

Recession, Recovery, and Stimulus

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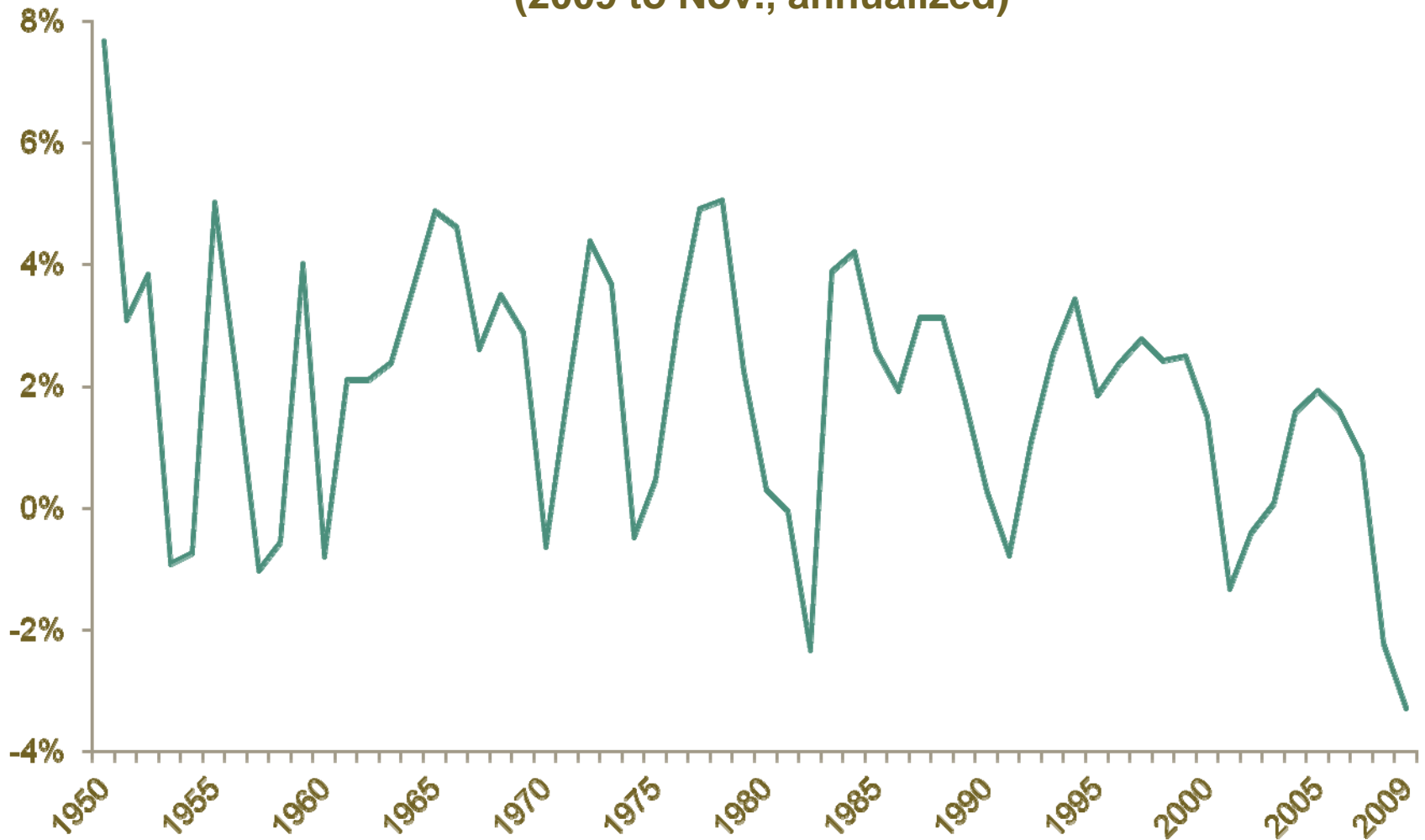
Outline

- Recession and recovery
- Federal stimulus and its effects
- The limits of stimulus



2009: slowest postwar growth

Annual employment growth, U.S.
(2009 to Nov., annualized)



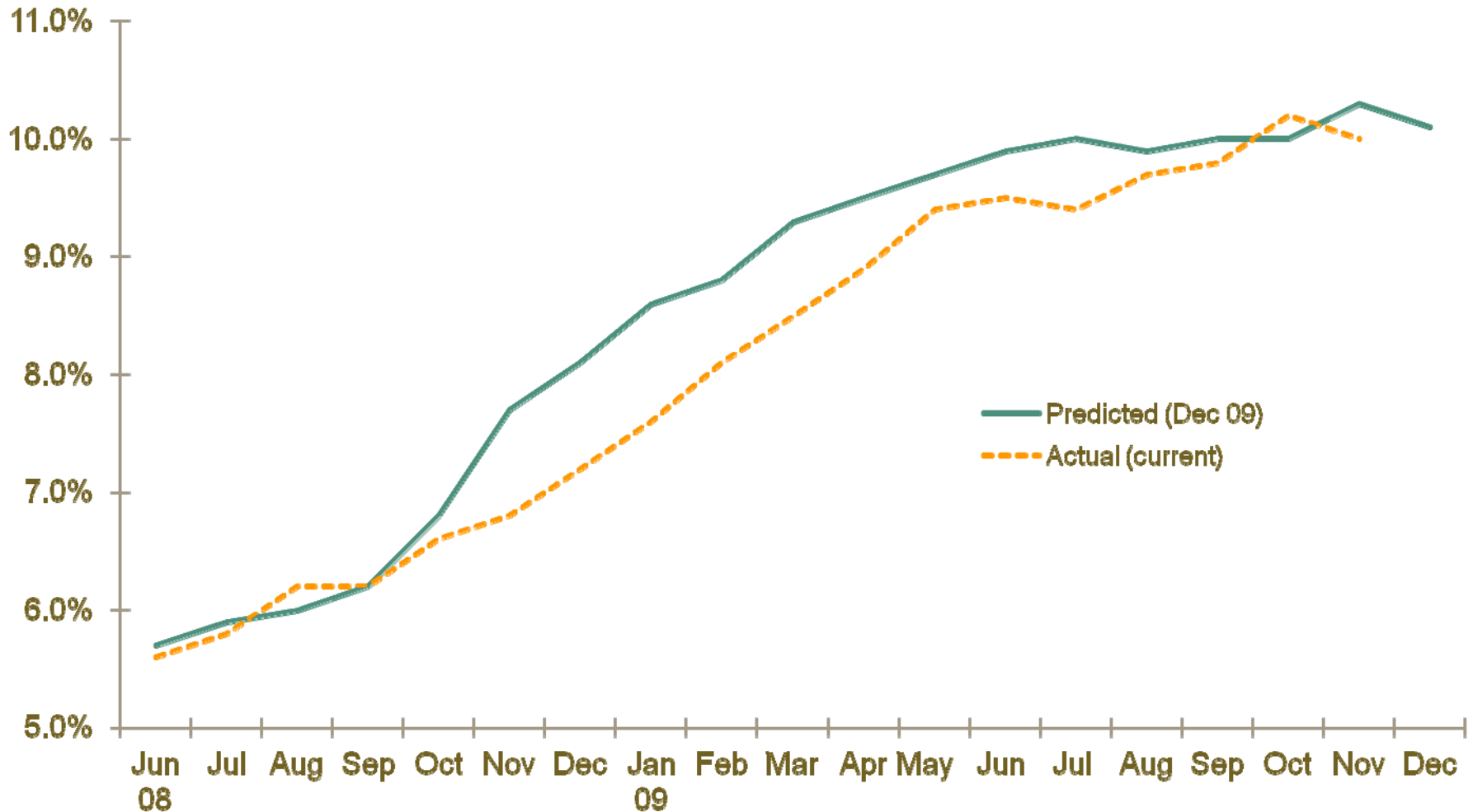
Output and jobs in the recession

Quarterly changes, seasonally adjusted and annualized, US



Forecasts: great lagging indicator

Monthly unemployment:
current actual and Dec '09 prediction from *Wall Street Journal* poll



2010 forecast: Growth with unemployment

- 3% GDP growth Q4 2009 and all 2010
- Unemployment:
 - 10.1%: December 2009
 - 9.9%: June 2010
 - 9.6%: December 2010
- Modest house price increase in 2010



Long-term economic effects of recession

- Permanently smaller construction and housing industries
- Higher savings rates, tighter credit
- Larger national debt to finance or pay off



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- **Federal stimulus and its effects**
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ARRA: \$787B Stimulus Package

- Includes:
 - 65% spending (\$513B)
 - 35% tax cuts (\$274B)
- Outlays:
 - 23% by September 2009
 - 74% by September 2010
 - 91% by September 2011



Stimulus designed to meet multiple goals

- Boost economic activity now
 - Income support programs
 - Individual tax cuts
 - “Shovel-ready” infrastructure investments
- Raise longer-term economic growth
 - Business tax cuts
 - “Forward-looking” infrastructure investments
- Deal with uncertainty of stimulus effects
 - Diversity of overall package



Not all stimulus has equal effects

- Higher
 - Federal purchases of goods and services
 - Transfers to state and local governments
 - Transfers to individuals (unemployment, insurance, etc.)
- Middle
 - Broad-based payments, tax cuts, and credits
- Lower
 - Increase in AMT exemption amount
 - Corporate tax cuts affecting cash flow

Source: CBO



The economic effect of stimulus

- Macroeconomic model
 - Raised employment by 0.6m-1.6m
 - 7.2m fewer jobs versus peak
 - 8-22% more jobs gone without stimulus
 - Lowered unemployment by 0.3-0.9 points
- Recipients' reporting
 - Include jobs that might have been created anyway
 - Exclude indirect effects and tertiary recipients

Source: CBO

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- **The limits of stimulus**



What stimulus won't do

- Fix root causes of recession
 - Housing price bubble
 - Financial crisis
- Raise savings rate
- Solve state budget challenges



Stimulus and the states

- Federal stimulus closed $\frac{1}{4}$ of California's budget gap
 - Nothing extra for states with bigger fiscal crises
 - Some stimulus money is outside general fund
- State budget-balancing works against stimulus
 - that's why feds aid states



What's different in California

- Job growth tracks the U.S.
- Unemployment persistently higher
- Housing prices declined more
 - Construction and finance jobs losses
- State budget crisis limits stimulus options

- The recession and recovery are largely beyond California's control



Summary

- Recession may be over, but labor market lags behind
- Stimulus has modestly softened recession but most hasn't been disbursed yet
- Stimulus leaves housing, finance, and state budget problems unsolved
- Stimulus packages have multiple goals and compromises

