Using a heterogeneous agent model calibrated to match the initial MPC and subsequent spending dynamics over four years, we assess the effectiveness of three fiscal stimulus policies employed during recent recessions. Unemployment Insurance (UI) extensions are the clear 'bang for the buck' winner, especially when effectiveness is measured in utility terms. 'Stimulus checks' are second best, and have the advantage (over UI) of being scalable to any desired size. A temporary (two year) cut in the rate of wage taxation is considerably less effective than the other policies, and has negligible benefits in the version of our model without a multiplier.

Fiscal policies that aim to boost consumer spending in recessions have been tried repeatedly in many countries in recent years. The nature of such policies has been quite varied, at least in part because traditional macroeconomic models were unable to provide clear guidance about which policies were likely to be most effective.

But new sources of microeconomic data, such as those from Scandinavian national registries, have recently enabled unprecedentedly fine-grained measurement of the dynamics of different types of consumers' spending patterns in response to income shocks. Simultaneously, advances in Heterogeneous Agent macro modeling have made it possible to construct structural models capable of matching these spending patterns with a reasonably high degree of fidelity. This combination of developments makes it possible, really for the first time, to conduct quantitatively credible structural analyses of the likely effectiveness of such policies.

Because spending dynamics in our model reflects the behavior of utility maximizing consumers, we are able to evaluate the policies not only by their effects on aggregate consumption expenditures, but also directly in terms of the impact on consumers' utility. The principal difference between the two metrics is that is that the utility-metric evaluation further increases the already considerable advantage that the UI extension exhibited in the aggregate-consumption-boosting metric, because the benefits of the UI extension are enhanced because the payments are specifically directed to a set of consumers who have high marginal utility.

- [Briefly describe the model - EC, emphasizing our welfare criterion to nullify the redistributive benefits]

- [Briefly describe the recessions (as we model them) and the treatment of the multiplier - IF]

- [Briefly elaborate on the ways in which we have calibrated the model to match "dynamics of the MPC" (splurge, matching liquid asset distribution, etc). Mention that we are mixing-matching US and Norwegian data and briefly defend, but say that details and a more extended justification will follow. - HT and/or IF]

Our results are intuitive.

In the economy with no multiplier during recessions, the benefit of a sustained wage tax cut is small. One reason there is any benefit at all is that, even for people who have not experienced an unemployment spell, the hightened risk of unemployment during a recession increases the marginal value of income because it helps them build the extra precautionary reserves induced by the extra risk. A second benefit is that, by the time a person does become unemployed, the temporary tax reduction will have allowed them to accumulate a larger buffer stock of resources to sustain them during

unemployment. Finally, in a recession there are more people who will have experienced a spell of unemployment, and the larger population of beneficiaries means that the consequences of the two prior mechanisms will be greater. But, quantitatively, all of these effects are small.

When a multiplier exists, the tax cut has more benefits, especially if the recession continues long enough that most of the spending induced by the tax cut happens while the economy is still in recession (and therefore the multiplier still is in force). The typical recession, however, ends long before our "sustained" tax cut is reversed, so even in an economy with a multplier that is powerful during recessions, much of the tax cut's effect on consumption occurs when any multiplier that might have existed in a recession is no longer operative.

In contrast to the tax cut, both the UI extension and the stimulus checks concentrate most of the marginal increment to consumption at times when the multiplier (if it exists) is still powerful. Even leaving aside any multiplier effects, the stimulus checks have more value than the wage tax cut, because at least a portion of them go to people who are unemployed and therefore have both high MPC's and high marginal utilities (while wage tax cuts by definition go only to persons who are employed and earning wages). But the greater bang-for-the-buck of the UI extension reflects the fact that *all* of the recipients are in circumstances in which they have a high MPC and a high marginal utility.

We conclude that extended UI benefits should be the first weapon employed from this arsenal. But a disadvantage is that the total amount of stimulus that can be accompished with this tool is constrained by the fact that only a limited number of people become unemployed. If more stimulation is called for than can be accomplished via UI extension, checks have the advantage that their effects scale almost linearly in the size of the stimulus. The wage tax cut is also in principle scalable, but it's effects are smaller than those of checks because its recipients have considerably lower MPCs and u' than check and UI recipients. In the real world, a tax cut is also likely the least flexible of the three tools: UI benefits can be further extended, multiple rounds of checks can be sent; but multiple rounds of changes in wage tax rates would likely be administratively and politically more difficult to achieve.

- The tools we are using could be reasonably easily modified to evaluate a number of other policies. For example, in the COVID recession, not only was the duration of UI benefits extended, those benefits were supplemented by very substantial extra payments to every UI recipient. We did not calibrate the model to match this particular policy, but the framework could easily accommodate such an analysis.