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How to Combat Recession: Stimulus without Debt, Laurence S. Seidman, 239 pp., Oxford University Press (2018), INR ₹1595.

There has been an inconclusive debate on the effectiveness of different macroeconomic policies to deal with recessionary conditions. The monetary and fiscal policies have remained at the core of the debate. The rising level of debt and associated concerns over sustainability of government finances often constrain the authorities to undertake the required level of fiscal stimulus. With rising concerns about economic slowdown in the global pretext, Professor Laurence Seidman, in his book, 'How to combat recession: Stimulus without debt', provides a seemingly new idea whereby government can undertake large fiscal stimulus without an increase in its debt. This book is an elaboration of the idea advocated in his paper – 'Stimulus without debt'- undertaking fiscal stimulus without creating debt to combat demand induced recession.

Laurence Seidman is Chaplin Tyler Professor of Economics at University of Delaware, USA. He has authored 12 books and published many articles in economics and public policy journals. On the lines of Keynesian approach, the author – in this book – proposes implementation of fiscal stimulus to tackle any future recession. However, policymakers and public at large are generally averse to fiscal support due to its implication on budget deficit and government debt, as was evident during the previous recessionary situations. The author argues that economies are not prepared for another recession and there is need to have a clear strategy to deal with any such recession. In this book, the author addresses several questions pertaining to the suggested policy tool to tackle another recession. The book consists of 14 chapters, each answering a question pertaining to the proposed idea.

The author believes that severe recession caused by a fall in aggregate demand can be dealt with large temporary fiscal stimulus. During the great recession of 2008, the United States government adopted fiscal stimulus of US$150 billion in 2008 and of approximately US$ 750 billion in 2009 which was around 6 per cent of GDP. The author considers this size of stimulus to be insufficient to move the US economy out of recession. With estimated

tax rebate to GDP multiplier at 1 and GDP to unemployment ratio of 2:1, the approved fiscal package reduced unemployment by 1 per cent each year, from what it would have been without any fiscal boost. However, his own calculation suggests that if fiscal package of 6 per cent of GDP was allotted each year from 2008 to 2010, unemployment rate would have been reduced by 3 per cent points in 2010 from its level without any fiscal stimulus. Experience from 2008 crisis shows that even if fiscal stimulus works, large scale stimulus is resisted by policymakers, economists and public due to concerns about huge government borrowings. Also, monetary stimulus being largely perceived to be ineffective in reviving the economy, the author suggests non-debt creating fiscal stimulus.

In standard fiscal and monetary stimulus, government finances its expenditure through issue of bonds which are then purchased by the central bank from market resulting in rise in the government debt and central bank's holding of treasury bonds. The author suggests that paper money held by public remains the liability of central bank and is not included in the government debt. Therefore, transfer equivalent to fiscal deficit unlike bonds, does not lead to increase in public debt.

Stimulus without debt has two components. The first comprises fiscal stimulus through a temporary increase in tax rebates to households, federal grants to state and local governments, tax credit to firms for the purchase of capital goods and government spending on infrastructure maintenance projects. The second consists of a monetary stimulus wherein the central bank transfers money to the government. Regarding the fiscal stimulus, the author argues that tax rebates should be a major component of this stimulus, in view of the consumers' response to tax rebates extended by the US government in 2001 and 2008. The studies show that an average household spends about one-third of its rebate within three months and about two-third within six months of receiving the rebate.

Further, the author analyses the American Recovery and Reinvestment Act (ARRA), enacted by the US government in 2009, which proposes making large fiscal stimulus through tax incentives to individuals. The stimulus is given as reduction in withholding from paycheck, thus, increasing take-home salary of individuals. According to the author, widely publicised

rebates have greater impact on demand. Issuance of work pay tax credits in the same manner would have been more effective. It is generally believed that a one-time transfer is not spent immediately, rather it is saved for the future by households. Nevertheless, the aforementioned studies show that during recession households tend to spend tax rebates on consumption. The author argues that apart from tax rebate as the major component of fiscal package, fiscal stimulus should be supplemented by tools like temporary increase in federal aid to state governments, temporary tax incentives for business investment and infrastructure repairs and maintenance. As sub-national spending plummets during recessions, the author recommends federal aid based on an objective numerical formula to maintain the level of spending. The author argues that only temporary tax incentive may be considered for business investment promotion as permanent tax incentive is not likely to yield the desired result. Infrastructure repairs and maintenance can complement tax rebate by increasing state spending despite their impact on demand being limited to specific industries. The author also gives reasons for not recommending temporary cut in income tax withholding, a temporary cut in payroll taxes, a cut in income taxes and an increase in spending on long-term programmes. Unlike tax rebates, small cut in income tax withholding and payroll taxes, results in small increase in monthly pay-checks which are less noticeable and, thus, have lesser impact on household expenditure. The author advocates that cut in income taxes and increase in spending in long term programmes should be agenda for long term policy decisions and should not be part of temporary fiscal stimulus package.

Regarding the impact of stimulus without debt on inflation, the author uses basic aggregate demand (AD) and aggregate supply (AS) framework to show that during recession, AS curve is elastic when output gap is negative. Any increase in demand would result in greater rise in output and relatively less increase in inflation. As the economy approaches normality, central bank can reduce the growth of money supply to restore it to normal level.

As per the standard accounting framework, when central bank increases money supply through purchase of bonds, assets side of balance sheet increases but this does not happen in case of transfer to government. Thus, the central bank's net worth worsens if central bank finances government deficit through

transfer instead of buying bonds. The author recommends the central bank to print notes equivalent to transfer and then store the same in its vault. The cash would increase the assets side of balance sheet just as when bonds are purchased. Central banks with power to increase assets can always keep its net worth positive. Further, the author highlights the problems in the current reporting system of central banks' balance sheet and proposes its reformation.

The author argues that the stimulus without debt does not sabotage the independence of a central bank. The powers can be clearly defined between the central bank and government. Central bank may have the sole power to decide the amount of transfer and government may decide the size of fiscal stimulus which could be less, equal or greater than the transfer the central bank provides. Government can finance stimulus by issue of bonds, if transfer amount falls short.

The author sees limited role of monetary policy during recessions. He emphasises that relying only upon monetary policy during severe recession would not be effective in reviving economy to the desired growth trajectory. During recession, customers' and investors' confidence is low, thus, any reduction in interest rate would not induce them to increase spending. As elaborated by Paul Samuelson, "you can lead a horse to water, but you can't make him drink." Similarly, when central bank purchases government bonds, their yield diminishes, resultantly investors shift towards high return providing assets, *viz.*, corporate stocks and bonds. This enhances consumers' and businesses' confidence but this is not sufficient to boost demand. Moreover, concerns about rise in debt limits the size of fiscal stimulus.

The book revolves around the US economy and implications of stimulus without debt, if implemented by the US government during recession. According to the author, any economically advanced country with its own independent central bank would be successful in executing the idea. Also, the idea of transfer from central bank is not new and some resembling ideas have been proposed previously. For instance, Milton Friedman's helicopter money parable suggested dropping of money in a full employment economy. But this act will result into only rise in prices with no increase in real income. Therefore, Ben Bernanke in his 2016 blog also proposed money-financed Fiscal Program for next severe recession, wherein the Federal Reserve can directly credit

account of the US government with the amount of fiscal stimulus instead of financing though purchase of government bonds from the public. Similarly, author has mentioned various articles, proposing serious thought to helicopter money and transfers from central bank as policy tool and, thus, showing that idea is getting attention.

The author argues that secular stagnation, characterised by chronically insufficient demand and slow growth in potential output, can also be tackled by transferring money from central bank till actual output reaches its potential level. Stimulus without debt can solve the problem of insufficient demand by providing money into the hands of consumers. This policy would not be useful in case of stagnant potential output caused by slow pace of technological progress.

The author develops a macroeconomic model to study the impact of stimulus without debt in severe recession. He analyses and compares four alternative policy scenarios in terms of their impact upon inflation, output gap, government debt, budget deficit, interest rates, money supply and nominal income over a period of 16 years. Each variable takes different growth path when four different policies are undertaken. First path shows a growth trajectory when no recession hits the economy and other three present response of a recession hit economy when different policy tools are adopted. The second path shows 'no fiscal stimulus' path wherein central bank adjusts interest rate based on Taylor's rule in recession hit economy, third path shows the response when fiscal stimulus is financed by borrowing and fourth path shows growth trajectory when fiscal stimulus is financed by central bank transfer. Post-recession, all the three paths show that inflation rate never exceeds the targeted inflation rate and in long run it converges to target inflation rate. Also in long run, all the paths show convergence to pre-recession deficit and debt level, but in short-run, 'stimulus without debt' achieves lower deficit and debt compared to other paths. In 'no fiscal stimulus' path, economy takes seven years to reach zero output gap, while it takes only one year in case of large fiscal stimulus with debt or without debt. The negative demand shock increases debt and deficit as per cent of nominal income due to drop in tax revenue, but stimulus with bonds issuance further increases the debt and deficit. However, stimulus without debt does not worsen the debt and deficit

as per cent of nominal income. Another observation is that the money injected in stimulus with or without debt is the same keeping in line with Taylor's rule. The author, through the model, proves that large temporary fiscal stimulus can eliminate the output gap in one year. It is better than relying solely on monetary stimulus and also better than stimulus with debt in terms of keeping debt and deficit in control.

The author has lucidly presented his arguments on economic policy of stimulus without debt. With each chapter comprehensively answering the next question that can arise in the reader's mind, he has made the book an interesting read for a wide range of audience. In theory, the proposal appears to be uncomplicated and straight. However, it is not clear how the proposal is really different in practice than the traditional idea of printing money to finance the government deficit. The book seems to have ignored several major macro-economic issues which can hardly be resolved by merely changing the accounting framework. The change in accounting can only superficially address the concerns regarding rising debt and 'aversions' to undertake fiscal stimulus. The more substantial issues such as effectiveness of such stimulus in raising the output and employment; and impact on inflation need answers. The proposal to transfer money without raising any liability can make government complacent and lead to its misuse to implement populist schemes. Further research is needed to seriously consider the proposed idea as a policy alternative.

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