GAO

Highlights

Highlights of GAO-25-106455, a report to congressional requesters

June 2025

ECONOMIC DOWNTURNS

Considerations for an Effective Automatic Fiscal Response

Why GAO Did This Study

GAO previously found that automatic stabilizers reduced the detrimental effects of recent economic downturns. For example, studies GAO reviewed showed that during downturns automatic stabilizers generated additional economic activity. They also had positive effects on the well-being of individuals and families, such as alleviating poverty and supporting positive health outcomes. Automatic stabilizers temporarily increase federal deficits in the wake of economic downturns.

GAO was asked to review several issues related to automatic stabilizers. This report describes (1) factors that contribute to the effective design of automatic stabilizers, (2) how triggers can be used to support automatic stabilization, and (3) the trade-offs and other considerations of select policy options to enhance automatic stabilizers.

To identify the factors that contribute to the effective design of automatic stabilizers and how triggers can be used to support automatic stabilization, GAO evaluated and compiled information from a literature review and from 21 expert interviews.

To identify policy options, GAO assessed information from a literature review and interviewed 21 experts in economic policy, social policy, automatic stabilizers, and specific policy areas. GAO evaluated evidence of various potential automatic stabilizers' strengths and limitations, including their alignment with the factors that make automatic stabilizers effective. GAO discussed the potential automatic stabilizers with applicable federal agencies.

What GAO Found

The federal budget contains mechanisms—known as automatic stabilizers—that alter spending levels and tax liabilities in response to changes in economic conditions without direct intervention by policymakers. For example, when incomes and the employment level fall, more people may become eligible for certain government benefits, such as unemployment insurance and food assistance, and tax liabilities may be lower. Conversely, when incomes and the employment level rise, eligibility for government benefits may fall and tax liabilities may rise.

GAO identified four principles that could be used to assess the design or reform of automatic stabilizers. Information from literature and economic and social policy experts suggests that effective automatic stabilizers are timely, temporary, targeted, and predictable. Within those four broad principles, GAO identified eight factors that contribute to the effective design of automatic stabilizers (see table).

Principles and Factors for Effective Design of Automatic Stabilizers

Principles	Automatic stabilizers are more effective when they:
Timely	Provide stimulus when it is needed most
Temporary	End stimulus as the economy recovers
	Are designed to minimize their long-term effect on the deficit
	Phase out benefits gradually as the economy recovers
Targeted	Are intended to have the greatest economic impact
	Reach the entire eligible population to the extent possible
	Tailor aid to state and local governments to reflect the relative severity of the economic downturn in each state or locality
Predictable	Are established in advance so that they are ready in times of crisis

Source: GAO analysis of information from literature and interviews with experts. | GAO-25-106455

Deficit increases caused by increased spending and lower tax revenue during economic downturns should be temporary and should be mitigated by automatic declines in spending and increases in tax revenue during periods of economic growth. Developing internal controls and improving fraud risk management in automatic stabilizer programs before an economic downturn takes place can help agencies reduce improper payments and help mitigate their effect on the deficit.

While some automatic stabilizers naturally adjust to economic conditions, others use a pre-determined set of rules, known as a trigger, to automatically initiate or expand economic stimulus at the beginning of an economic downturn and end or reduce stimulus when economic conditions no longer call for it. When economic indicators, such as the unemployment rate, reach an established threshold, triggers could start or end stimulus accordingly. Well-designed triggers have the potential to match stimulus to real-time economic conditions and avoid the delays that may occur when policymakers rely on taking discretionary action. However, designing triggers may be challenging, in part because it is difficult to accurately assess economic conditions in real time. Discretionary fiscal policy can allow policymakers more flexibility to tailor assistance to specific circumstances, but actions need to be timely to have the maximum effect.

What GAO Recommends

GAO previously recommended that Congress could consider enacting a Federal Medical Assistance Percentage formula that targets variable state Medicaid needs and provides automatic, timely, and temporary assistance in response to national economic downturns.

The Departments of Agriculture, Health and Human Services, Labor, and the Treasury provided technical comments, which we incorporated as appropriate.

For more information, contact Jeff Arkin at arkinj@gao.gov

Based on an analysis of the strengths and limitations of policy options from relevant literature and interviews with knowledgeable experts, GAO identified 17 potential policy options to enhance existing automatic stabilizers or to create new ones (see table). These options are not listed in any specific order and are not comprehensive of all potential policy options for enhancing automatic stabilizers. GAO previously recommended that Congress consider taking action that would enhance Medicaid as an automatic stabilizer. Other than that previous recommendation, GAO does not endorse any specific policy option.

Potential Policy Options to Strengthen Automatic Stabilizers

Policy Area	Policy Option
Unemployment Insurance (UI)	1. Temporarily expand UI eligibility
	2. Temporarily increase weekly UI benefit amounts
	3. Temporarily increase the duration of UI benefits
Short-Time Work Programs	4. Temporarily federally fund the Short-Time Compensation program[a]
	5. Expand short-time work programs to all states
Supplemental Nutrition Assistance Program (SNAP)	6. Temporarily increase SNAP benefit amounts
	7. Temporarily suspend SNAP time limit and work requirements for able-bodied adults without dependents
	8. Temporarily waive certain SNAP administrative requirements
	9. Temporarily increase federal SNAP administrative funding to states
Medicaid	10. Adjust the Federal Medical Assistance Percentage formula to be responsive to economic conditions
Tax system	11. Provide direct payments to individuals and families through the tax system
	12. Temporarily reduce employee payroll taxes
Earned Income Tax Credit (EITC)	13. Temporarily allow taxpayers the option to include or exclude UI compensation when calculating EITC
	14. Temporarily increase EITC amounts for eligible taxpayers without qualifying children
	15. Temporarily allow taxpayers the option to use income from a prior year to calculate EITC amounts
	16. Temporarily increase the EITC phase-in rate
Child Tax Credit	17. Temporarily provide an advance Child Tax Credit

Source: GAO analysis of information from literature and interviews with experts. | GAO-25-106455

[a]The Short-Time Compensation program is a part of the UI system and allows employees experiencing a reduction in work hours to collect a percentage of unemployment benefits to replace a portion of their lost wages.

Each of these policy options have trade-offs with other policy goals. Some general trade-offs that are broadly applicable to many of the options include:

Economy. Generally, strengthening automatic stabilizers can reduce the detrimental effects of economic downturns and prevent the economy from getting worse. However, enhancing automatic stabilizers could potentially contribute to inflation if they generate a large amount of spending that caused demand for goods and services to exceed the economy's capacity.

Federal budget. Strengthening automatic stabilizers in ways that increase spending or reduce tax revenue during an economic downturn could add to the federal deficit and debt. However, during periods of economic growth automatic stabilizers result in less federal spending and more tax revenue, which could help reduce deficits. Policy design should carefully weigh the benefits of additional stabilization with any additional budgetary cost.

Improper payments. Increasing benefit amounts or expanding eligibility without appropriate administrative capacity could increase the risk of improper payments—payments that should not have been made or were made in incorrect amounts. Improper payments can include payments to ineligible recipients, duplicative payments, or payments for ineligible goods and services. Developing internal controls before a crisis occurs could help prevent or mitigate improper payments and potential fraud.