

---

Understanding the Stimulus: A  
Primer for NH Citizens on the  
American Recovery and  
Reinvestment Act of 2009

Prepared By:

PolEcon Research  
Dover, New Hampshire  
603 749-4072  
bgottlob@poleconresearch.com

*Prepared by:*



---

**April, 2009**

## **TABLE OF CONTENTS**

<b><u>Executive Summary</u></b>	<b>3</b>
<b><u>I. Introduction and Overview</u></b>	<b>4</b>
<b><u>II. Does The NH Economy Need a Stimulus?</u></b>	<b>5</b>
<b><u>III. Economic Arguments For And Against Stimulus</u></b>	<b>7</b>
<b><u>IV. Components of The Stimulus Package</u></b>	<b>10</b>
<b><u>V. NH's Share of the Stimulus Funds</u></b>	<b>12</b>
<b><u>VI. The Job Creation Potential of The ARRA</u></b>	<b>17</b>
<b><u>VII. Conclusions</u></b>	<b>22</b>

## **Executive Summary**

This report is a non-partisan effort to increase the public's and policymaker's understanding of the recently enacted American Recovery and Reinvestment Act of 2009 (ARRA), the so called "stimulus bill," as well as some of its fiscal and economic impacts in the State of New Hampshire. The report highlights economic conditions that helped propel passage of the stimulus bill, discusses some of the economic principles behind the use of fiscal policy as an economic stimulus and presents key arguments for and against the ARRA. The report broadly classifies and summarizes key ARRA provisions and their timing nationally and in New Hampshire. To help bring coherence to nearly 300 separate spending measures we present a simple taxonomy that describes how the measures will affect government and their potential to stimulate economic activity. We compare the volume of known stimulus funding allocated to NH with the amount allocated to other states and we estimate the value of individual and corporate tax breaks NH citizens and businesses will receive as a result of ARRA's provisions. Finally, we suggest benchmark metrics from which to evaluate the job creation impacts of the ARRA and highlight some of the difficulties inherent in and urge caution in evaluating the employment impacts of the stimulus.

### **Key Findings Of The Report Include:**

- Combined, increased federal funds allocated to the state as well as individual and corporate tax breaks, New Hampshire will receive at least \$1.5 billion over three years (and likely more) as a result of the stimulus package.
- The volume of stimulus funds the state will receive will equal about 1% of NH's gross state product in 2009 and 2010, and about 0.33% in 2011.
- Two industries, health care and public education, least affected by the current recession will receive the largest source of stimulus funding in NH.
- NH residents, primarily lower and middle class individuals, will receive an estimated \$564 million in tax breaks over the next three years as a result of the ARRA. By comparison, NH residents received \$468 million in rebate checks in just 2008 from the previous administration's and congress's 2008 stimulus measure.
- Less than one half of the non-tax break stimulus funding allocated to NH from the ARRA will supplement or increase state government purchasing of goods and services. Over \$500 million of funding allocated to NH will "supplant" or replace existing state funds, meaning it will have no job creation impact (although it may prevent job losses). Over \$400 million of stimulus funding, especially infrastructure spending, will impact job creation in the state, as will individual and corporate tax breaks.

- Because the federal government's fiscal policy is fundamentally redistributive, NH ranks near the bottom of all states in the stimulus funds it will receive on a per capita basis.

## **I. Introduction and Overview**

Few economic or political issues have generated as much anticipation, discussion, and concern among as broad a segment of policymakers and the public as the American Recovery and Reinvestment Act of 2009 (ARRA), the so called "stimulus package." A weak economy with rapidly rising unemployment, concerns about the viability of the U.S. financial system, and state and local governments facing well publicized record deficits created a climate where a massive package of federal government spending could be enacted without a widespread public understanding or discussion of its provisions and with limited consensus on its short and long term impacts of the policy. Without a solid understanding of the ARRA and the economic context in which it was enacted, as well as the empirical measures by which it will be evaluated, judgments about the efficacy of the ARRA, and deficit financed stimulus more broadly, will largely be made based on political and ideological perspectives rather than on economic criteria.

President Obama signed the \$787 billion American Recovery and Reinvestment Act of 2009 (the ARRA) into law on February 17, 2009. The legislation covers a long list of programs but for purposes of understanding its structure, objectives, and for evaluating its ability to impact our nation's economic performance, it is helpful to start by focusing on four fundamental initiatives it takes. In broadest terms, the package seeks to help revitalize the nation's economy by:

- Providing *aid to state governments* to help them meet large fiscal obligations such as education aid Medicaid, as well as other smaller categories of state expenditures.
- Providing *infrastructure grants to states* to undertake highway, transportation, water, sewer, environmental, telecommunications and other projects.
- Providing *expanded or increased income support to individuals and families*, via such programs as unemployment insurance, food stamps and temporary assistance to needy families.
- Providing *individual and business tax breaks* in forms such as temporary reductions in payroll taxes, expanded child tax credit eligibility, increased credits for college tuition and for home and automobile purchases.

The dramatic downturn of the U.S. economy that occurred during the second half of 2008 created a sense of urgency that led many to adopt a "doing anything is better than doing nothing" attitude toward enacting an economic stimulus plan. At a price of at least \$787 billion, and with reports of large "pots of money" available to state and local governments, the ARRA risks being viewed as a fiscal trough more characteristic of the recent trend toward excess and bailouts than of reasoned economic policy. The size of the ARRA and the potential for unintended consequences that afflict large-scale public policies argue for a greater understanding of the stimulus package, its objectives and the methods that will be used to evaluate the economic impacts of its provisions.

To date, there has been no independent, apolitical analysis of how ARRA's provisions will affect New Hampshire. This paper is not intended as a comprehensive guide to the ARRA or any particular stimulus program or expenditure. It is designed to inform: to help policymakers, media, businesses, and citizens develop enough understanding and perspective of the ARRA free of political or ideological rhetoric and to assess its efficacy in addressing our nation's and New Hampshire's economic problems. This report highlights the current economic climate and the rationale behind key ARRA provisions designed to boost economic performance. This report broadly summarizes key ARRA provisions and their timing nationally and in New Hampshire. To help bring coherence to nearly 300 separate spending measures we present a simple taxonomy that describes how the measures will affect government and their potential to stimulate economic activity. We compare the volume of known stimulus funding allocated to NH with the amount allocated to other states and we estimate the value of individual and corporate tax breaks NH citizens and businesses will receive as a result of ARRA's provisions. Finally, we suggest benchmark metrics from which to evaluate the job creation impacts of the ARRA and highlight some of the difficulties inherent in and urge caution in evaluating the employment impacts of the stimulus.

## II. Does The NH Economy Need a Stimulus?

Prompted by a dramatic deterioration in the housing market and subsequent mortgage loan defaults, the U.S. financial panic that peaked in the Fall of 2008 set off a chain of events leading to a rapid deterioration in economic activity that turned what was expected to be a mild U.S. recession into a threat of a decline unprecedented since the 1930's, darkening NH's economic outlook along the way.

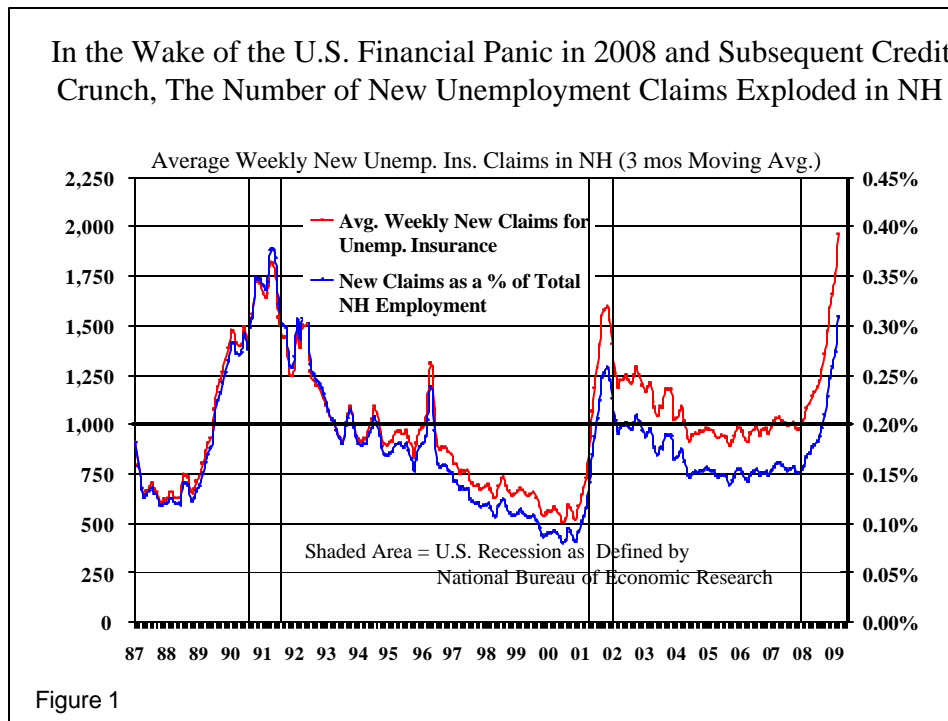
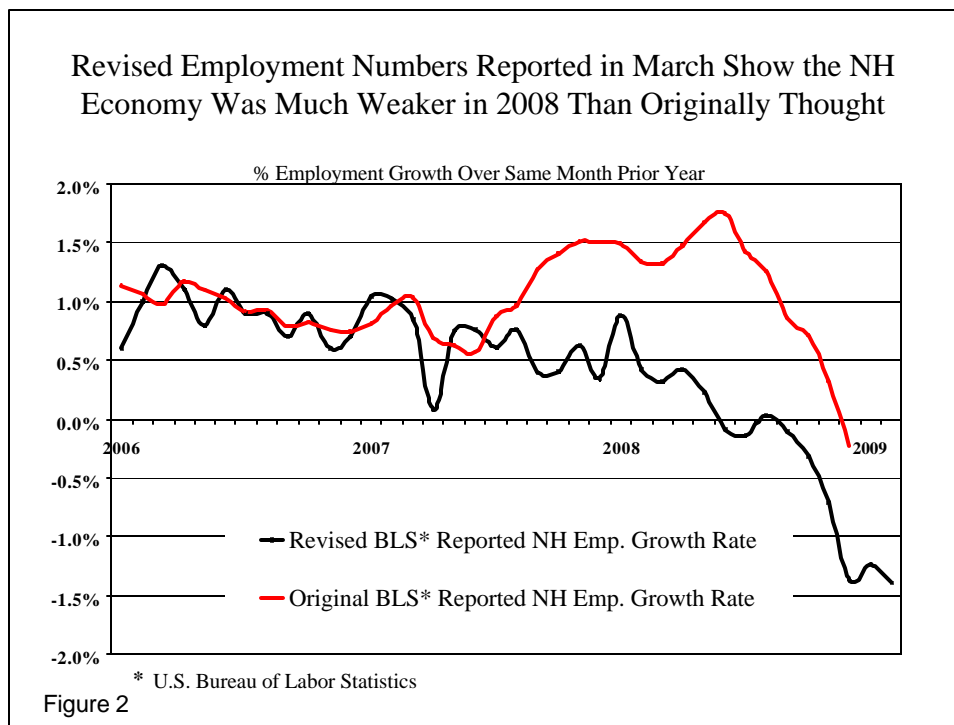
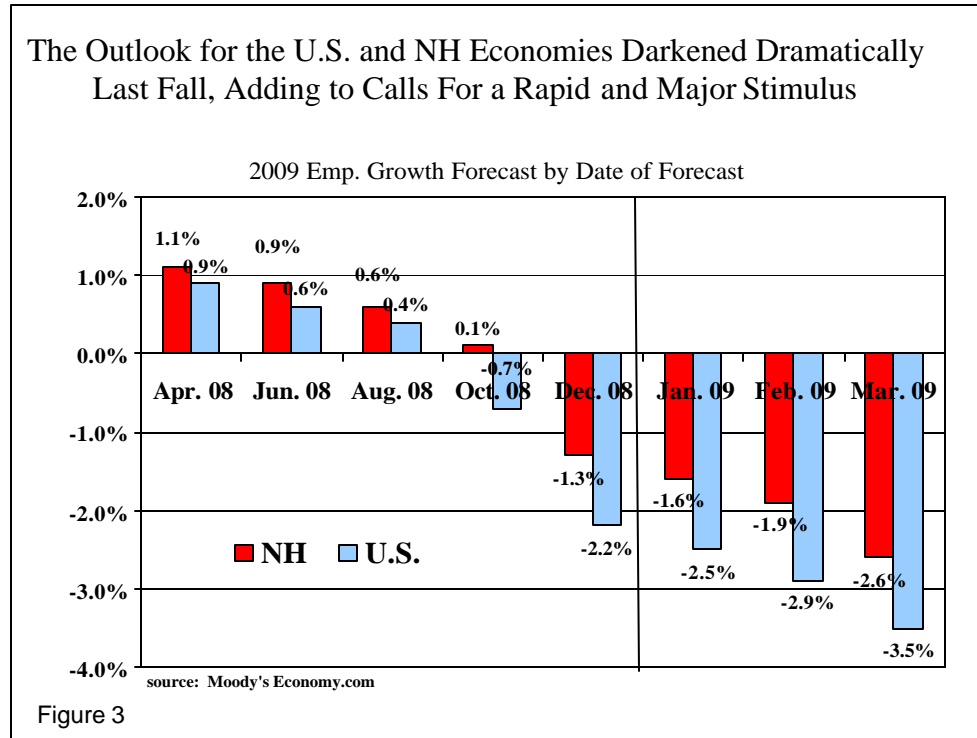


Figure 1 shows how rapidly NH's labor market deteriorated during the second half of 2008 and how dramatically new claims for unemployment assistance have accelerated in the Granite State. New claims for unemployment in NH have now reached levels last seen during the state's deep recession of the early 1990's, however, as a percentage of employment in NH, new unemployment claims still remain below levels seen in 1990-91. Throughout 2008 officially reported NH employment estimates suggested that NH was skirting a national recession that was enveloping much of the country, making calls for a large scale stimulus package seem unfounded to many in the state. However, more recent data and revised employment numbers released in March show that on an annualized basis, NH began having negative employment growth late in the second half of 2008 (Figure 2). Throughout 2008 the New Hampshire economy was weaker than originally thought and the state likely entered recession late in 2008.



Past U.S. recessions did not invoke calls for a stimulus package of a magnitude similar to the ARRA. However, the speed with which the U.S. economy deteriorated in late 2008 along with the breadth and depth of decline resulted in a continuous downgrading in the national and NH economic outlook (Figure 3) and created a climate of urgency that led to the passage of the ARRA.

The mix of measures (specific spending, fiscal aid, tax cuts, etc.) that comprise the ARRA was hurriedly debated but arguably few citizens, media, or even policymakers understood its fundamental foundation. The urgency surrounding economic conditions precluded the kind of careful consideration required to craft an optimal stimulus. With little debate on the short and long-term impacts of the ARRA and its efficacy as an economic stimulus, efforts to "sell" the plan on the basis of specific programs and



expenditures and how one geography, industry, or group of individuals would be affected, the ARRA took on the appearance of a massive spending measure containing separate, unrelated, or isolated spending and social policies rather than a coordinated set of fiscal policies directed at providing support to an economy in decline. The ARRA contains measures that are widely supported across a broad spectrum of economic theories, but it also contains measures that appear to have little economic justification for their inclusion in the package. The percentage of the package that lacks an economic rationale as a stimulus is a debate that will not be resolved but in a time of general hardship any percentage seems egregious.

### **III. Economic Arguments For And Against Stimulus**

Governments use four tools to stimulate a weak economy. Broadly, they include; monetary policy, credit policy, inflation, and fiscal policy. For reasons beyond the scope of discussion in this report, the most common and most preferred stimulus method, monetary policy, is less available to policymakers at this point in the recession, as is credit policy. Inflation as a stated policy is abhorrent and counterproductive over time, leaving fiscal policy as the remaining tool for policymakers to use to attempt to stimulate an eroding economy.

The basic rationale for using fiscal policy to stimulate an economy is as follows:

- Fiscal policy temporarily stimulates the economy by borrowing and deficit spending which lead to an increase in total spending and aggregate demand in the economy either through:
  - Direct spending on goods and services by the government, or

- Spending by the recipients of tax cuts or government transfers (such things as food stamps, Social Security, public assistance, or unemployment benefits)

In addition, proponents of the stimulus argue that some of the legislation's provisions, such as funding for improvements to roads and highways, might add to the economy's potential output in much the same way that private capital investment does. Other provisions, such as funding for grants to increase access to college education, could raise long-term productivity by enhancing people's skills. According to Congressional Budget Office estimates, provisions that could add to long-term output account for between one-fifth and one-quarter of the ARRA's budgetary cost.

Fiscal stimulus is only effective when it increases aggregate demand in the economy. Economists generally see fiscal policy as less effective than monetary policy in providing a near-term lift to economic activity but several monetary policy options have already been employed for many months. Fiscal stimulus can involve tax cuts, spending, or a combination of both and much of the relatively brief debate over the ARRA was concentrated on the relative weighting of tax cuts versus spending in the proposal.

The challenge to spending programs is that there may be a lag time for planning and administration before the money is spent. Tax cuts can be implemented quickly, increasing individual's disposable income but they lose some effectiveness in increasing economic activity when some of the tax cut is saved. The receipt of tax cuts can also be delayed. For example, according to Joint Committee on Taxation estimates of the Making Work Pay credit revenue losses, 17% of the total would be received in FY2009. In the second year, 57% would be received. The benefit is provided in the form of withholding; since the measure was not in place on January 1, some benefit would be delayed until tax returns are filed. Close to 50% would be received in FY2009 if a rebate mechanism were used (based on estimates of a similar provision considered in 2008 at about the same time of the year, 93% of the rebate was projected to be received in the current fiscal year). Some argue that tax cuts that are temporary, that appear in a lump sum rather than in withholding, or that are aimed at higher income individuals are more likely to be saved. There is some limited evidence that periodic payments are more likely to be spent than lump sum payments, but that evidence is subject to uncertainty and is not of a magnitude that the withholding approach would result in a larger short run stimulus than a rebate.

The income support and aid to state and local governments could relatively quickly help the economy. Without some of these measures workers losing their jobs would cut back on spending even more, costing the economy more jobs. State and local governments facing falling tax revenues must balance their budgets by cutting payrolls and other programs and raising taxes, both policies that would reduce overall levels of spending in the economy. Thus helping unemployed workers and other individuals struggling to meet their obligations as well as deficit-burdened state and local governments can potentially lessen the severity of job losses.

## **Arguments Against the Stimulus**

There are also important arguments against the ARRA or a similar large-scale fiscal stimulus to combat recession. Broadly they take three fundamental forms:

- The ARRA will encourage growth and waste in already bloated and inefficient governments.
- The deficit spending on which the ARRA is based will have long-term negative economic consequences and burden future generations with enormous debts.
- The ARRA will be ineffective in stimulating the economy and job growth in the short-term, either because of the nature of the expenditures or their timing.

The first category are political and ideological arguments against the stimulus that believe the ARRA will fundamentally increase the size and growth of government that has already grown too much or too fast. Even when this argument acknowledges that forcing state governments to cut back may further reduce spending and employment in the economy, it is justified by suggesting that helping state and local governments today will only encourage more spending and larger government in the future. These are important policy arguments but difficult to evaluate in this report and in the current context.

The second category of arguments against the ARRA is based on fundamental economic principles and long-standing concerns about growing federal government budget deficits, as well as the magnitude of our nation's accumulated debt. They include:

- World economic conditions currently allow the the U.S. government to borrow at favorable interest rates but there is a fear that ARRA deficits could become much more burdensome to service when interest rates return to normal.
- Larger deficits could eventually crowd out private investment; act as a drag on economic growth, and increase reliance on foreign borrowing. (The CBO's basic assumption is that, in the long run, each dollar of additional debt crowds out about a third of a dollar's worth of private domestic capital.)
- The deficit places a burden on future generations, and could further complicate the task of coping with long-term budgetary pressures caused by the aging of the population.
- In a worst case scenario, if too much pressure is placed on the deficit, then investors could lose faith in the government's ability to service the debt, and our nation would face borrowing constraints and interest rates could spike.

The final argument against the stimulus, that it will be ineffective in increasing economic activity and creating jobs, can be evaluated in the most straightforward manner. Over the next few years, analysts, including S.T.E.W.A.R.D of Prosperity, will be examining evidence in the labor market of stimulus funding impacts.

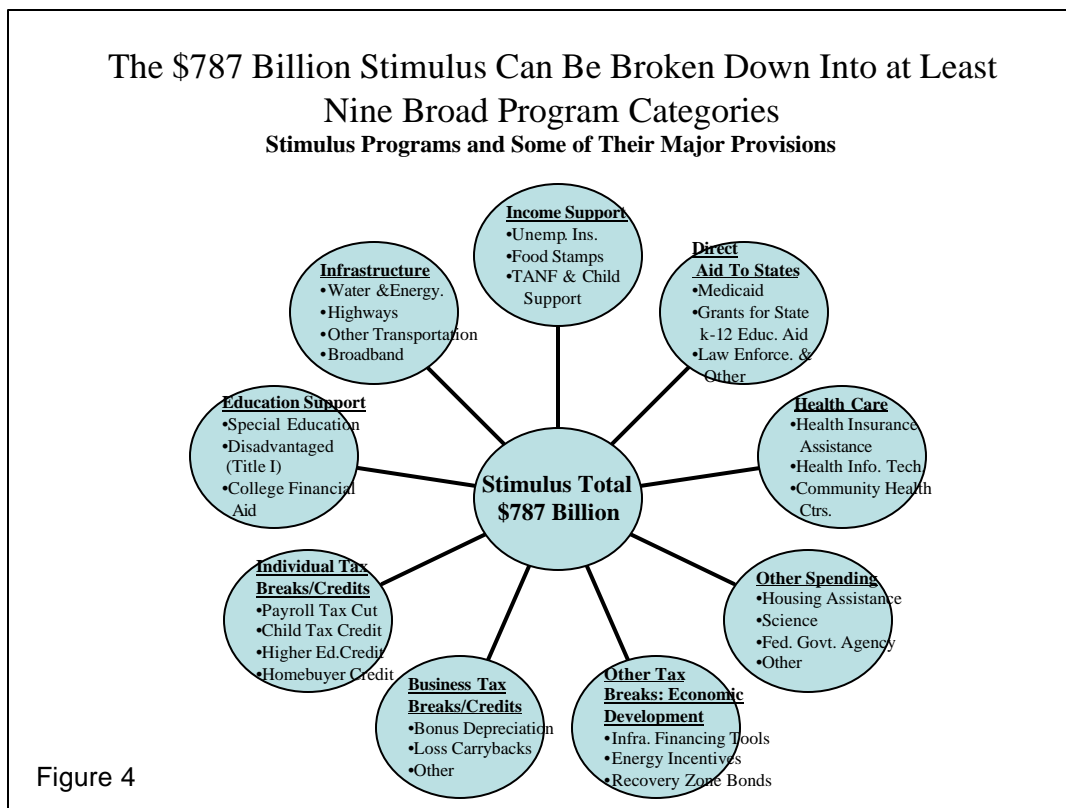
## IV. Components of The Stimulus Package

The ARRA is the largest fiscal stimulus effort undertaken since the 1930's but the fundamental economic perspectives behind the ARRA are the same as those that have been employed in fiscal policy efforts to stimulate the economy for decades. The Congressional Budget Office estimates that the ARRA will cost the U.S. \$787 billion dollars.

The ARRA's nearly 300 specific spending and tax provision can be broadly categorized into four basic initiatives:

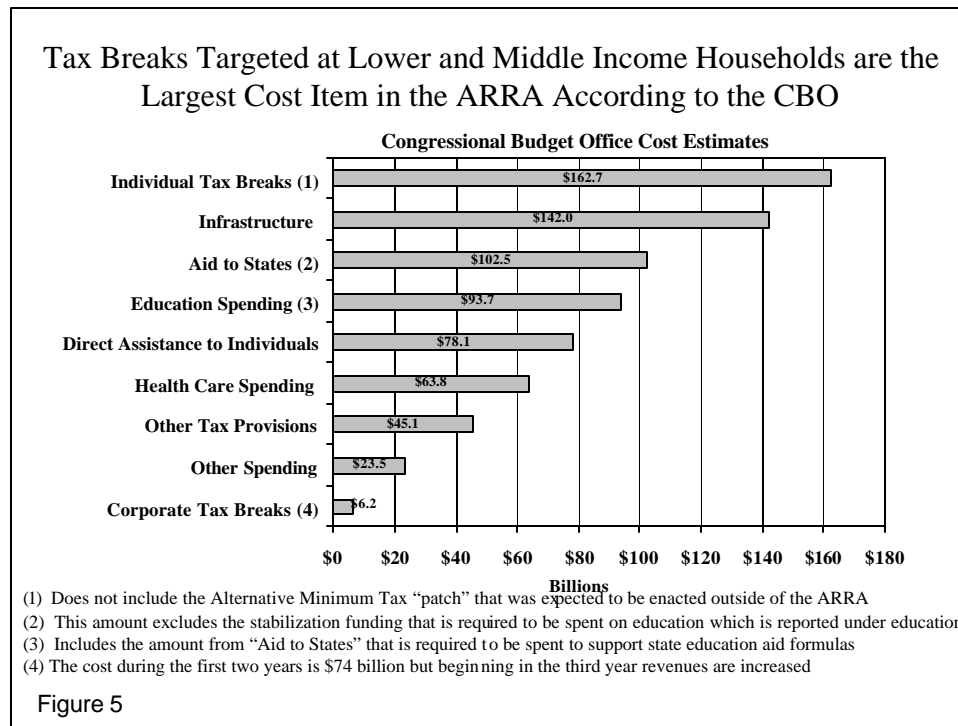
- Direct government spending on infrastructure and other goods and services
- Aid to state governments
- Direct assistance (income support) to individuals
- Tax breaks for individuals and businesses

Figure 4 provides an overview of the major categories of expenditures contained in the ARRA.



The relative magnitude of each of these broad program areas is presented in Figure 5. The figure includes a number of adjustments noted at the bottom of the chart which we believe are necessary to better understand to what purposes funding is allocated. As Figure 5 shows, individual tax breaks, largely in the form of the “Making Work Pay” provision (reducing payroll taxes), and several provisions targeted at lower income households as well as credits for specific activities such as auto and first-time home

buying, comprise the single largest category of ARRA expenditures according to the CBO.



### The Timing of Spending Matters

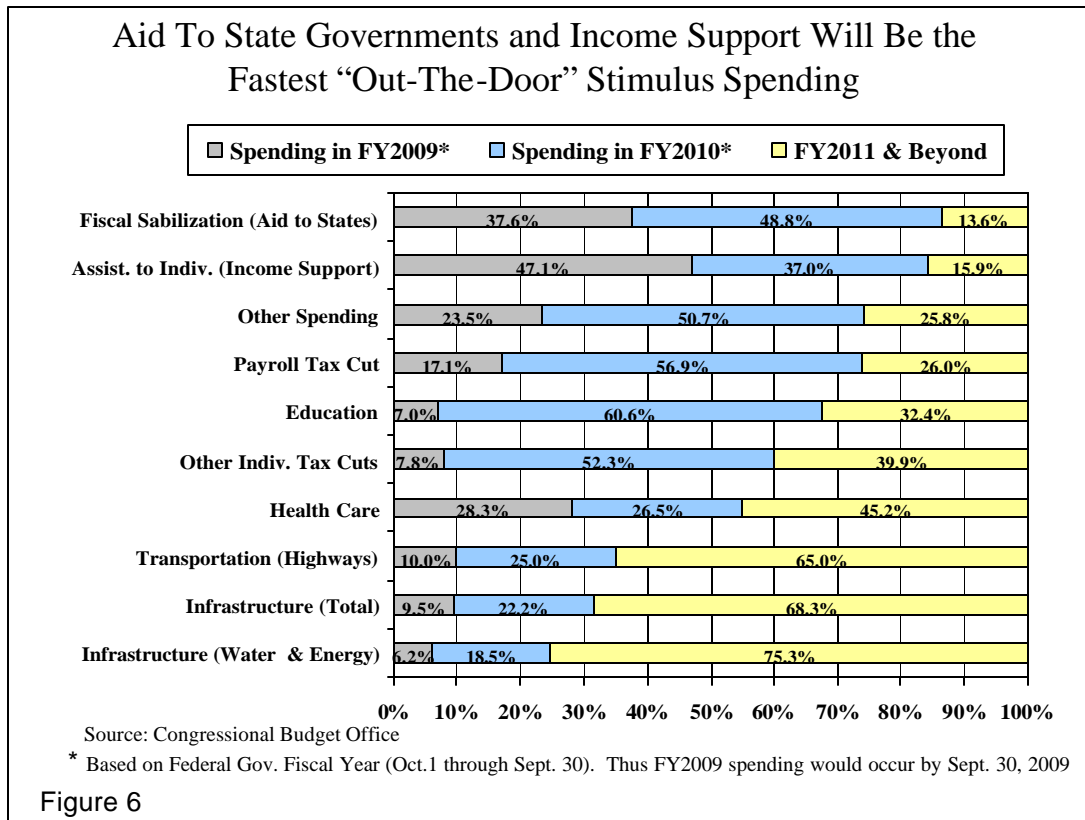
Whether the ARRA provides a timely boost to the economy and employment during a period of recession will largely determine the public’s acceptance of the policy over the next two years. More broadly, the wisdom and value of deficit financed fiscal stimulus will likely be evaluated on the basis of the perceived impacts of the ARRA.

A primary criticism of the current and past fiscal stimulus efforts is that their provisions cannot be enacted in a timely enough manner to influence an economy in recession. With the current recession expected to be protracted, that criticism may be more muted but the considerable emphasis in the ARRA that is placed on getting stimulus funding quickly “out-the-door” creates an increased risk that questionable, inappropriate or ill-considered expenditures find their way into the use of stimulus funds. That concern has been echoed in statements about “transparency” of ARRA expenditures and warnings by President Obama about inappropriate uses of the funds. The bully pulpit aside, it is difficult to imagine a spending package of such magnitude that will not produce some level of abuse and misconduct that may influence public acceptance and evaluation of the package.

The Congressional Budget Office analysis of ARRA spending measures (not tax breaks) estimates that about 21% will be spent in FY2009, and 38% in FY2010. Overall,

including individual and corporate tax breaks, about 70% of the spending and tax provisions are estimated to reach the public by the end of FY2010 (not including the AMT “patch”).

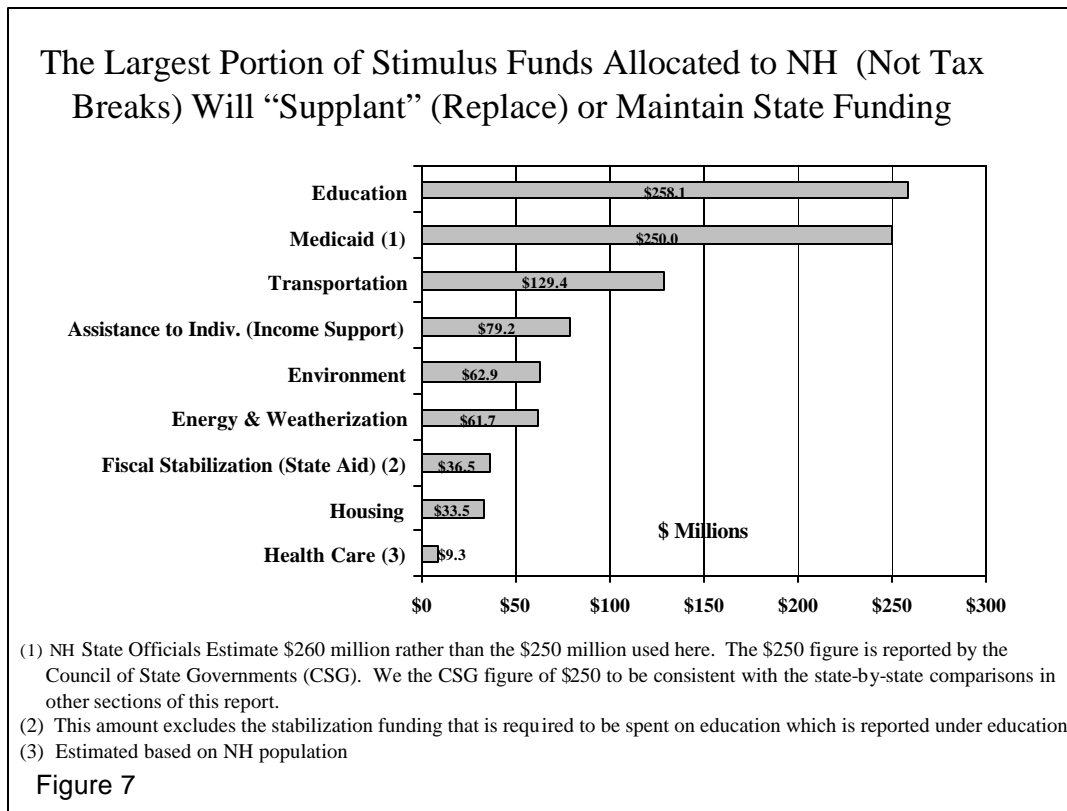
Figure 6 highlights the timing of key program expenditures included in the ARRA. The chart uses the federal government fiscal year that runs from October 1<sup>st</sup> to September 30<sup>th</sup> as the basis for annual estimates. Overall the chart shows that spending on programs that are most identified with the ARRA, such as infrastructure projects, will be the slowest to work their way into the economy, while less touted policies such as income support and the payroll tax cut will more quickly exert an impact on individuals and the economy. Aid to state governments will also be implemented quickly, but as we discuss later in this report, much of that ARRA spending will replace or “supplant” existing state spending, providing limited if any employment stimulus. The funds will, however, likely prevent some job losses in state and local governments.



## V. NH’s Share of the Stimulus Funds

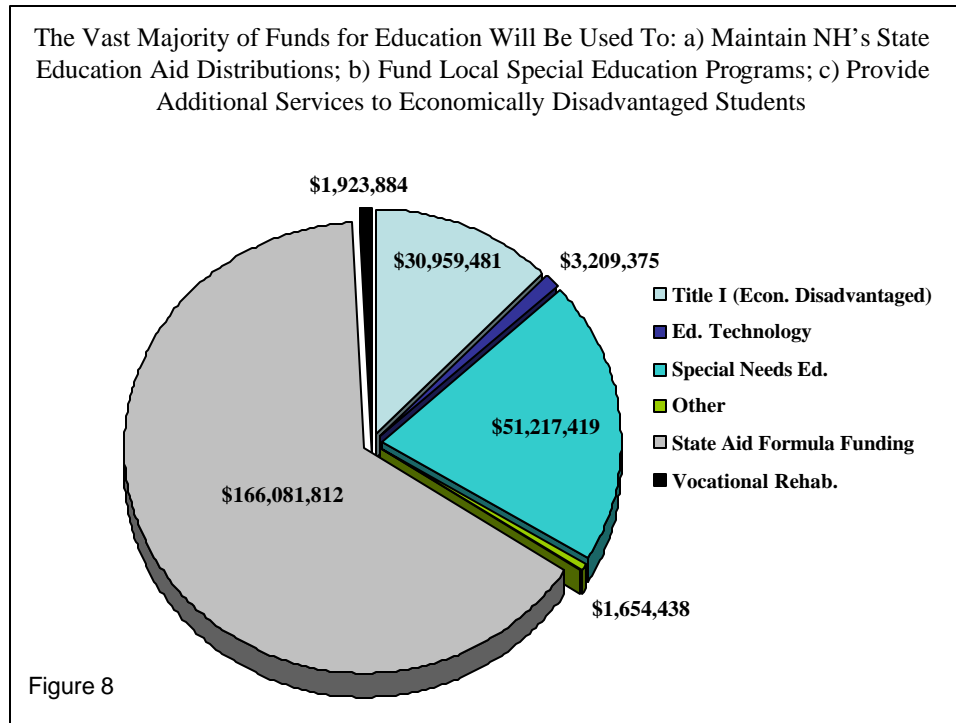
New Hampshire citizens and policymakers want to know how much of ARRA funding will be allocated to the Granite State. As importantly, they want to know how the state’s allocation compares with those of other states. Using information available from federal government agencies responsible for distributing ARRA funds, we identified over \$920 million in stimulus funds allocated to NH. This total includes all of

the major sources of stimulus funds but is incomplete because it does not include funds for which NH must submit competitive grants or funds for some programs that have yet to determine the basis of allocations.



As Figure 7 shows, the two largest sources of funds allocated to NH, money for education (including the portion from the ARRA’s “state fiscal stabilization” aid that is required to be used to support the state’s k-12 funding formula) and increased Medicaid funding, both primarily supplant state dollars. Thus states receive targeted dollars to assist them in meeting the two largest financial obligations of state government (k-12 education and Medicaid), perhaps avoiding cutbacks in these programs or harmful tax hikes to maintain current levels of these expenditures. These funds will not increase aggregate demand or stimulate job creation but they may prevent some job losses in state and local government.

New Hampshire is expected to receive almost \$300 million in funds to support k-12 education, with the largest portion being comprised of funds that are required to be used to fund the state’s share of local education expenses (the state’s education funding formula). Figure 8 shows how public k-12 education funds from the ARRA will be allocated in NH. The largest portion of education funds will support the state’s education aid distribution formula and will provide funding to support changes in the distribution formula enacted prior to the ARRA but which the state lacked funds to pay for.



### The Magnitude of Tax Breaks in New Hampshire

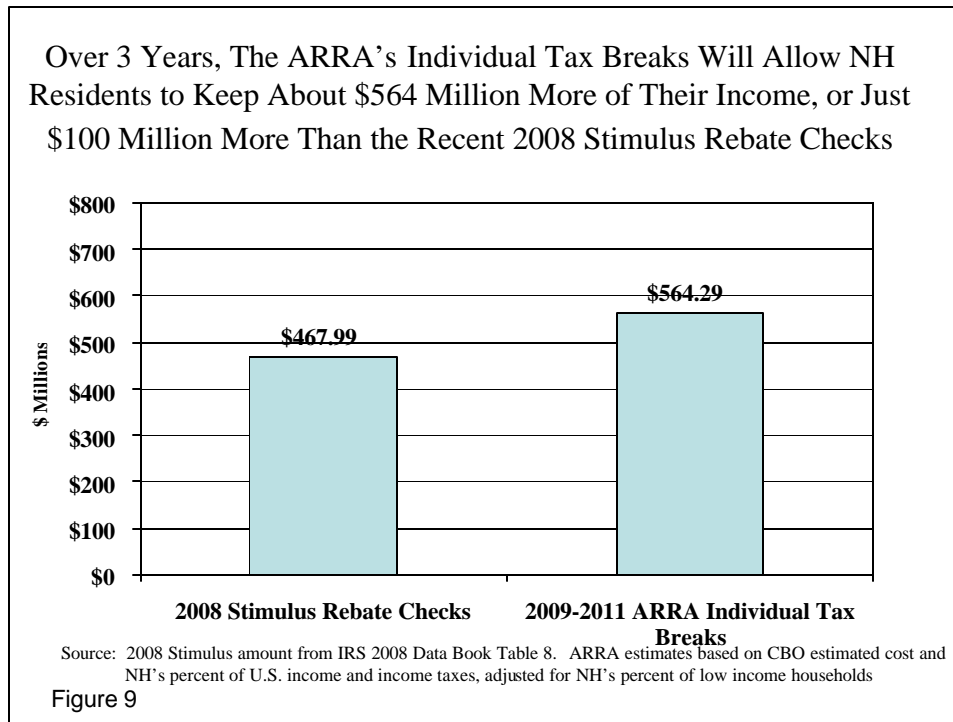
There are no official estimates (that we are aware of) of the value of the ARRA tax breaks on a state-by-state basis yet. Tax breaks account for about 30 percent of the cost of the ARRA according to the Congressional Budget Office.

We estimated the value of individual tax breaks to NH residents using 2008 data on the percentage of total U.S. tax collections (individual and corporate) that are paid by NH individuals and business. Because the ARRA's individual tax provisions are weighted more toward lower and middle class individuals, we adjusted the percentage to account for NH's relatively smaller percentage of lower income households. We also assume that the lack of a sales tax will mean the automobile sales tax credit provision of the ARRA will not be claimed by NH residents. We then applied the individual and corporate percentage to the CBO estimated cost of the tax breaks to produce an estimated value of NH tax breaks. Applied to all 50 states, this procedure will allocate the total cost of tax credits across the 50 states.

Using the above procedure, we estimate that the value to NH residents of the individual tax breaks contained in the ARRA between 2009 and 2011 to be approximately \$564 million, and the value of corporate tax breaks to be \$31 million in the first two years, followed by 8 years when corporate taxes will be higher than without the ARRA, for a net 10 year tax reduction of just \$2.5 million.

Figure 9 adds some perspective to the individual tax breaks contained in the ARRA package. The figure shows that compared to the \$468 million received by NH residents in 2008 as a result of the prior administration's and congress's one-time stimulus rebate

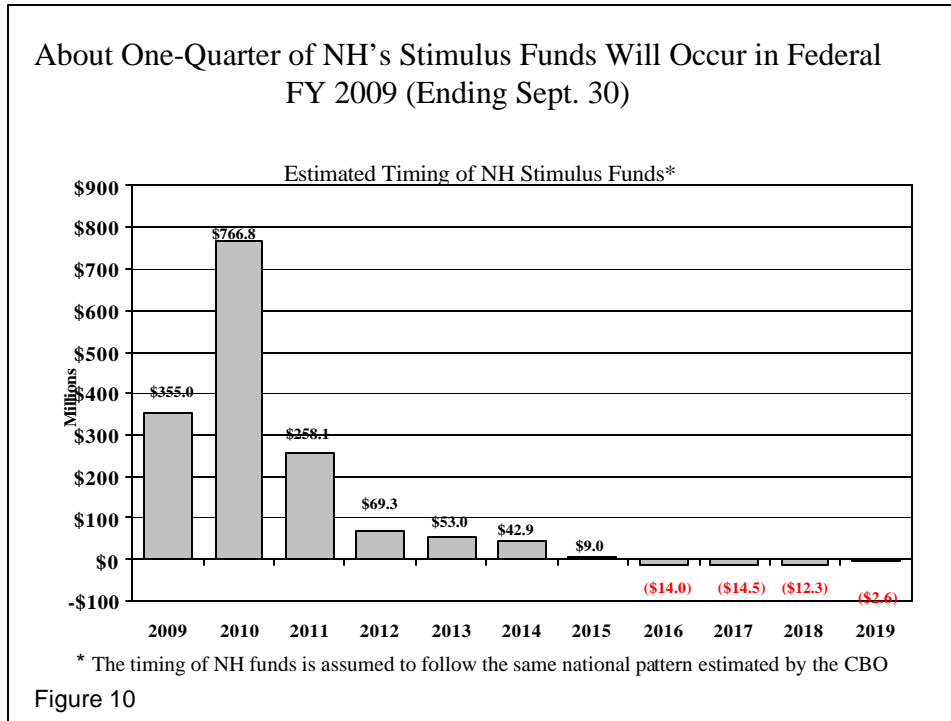
checks program, ARRA provides tax breaks totaling \$564 million over three years, or just \$100 million more than 2008's one-time rebate checks.



### The Timing of NH's Stimulus Funds

We assume that the timing of the funds available to NH will follow the same pattern of ARRA costs by expenditure category outlined by the Congressional Budget Office. Using federal and state agency reports, we have identified about \$920 million in ARRA expenditures allocated to NH. There will be additional funds allocated via competitive grants as well as programs where allocation guidelines have yet to be finalized but this amount contains all the major program sources of stimulus funds. Adding individual and corporate tax breaks, the value of the stimulus to NH is estimated at \$1.5 billion.

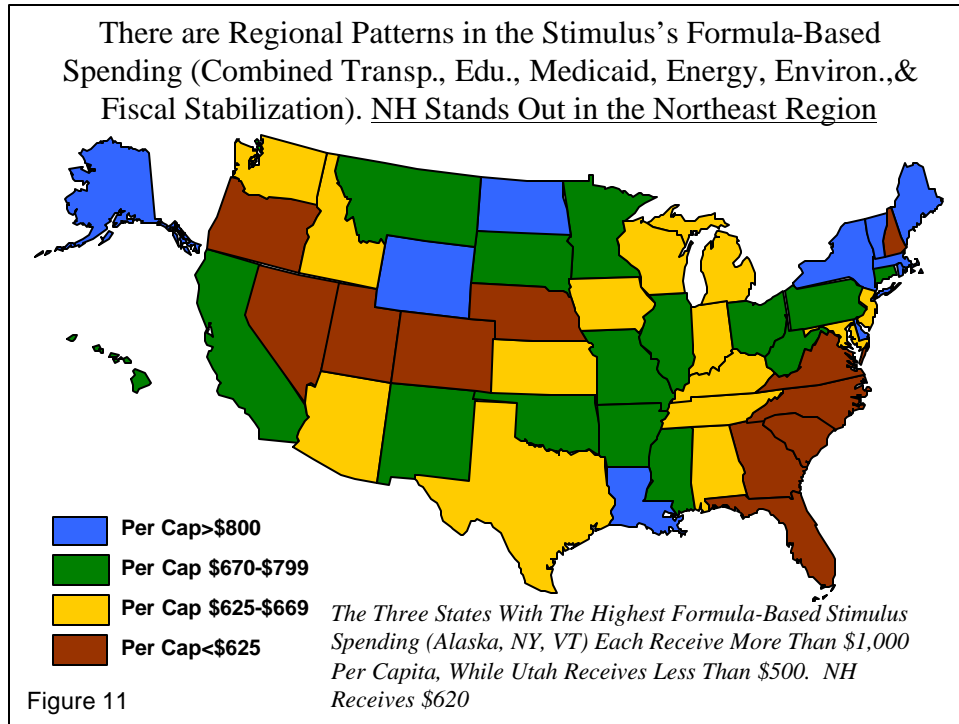
Based on NH's 2007 gross state product (GSP), the value of the stimulus in each of the first three years of the ARRA (2009-2011) is 0.95% of NH GSP in 2009 (adjusting ARRA spending to a calendar year from a federal fiscal year basis – which also improves the apparent timeliness of ARRA spending), in 2010 the stimulus is equal to 1.12% of NH GDP, and in 2011 value is 0.33% of GDP.



### NH's Share of ARRA Funds Compared to Other States

In the coming months more organizations nationally and in NH will be developing estimates of the total allocations of stimulus funds across states. To increase the accuracy of our state comparisons we include only spending measures where federal agencies have provided state allocation tables. This includes most of the largest spending measures (fiscal stabilization, Medicaid, education, transportation, and environment) but not tax breaks and many of the numerous smaller ARRA spending categories. Nevertheless the comparison is useful and final state funding totals are determined, it is likely to reflect NH's overall position among states.

Figure 11 presents the per capita ARRA funding allocated to states for the ARRA major spending programs. As the chart shows, NH is in the bottom tier of states in terms of the volume of stimulus funds the state will receive on a per capita basis. This is a familiar pattern for NH. Some federal funding, such as for transportation infrastructure, may be based on measures related to highway miles in the state but federal government fiscal policy is, and has long been, fundamentally redistributive. States with more income, lower unemployment, and fewer social problems generally pay more and receive fewer resources in return from the federal government. Whether the ARRA exacerbates this aspect of the federal government's fiscal policy is the subject for another study. What is clear is that ARRA does not fundamentally change the redistributive properties of intergovernmental relations between the states and the federal government.



## **VI. The Job Creation Potential of The ARRA**

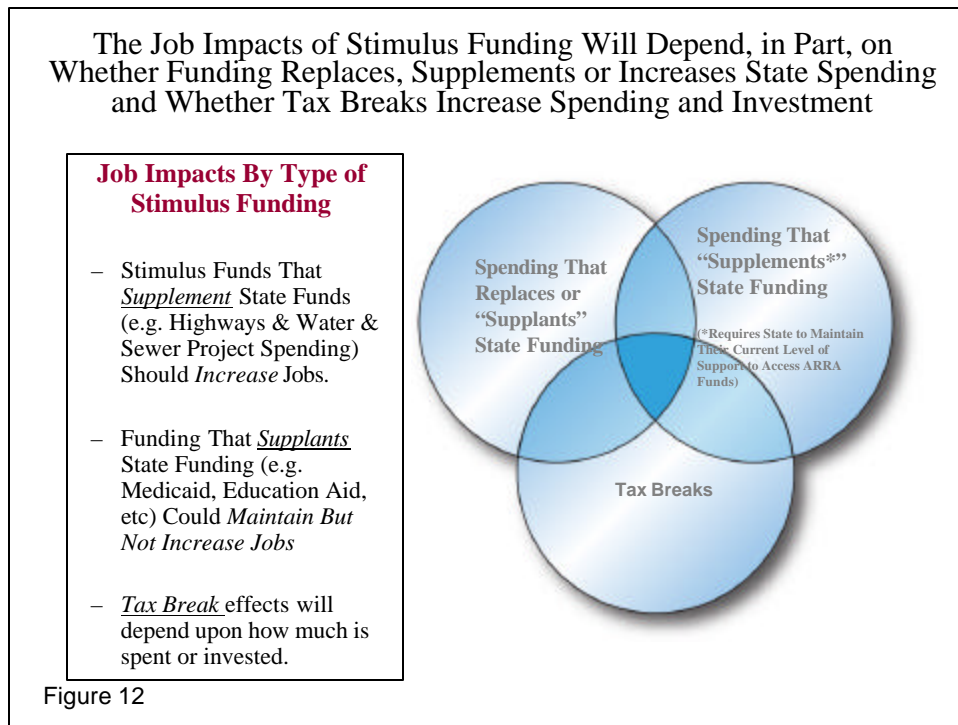
Employment numbers will soon begin to suggest whether the ARRA is effective at increasing employment but a critical task will be to sort out how the categories of ARRA expenditures (direct government spending, tax cuts, state aid, or income support) influence any job impacts and more fundamentally, the role of the ARRA and factors external to the ARRA play in labor market conditions in the coming years.

The ARRA, like any significant policy measure, is particularly vulnerable to a temporal fallacy in assessing its impacts. The temporal fallacy occurs when “B” follows “A”, and “A” is assumed to have caused “B”. Because some level of job creation or loss will follow the enactment of the ARRA, much of what follows in terms of economic conditions may be assumed to have resulted from its enactment. This issue will be the focus of follow-up analyses to this report but the reality is that the issue will likely be the subject of analyses and debate for decades to come.

The ARRA contains approximately 300 specific spending and tax provisions with spending that touches most major areas of state and local government services, and tax provisions that reach almost all households and businesses. In this environment almost any evidence of improving economic conditions and job creation is likely to be touted as evidence of the positive impacts of the ARRA. The temporal fallacy is prevalent in politics and public policy but is likely to be even more prevalent with a measure as controversial as the stimulus package.

“Jobs saved” has long been the last refuge for policies designed to improve economic conditions which appear to create few if any new jobs. Because there is no way to assess how many jobs might actually have been lost if a policy had not been enacted, claims of jobs saved are difficult to verify or refute. But few individuals, businesses, or policymakers will consider the ARRA a success unless the labor market begins to improve and offer new or increased job opportunities to a broad segment of the population.

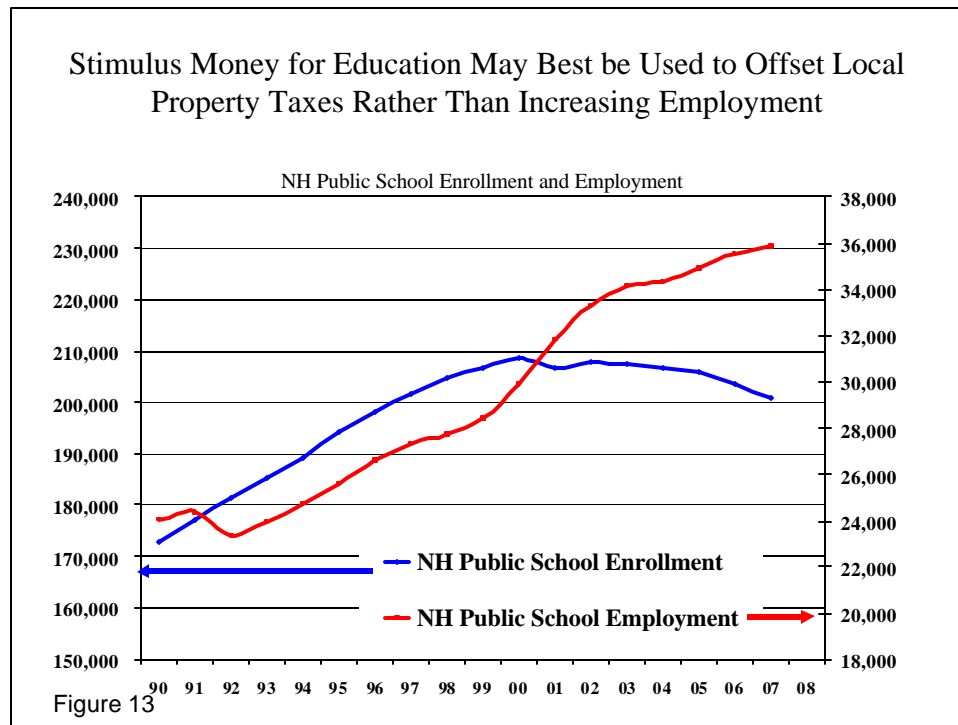
To assess the job creation potential of the stimulus it is first necessary to divide ARRA spending into broad categories according to how the spending fits into current state budgets. ARRA funds that simply supplant or replace existing state funds, such as those that pay a larger share of Medicaid costs or which help pay for the state’s share of public education expenditures, will not create jobs. Funds that supplement existing state funds, such as funding that increases the amount of highway construction or paving a state can complete in a year, will create jobs for as long as the supplemental funding is available. Tax breaks that result in additional spending or investment will also result in job creation to the extent that the money is spent or invested and not saved.



Several studies have estimated the effects of the proposed package on the economy. Administration officials Christina Romer and Jared Bernstein estimate an increase of 3.7 million jobs by the fourth quarter of 2010, 16,000 of which are expected to occur in NH. Mark Zandi of Moody’s Economy.com estimates 3.3 million in 2010 and 20,000 in New Hampshire. Citing uncertainty surrounding the effects of fiscal stimulus, the CBO projects fewer (0.8 million to 2.3 million) jobs overall but does not provide a state-by-state estimate.

The job impacts of specific spending proposals can be estimated for NH but there are still too many unknowns and possible unintended consequences to accurately forecast the total expected job creation of the plan in New Hampshire. We estimate that 1,205 construction jobs will be supported over the next 3 years in NH, or about 400 per year, as a result of the ARRA's increased highway funds for NH, while the individual tax breaks, depending upon the percentage of tax cuts that get spent, will support another 1,500 to 2,300 jobs in NH.

But the largest portion of stimulus spending (not tax breaks) that will be allocated to NH will supplant or replace state dollars with federal dollars. While this will ease some of the fiscal pressures facing state and local government, it will have little or no job creation impact (although it may prevent some job cuts). Further, it is questionable whether it would even be desirable to stimulate job creation in two sectors of the economy (public education and health care) that have experienced among the fastest job growth over the past decade. Figure 13 shows that employment in NH's public schools has continued to rise even as enrollment levels are trending downward.

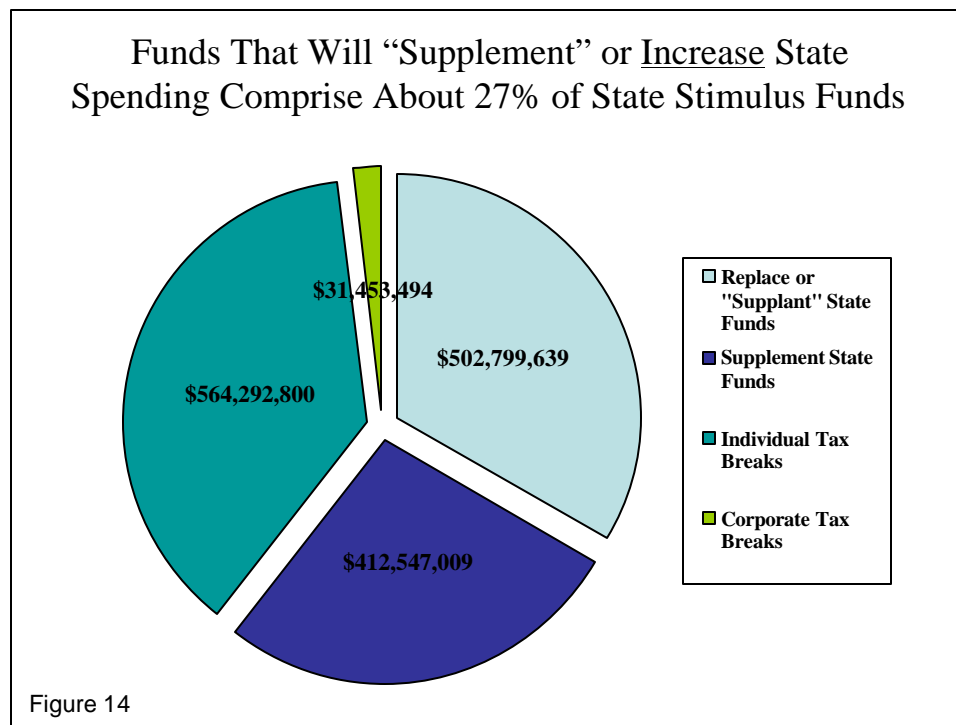


Stimulus funds for education will be welcome and have a significant impact on the finances of the state and local school districts, but the nearly \$300 million is unlikely to stimulate job creation even on a temporary basis. State and local policymakers wisely appear wary of increasing employment on the basis of a temporary funding increase.

Allocating our current (although incomplete) estimate of \$1.5 billion in stimulus funding that will be received by NH individuals, businesses, and government according

to whether the funds supplant or supplement state funds, or occur as tax breaks, provides some indication of the potential the stimulus has to increase rather than “save” jobs.

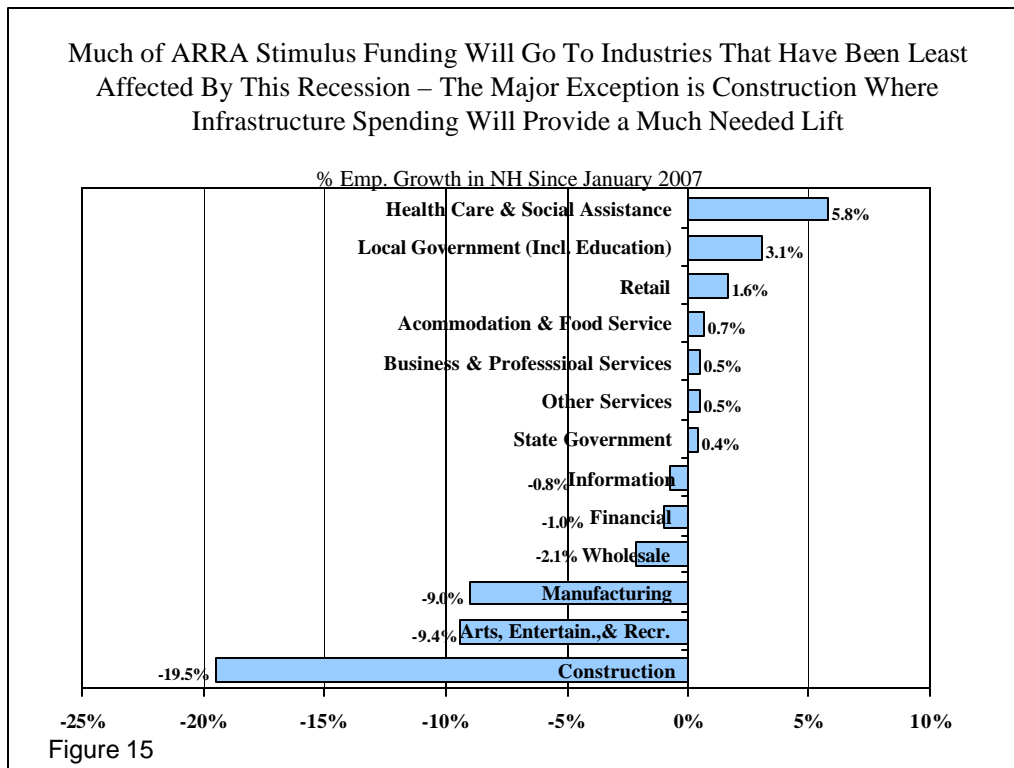
As Figure 14 shows, less than one third of ARRA funds for NH are likely to stimulate the economy via increased government purchases of goods and services. Depending on the percentage that is spent (as opposed to saved or used to pay down debt) tax breaks for individuals may be the largest source of job creating stimulus contained in the ARRA. If the ARRA’s programs to assist individuals (income support) are considered similarly to individual tax cuts (that is treated as increases in disposable income) rather than as a program expenditure, then putting more money in the pockets of individuals and families is far and away the largest source of economic stimulus and job creation in the stimulus package.



The real (as opposed to forecast) job impacts will be evident soon enough and it will be more important and productive to determine the role that stimulus spending played in job creation/decline and the overall condition of the labor market over the next few years. For industries such as construction that have been especially hard hit by downturns in the residential and commercial real estate market, as well as the fiscal stresses of state and local governments, stimulus funds are likely to have a demonstrable impact on employment. The impact on other industries in NH will be more difficult to discern and developing methods to sort the influence of the ARRA from other economic forces that will affect the labor market over the next few years should be a focus of future research on the impacts of the ARRA in NH.

We begin that process by highlighting job growth in NH by industry over the past two years (Figure 15). Over the next two years employment in these industries should be compared with the current (February of 2009) levels. More specifically, econometric models should be used to determine the expected job impacts, by industry, of the various ARRA expenditures and tax breaks (as we did with transportation funds and individual tax breaks). That is, it is not enough to claim every new job as resulting from ARRA expenditures. Evaluating the effect of the stimulus requires that more detailed employment impacts, benchmarked against current employment levels, be forecast and those forecasts compared to the actual performance of the labor market in NH.

We know that the U.S. and NH economies will get better. We also know the likely cost of the ARRA. To assess the true benefit/cost ratio of the ARRA, we need to know how much of the inevitable improvement that will occur in the economy is attributable to the stimulus.



## **VII. Conclusions**

The national and New Hampshire economies experienced a rapid decline in 2008 that provided the momentum for a massive fiscal policy stimulus package that is still being debated after its passage. Arguably few New Hampshire residents and many policymakers have a limited understanding of the ARRA and the economic rationale for its adoption or rejection. This report informs the public debate about the ARRA, its costs and potential benefits. We conclude that New Hampshire's share of the \$787 billion stimulus package will be more than \$1.5 billion, a figure that places the state near the bottom of all states in the amount of stimulus funding received on a per capita basis. We find that with the exception of infrastructure spending, the largest sources of stimulus funds to NH will go to industries that are the least affected by the current recession. We also conclude that less than half of the stimulus funds for NH for purposes of state spending (not tax breaks) will likely have a stimulus effect on job creation. Nevertheless we also find that the ARRA contains provisions that will certainly increase employment in the state, particularly infrastructure projects, income support payments to individuals in need of assistance, and individual tax breaks. Only with a careful tracking of employment changes in NH's labor market over the next few years, with particular attention to industries that benefit from stimulus funds, can NH citizens and policymakers determine whether the benefits of the ARRA will outweigh the longer-term costs of the package identified by the Congressional Budget Office and others.