Are Households Ready for the Next Recession?
Evidence, Implications, and Policy Responses

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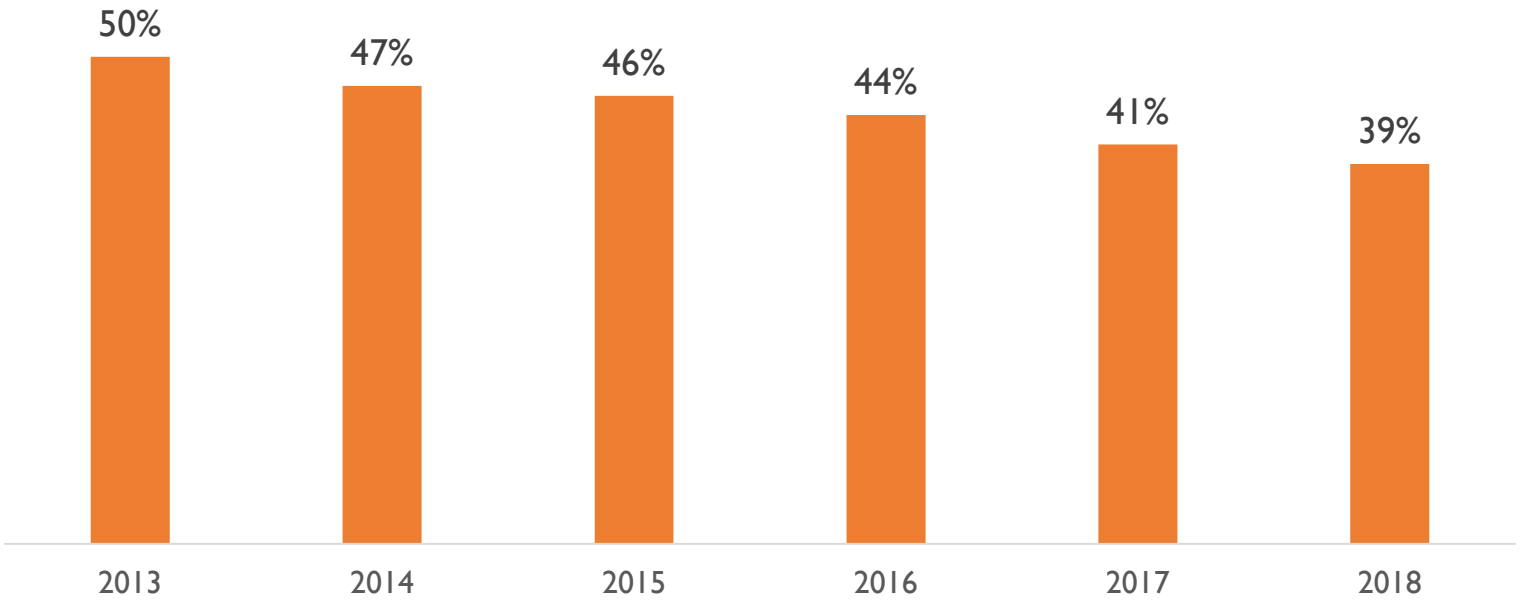
NO, households are never ready

Many households always have thin financial buffers



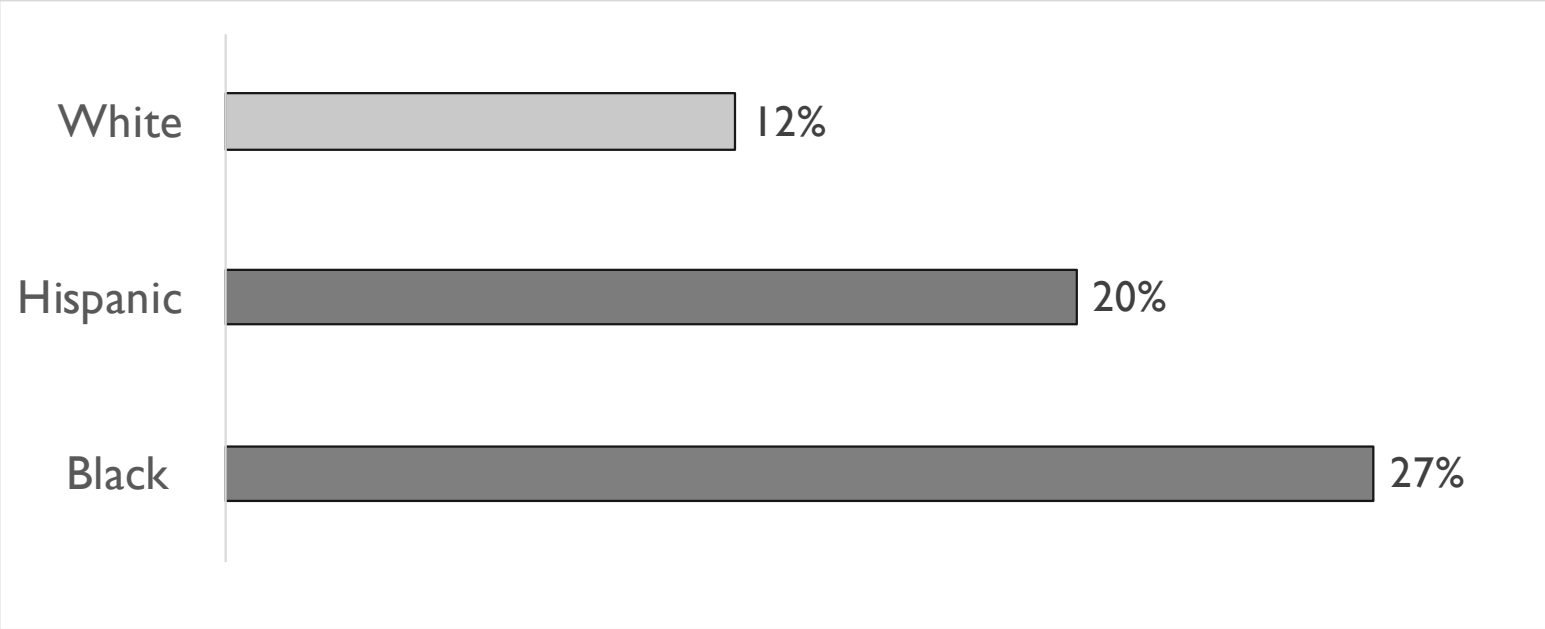
Source: Survey of Household Economics and Decisionmaking.

- 4 in 10 adults in 2018 said that would not use cash or its equivalent to pay a $400 unexpected expense.

EVIDENCE

Some households are particularly vulnerable

Racial and ethnic minorities are often less prepared



Source: 2018 Survey of Household Economics and Decisionmaking.

- Blacks and Hispanics about twice as likely as white to not be confident that credit card application would be approved.

Recessions should be AVOIDED

Negative effects during recessions:

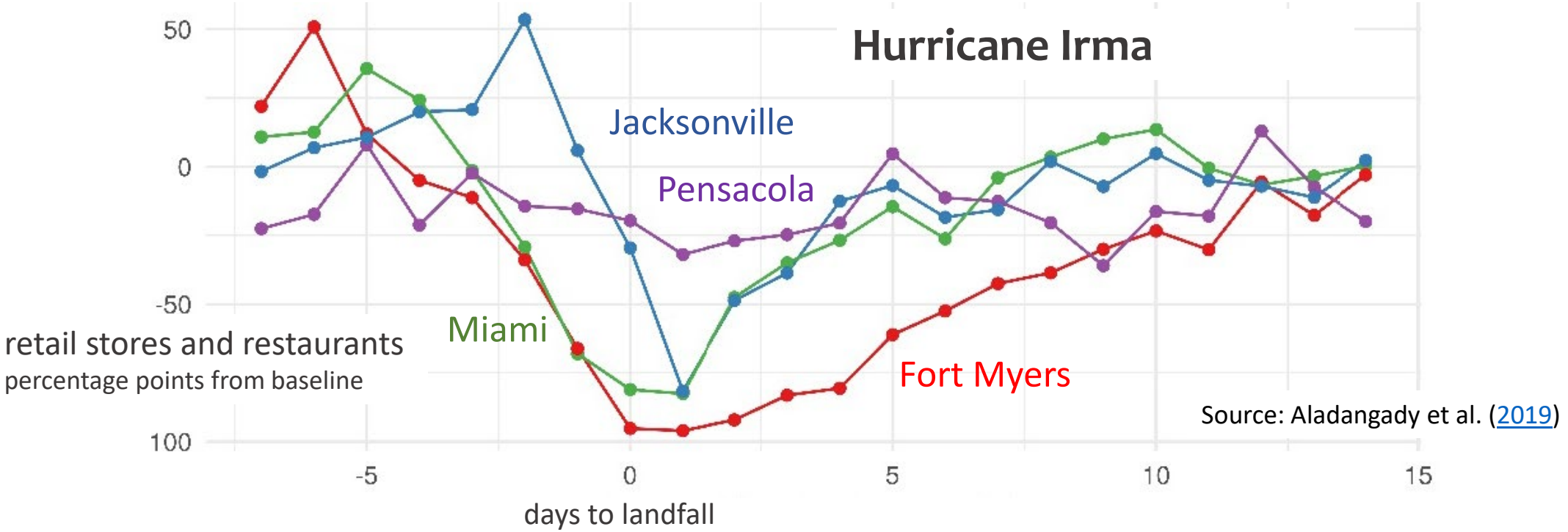
- Harm to many individuals, families, and businesses.
- Resources in economy are not fully employed.

Negative effects after recessions:

- Unemployed, started career, lost home or business, etc.
- Last decades or lifetimes.

Need to know when recession looms

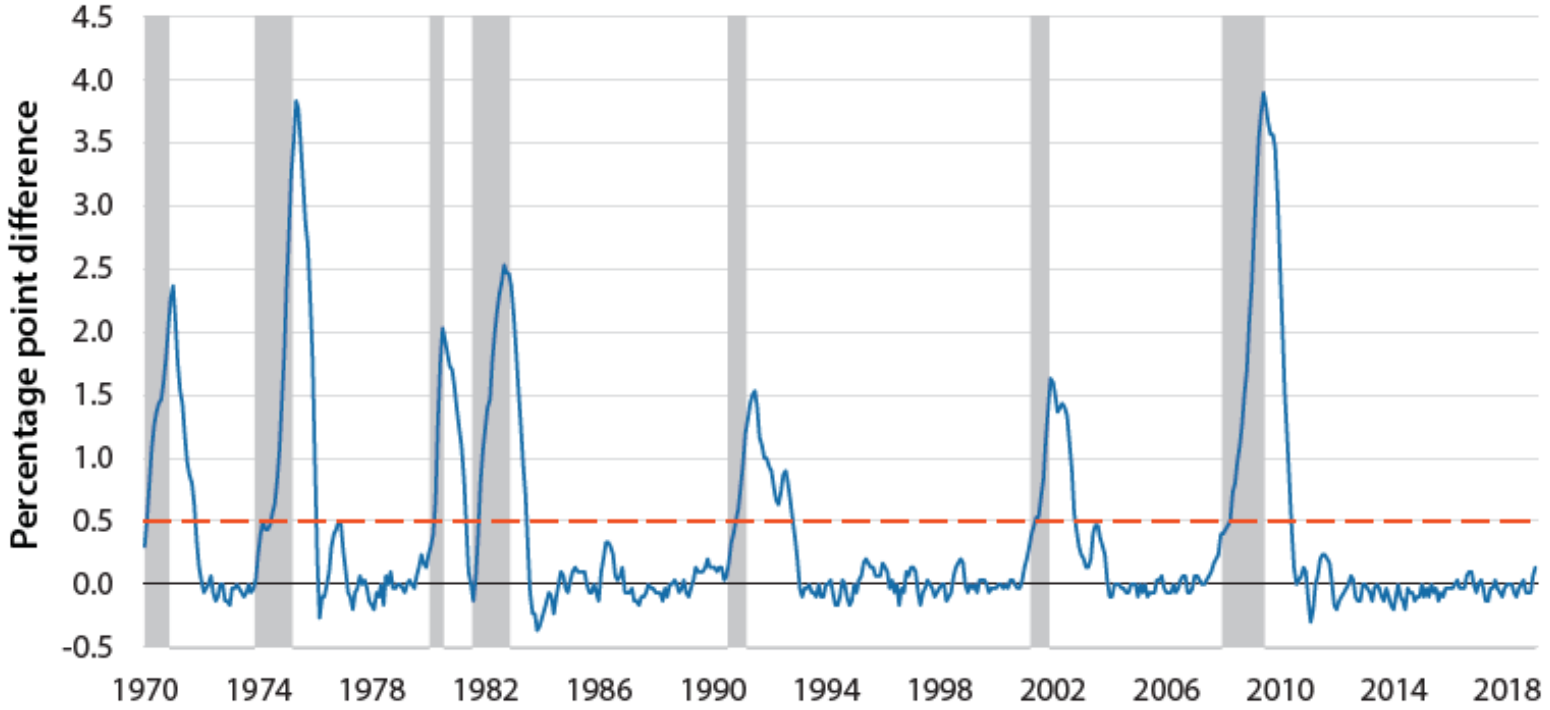
Exploring new Big Data sources for tracking economy



- Retail sales with geographic detail—already used during hurricanes—could monitor spread of regional weakness.

Need to know when recession starts

Early action could reduce damage from recession



- Sahm rule: ½ percentage point increase in 3-month average unemployment rate relative to prior 12 months = in recession.

Policies should fight against recessions

Deploy broad range of policies:

- Fiscal, monetary, regulatory, etc.
- “And-both” not “either-or” approach.

Use and build on experience:

- Learn lessons: do not reinvent the wheel.
- Economy changes: do not fight the last war.

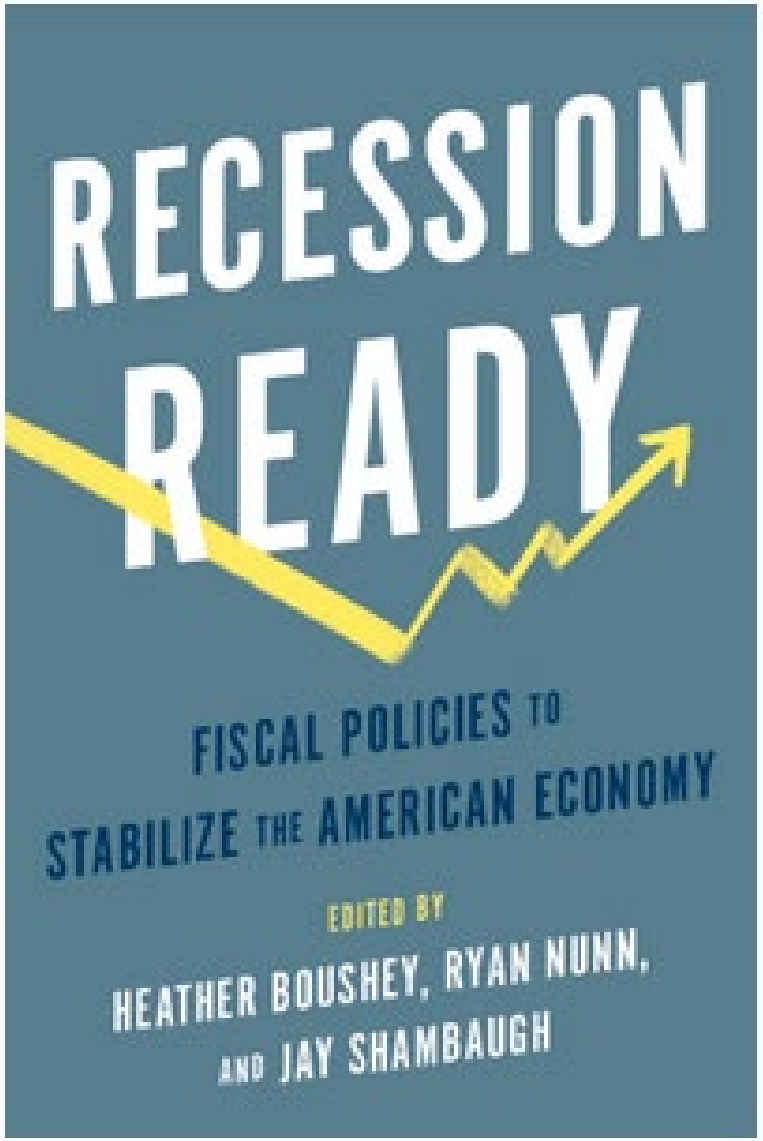
WHY automatic payments to individuals?

- Consumer spending is **large** share of demand.
- Research shows consumers **spend** out of stimulus.
- Payments to individuals should be **large** and **simple**.
- **Automatic** in a recession allows commit and prepare.

HOW automatic payments to individuals?

- **Large total**: 1% of consumer spending, $150 billion
- Payments **large for individuals**, $500 to $1,000.
- **One-time** more effective than same dollars over time.
- **Tell people** payments are sent to **help them**.
- In severe recessions, **continue** payments annually.

Many OTHER automatic stabilizers to use



Recession Ready other proposals:

- Unemployment insurance
- Federal support of States
- Infrastructure
- Assistance for needy families
- Food stamps