with the largest "multipliers." Fiscal policy multipliers measure the change in economic output in response to a dollar change in taxes or a dollar change in spending. For example, a multiplier of 1.5 means that $1.00 of stimulus will lead to a $1.50 change in output. Conversely, a multiplier of 0.75 means that $1.00 of stimulus will lead to a $0.75 change in output. Larger multipliers suggest larger stimulative effects. Economists use multipliers to estimate the impact a particular fiscal policy, or collection of polices, will have on the economy.

On the revenue side, it appears that the largest multipliers are associated with tax reductions that are targeted at lower-income households and those with less access to liquid assets. These individuals are more likely, out of necessity, to increase their spending in response to a tax cut or rebate than those with higher incomes or more accessible forms of wealth.[4] Business tax reductions also are estimated to stimulate demand, but most analyses find the multiplier effects to be smaller than those of well-targeted individual tax reductions. This finding is the result of research that indicates businesses are slow to respond to investment tax incentives, that business tax rate reductions primarily benefit existing capital rather than new investment, and that hiring incentives do not directly address the primary factor that influences the decision to bring on more employees, which is the demand for businesses' products and services.

[3] These exact criteria classifications have been offered previously by some economists, while others use different terminology or identify more or fewer criteria that can generally be summarized by these three. *Temporary* is arguably not a feature of effective stimulus in response to an unusually long or deep recession such as the Great Recession. For examples of other researchers who have identified these three criteria, see Mark M. Zandi, *Assessing the Macro Economic Impact of the Fiscal Stimulus 2008*, Moody's Economy.com, January 2008, at https://www.economy.com/mark-zandi/documents/Stimulus-Impact-2008.pdf; Douglas W. Elmendorf and Jason Furman, *If, When, How: A Primer on Fiscal Stimulus*, The Brookings Institution: The Hamilton Project, January 2008; Congressional Budget Office, *Options for Responding to Short-Term Economic Weakness*, January 2008; Lawrence H. Summers, *The State of the U.S. Economy*, The Brookings Institution, Presentation Prepared Remarks, December 19, 2007, at https://www.brookings.edu/wp-content/uploads/2012/04/20071219_summers.pdf; William Gale, Peter Orsza, and Gene Sperling, "Tax Stimulus Options in the Aftermath of the Terrorist Attack," *Tax Notes*, October 8, 2001, pp. 255-269.

[4] Although lower-income households are also more likely to have less access to liquid assets, higher-income households who are also wealthy may also have limited access to liquid assets depending on how their wealth is invested. For example, some higher-income households may have their wealth invested in tax-preferred savings accounts, owner-occupied housing, residential and nonresidential real estate, or other illiquid assets that are costly to access. For more on this, see Greg Kaplan, Giovanni L. Violante, and Justin Weidner, "The Wealthy Hand-to-Mouth," *Brookings Papers on Economic Activity*, Spring 2014, pp. 77-153; and Jonathan Huntley and Valentina Michelangeli, "Can Tax Rebates Stimulate Consumption Spending in a Life-Cycle Model?" *American Economic Journal: Macroeconomics*, vol. 6, no. 1 (January 2014), pp. 162-189.

Direct spending increases usually register as highly stimulative on a per-dollar basis, although some spending increases are able to work their way more quickly into the economy than others. For example, spending on unemployment benefits and food stamp assistance increase automatically during a recession and are targeted at households most vulnerable during a downturn. As a result, their potential to stimulate demand are usually estimated to be quite large. Assistance to state and local governments to relieve budgetary pressures and maintain spending are estimated to be moderately cost effective. Spending on infrastructure, while believed to have a significant impact on the economy given enough time, can take many months to take effect due to the length of time it takes to plan and complete such projects.

Temporary stimulus can help to contain the budgetary impact of tax reductions and spending increases, which, in turn, can increase the effectiveness of the stimulus by mitigating the adverse effect large deficits can have on long-term growth. Although fiscal stimulus must result in a deficit to affect overall spending, deficits themselves are not necessarily problematic. Large and sustained deficits, however, can have undesirable effects. For example, as the economy starts to recover from a downturn, continued deficits can lead to higher interest rates as the government competes with the private sector for loanable funds. Higher interest rates can counteract the stimulus as the government's need to finance deficits "crowds out" private-sector investment and consumption. These higher interest rates can also attract borrowing from abroad, causing the dollar to appreciate and reducing net exports. Deficits can also harm longer-run economic growth since they reduce national saving, which is closely linked to the capital formation process that is critical for economic growth.

Countercyclical Versus Growth-Oriented Policies

Before discussing potential policy options for countering an economic downturn, it is useful to distinguish between countercyclical fiscal policies and growth-oriented policies. Some confusion arises because of the terminology used and the time frame in question. Economists view cyclical fluctuations, also known as the business cycle, as short-run phenomena that occur as the result of various external "shocks" that temporarily move the economy away from its long-run growth path. These transitory shocks often influence the economy via changes in total spending or, in economic terms, aggregate demand. During a recession, total spending generally falls below the economy's productive capacity, resulting in rising unemployment and falling capital utilization. In an expansion, total spending rises until it matches the economy's productive capacity, requiring firms to deploy previously idle resources. Countercyclical fiscal (and monetary) policies have the potential to affect aggregate demand (i.e., total spending) and decrease the severity of fluctuations in the economy that occur over the business cycle.

In contrast to the business cycle, economic growth is a long-run phenomenon that is tied to factors that determine the productive capabilities of the economy.[5] Thus, whereas countercyclical policies tend to focus on the demand side of the economy, growth-oriented polices target the supply side with the goal of influencing the sources of growth—mainly, the quantity and quality of employed labor, the amount of capital, and the level of technology. The sources of long-run growth are taken to be more or less fixed in the short run, making them less of a concern over a single business cycle. Growth-oriented policies therefore take a longer-term approach to structuring the government's tax and spending initiatives with the aim of improving the incentives to work, invest, and innovate. Part of this approach is minimizing uncertainty over tax

[5] For more on economic growth, see CRS In Focus IF10408, *Introduction to U.S. Economy: GDP and Economic Growth*, by Jeffrey M. Stupak and Mark P. Keightley; and CRS Report R44543, *Slow Growth in the Current U.S. Economic Expansion*, by Mark P. Keightley, Marc Labonte, and Jeffrey M. Stupak.

and spending policy itself, so that households and businesses can make long-lasting decisions that will support growth. Another part of this approach is prudent management of deficits and the debt so that high interest rates do not inhibit growth factors, such as investment.

This report analyzes policy options from a countercyclical, and not a long-term growth, perspective.

Potential Countercyclical Fiscal Policy Tools

Countercyclical fiscal policy tools may be sorted into two categories—automatic stabilizers and discretionary changes that require legislative action. Automatic stabilizers are features built into the economy's tax and transfer system that lower taxes and increase spending as the economy weakens.[6] They take effect automatically without the need for congressional action. Discretionary policies refer to legislative changes to individual and business taxes, and to government spending enacted in response to economic conditions. The distinction between the two can become blurred; automatic stabilization policies can be modified in response to an economic downturn by legislative action, and discretionary changes could be made to take effect and expire automatically if certain criteria are met.[7]

The following sections review a select set of policy options that are often considered in response to a recession. The options are drawn from the Congressional Budget Office (CBO) and Moody's Analytics, both of which estimated the impact of specific policies or approaches in response to the Great Recession.[8] While a *general* approach to stimulating a weakened economy with reduced taxes and increased spending is often advocated, *specific* policies have different impacts on the economy and differing administrative complexities. CBO's and Moody's estimates provide insight into which specific policy options may be most worthwhile to implement during the next downturn. The policy options presented—or variations of them—are ones commonly considered when designing a fiscal stimulus package and are not unique to either CBO or Moody's.[9] However, policymakers may consider that the economy has the potential to return to full employment without intervention. As such, one policy option is to allow the economy to correct itself.

Fiscal policy's estimated impact in response to the next recession is likely different from the impact estimated by CBO and Moody's in response to the Great Recession. Generally accepted

[6] Automatic stabilizers work in the opposite direction when the economy is growing; they increase taxes and reduce spending.

[7] The idea of specifying certain economic criteria that if met would trigger automatic changes to fiscal policies is not new. The most recent work in this area is a joint project by the Hamilton Project and the Washington Center for Equitable Growth that compiled a set of antirecession fiscal policy changes that would take effect automatically. See The Hamilton Project and Washington Center for Equitable Growth, *Recession Ready: Fiscal Policies to Stabilize the American Economy*, May 2019, at http://www.hamiltonproject.org/assets/files/ AutomaticStabilizers_FullBook_web_20190508.pdf.

[8] CBO, *Options for Responding to Short-Term Economic Weakness*, January 2008; CBO, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014*, February 2015; Moody's Analytics, *Global Policy Prescriptions: How Another Recession Can Be Avoided*, August 2011. Moody's Analytics was formerly Moody's Economy.com.

[9] See, for example, Douglas W. Elmendorf and Jason Furman, *If, When, How: A Primer on Fiscal Stimulus*, The Brookings Institution: The Hamilton Project, January 2008; Congressional Budget Office, *Options for Responding to Short-Term Economic Weakness*, January 2008; U.S. Congress, Joint Committee on Taxation, *Overview of Past Tax Legislation Providing Fiscal Stimulus and Issues in Designing and Delivering a Cash Rebate to Individuals*, 110th Cong., 2nd sess., February 13, 2008, JCX-4-08R.

economic theory holds that fiscal policy has a greater impact on the economy the further it is from full employment. This is because there is a greater abundance of idle resources that can be brought back into producing goods and services. The Great Recession was the most severe downturn since the Great Depression, and the economy was far from full employment. Thus, estimates of the impact of stimulus at that time may be an upper bound for fiscal policy's stimulative effect. Additionally, hindsight has allowed economists to improve their estimation techniques. Still, the relative magnitudes estimated by CBO and Moody's will conceivably still hold if they are updated in the future.

It is important to briefly discuss the inherent difficulty of estimating the exact impact specific fiscal policies could have on the economy. All of the estimates presented below (and elsewhere) are based on models that rely on a set of assumptions about how individuals and businesses may react to policy changes, and on assumptions about how the Federal Reserve may adjust monetary policy to accommodate or to offset a fiscal policy change.[10] The assumptions are subject to significant uncertainty. It is also never known what would happen in the absence of a particular stimulus package change (i.e., the counterfactual). As a result, the focus should be on the relative magnitudes of policies' impacts and not on individual point estimates. One set of CBO estimates presented below is qualitative. Still, the estimates presented in this section were made using conventional methods and provide a starting point for understanding how specific policies may affect the economy.

Automatic Stabilizers

The automatic stabilizers that receive the most attention are the progressive structure of the income tax system and Unemployment Compensation (UC) benefits.[11] During an economic downturn, more taxpayers begin to move into lower marginal tax brackets as employment and incomes fall, reducing the proportion of income subject to tax and helping to cushion the fall in spending. Likewise, with rising unemployment, more individuals will have met the conditions required to qualify for UC benefits (i.e., state government spending increases), which provide some income support and, in turn, can help mitigate the negative impact rising unemployment has on aggregate demand. Other programs that may act as automatic stabilizers include the Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp program), Medicaid, and Temporary Assistance for Needy Families (TANF).[12]

Automatic stabilizers are attractive because they can be designed to satisfy the three criteria for effective countercyclical policy. These programs take effect automatically in a timely fashion to help stabilize demand as the economy begins to weaken and even before a recession has been declared. Therefore, the lag between recognition and implementation is reduced. Automatic stabilizers are also targeted to individuals whose incomes are falling, which suggests a large "bang for the buck." And finally, these programs generally continue to provide support if the downturn becomes more severe, but gradually taper off as the economy begins to improve, making them temporary. However, if the recession is long enough, some individuals may exhaust their benefits before the recession is over. For example, UC benefits may be claimed by an

[10] Estimates also depend on the type, or class, of model used. For a review of this issue, see CRS Report R43381, *Dynamic Scoring for Tax Legislation: A Review of Models*, by Jane G. Gravelle.

[11] UC benefits are part of the category of Unemployment Insurance (UI) benefits. For details on the UC/UI system, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

[12] For details on these programs, see CRS Report R42505, *Supplemental Nutrition Assistance Program (SNAP): A Primer on Eligibility and Benefits*, by Randy Alison Aussenberg; CRS In Focus IF10036, *The Temporary Assistance for Needy Families (TANF) Block Grant*, by Gene Falk; and CRS In Focus IF10322, *Medicaid Primer*, by Alison Mitchell.

individual for six months or less in most cases. Making adjustments to automatic stabilizers in response to a recession is discussed in the "Government Spending" section.

While an attractive first line of defense against a weakening economy, automatic stabilizers may not provide enough stimulus to counteract a severe or prolonged economic downturn. In such cases, the stabilizers may need to be adjusted or supplemented with additional fiscal tools. Modifying automatic stabilizers before or in response to a recession—for example, by expanding or extending coverage—arguably crosses into the realm of discretionary fiscal policy. Potential modifications to current automatic stabilizers are discussed in the "Direct Payments and Transfers to Households" section of the report, along with estimates of the economic impact of these changes. Neither CBO nor Moody's estimated the impact of the baseline automatic stabilizers.

Individual Tax Relief

Enacting individual tax relief to boost demand is an option for stimulating the economy since personal consumption accounts for approximately 70% of U.S. GDP. Tax cuts or rebates that are spent will have the largest impact; tax cuts that are saved do not lead to additional spending and therefore have no stimulative impact. As discussed previously, tax relief directed toward lower- and moderate-income households appears to provide the most "bang for the buck." Delivering targeted tax relief to these households, however, can be complicated by the fact that many of them do not pay income taxes and may not file tax returns. Additionally, careful consideration is needed about how to deliver any tax relief so that household incomes are increased as soon as possible. **Table 1** summarizes CBO's and Moody's estimates of the impact of several individual tax policies—discussed in more detail below—that were considered, and in some cases enacted, in response to the Great Recession.

Table 1. Impact of Select Individual Tax Policies

	CBO (2008)			CBO (2015)	Moody's[a]
Policy	**Cost Effectiveness**	**Lag from Enactment to Impact**	**Uncertainty About Policy's Effects**	**Multiplier[b]**	**Multiplier[c]**
Refundable Rebate	Large[d]	Medium[d]	Large[d]	0.4 to 1.8[e]	1.22
Nonrefundable Rebate				—	1.01
Payroll Tax Holiday	Large	Medium	Large	—	1.27
Making Work Pay Tax Credit	—	—	—	0.3 to 1.5[f]	1.19
Across-the-Board Tax Rate Cut	Small	Short	Small	—	0.98
Permanent Dividend/ Capital Gains Tax Cut	—	—	—	—	0.39

Sources: CBO, *Options for Responding to Short-Term Economic Weakness,* January 2008; CBO, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014,* February 2015; Moody's Analytics, *Global Policy Prescriptions: How Another Recession Can Be Avoided,* August 2011.

a. Moody's also estimated the effects of these provisions in 2008 and found nearly identical impacts; thus, they are not reported here. See, Moody's Economy.com, *Assessing the Macro Economic Impact of Fiscal Stimulus 2008,* January 2008.
b. The CBO stated, "The output multiplier is the cumulative impact on spending under the provision on gross domestic product over several quarters. The ranges shown in the table reflect the fact that the Federal Reserve was holding short-term interest rates about as low as possible and did not tighten monetary policy in response to a fiscal stimulus."
c. Moody's stated, "The bang for the buck [multiplier] is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending."
d. The CBO did not provide separate line items for refundable and nonrefundable rebates. The accompanying comments, however, suggested the summary characteristics listed in **Table 1** generally applied to both, but that the refundable credit may be more effective.
e. This multiplier is for several provisions under the category "Transfer Payments to Individuals." Included in this category was a refundable rebate.
f. This multiplier is for the Making Work Pay Credit and the American Opportunity Tax Credit combined. They were grouped together under the category "Two-Year Tax Cuts for Lower- and Middle-Income People."

Lump-Sum Rebates

One way to provide an infusion of money directly into the budgets of lower- and moderate-income households is to issue tax "rebates." Limitations on the administrative aspects of delivering such rebates, sometimes also referred to as "lump-sum" or "cash" rebates, has resulted in the stimulus being structured as an advanced tax credit based on a prior year's income, but used to offset a future year's tax liabilities.[13] This was the general approach used most recently in response to the 2001 recession and again during the Great Recession.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) provided a lump-sum rebate check of up to $600 for joint filers, $500 for head of household filers, and $300 for single filers. However, the rebate was actually an advanced credit for taxes to be paid on income earned in 2001. The advanced credit was based on taxpayers' 2000 tax returns. Taxpayers then included the credit when completing their 2001 tax returns and were allowed to keep any overpayment if the credit they received (estimated using their 2000 returns) was too large. Individuals who had no tax liability in 2000 were ineligible for the credit. Eligible rebate recipients received their checks between July and October of 2001. The legislation was enacted in early June.

The Economic Stimulus Act of 2008 (ESA; P.L. 110-185) also provided a tax rebate to individuals. Like the 2001 rebate, the ESA rebate was actually an advanced credit for 2008 taxes, based on returns filed in 2007. Unlike the 2001 rebate, the ESA rebate was made partly refundable to target lower-income households. The rebate was equal to the lesser of $600 ($1,200 for joint filers) and the individual's 2007 tax liability. Since the calculation depended on taxes paid in 2007, lower-income households who did not need to file a 2007 return would have been ineligible for a rebate. However, the law stipulated that for those who had not filed a 2007 tax return, but whose total income was at least $3,000, the rebate was equal to $300 ($600 for joint filers). Rebate recipients also were eligible for an additional $300 rebate per child under the age of 17. Disbursements of rebate checks mostly occurred between the end of April and middle of May of 2008.

[13] For more details on this issue, see U.S. Congress, Joint Committee on Taxation, *Overview of Past Tax Legislation Providing Fiscal Stimulus and Issues Designing and Delivering a Cash Rebate To Individuals*, committee print, 110th Cong., 2nd sess., February 13, 2008, JCX-4-08R.

Making Work Pay Tax Credit and Payroll Tax Holiday

An alternative to issuing lump sum rebates is to spread the tax reduction over time. The American Recovery and Reinvestment Act (ARRA; P.L. 111-5) attempted such an approach by creating the Making Work Pay (MWP) tax credit, which was available in 2009 and 2010. The MWP tax credit was equal to 6.2% of a taxpayer's earned income up to $400 for single filers and $800 for joint filers. Because individuals must pay 6.2% of their income toward the Social Security portion of payroll taxes, and because the credit was fully refundable, the credit effectively eliminated the Social Security tax on the first $6,450 of a single filer's income and the first $12,900 of joint filers' income.[14] The credit began phasing out for workers with incomes exceeding $75,000 ($150,000 for joint filers), and was not available to those with incomes greater than $95,000 ($190,000 for joint filers). The refundability of the credit helped to benefit lower-income households. The MWP tax credit expired at the end of 2010.

Following the expiration of the MWP credit, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) enacted a payroll tax "holiday." The holiday reduced workers' share of the Social Security payroll tax by 2 percentage points, from 6.2% to 4.2% on income up to $106,800 for 2011.[15] The analogous tax for self-employed workers was reduced similarly from 12.4% to 10.4%. Because payroll taxes are withheld from each paycheck a worker receives, the reduction provided a benefit spread out over the year. The holiday did not benefit the lowest-income workers as much as the MWP credit because to receive the same $400 benefit, an individual needed to earn $20,000. Additionally, workers whose income was not subject to the Social Security tax did not benefit from the holiday because they had no tax to be reduced. The holiday was extended two more times, once through February 2012, and then again through the end of 2012.

Both the MWP tax credit and the payroll holiday assisted only individuals who were working. Because unemployment typically increases during a recession, neither of these policies assisted those who had lost their job. However, unemployed individuals did receive UC benefits.

Reduction in Individual Income Tax Rates

Taxes could be reduced by lowering individual income tax rates. The Internal Revenue Service (IRS) would need to publish new withholding tables to enable employers to adjust employee withholdings so the reduction would be reflected in workers' paychecks. The IRS could make this change rather quickly; new withholding tables were published within two months of the enactment of P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act, or TCJA.

A drawback of an across-the-board tax rate reduction, from a short-term stimulus perspective, is that it would not have the maximum effect on demand. To have maximum effect, tax reductions must target lower- and moderate-income households because the spending of these households is most responsive to increases in after-tax income. However, an across-the-board income tax rate reduction is not well-targeted to these households because they pay little or no income taxes, and therefore would not benefit much, or at all, from a tax rate reduction.[16] At the same time, many of

[14] Joint filers were allowed up to the maximum $800 credit even if only one of the filers earned income.

[15] The amount of income subject to the Social Security payroll tax is capped. In 2011 the cap was $106,800. This figure is adjusted annually for inflation.

[16] See, for instance, the Tax Policy Center's estimates of tax units with zero or negative income tax. Tax Policy Center, "T18-0128 - Tax Units with Zero or Negative Income Tax Under Current Law, 2011-2028," at https://www.taxpolicycenter.org/model-estimates/tax-units-zero-or-negative-income-tax-liability-september-2018/t18-0128-tax-units.

those who would not benefit from an income tax rate reduction are working and therefore paying payroll taxes.[17]

Because the stimuluative effect of an across-the-board rate reduction is low, so too is its cost effectiveness. Although households in the lower tax brackets would receive a benefit, the majority of such a tax reduction would flow to taxpayers at the upper end of the income distribution. This is because higher-income households pay a disproportionate share of income taxes. But as previously discussed, these households are estimated not to be as responsive to increases in after-tax income as lower- and moderate-income households. Combined with a likely large revenue loss from an across-the-board rate reduction, this implies that the "bang for the buck" would be low. The stimulative effect is further diminished if sizable deficits lead to higher interest rates, crowding out private investment.

The cost associated with this approach could be reduced by limiting the reduction to the lower brackets. However, because of the marginal structure of the income tax, many upper-income households would receive a tax cut, albeit small relative to their income, because a portion of their earnings falls within the lower tax brackets. The costs could also be contained by making the reduction temporary, but compared to other options, it would still be relatively expensive.

Reduction in Dividend and Capital Gains Taxes

A reduction in taxes on capital gains and dividends is another option for providing individual tax relief as a countercyclical measure. Currently, long-term capital gains and dividends are taxed at rates of 0%, 15%, or 20%, depending on an individual's tax bracket. Capital gains and dividends qualify as long term if the underlying asset has been held for at least a year. Short-term capital gains are taxed at the individual's ordinary income tax rate; the maximum individual income tax rate in 2019 is 37%. Long-term capital gains and dividends have received preferential tax treatment to varying degrees since the Omnibus Budget Reconciliation Act of 1990 (OBRA90; P.L. 101-508). Prior to 1990, capital gains and dividends had been taxed at ordinary rates as the result of the Tax Reform of 1986 (P.L. 99-514). Capital gains and dividends tax rates were last reduced (to 0% and 15%) in an attempt to stimulate the economy by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27). The American Taxpayer Relief Act of 2012 (P.L. 112-240) increased the top rate to 20% for high-income individuals, resulting in the current three-rate regime. The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) added a 3.8% tax on high-income individuals, bringing the effective top tax rate to 23.8%.

The effectiveness of reducing taxes on capital gains and dividends in stimulating the economy is likely to be small. The overwhelming majority of capital gains and dividends income is received by taxpayers in the upper end of the income distribution, which implies the majority of any tax reduction would accrue to these taxpayers. For example, the Urban-Brookings Tax Policy Center (TPC) estimates that 95.8% of the tax on long-term capital gains and dividends is paid by taxpayers in the top 20% of the income distribution, and 76.5% is paid by taxpayers in the top 1%.[18] Although there is an argument that lower taxes on investment income may be beneficial for longer-term growth, effective stimulus must increase demand in the short run.

[17] Using the TPC estimates cited in footnote 16, it is estimated that roughly 65% of tax units who paid no federal income taxes in 2018 did pay payroll taxes.

[18] Tax Policy Center, "T18-0237 - Distribution of Individual Income Tax on Long-Term Capital Gains and Qualified Dividends by Expanded Cash Income Percentile, 2019," at https://www.taxpolicycenter.org/model-estimates/distribution-individual-income-tax-long-term-capital-gains-and-qualified-36.

Business Tax Incentives

The economy can also be stimulated by boosting business spending. The primary focus when targeting business spending has been *new* investment, which is a component of aggregate spending (demand). Business investment, while comprising a smaller share of GDP than consumer spending, is much more volatile than consumer spending and hence typically decreases more during recessions. However, the decline in investment spending may be in direct response to the decline in overall spending, which makes it difficult for policy to induce businesses to invest more. This section reviews a number of possible business tax incentives that Congress may consider during the next recession. **Table 2** summarizes CBO's and Moody's estimates of the impact of several business tax polices—discussed in more detail below—that were considered, and in some cases enacted, in response to the Great Recession.

Table 2. Impact of Select Business Tax Policies

	CBO (2008)			CBO (2015)	Moody's
Policy	**Cost Effectiveness**	**Lag from Enactment to Impact**	**Uncertainty About Policy's Effects**	**Multiplier[a]**	**Multiplier[b]**
Incentives for New Investments	Medium	Medium	Large	—	0.29[c,d]
Reduce Corporate Tax Rate	Small	Long	Small	—	0.32[c]
Net Operating Loss Carryback	Small	Medium	Large	0 to 0.4[e]	0.25
Hiring Incentives	—	—	—	—	1.05 to 1.20[f]

Sources: CBO, *Options for Responding to Short-Term Economic Weakness,* January 2008; CBO, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014,* February 2015; Moody's Analytics, *Global Policy Prescriptions: How Another Recession Can Be Avoided,* August 2011.

a. The CBO stated, "The output multiplier is the cumulative impact on spending under the provision on gross domestic product over several quarters. The ranges shown in the table reflect the fact that the Federal Reserve was holding short-term interest rates about as low as possible and did not tighten monetary policy in response to a fiscal stimulus."

b. Moody's stated, "The bang for the buck [multiplier] is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending."

c. Moody's also estimated the effects of these provisions in 2008 and found nearly identical impacts; thus, they are not reported here. See Moody's Economy.com, *Assessing the Macro Economic Impact of Fiscal Stimulus 2008,* January 2008.

d. Estimate for accelerated depreciation.

e. CBO (2015) did not provide an estimate for net operating loss carrybacks, but it did provide an estimate for a category of corporate provisions primarily affecting cash flow. Net operating loss (NOL) carrybacks primarily affect cash flow, and therefore it appears reasonable that the CBO (2015) estimate reported here would apply to NOL carrybacks.

f. The range captures the estimate for a payroll tax holiday for employers and a job tax credit.

Provide Incentives for Investment

Incentives that directly target *new* investment are thought to be one of the more effective stimulus policies among business tax incentives. Two general approaches for encouraging investment are by accelerating depreciation or offering an investment tax credit. Accelerated depreciation allows a business to deduct from its income the cost of an investment faster than its useful (economic) life would dictate and, as a result, increases the after-tax return on eligible new investments. The most accelerated form of depreciation is expensing, and it allows a business to deduct the full cost of a qualified investment in the year it is purchased instead of spreading the deduction over a number of years. Accelerated depreciation is not currently available as a stimulus option since the 2017 tax revision (P.L. 115-97) provided expensing for equipment through 2022, followed by a four-year phase-out period.[19]

An investment tax credit would allow a business to offset its tax liability by an amount equal to a fraction of its investment. The amount of investment that occurs in response to a tax credit depends on how responsive investment is to reduced investment costs. The empirical literature has not generally found total investment to be considerably responsive to tax incentives.[20] Intuitively, this can be explained by the fact that investments require large and one-off expenditures involving durable assets that require time to plan and incorporate into the production process. The responsiveness of investment to tax incentives may be lower during recessions than more normal times since recessions are periods of heightened uncertainty, which reduces the desire to make investments.

If investment incentives are to be included in a stimulus package, they are likely to be more effective if they are available for a short period of time to encourage businesses to take advantage of them and to limit the budgetary impact.

Reduce the Corporate Income Tax Rate

Reducing the corporate income tax rate could provide stimulus by increasing new corporate investment. Historically, however, corporate tax rate reductions have not been part of stimulus packages. When compared to alternative options, the short-term stimulus effect of a corporate rate reduction is likely to be small. This is for two primary reasons. First, investment incentives are most effective when they stimulate new investment. Although a reduction in the corporate tax rate would encourage some new investment by increasing the after-tax return to investment, it would also, and primarily, provide a windfall benefit to existing capital. Thus, the "bang for the buck" is expected to be quite low.

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[19] The act also increased the limits for the small business expensing provision to $1 million. For more information on changes related to capital recovery made by TCJA, see CRS Report RL31852, *The Section 179 and Section 168(k) Expensing Allowances: Current Law and Economic Effects*, by Gary Guenther.

[20] For a review of the early literature, see Jane G. Gravelle, *The Economic Effects of Taxing Capital Income* (MIT Press, 1994), pp. 118-120. Also see Jason G. Cummins, Kevin A. Hassett, and R. Glen Hubbard, "A Reconsideration of Behavior Using Tax Reforms as Natural Experiments," *Brookings Papers on Economic Activity*, 1994, no. 1, pp. 1-72; Robert S. Chirinko, Steven M. Fazzarri, and Andrew P. Meyer, "How Responsive is Business Capital Formation to its User Cost? An Exploration with Micro Data?" *Journal of Public Economics*, vol. 74 (1999), pp. 53-80; Darrel Cohen and Jason G. Cummins, *A Retrospective Evaluation of the Effects of Temporary Partial Expensing*, Board of Governors of the Federal Reserve System, Working Paper No. 2006-19, April 2006. Economists Christopher House and Matthew Shapiro take a different approach and estimate the supply elasticity, which they find to be quite high (between 6-14). The policy they analyzed—temporary bonus depreciation for property placed in service between September 11, 2001, and January 1, 2005—applied to a small category of property and had modest aggregate effects. See Christopher House and Matthew Shapiro, "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," *American Economic Review*, vol. 98, no. 3 (June 2008), pp. 737-768.

Second, investment decisions are made with an eye toward future economic conditions since many assets are long-lived. If a rate reduction is temporary, or if corporate decisionmakers suspect rates will be higher in the future, the incentive to invest is lower. A rate reduction in response to the next recession may even be smaller than could be expected in the past because P.L. 115-97 permanently lowered the corporate tax rate from 35% to 21%.

Net Operating Loss Carrybacks

Allowing net operating losses to be carried back could provide tax relief for some businesses. When a business experiences a loss it owes no tax in that year (known as a *loss year*). Currently, the business may use a loss to reduce future taxes by claiming it as a deduction against income earned after the loss year. This process is known as *carrying forward a loss*, and a business may carry a loss forward indefinitely until there is no more loss to be deducted. Prior to the 2017 tax revision (P.L. 115-97), businesses were able to use losses to obtain a refund for past taxes paid, a process known as *carrying back a loss*. Losses had generally been limited to a two-year carryback since 1997, but this was temporarily extended to five years during the Great Recession. Businesses prefer to carry losses back rather than carry them forward because carrybacks produce an immediate and certain benefit, whereas carryforwards reduce taxes at some uncertain time in the future.

Allowing losses to be carried back would help some firms with cash flow problems. A business in a loss position may have trouble making payroll and covering other operating expenses. Carryback losses would provide these firms with an infusion of cash and potentially allow them to ride out an economic downturn with less need to lay off workers. It would also allow firms in a loss position (or close to it) to benefit more from immediate expensing, which would help investment. The stimulative effects of loss carrybacks are generally thought to be small because they are not tied to increased investment or employment. Economic uncertainty may overshadow the incentive to invest during a recession, and profitable investment opportunities are less available during a recession.

Hiring Incentives

The tax code could be used to directly target rising unemployment during a recession via a hiring tax credit.[21] During a downturn businesses cut back on hiring, and, depending on the severity of the recession, lay off employees. One way to address the reduction in the demand for employees is to reduce the cost of hiring and retaining workers by offering a tax credit tied to firms' payroll costs.[22] To be most effective, only hiring and retention that would not otherwise occur would be

[21] The New Jobs Tax Credit (NJTC) was enacted by the Tax Reduction and Simplification Act of 1977 (P.L. 95-30). It was available in 1977 and 1978 and was designed specifically to be a countercyclical employment subsidy. The Work Opportunity Tax Credit (WOTC) is a temporary hiring incentive that was enacted as part of the Small Business Job Protection Act of 1996 (P.L. 104-188) and extended multiple times, most recently through December 31, 2009. The objective of the WOTC is to induce employers to hire individuals from specific disadvantaged groups. In 2010, around the time of the Great Recession, two incentives aimed at new hiring and retention of current employees were enacted by the Hiring Incentives to Restore Employment (HIRE) Act (P.L. 111-147). The first incentive was the forgiveness of the employer's share of their 2010 payroll tax on new hires who previously had been unemployed for 60 days and did not replace a current employee. The second was a $1,000 tax credit for each of those newly hired employees who were retained for 52 weeks.

[22] There are labor supply policies, such as the Earned Income Tax Credit (EITC), meant to encourage individuals to enter the workforce. However, during a recession, labor supply is generally not the issue, as indicated by the unemployment rate, which includes only persons without a job and who have actively searched for one in the last month. Labor demand on the part of businesses is captured by employment statistics that measure job openings or

eligible. This is inherently difficult because it is impossible to know whether a business is being encouraged to hire an employee or simply claiming the tax incentive because it is eligible. Past attempts to better target hiring and retention incentives have resulted in complex administrative issues, which have discouraged participation. These issues have created some skepticism over the effectiveness of this policy, and the literature has found mixed results.[23]

A deeper structural relationship between the employment decisions of firms and the performance of the economy would likely limit even a well-designed hiring incentive during a recession. The demand for labor by firms depends on the demand for its products and services. If consumers are withholding spending on goods and services, the firms' desire to hire workers to fill orders and produce goods is reduced regardless of a hiring incentive.

Government Spending

The government can boost aggregate demand directly with increased spending. Like tax incentives, spending policies can take many forms, but three broad categories are helpful for classifying government spending: direct payments and transfers to households, aid to states and local governments, and government purchases of goods and services.[24] This section discusses each of these categories. **Table 3** summarizes CBO's and Moody's estimates of the impact of several spending policies—discussed in more detail below—that were enacted in response to the Great Recession.

Table 3. Impact of Select Spending Policies

	CBO (2008)			CBO (2015)	Moody's
Policy	**Cost Effectiveness**	**Lag from Enactment to Impact**	**Uncertainty About Policy's Effects**	**Multiplier[a]**	**Multiplier[b]**
Direct Payments and Transfers to Households	Large[c]	Short[c]	Small[c]	0.4 to 2.1[d]	1.55 to1.71[e]
Aid to State and Local Governments	Medium[f]	Medium[f]	Large[f]	0.4 to 1.8[g]	1.34
Infrastructure	Small[h]	Long[h]	Small[h]	0.4 to 2.5[i]	1.44

Sources: CBO, *Options for Responding to Short-Term Economic Weakness,* January 2008; CBO, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014,* February 2015; Moody's Analytics, *Global Policy Prescriptions: How Another Recession Can Be Avoided,* August 2011.

a. The CBO stated, "The output multiplier is the cumulative impact on spending under the provision on gross domestic product over several quarters. The ranges shown in the table reflect the fact that the Federal Reserve was holding short-term interest rates about as low as possible and did not tighten monetary policy in response to a fiscal stimulus."

vacancies, and these statistics typically decrease during recessions.

[23] For a review of the literature, see CRS Report R41034, *Business Investment and Employment Tax Incentives to Stimulate the Economy*, by Thomas L. Hungerford and Jane G. Gravelle (available to congressional clients upon request).

[24] These categories are based on those used in Congressional Budget Office, *Options for Responding to Short-Term Economic Weakness*, January 2008.

b. Moody's stated, "The bang for the buck [multiplier] is estimated by the one-year dollar change in GDP for a given dollar reduction in federal tax revenue or increase in spending."
c. Includes extending or expanding Unemployment Compensation (UC) benefits and temporarily increasing Supplemental Nutrition Assistance Program (SNAP; i.e., food stamps) benefits.
d. Includes enhancement of SNAP, UC benefits, student financial assistance, and health insurance assistance.
e. The range captures the estimate for extending UC benefits and temporarily increasing SNAP benefits.
f. Impact of providing "general aid," although the CBO mentions increasing the federal Medicaid matching rate as one specific option.
g. Includes education assistance and state fiscal stabilization and relief assistance.
h. The CBO states, "These projects are likely to involve expenditures spread out over a long time and also take a long time to get under way."
i. Includes transfer payments to state and local governments for infrastructure. Also includes the CBO's estimate for "Purchases of Goods and Services by the Federal Government," which was estimated to have a range of 0.5 to 2.5.

Direct Payments and Transfers to Households

Examples of direct payments and transfers to households include extending or enhancing UC benefits and increasing SNAP (formerly the Food Stamp program) benefits.[25] These options would boost the disposable income of unemployed or underemployed individuals, who could be expected to spend nearly all of the stimulus. Therefore, the stimulative effect of direct payments and transfers to households in distress is believed to be large. These policies may also be comparatively simple to enact and administer because they would build on programs already in place.

Congress has extended UC benefits in response to eight recessions in recent history.[26] Extending the duration of UC benefits would give individuals who are unemployed more time to secure employment.[27] Congress could also, or additionally, enhance the benefit amount recipients received. In addition to extending the duration of UC benefits, ARRA (P.L. 111-5) also increased the amount eligible beneficiaries received by $25 each week.[28] ARRA also provided for a tax exclusion up to the first $2,400 of unemployment benefits received. The increase in the standard deduction enacted by P.L. 115-97, however, reduces the ability of an exclusion to enhance benefits. There is no consensus about how long of an extension or how large of an enhancement is appropriate. If the appropriate balance is not struck, there could be adverse effects, particularly with respect to accepting gainful employment once the economy has improved.

SNAP benefits were also increased across-the-board during the Great Recession by ARRA (P.L. 111-5).[29] SNAP households' monthly benefit amounts are calculated using a maximum benefit

[25] Note that both regular unemployment compensation and food stamps are also part of the automatic stabilizer regime discussed earlier. The options discussed in this section, however, are at policymakers' discretion because they expand upon the current system.

[26] At its height, federal intervention during the Great Recession increased the duration of unemployment benefits from 26 weeks to potentially 99 weeks. For more detail on recent extensions of unemployment benefits in response to economic weakness, see CRS Report RL34340, *Extending Unemployment Compensation Benefits During Recessions*, by Julie M. Whittaker and Katelin P. Isaacs.

[27] All states provided at least 26 weeks of unemployment compensation until 2011. Subsequently, a number of states reduced the maximum duration of benefits. For more information on state changes to UC benefits, see CRS Report R41859, *Unemployment Insurance: Consequences of Changes in State Unemployment Compensation Laws*, by Katelin P. Isaacs.

[28] This increase was provided by the Federal Additional Compensation (FAC) program, which expired on June, 2, 2010.

[29] For more information on the changes to SNAP enacted by ARRA and subsequent modifications, see CRS Report

and household-specific circumstances (such as household size). The ARRA provision specifically increased the maximum monthly benefit by 13.6%, thereby increasing the food purchasing power of eligible low-income households. Though the ARRA increase was originally expected to be effective through 2018, the duration of the increase in SNAP benefits was subsequently shortened to March 31, 2014, by P.L. 111-226, and then to October 31, 2013, by P.L. 111-296 to offset the cost of these bills.

Aid to States and Local Governments

Aid to states and localities could support aggregate demand if their budgets become strained due to an economic downturn. Most states have balanced-budget requirements that limit their ability to carry out independent countercyclical policy. As states and municipalities experience budgetary pressure from declining tax revenue, state and local governments may need to raise taxes and cut spending, including laying off employees. Therefore, aid to states and localities, while not generally believed to be as stimulative as direct transfers to individuals, is predicted to be moderately effective at combating a downturn as a "defensive" stimulus that can help to maintain services, taxes, and employment.[30]

Typically aid to states has been provided through existing programs. Assistance could be provided through a general revenue transfer, although this approach is not typically used. In the past, one way Congress has provided aid to states is via Medicaid enhancement. In response to the Great Recession, ARRA (P.L. 111-5) temporarily increased the federal medical assistance percentage (FMAP) by 6.2 percentage points. FMAP is the rate at which the federal government reimburses states for Medicaid expenditures and is used for determining the federal government's share of a number of other domestic social policy programs, such as the State Children's Health Insurance Program (CHIP) and foster care and adoption assistance.[31] ARRA also provided funding to support state and local first responders, as well as school systems.

Infrastructure

Direct federal infrastructure investment, and aid to state and local governments to invest in infrastructure, is an option for supporting demand and stimulating the economy. Economic downturns often experience a drop in overall investment by the private sector. By making expenditures in public works, the government can offset the reduction in private investment while at the same time making investments in long-lived projects that will reap a benefit after the downturn has passed. Examples of types of infrastructure investments the government may make include roads, bridges, railroads, ports, airports, energy grids, and management of water resources, among others.

Infrastructure investment may not be the ideal policy tool to combat a mild recession. The "bang for the buck" measure for government investment is usually estimated to be high, but infrastructure projects take a long time to get under way and a longer time to complete. There is a good chance that a recession could be over by the time the stimulus from such investment affects

R43257, *Background on the Scheduled Reduction to Supplemental Nutrition Assistance Program (SNAP) Benefits*, by Randy Alison Aussenberg and Gene Falk.

[30] Economist Mark Zandi uses the term "defensive" stimulus to distinguish between policies that will save jobs rather than create new jobs for the unemployed. Mark Zandi, *Paying the Price: Ending the Great Recession and Beginning a New American Century* (FT Press, 2013), p. 106.

[31] In 2003, Congress also temporarily increased the FMAP by 2.95 percentage points to alleviate state budgetary pressures, although the economy was not in a recession at the time.

the economy. This does not mean that infrastructure investment is not desirable, and it may be justified based on longer-term growth policies.

Stimulus and the Budget Outlook

The United States' recent budget deficits and the country's long-run budget outlook could influence the size of any stimulus package.[32] The FY2018 real (inflation-adjusted) deficit equaled 3.8% of gross domestic product (GDP), which was higher than the average federal deficit since FY1969 (2.9% of GDP). Real deficits are projected to increase over the next 10 years.[33] In its latest economic forecast, the Congressional Budget Office (CBO) projected that U.S. debt held by the public would also increase over the next 10 years, from 77.8% of GDP in FY2018 to 92.7% of GDP in FY2029. Large and persistent budget deficits can hamper economic growth by lowering the rate of capital formation via reduced national saving, and can potentially offset short-term economic stimulus. At the same time, high levels of debt relative to GDP can constrain a country's borrowing capacity. There are no signs that federal borrowing capacity will be exhausted in the short term. However, Congress may consider the consequences of exhausted fiscal space in designing the next potential stimulus package since it would increase both deficits and the debt.

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[32] For more information about the federal budget, and the relationship between debt, deficits, and the economy, see CRS Report R45202, *The Federal Budget: Overview and Issues for FY2019 and Beyond*, by Grant A. Driessen; CRS Report R44383, *Deficits, Debt, and the Economy: An Introduction*, by Grant A. Driessen.

[33] Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029*, January 2019, at https://www.cbo.gov/about/products/budget-economic-data#3.