

IMPROVING THE STATE OF THE ECONOMY: WHAT THE STIMULUS MIGHT MEAN

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ABSTRACT

Several stimulus plans, designed to boost the sluggish US economy, have been implemented over the past few months. The purpose of this paper is to: (1) briefly discuss the three major efforts at stimulating the US economy and (2) describe their anticipated impacts, especially the impact of the ARRA in South Carolina. Of course, the jury is still out on the long term implications of the plans.

INTRODUCTION

The job market, financial institutions and the housing industry are all casualties of the recession that started in 2008. Or, are they symptoms? Or, are they causes? The unemployment rate has risen steadily over the recessionary period. Major banks and other financial institutions have either failed or have been bailed out. Housing foreclosures are at an all time high [1]. The nightly news is filled with segments about how the recession is impacting businesses, especially manufacturing, healthcare and education, government entities and individuals. It is likely that every citizen in the United States has been effected by the current economic situation. Members of the international community are also experiencing changes in their economies, partly due to the US situation.

Three major efforts have been made in 2008 and 2009 to boost the US economy. The first was the Bush Stimulus Package signed into law in early 2008. This program consisted primarily of tax rebates to individuals and was targeted toward stimulating consumer spending. The second wave consisted primarily of federal bailouts of failing companies which began during the last quarter of the Bush presidency and continued into the early days of the Obama administration. These programs were primarily targeted to large financial institutions on Wall Street. These bailouts have drawn the ire of many citizens, especially when some of these companies continue to pay huge bonuses and severance packages to CEOs. The third major effort is the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law by Obama. At the current time, government agencies, businesses and the general public are just beginning to understand how this Act will be implemented.

The purpose of this paper is to briefly discuss the three major efforts at stimulating the US economy and their impacts, especially the impact of the ARRA in South Carolina.

THE BUSH STIMULUS PACKAGE OF 2008

On February 13, 2008, President George Bush signed into law a \$168 billion economic rescue package. The stimulus package included tax rebates of from \$300 to \$1,200 for many American households. Businesses received tax breaks to invest in new plants and equipment. This government stimulus package was designed to infuse cash into the sluggish economy. An Associated Press poll surveyed Americans concerning how they would use the rebate. Nineteen percent of those surveyed said they planned to spend their rebate checks. Forty-five percent said they would pay bills. Thirty-two percent said they

planned to invest the money. As some had predicted, this stimulus package did little to help the economy that spiraled toward a recession in the next few months following the issuance of the rebates. [2]

BAILOUTS

As Lehman Brothers and Merrill Lynch failed, the federal government sought to head off failures of other large corporations through the infusion of cash. The \$85 billion dollar bailout of AIG was typical of the effort. These bailouts bring with them stiff requirements and regulations and will require federal oversight to ensure compliance [3]. From fall 2008 through August 3, 2009, the Troubled Asset Relief Program [TARP] has doled out over \$157 Billion in 663 allocations to financial institutions. TARP also sponsored the Automotive Industry Finance Program that supplied over \$78 Billion to that industry [4]. Some of the more well known companies that have received bailout money are noted in Table 1. We note that Ford did not take bailout money and outperformed Toyota in some summer months.

Table 1: Federal Bailouts in Billions of Dollars

<u>Company</u>	<u>Amount</u>
Bank of America	45
Citigroup	45
JP Morgan	25
Wells Fargo	25
General Motors	10.4
Goldman Sachs	10
Morgan Stanley	10
GMAC	5
Chrysler	4

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act (ARRA) of 2009 was created by the 111th Congress of the United States of America. The conference report was approved on Friday, February 13, 2009. The entire 490 page document, as signed by the President, may be viewed at the website frwebgate.access.gpo.gov. ARRA has been described by some as a new and innovative strategic plan to boost the economy of the United States. Its purpose, goals, measurement methods, implementation process and timeline for reaching the goals are fully described and documented [5, 6]. Conservatives claim that government funded programs increase our national debt, decrease the value of the dollar, and seldom stimulate the economy as hoped.

The ARRA was met with and continues to generate a considerable amount of criticism. Most of the opposition to the bill comes from the conservative right and Republican Party. In general, the criticisms are that the bill is too large, that it is not just a stimulus bill but has widespread, un-stimulative spending components that are just liberal spending programs, and doesn't have enough true stimulus spending. In fact, over \$300 billion of the bill is for tax cuts. These cuts and the magnitude of the cuts was placed in the bill to generate Republican support for the bill. Criticism continues today that the stimulus portions of the bill are slow and ineffective. In addition, conservatives claim that government funded programs increase our national debt, decrease the value of the dollar, and seldom stimulate the economy as hoped. While these criticisms may ultimately prove valid, it is generally premature to truly judge the effectiveness of the bill's impact at this time.

Overall, the purpose of the ARRA is to restart the American economy while preparing the country for the 21st century. Science and technology improvements throughout the public and private sector are

significant, especially those centering upon renewable energy and infrastructure improvements. Science and technology will also be of value in the removal of waste and inefficiencies from current systems, specifically medicine and education. Specific goals include:

- Creating more than 3.5 million jobs over the next two years. Ninety percent of the jobs will be in the private sector.
- Increasing the country's renewable energy capacity over the next three years.
- Making college affordable to more Americans.
- Modernizing and weatherizing federal space and energy efficient homes.
- Creating tax credits and cuts, both to working households and through the Child Tax Credit.
- Creating a system of accountability within the federal government that will encourage transparency of expenditures and project successes as well as create opportunities to uncover waste and inefficiencies.

The oversight of the process is the responsibility of the newly formed Recovery Board. The Board Chairman is appointed by the President. The Board has ten Inspector Generals whose duties are defined in the Act. Quarterly and annual reports will be submitted by the Board who may also make recommendations to agencies receiving funding on how to use funding more effectively. The website Recovery.com serves as a mandatory communication channel with the general public and must be used by the Recovery Board.

Leading economists have assisted the Board in developing a "simple, conservative and accurate model for measuring progress." Charts and graphs, especially on the Recovery.com website, will be available for public view to monitor progress. The website will also post information about grants. The Board is further charged with making quick and unannounced reports to both the President and Congress if there are problems in the implementation of projects that need immediate attention.

To assist the Board in its responsibilities data will be collected in all areas of the federal government where funds are disbursed as well as from funding recipients.

Examples of current announcements of funding include:

- \$ 1 billion to Housing and Urban Development (HUD) to improve public housing.
- \$200 million available through the National Science Foundation (NSF) to repair and renovate academic research facilities.
- \$300 million available through the National Science Foundation (NSF) to strengthen the country's research infrastructure.
- \$800 million to biofuel research.
- \$2 billion to stabilize neighborhoods hit by foreclosures.
- Expansion to 7(a) loans through the Small Business Administration (SBA).

SOUTH CAROLINA ALLOCATIONS

As of July 2009, South Carolina had been allocated almost \$4.6 billion (not including the value of tax cuts) from the ARRA. As seen in Table 2, all of these funds have not been made available to date and even less funds have actually been spent in South Carolina. Table 2 shows that, of the \$4.6 billion allocation, approximately \$1.8 billion (or 42%) is for social related programs such as education, health, housing, and public safety and another 1.8 billion is set aside for energy and weatherizing projects. Of the total \$2.4 billion is allocated for infrastructure investments such as highways and bridges, water and sewer, military and other government construction.

Perhaps more importantly, Table 2 shows that only about 10% of the funds that have been allocated to the state have actually been spent as of July 31, 2009. The state has established a monitoring system for the Stimulus program and is being coordinated by the Comptroller General's Office. The website is located at <http://stimulus.sc.gov/>. At this time, the website does not have detailed information on spending but as indicated above, it is still very early in the process.

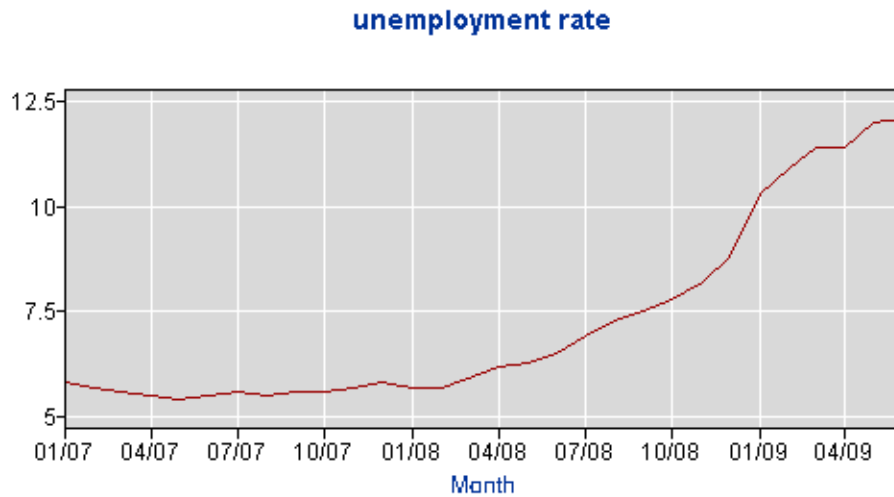
Table 2. Total Allocation to South Carolina by Agency

Agency	Allocated*	Made Available*	Paid Out to Date* (1)
Department of Health and Human Services	\$486,478	\$488,019	\$318,428
Department of Agriculture	\$19,694	\$69,210	\$59,667
Department of Education	\$1,197,100	\$926,327	\$38,538
Department of Justice	\$38,845	\$60,459	\$25,154
Department of Housing and Urban Development	\$117,174	\$89,858	\$13,510
Department of Energy	\$1,756,292	\$54,721	\$7,996
Department of Labor	\$73,426	\$65,848	\$3,926
Department of Transportation	\$504,236	\$253,345	\$617
Department of Treasury	\$0	\$600	\$600
National Science Foundation	\$0	\$6,146	\$466
Environmental Protection Agency	\$66,708	\$9,208	\$15
Railroad Retirement Board	\$1,574	\$0	\$0
US Army Corps of Engineers	\$8,210	\$0	\$0
National Endowment for the Arts	\$0	\$512	\$0
Corporation for National and Community Service	\$304	\$406	\$0
Department of Veterans Affairs	\$10,665	\$0	\$0
General Services Administration	\$3,791	\$0	\$0
Social Security Administration	\$214,870	\$0	\$0
Department of the Interior	\$3,835	\$0	\$0
Department of Commerce	\$185	\$727	\$0
Department of Defense	\$84,785	\$0	\$0
Total	\$4,588,171	\$2,025,387	\$468,915
* In Thousands			
(1) As of July 31, 2009			
Source: www.Recovery.com			

Source: <http://www.recovery.gov/?q=content/allocation-programs&state=SC>

The impacts of the ARRA on South Carolina's economy are difficult to measure but at the time of this writing, the positive impacts on the unemployment rate have not been seen. As seen below, the unemployment rate has gone from 6.5% in June 2008 to over 12% in June 2009. Many economists fear that it may go higher before it starts to recede.

Figure 1. South Carolina Unemployment Rate



Source: US Bureau of Labor Statistics.

REFERENCES

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[3] "Global Banking Reshaped," FT.com, Financial Times, May 13, 2009, http://www.ft.com/cms/698e638e-e39a-11dc-8799-0000779fd2ac.html?ftcamp=auddev/sem_traffic/google_p4p/us_indepth/financial_crisis/seg_id=03394

[4] US Treasury Department, <http://www.financialstability.gov/latest/reportsanddocs.html>

[5] www.frwebgate.access.gpo.gov

[6] www.grants.gov

[7] www.recovery.gov