

Biden American Rescue Plan

**FIRST 100 DAYS:
DO WE NEED A STIMULUS?**

Agenda



- Biden American Rescue Plan Overview
- Macroeconomic Arguments
- Our Assessment: ARP Macroeconomics
- State-Level Simulations: Reopening America and Budget Impacts

Biden American Rescue Plan



- Mitigate Hardship
- Equity and Equality
- Moral Hazard
- Macroeconomics

Mitigate Hardship



- ❑ Millions out of work through no fault of their own
- ❑ Homelessness, hunger, crime, anxiety, depression
- ❑ American Rescue to mitigate short- and long-term societal damage

Equity and Equality Economic Argument



- ❑ Status Quo: Federal Reserve stabilizes economy with low interest rates; money creation to purchase mortgage-backed securities and T-Bills
- ❑ Status Quo has led to Asset Inflation
- ❑ Status Quo gives us K-Shaped Recovery
- ❑ Fiscal Policy (government-determined allocation of resources) can target who gets the increase in Fed balance sheet
- ❑ America Rescue Plan may increase equality: money sent out on a per capita basis is more equal than “subsidizing” mortgage rates

*what does **REMI** say? sm*

Moral Hazard



- ❑ Extended unemployment, for some, income is higher if unemployed
- ❑ Airlines bought back shares in good times, get rescued in hard times
- ❑ Student loans, paycheck protection program, state and local spending
- ❑ BUT: “Status Quo” means the Fed bails out financial markets (Bernanke PUT)

Biden Macroeconomic Argument



- Need to Go Big
- Stimulus to reach full employment; Fed Policy alone inadequate
- Risk is in deflation, stagnation; a “lost decade”
- Mistake of going “small” (787 billion) in Financial Crisis; lessons learned
- Latest employment reports have been weak; running economy “hot” is needed to bring people back to work

Our U.S. Macroeconomic Assessment



- In one year, economy has lost 12 million jobs
- In the “status quo” forecast (accounts for previous stimulus, not American rescue), 7 million new jobs are added
- With a traditional Keynesian stimulus, about 200 billion is enough to create 5 million jobs
- Given need to run economy “hot”, risk of deflation/stagnation, 600 billion is reasonable
- 600 Billion also addresses COVID shock issues: vaccinations, expense to re-open schools, etc.

Risks of Going too Big



- This is different than the Great Recession: COVID is a supply shock and depresses demand due to safety/restrictions, rather than lack of money
- 1.9 in stimulus will be inflationary; magnitude and timing difficult to assess
- Short-term; after 2021, the economy loses this demand; we could face a “stimulus cliff” in 2022.
- Geared toward short-term needs; neglects government investment in education, infrastructure, energy which would generate long-lasting productivity improvements.

Economic Modeling



- Evaluating the stimulus effect of ARP.
- Modeling Core Issue: ARP for Reopening the Economy
- State-level Effect and Dynamic Revenue Effect of Government Spending

The Stimulus Package



Provisions	REMI Policy Variables	Details	Deficit Impact (\$bil)	Explanations
Direct COVID Response	Federal Civilian Government Spending	Total	160	Mount a national vaccination program, expand testing, mobilize a public health jobs program, and other COVID containment efforts
School Reopen	Detailed Government Output	State and local government educational services	170	Fund school reopening and increase funding to schools and colleges
Aid to Governments	State and Local Government Spending	<ul style="list-style-type: none"> • State Government • Local Government 	350	Fund governments to provide support for first responders and other essential workers.
Rental and Housing Support	Transfer Payments	Other transfer receipts of individuals from governments	35	Provide rental, housing and utilities assistance
Childcare	Output	Industry (Exogenous Production): Social assistance	40	Expand access to high-quality, affordable childcare.

Source for Deficit Impact: Calculated from Moody Analytics and Brookings Institution Analysis

*what does REMI say?*sm

The Stimulus Package



Provisions	REMI Policy Variables	Details	Deficit Impact (\$bil)	Explanations
Small Business	State and Local Government Spending	<ul style="list-style-type: none"> State Government Local Government 	50	Provide grants and funds in small business lending and investment
Tax Credits	Personal Taxes	Total	120	Increase fully refundable tax credits to help cover the cost of childcare
Direct Checks	Transfer Payments	Other transfer receipts of individuals from governments	465	Provide working families an additional \$1,400 per-person check on top of the \$600 already issued
Unemployment Insurance	Transfer Payments	Other unemployment insurance compensation; State unemployment insurance compensation	350	Provide a \$400 per-week unemployment insurance supplement and extend emergency unemployment insurance programs through September
Paid Leave	Transfer Payments	Current transfer receipts of individuals from businesses	85	Provide emergency paid leave to 106 million more Americans to reduce the spread of the virus
Others	Transfer Payments	Other transfer receipts of individuals from governments	75	Other funding for health services, cybersecurity, transportation, etc.

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Methodology



- Use 2-Region National Model
 - ▣ Louisiana State
 - ▣ Rest of U.S.
- Baseline: November RSQE Macroeconomic forecast
- Simulations with Budget:
 - ▣ Simulation 1:
 - 200 billion aids to state and local governments
 - ▣ Simulation 2:
 - 1% increase in labor participate rate
- Budget figures from Louisiana Department of Administration

Model Demonstration

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Conclusion



- Macro Modeling used to clarify, calculate, and communicate.
- Identifies key economic issue is opening the economy, rather than lack of demand

Conclusion



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Q&A

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