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Lessons Learned: Jason Furman

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Yale Program on Financial Stability Lessons Learned

Jason Furman

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Jason Furman was a top economic adviser to the successful presidential campaign of Barack Obama in 2008. He played a key role in most of President Obama's major economic policies during and in the aftermath of the Global Financial Crisis of 2007–09. Furman, who had served at both the Council of Economic Advisers and National Economic Council during the Clinton administration, served as chairman of the Council of Economic Advisers from August 2013 to January 2017, acting as President Obama's chief economist and a member of the cabinet. He is currently professor of the practice of economic policy at the Harvard Kennedy School and nonresident senior fellow at the Peterson Institute for International Economics. This "Lessons Learned" is based on an interview with Mr. Furman.

Be aggressive early; politics will obstruct later.

Coming into office while the crisis was still in its critical phase, the Obama administration started working on stimulus plans right after the election. The Bush administration had acted "very quickly and very well" said Furman, but the crisis was much bigger than initially anticipated. The Bush White House was not able to provide much guidance when, a year later, the Obama team tried to put together a stimulus package five to ten times bigger than the initial actions, he said. Luckily, the new Congress was overwhelmingly Democratic, so it had already made progress on the American Recovery and Reinvestment Act by the time Obama was inaugurated later in January.

"Be as big and bold as you can be," said Furman. "You're never going to regret having done too much." Many of the policy responses to the 2007–09 crisis were unpopular in the crisis' early stages, even if they were quite necessary to the economy's resilience. Measures such as the Troubled Assets Relief Program were tagged as "bailout" efforts for industries, and after Obama signed the Recovery Act in February 2009, legislators grew reluctant to back more stimulus measures.

"We pushed for more stimulus. We tried hard to get more stimulus and Congress wouldn't pass it," said Furman.

> No one thanked Obama for rescuing the economy. Much of what he did was not popular. He knew that going into it. His focus was on doing what was right, not what was popular. In some cases, it was popular to place more constraints on bailout funds, but also it meant they would be less useful in rescuing the economy. And so, there was a tension between those two.
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> Could we have done more popular things? Housing actually wasn't that popular. A lot of people reacted very negatively to helping homeowners, because they thought it was helping undeserving homeowners and people whose fault it was. So, for many people, we did too much for homeowners. For some people, we did too little.

> I don't think there was any winning a popularity contest. I don't think that's what he should have tried to do.

Unable to get Congress to approve additional comprehensive stimulus packages, such as the American Jobs Act in 2011, the Obama administration took what Furman called an "opportunistic" approach. It attached stimulus measures to every related piece of legislation, such as adding state funds for education and healthcare, adding funds to a Federal Aviation Administration reauthorization bill, and passing the Car Allowance Rebate System (known as the Cash for Clunkers program) to replace old cars with fuel-efficient models and stimulate car sales.

Spread the stimulus as widely as possible.

Even with insufficient fiscal stimulus, Furman noted, the U.S. emerged from this recession faster than previous ones and faster than other countries that experienced the downturn. He credits this in part to the broad approach that the Obama administration tried to take with the stimulus:

> I think there's been pretty good academic evidence on some of the aspects of stimulus, including unemployment insurance and Making Work Pay tax credit, the tax incentives for businesses and some of the assistance to states. I think all of those have done well in the evidence.
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> I think as a general matter, having a broader portfolio in your approach—partly because you're uncertain, partly because you have different needs—makes sense, rather than deciding any one policy is the one right answer.
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> Going forward, I don't think economists unfortunately have a great answer as to what is the very best fiscal stimulus and what has the highest bang for the buck. But I think we know that there's a lot of different things to do, and it's probably worth doing a lot of the different ones.

Consider making stimulus measures local and permanent.

The Obama administration had to put aside some measures and table proposals that would have made the economic safety net more durable and permanent, mainly because of legislative opposition. For example, there were proposals for a series of fiscal measures that would automatically trigger if the unemployment rate rose past a certain point and extending some stimulus programs at the state and local level.

> We had some interesting ideas that ended up on the cutting room [floor], that I think are worth considering in the future. Perhaps my favorite was giving states money to pay for them to cut their sales taxes to zero for a temporary period of time. The idea being to encourage consumption and spending.

Those proposals would have been useful when dealing with the fallout from the COVID-19 pandemic, Furman said.

I thought the CARES Act was very large, very timely. It showed that many of the important lessons from 2009 were learned. It was not perfect. I would have done things a bit differently.

But there were two incredibly important lessons that were not learned, unfortunately, and as a result, the responses suffered. The first is that if you do things at the federal level and you don't help states, then states will contract and undo some of what you did on the federal level. We have seen that happening.

The second is that it's really important to make sure that you don't just do the right thing up front, but that you continue, and you stay at it as long as necessary. The policy response, the CARES Act, is now over and it has not been replaced and that hole is very costly.

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