



ESTIMATES OF ECONOMIC EFFECTS BY TYPE OF STIMULUS

SUMMARY: The recently passed American Recovery and Reinvestment Act includes numerous provisions to stimulate the economy. Analysis of select provisions from the act shows that spending increases for food stamps, expanded unemployment insurance, infrastructure and aid to states exhibit the most potential to support the economy.

Fiscal Stimulus – a Review of Select Provisions

One important feature of fiscal stimulus includes provisions to put money back into the economy quickly. By designing a stimulus program that puts money in the hands of people who will spend it – versus using funds to increase savings or reduce debt – stimulus funds have a higher likelihood of generating economic activity. Prior to the passage of the American Recovery and Reinvestment Act, economist Mark Zandi of Moody's Economy.com estimated the effects of a number of potential stimulus provisions – some of which are included in the final bill. Table 1 provides an overview of the estimates.

Table 1
Estimates of Economic Effects by Type of Stimulus

<u>Type of Stimulus</u>	<u>Economic Effect</u>
Tax Cuts	
Non refundable lump sum tax rebate	1.01
Refundable lump sum tax rebate	1.22
Temporary Cuts	
Payroll Tax Holiday	1.28
Across the board tax cut	1.03
Accelerated Depreciation	0.25
Permanent Tax Cuts	
Extend AMT tax patch	0.49
Make bush income tax cuts permanent	0.31
Make dividend and capital gains tax cuts permanent	0.38
Cut in corporate tax rate	0.30
Spending Increases	
Extending UI Benefits	1.64
Temporary increase in food stamp benefits	1.73
General aid to state governments	1.38
Increased infrastructure spending	1.59

Source: Moody's Economy.com;

<http://www.economy.com/mark-zandi/documents/House-Steering-and-Policy-Committee-January-6-2009.pdf>

For every \$1 in increased spending on food stamp benefits, real Gross Domestic Product (GDP), a measure of the nation's economy, increases by \$1.73. In another example, for every \$1 reduction in federal tax revenue resulting from the tax cuts associated with an AMT tax patch, real GDP increases by \$0.49. People who receive food stamps or unemployment insurance benefits are more likely to spend any additional money received quickly and moving it into the economy. Conversely, increased disposable income resulting from tax cuts – especially to higher income individuals – is likely to be split between savings and spending reducing the ultimate stimulus effect on real GDP.