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**Happy Birthday ARRA
The American Recovery and Reinvestment Act One Year Later
February 16, 2010**

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Tomorrow will mark the one year anniversary of when the American Recovery and Reinvestment Act (ARRA) was signed into law. The ARRA was enacted as the fiscal centerpiece of a set of wide-ranging policy efforts designed to stabilize the financial sector and the macro-economy; these efforts also included stimulus from the Economic Stimulus Act of 2008 and Troubled Asset Relief Program, among other initiatives. Originally projected to provide \$787 billion in stimulus, the Congressional Budget Office (CBO) now puts the ten-year costs of the ARRA at \$862 billion.

Although the ARRA has undoubtedly helped to mitigate the recession—though experts disagree about the extent to which it has—it has also added to our nation's mounting debt burden. If not brought under control, the debt, itself, could ultimately push the economy back into recession.

And despite stimulus from the ARRA, unemployment rates are still high, and GDP remains below its potential. This has led many politicians to call for more stimulus – or for a “jobs bill.”

If additional stimulus measures are enacted, the provisions should be temporary; they should be chosen based solely for economic rather than political reasons, and they should be selected based on evidence as to what has the highest bang-for-the-buck. Any new or renewed stimulus should also come with offsetting tax increases or spending cuts – although these offsets can be implemented over a longer window of time so as to stimulate the economy now, without adding to the debt burden later.

The Committee for a Responsible Federal Budget has been tracking stimulus spending over the last year, along with other efforts to aid the economy, at Stimulus.org.

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Tracking the Stimulus Spending

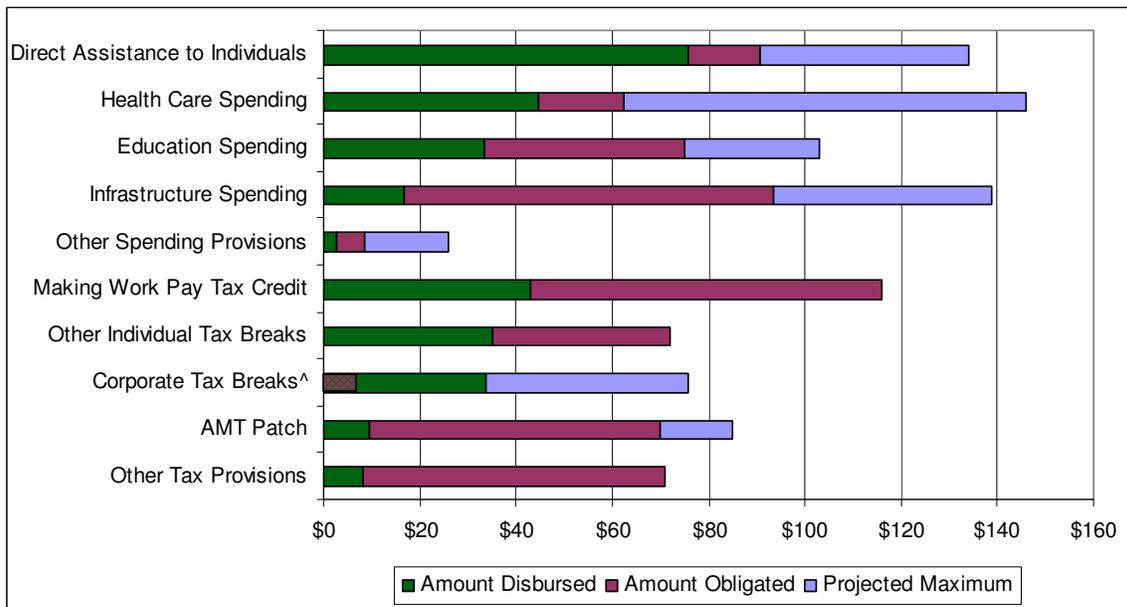
When the ARRA was first scored in February 2009, the CBO expected the bill to cost a total of \$787 billion over the ten and a half year period between its implementation in the middle of FY 2009 and the end of FY 2019. However, the CBO recently revised this number upwards to \$862 billion, accounting for higher than expected costs of unemployment insurance, food stamps, and Build American Bonds.

The bill includes a combination of roughly \$337 billion in corporate and individual tax breaks, and about \$525 billion in infrastructure spending, transfers to states, and transfers to individuals.

This is in addition to \$160 billion or so in stimulus disbursed already from the Economic Stimulus Act of 2008 signed by President Bush, roughly \$300 billion in current TARP spending, over \$330 billion in support for Fannie Mae and Freddie Mac, and about \$90 billion which we estimate has been disbursed from a variety of smaller measures.

The ARRA contains a large number of different stimulus provisions. We have grouped them into ten broad categories, illustrated below:

Fig 1: Stimulus Spending by Category as of February 1, 2010 (billions)



^Many of these provisions defer taxation, resulting in deficit reduction in later years. As a result, the ten-year cost of the corporate tax breaks is lower than either the maximum, or the current amount disbursed.

Source: Congressional Budget Office, Recovery.gov, and [Stimulus.org](http://www.stimulus.org).

Note: Maximum amount reflects the peak cumulative cost of each category over the 2009 to 2019 period, deficit impact reflects CBO estimates of ARRA costs over the same time period. Amount disbursed for tax categories reflects authors' calculations for tax disbursal rates based on the latest reporting on Recovery.gov in December 2009.

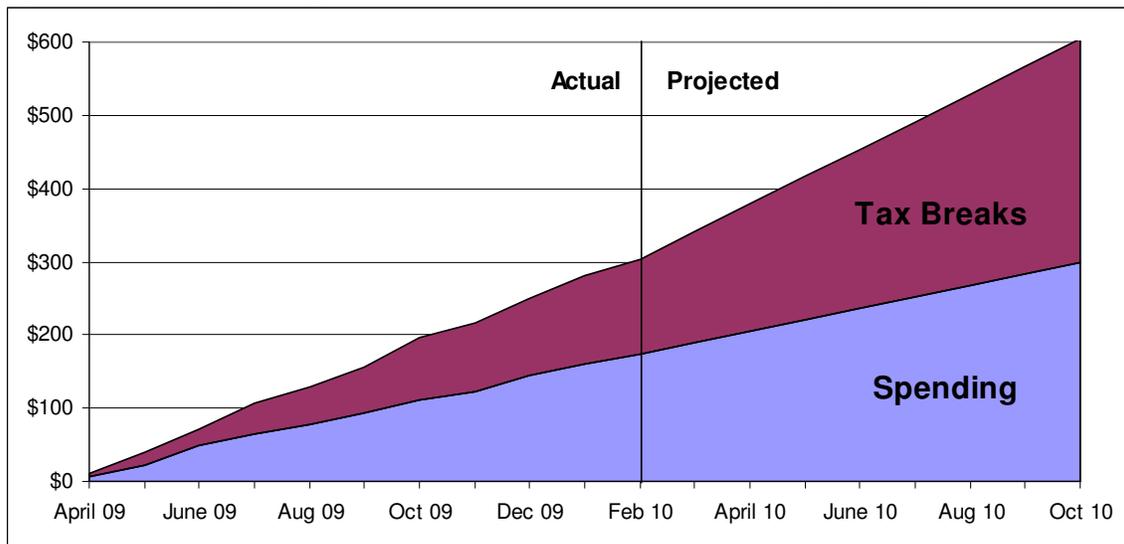
Visit <http://www.stimulus.org> for expanded descriptions of stimulus measures, updated regularly.

From the \$862 billion stimulus package, \$174 billion in spending and \$130 billion in tax cuts (\$303 billion total) have gone out so far. The CBO expects another \$162 billion of spending and \$139 billion of tax cuts (\$301 billion total) to go out by the end of FY 2010.

The largest amount of spending, so far, has come in the form of direct assistance to individuals, including \$40 billion (out of \$60 billion) for unemployment benefits. Health care funding has also dominated the spending side of the stimulus, with over \$43 billion (of \$93 billion) alone from increased Medicaid matches for states.

While these categories of spending have gone out at a relatively fast pace – with 57 percent and 36 percent disbursed, respectively, other areas have not been spent as quickly. Some spending on education – mainly for special education and education for the disadvantaged – has gone out quite slowly (only around 17 percent has been spent). Infrastructure spending has moved the slowest; only \$17 billion out of \$139 billion has been spent so far. It is important to note, though, that even the obligation of funds—which currently stands at \$93 billion for infrastructure and \$330 billion for all spending—can begin the process of job creation.

Fig. 2: Stimulus Spending and Tax Breaks in FY2009 and FY2010 (billions)



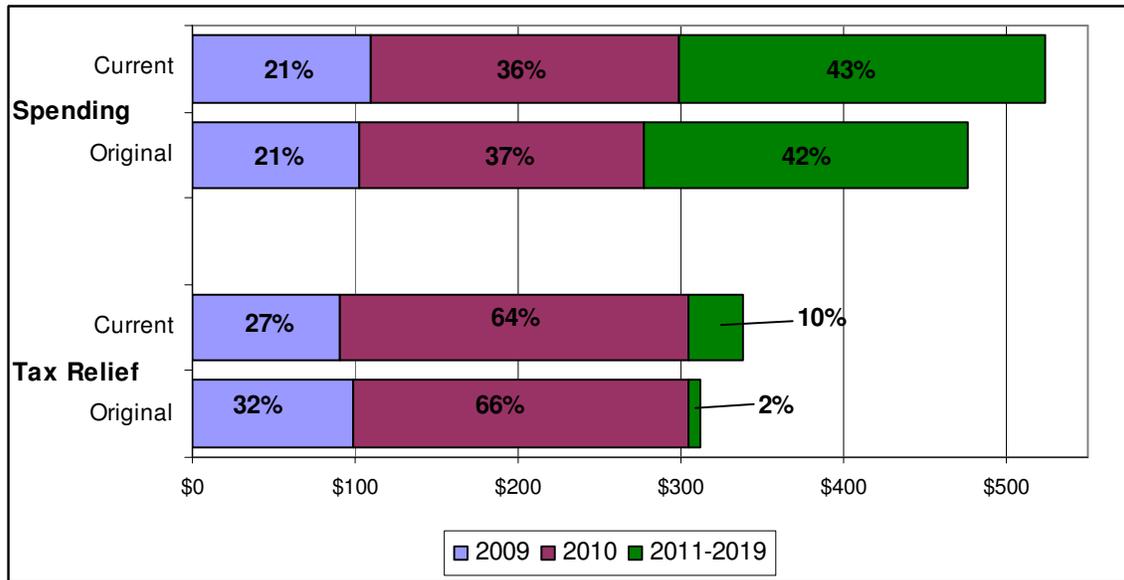
Source: Congressional Budget Office, Recovery.gov, and Stimulus.org.
 Note: Projections extrapolated assuming steady spend-out rates through October 1, 2010, when the CBO expects they will reach \$604 billion.

On the tax side, the largest payout has come from the \$400 per person Making Work Pay tax credit, which has already provided \$43 billion in tax breaks. Between the Alternative Minimum Tax (AMT) patch and other individual tax breaks—such as COBRA health subsidies, an expansion of the child tax credit, the EITC, and implementation of a new college tax credit—another \$45 billion has gone out. And on the corporate side, several

rule changes designed to defer taxation on equipment investment have reduced corporate taxes by \$34 billion (of \$76 billion).

In total, \$130 billion out of \$337 billion (39 percent) of tax stimulus has been distributed. This compares to \$174 billion out of \$525 billion (33 percent) on the spending side. Overall, the ARRA has spent its funds at a pace similar to what was originally projected. Stimulus dispersal rates from the ARRA will peak this year, and wane to only a few billion dollars per month sometime in 2012.

Fig. 3: Current and Original Stimulus Spend-Out Projections (billion)



Source: Congressional Budget Office and authors' calculations.

Evaluating the ARRA's Effectiveness

With over \$300 billion in spending increases and tax cuts already making their way through the economy, the question is how much these extra funds have contributed to GDP growth and job creation. It is impossible to know for sure.

That said, before the legislation was enacted, the CBO estimated the bill would increase GDP by 1.4 to 3.8 percent by the end of 2009, and create or save 800,000 to 2,300,000 million jobs over the same period. Nearly all economic indicators are worse than what the CBO projected they would be. Despite the unprecedented levels of federal spending and tax breaks, the unemployment rate has risen beyond the levels the CBO originally projected in early February 2009. This does not, however, mean the stimulus did not work. More likely, economists had underestimated the severity of the economic crisis at the time.

In fact, the CBO still believes that ARRA has played a key role in moderating output decline and job losses. Recently, they estimated that the bill added roughly 2.1 percentage points to real GDP growth through the fourth quarter of 2009 and created or saved between 800,000 and 2.4 million jobs through the same period. It is important to note, though, that these new estimates do not come from an analysis of the economic data, but rather an update to CBO's macroeconomic model to reflect the rate at which stimulus provisions have been implemented.

Using a similar methodology, the President's Council of Economic Advisers (CEA) also believes that the fiscal stimulus has contributed to stabilizing the economy by adding between 2 and 3 percentage points to real GDP growth in the second quarter of 2009, between 3 and 4 percentage points in the third quarter, and between 1.5 and 3 percentage points in the fourth quarter. They also estimated the bill created or saved between 1.5 and 2 million jobs as of the fourth quarter of 2009.

The Administration's estimates are in line with, although on the higher side of, what outsiders analysts have concluded regarding the stimulus bill. Still, some economists have suggested that the ARRA has contributed very little to overall GDP growth. Economists Robert Barro and Charles Redlick, for example, have argued that spending multipliers rarely exceed one, meaning that stimulus measures will likely raise GDP by less than the increase in government spending. And others have raised concerns about the economic costs of added debt from the stimulus.

Fig. 4: Estimates of the Effects of the Stimulus Act on GDP Growth and Employment

	GDP			Employment		
	2009:Q2	2009: Q3	2009: Q4	2009:Q2	2009: Q3	2009: Q4
CEA: Projection Approach	+2.6%	+2.8%	+2.7%	+338,000	+1,134,000	+2,068,000
CEA: Model Approach	+2.8%	+3.9%	+1.8%	+385,000	+1,111,000	+1,772,000
CBO: Low	+2.4%	+2.4%	+1.2%	+300,000	+600,000	+800,000
CBO: High	+6.5%	+6.5%	+3.1%	+800,000	+1,600,000	+2,400,000
Goldman Sachs	+2.2%	+3.3%	+2.0%	n/a	n/a	n/a
HIS/Global Insight	+2.1%	+2.5%	+2.2%	+228,000	+688,000	+1,248,000
James Glassman, J.P. Morgan Chase	+4.5%	+2.2%	+3.1%	n/a	n/a	n/a
Macroeconomic Advisers	+2.1%	+2.0%	+1.5%	+248,000	+623,000	+1,057,000
Mark Zandi, Moody's Economy.com	+2.8%	+3.2%	+2.0%	+500,000	+1,008,000	+1,586,000

Source: Council of Economic Advisers.

The Administration also publishes information on jobs directly created or saved, as reported by recipients of stimulus grants and contracts. The Administration now only reports data for each quarter instead of total jobs created since the ARRA was enacted. Between October and December 2009, though, the Administration reported that over 595,000 jobs were being funded by the ARRA. Previous to that, the Administration had

reported that 640,329 jobs had been created and saved between March and September 2009.

These numbers only address *direct* job creation from the small portion of stimulus (around one seventh) which comes in the form of direct government spending. At the same time, they may either overstate or understate job creation from these provisions, since they don't take into account either positive "multiplier" effects or negative "crowd out" effects and since there is likely a significant amount of reporting error. Ultimately, it is impossible to measure what would have happened absent the stimulus.

Recovery Act Extensions and Expansions

Before the ARRA was enacted, we warned policymakers against "slipping permanent policies" into the stimulus bill (<http://crfb.org/document/dont-put-permanent-measures-stimulus>). As we explained:

"While we need deficit spending now, extending our borrowing beyond the economic downturn will make our already-dismal fiscal picture far, far worse. The economy simply can't handle that. There is a very real risk that many of these items will become a permanent part of the budget and unless Congress suddenly shows a uncharacteristic willingness to pay for the new items, the deficit will deteriorate even further."

At the time, we warned of a number of specific provisions for which we believed extensions to be likely. And since that time, there have been proposals to extend or make permanent nearly all of them; several have already been extended.

Between the Worker, Homeowner, and Businesses Assistance Act (WHBAA) passed in November and riders to the Defense bill passed in December, Congress has already temporarily extended five stimulus provisions from the ARRA at a cost of \$61 billion over the next two years, and \$42 billion over ten (since some provisions defer taxation, they reduce the deficit in later years). Encouragingly, Congress chose to offset the \$23 billion in costs from the WHBAA over the ten year window.

In addition to the measures which have already passed, President Obama has proposed about \$170 billion more in temporarily extensions in his FY2011 budget. The largest of these is a one-year extension of the \$400 per person Making Work Pay tax credit (\$61 billion), a long-time agenda item of the President. Other large items include extensions of unemployment benefits (\$49 billion) and Medicaid matches to states (\$26 billion).

The President's budget also calls for making a number of ARRA provisions permanent, at a cost of nearly \$440 billion. This includes \$216 billion of expansions to Pell Grants, the Child Tax Credit, and the EITC which the Administration has actually slipped into its baseline and claimed as current policy (a claim which we refute: <http://crfb.org/blogs/stimulus-proposals-presidents-budget>).

The very existence of these proposals confirms our fear that the ARRA was designed not only to stimulate the economy, but to put into place permanent policy changes. This is an improper use of stimulus, which should be timely, targeted, and temporary.

Fig. 5: Proposed and Enacted Extensions and Expansions from the ARRA (billion)

Provisions	2010-2011	2010-2020
Enacted Extensions and/or Expansions		
One-Year Extension of Net Carryback Loss Rules	\$27	\$10 [~]
Seven-Month Extension of First-Time Homebuyer Tax Credit	\$13	\$11
Extension of Unemployment Insurance Benefits*	\$14	\$14
Two-Month Extension of COBRA Health Insurance Subsidies ^{+C}	\$6	\$6
Two-Month Extension of Food Stamps Expansion ^{+C}	\$1	\$1
Sub-Total of Enacted Extensions	\$61	\$42
Proposed Temporary Extensions and/or Expansions		
One-Year Extension of Making Work Pay Tax Credit ^C	\$30	\$61
Extension of COBRA Subsidies ^C	\$9	\$9
One-Year Extension of Corporate Tax Breaks	\$39	\$2
6-Month Extension of Medicaid Matches to States	\$26	\$26
Extension of Unemployment Benefits	\$49	\$49
One-Year Extension of \$250 Economic Recovery Payments	\$12	\$12
Other Temporary Measures	\$6	\$8
Sub-Total of Proposed Temporary Extensions	\$171	\$166
Proposed Permanent Extensions and/or Expansions		
Expansion of Earned Income Tax Credit ^{^C}	\$0	\$30
Expansion of Child Tax Credit [^]	\$0	\$83
Expansion of Pell Grants ^{^C}	\$10	\$187
American Opportunity Tax Credit ^C	\$1	\$75
Other Permanent Measures ^{+C}	\$7	\$62
Sub-Total of Proposed Permanent Extensions	\$18	\$437
Total Enacted and Proposed Extensions	\$250	\$645

[~] Estimate excludes revenue recovered in 2020, which would likely total several hundred million.

*Costs estimated by Stimulus.org.

^C Measures CRFB warned, before the passage of the bill, might be extended permanently.

[^] Includes funding extensions assumed by the Administration in their current policy baseline.

⁺ Includes certain discretionary proposals and assumes they are funded at FY2011 levels through FY2020

Source: Stimulus.org, the Office of Management and Budget, and authors' calculations.

If the President's budget were to be enacted into law, it would put the costs of the ARRA and its extensions at about \$1.5 trillion – nearly twice as much as first advertised. If the new costs are not offset, they could be damaging to the economy.

And with the economy still on shaky ground and the unemployment rate still hovering around 10 percent, calls for additional stimulus have abounded. In addition to the proposals in the President's budget, the House passed a \$154 billion "jobs bill" in December, and the Senate is currently considering jobs legislation of its own.

Although such stimulus may be warranted given the state of the economy, it must be passed in a way that does not worsen the medium-term fiscal situation. That means we should be focusing on measures which can do the most good at the least cost, and then we should fully offset the costs over the long-run.

While stimulus works by *increasing* the immediate deficit in order to boost economic output, the same deficits can be harmful if continued. Interestingly, formulating and announcing a credible plan to control the debt once the economy recovers can actually have a positive effect on the economy, by reassuring markets that the government will make good on its debt; this can put downward pressure on interest rates, spurring investment and growth (<http://crfb.org/blogs/announcing-announcement-effect-club>).

This is why it is so important that stimulus is *credibly temporary*. If the markets believe we will simply carry forward our stimulus policies – as the Obama Administration is already proposing for many pieces of the ARRA – they are less likely to believe we are sincere about bringing our debt under control. And if we don't ultimately get our debt under control, all the stimulus efforts we have undertaken will have been in vain, since we will simply be replacing a private debt crisis with a public one.

The Committee for a Responsible Federal Budget will continue to track stimulus spending on a regular basis at <http://www.stimulus.org>.

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