Recession Ready: Fiscal Policies to Stabilize the American Economy

A new book by The Hamilton Project and Washington Center for Equitable Growth, titled *Recession Ready: Fiscal Policies to Stabilize the American Economy*, offers detailed proposals from leading economists and policy experts for better fiscal policy responses to recessions. These proposals aim to strengthen our automatic stabilizers: policies that inject money into the economy in a downturn and withdraw stimulus when the economy is strong.

Infrastructure Investment as an Automatic Stabilizer

A proposal by Andrew Haughwout of the Federal Reserve Bank of New York aims to set up an automatic infrastructure investment program that would fund transportation projects at the state and local level during economic downturns. Specifically, the program would:

- **Help states develop and maintain a catalogue of potential infrastructure projects** by funding the development of such plans via the U.S. Department of Transportation's BUILD (formerly TIGER) grant process.
- **Expand BUILD funding during economic downturns to increase federal transportation infrastructure spending when the economy slows** in order to reduce the degree to which infrastructure spending exacerbates the business cycle.

Issue Overview

- **Infrastructure provides a fundamental underpinning for economic growth.** Infrastructure investment directly contributes to economic activity and constitutes a sizable share of government spending, providing a valuable, long-lived benefit for firms and households alike.
- **Infrastructure investment typically amplifies macroeconomic fluctuations**, and infrastructure spending has previously been used—often too little too late—as fiscal stimulus.
- **Infrastructure spending is decentralized, but the federal government remains an important source of investment funding.** The location-specific expertise of the former and the countercyclical funding responsibility of the latter could be employed to create an effective countercyclical fiscal program.

The Challenge

Transportation infrastructure spending affects economic activity in several key ways. Haughwout points out that in the short term, public investment means building new roads, bridges, and buildings, and thus directly contributes to economic activity. Additionally, infrastructure is a long-lived capital good that continues to provide valuable services well into the future. As fluctuations in infrastructure investment are often sufficiently large as to be a significant factor in overall growth, infrastructure investments have important implications for macroeconomic stabilization.

Unfortunately, newly authorized transportation infrastructure investment spending during downturns often impacts the economy too slowly to help stabilize the macroeconomy. Additionally, infrastructure spending is heavily decentralized, which makes it difficult to coordinate over the business cycle.

The Path Forward

As a response to these problems, Haughwout proposes an automatic infrastructure investment program that would draw on federal funds, as well as local expertise, to stimulate infrastructure spending during an economic downturn. This program would expand upon the existing federal BUILD program, which is designed to allocate federal funds to state and local agencies to invest in road, rail, transit, and port projects that promise to achieve national objectives. To change the BUILD program into a form of fiscal stimulus that can be targeted, timely, and temporary, Haughwout proposes the following:

1. State departments of transportation (with funding from the federal government) will increase the catalog of construction projects eligible for BUILD funding so that they have a planned 5 years' worth of projects.
2. If the three-month average unemployment rate is 0.5 percentage points above its low in the prior 12 months, the U.S. Department of Transportation will bring forward the subsequent 4 years' worth of BUILD funding to the current fiscal year to create a supplemental BUILD fund.
3. The U.S. Department of Transportation will use supplemental BUILD funding to authorize projects that:
    - Can expend at least half of their funds within 1 year of obligation and
    - Have a benefit-cost ratio of at least 2.
4. In the subsequent 4 fiscal years, BUILD funding will be halved (relative to the baseline levels) to recoup used funds. Funding will not be reduced in the subsequent fiscal year if the three-month average unemployment rate rises to 2 percentage points above its level at activation.

The creation of a catalog of shovel-ready projects would allow the program to avoid the timeliness problems that earlier infrastructure investment programs experienced. Because states would always be applying for BUILD funds, they would have a reason to generate plans for such projects. Provisions within the program to recoup some of the used funds in subsequent fiscal years reflects the program's emphasis on proper timing as opposed to the level of funding.

Infrastructure investments, when properly selected, create durable assets that can improve the welfare of U.S. citizens through increased productivity or quality of life—in addition to stimulating the economy during an economic downturn. Haughwout's proposal would provide an automatic stabilizer that prioritizes quick, efficient transportation infrastructure projects during economic downturns.

About the Author

Andrew Haughwout *is a senior vice president of the Federal Reserve Bank of New York. The views in his proposal do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System.*