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Comparing the Stimulus Packages

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Yesterday, the Senate passed its version of the *American Recovery and Reinvestment Act of 2009* by a vote of 61 to 37. Differences between the House and Senate are being worked out in a conference committee.

In total, the House bill costs roughly **\$820 billion** over ten and a half years, while the Senate bill costs **\$838 billion**. Although similar in size, the two stimulus bills contain a number of important differences. The Senate version relies more on tax cuts and less on spending than its House counterpart; and money is distributed more quickly.

Compared to the House version, the Senate version has roughly \$100 billion less in spending, including around \$40 billion less in aid to States, \$20 billion less for school construction, and \$17 billion less for health insurance for the unemployed. The Senate version also includes well over \$100 billion in additional tax cuts, including \$70 billion to patch the Alternative Minimum Tax (AMT), \$39 billion for a New Homebuyer Tax Credit, and \$11 billion for tax incentives to new car buyers, not in the House version.

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Figure 1: Stimulus Spending by Category (in billions)ⁱ

STIMULUS TYPE	HOUSE	SENATE
Infrastructure	\$159.8	\$134.3
Food Stamps	\$20.0	\$16.6
Unemployment	\$38.7	\$39.5
Health Care	\$167.0	\$149.4
Aid to States	\$111.0	\$69.2
Corporate Tax Cuts	\$20.4	\$21.4
Individual Tax Cuts	\$184.2	\$219.7
AMT Patch	\$0.0	\$69.8
Tax Subsidies for Bonds	\$70.2	\$39.9
Other Stimulus	\$48.9	\$78.3
TOTAL	\$819.5	\$838.2

Note: Over 10 ½ year period.

Spendout Rates

One measure of an effective stimulus is how fast the government can distribute money into the economy. In theory, a shorter “inside lag” means the chances are better that the stimulus will reach the economy in time to aid a recovery, rather than creating unnecessary debt and inflation. However, faster spend-out rates increase the risks of lost efficiency, inadequate oversight, and the use of money for less worthy projects, as efforts to enact spending quickly might make it difficult to spend the money carefully.

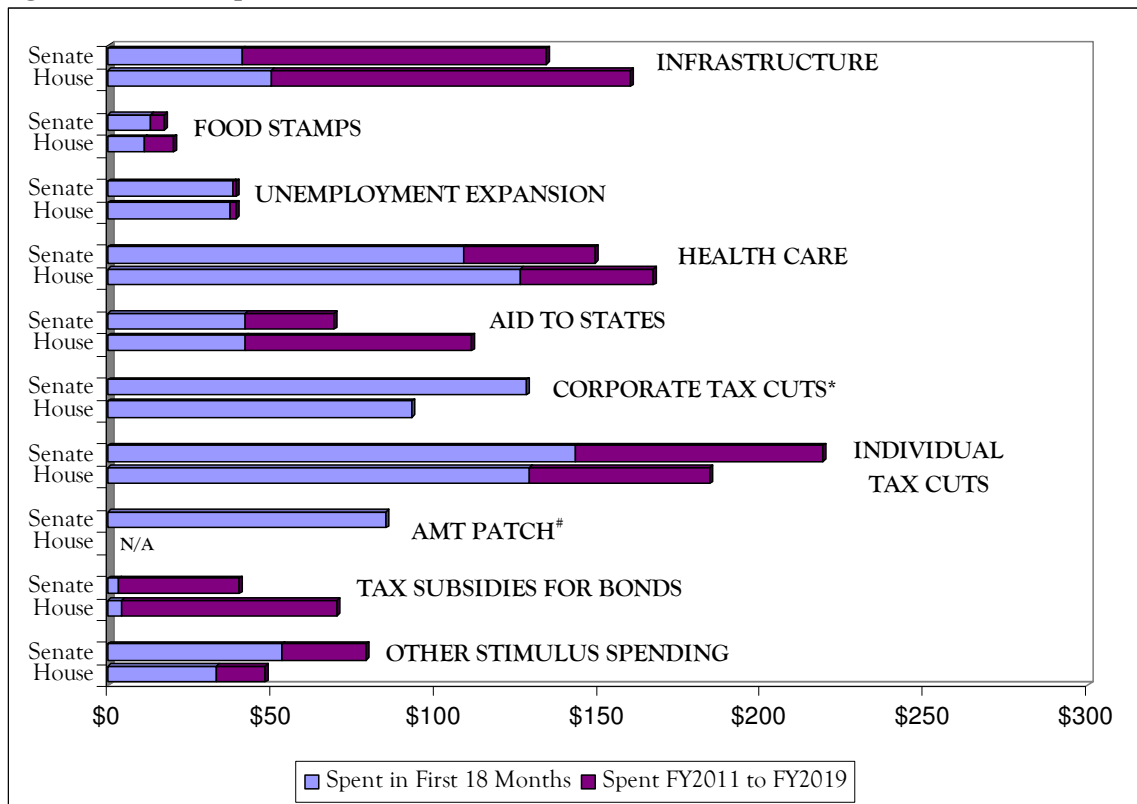
Overall, the Senate version of the bill has a much faster spend-out rate. It would spend **26 percent** of the package by the end of FY2009, **78 percent** after a year and a half, and **95 percent** after two and a half years. In comparison, the spend-out rate in the House version would be, respectively, an estimated **21 percent**, **64 percent**, and **85 percent** in the House.. The year-by-year cost of each package is projected by the CBO as follows:

Figure 2: Cost of Stimulus Measures (in billions)ⁱⁱ

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2019
Senate	\$214	\$441	\$137	\$26	\$16	\$9	\$3	-\$1	-\$3	-\$4	-\$2	\$838
House	\$170	\$356	\$175	\$49	\$26	\$24	\$11	\$0	\$1	\$3	\$4	\$820

Within the packages, different types of stimulus have different pay-out rates. Food stamps and unemployment benefits, for example, can be issued very rapidly – as can many types of tax cuts. Spending on infrastructure or funding for state and local governments, meanwhile, could take a much longer time to be spent out.

Figure 3: Stimulus Spend-out Rates (in billions)ⁱⁱⁱ



* Because these provisions generally allow businesses to defer rather than avoid taxation, most of the revenue lost in the first 18 months is recovered in the out years.

A small portion of the revenue lost from patching the AMT would be recovered in FY2011, assuming another patch was not enacted.

Although important, the speed at which the government can disburse a stimulus item should not be the only criteria by which effectiveness is measured. Also important is the “outside lag” – how fast the money can move through the economy once spent by the government – and ultimately, the “fiscal multiplier” (discussed below). Measures with the most rapid spend-out rates are not necessarily more effective stimulus in the end. For example, most of the stimulus from the corporate tax breaks in the Senate bill is expected to occur in the first 18 months. Yet most analyses find these measures to have relatively low “bang for the buck” over time. It is critically important that the final stimulus package contains the right balance of provisions with high spend-out rates versus provisions with a high bang for the buck: a high spend out rate will help prevent the economy from slipping into a deflationary downward spiral, and a high bang for the buck will help ensure that for every dollar of government debt, the taxpayer gets a high return through stronger economic activity, including job creation,

Fiscal Multipliers

The “fiscal multiplier” of a given stimulus policy is the amount of economic activity generated per dollar spent by the government. Although there is some consensus on generally effective stimulus measures (food stamps, unemployment, well-targeted tax relief, etc), considerable disagreement exists among economists over even the fundamental questions of whether government spending or tax cuts offer a better type of stimulus. This question is an important one given that the Senate bill is 44 percent tax cuts (\$368 billion), while the House bill is only 33 percent tax cuts (\$268 billion).

Some research suggests that government purchases should have a higher multiplier since a direct purchase ensures that the *initial* impact of the stimulus would be to increase economic activity by the full value of the purchase – rather than by the amount a taxpayer (including a business) is willing to spend. However, in fairly recent work, notable economists have argued that certain types of tax cuts might have higher multipliers due in part to positive supply-side incentives for labor and investment. Other economists have expressed skepticism that stimulus will have any real effect, pointing both to theory from several schools of economic thought (rational expectations theory, for example), and empirical evidence which suggests lower multipliers than would be expected based on theoretical models.

Figure 4: Multiplier Estimates^{iv}

Economist	Tax Multiplier	Spending Multiplier
Barro		0.0-0.8
Blanchard and Perotti	1.33*	0.9*
Krugman	0.75	1.5
Macroeconomic Advisers	0.4-1.2 [#]	1.6-2.0 [#]
Moody’s Economy.com	0.25-1.28 [#]	1.38-1.63 [#]
Mountford and Uhlig	3.23*	0.52*
Romer and Bernstein	0.99*	1.57*
Stiglitz		2

*Estimates represent maximum multiplier

[#]Range covers estimates for a variety of policies falling under the categories above

While these economists have provided generalized multipliers for the public debate, the reality is that different types of spending and tax cuts have different multipliers. Several econometric models have aimed

to calculate multipliers based on policy type. Below are the multipliers used by the Congressional Budget Office to assess the short-term macroeconomic impact of the stimulus package.

Figure 5: CBO Policy Multipliers^v

Policy Multipliers: The Cumulative Impact on GDP over Several Quarters of Various Policy Option		
	High	Low
Purchases of Goods and Services by the Federal Government	2.5	1.0
Transfers to State and Local Governments for Infrastructure	2.5	1.0
Transfers to State and Local Governments Not for Infrastructure	1.9	0.7
Transfers to Persons	2.2	0.8
Two-Year Tax Cuts for Lower- and Middle-Income People	1.7	0.5
One-Year Tax Cuts for Higher-Income People	0.5	0.1
Tax-Loss Carryback	0.4	0

Source: Congressional Budget Office.

Note: For each option, the figures shown are a range of "multipliers," that is, the cumulative change in gross domestic product over several quarters, measured in dollars, per dollar of additional spending or reduction in taxes.

It is important to note that all the multipliers presented above are highly uncertain, even in normal times. Given the unusual nature of the current economic and financial crisis – which includes severe liquidity constraints, a dysfunctional credit market, and heightened consumer and business uncertainty, expected multipliers should have even larger margins of error.

* * *

As negotiators work to reconcile the House and Senate stimulus bills, they should focus their efforts of maximizing the effectiveness of the overall package. This means passing a stimulus that spends out quickly, consists of provisions with high fiscal multipliers, and is credibly temporary ([see CRBF release on avoiding permanent policies](#)). Policymakers must also move to address the nation’s rising debt as the economy recovers. Failure to bring long-term deficits under control will reduce long-term economic growth and reduce the government’s capacity to deal with any future economic downturns.

ⁱ Authors’ calculations from Congressional Budget Office (<http://www.cbo.gov/ftpdocs/99xx/doc9976/hr1aspassed.pdf>, <http://www.cbo.gov/ftpdocs/99xx/doc9976/hr1aspassed.pdf>) and Joint Committee on Taxation (<http://www.jct.gov/x-18-09.pdf>, <http://www.jct.gov/x-14-09.pdf>).

ⁱⁱ Ibid.

ⁱⁱⁱ Ibid.

^{iv} Christina Romer and Jared Bernstein (http://otrans.3cdn.net/ee40602f9a7d8172b8_ozm6bt5oi.pdf), Olivier Blanchard and Roberto Perotti (<http://www.mitpressjournals.org/doi/abs/10.1162/003355302320935043>), Paul Krugman (<http://krugman.blogs.nytimes.com>), Andrew Mountford and Harald Uhlig (<http://sfb649.wiwi.hu-berlin.de/papers/pdf/SFB649DP2005-039.pdf>), Joseph Stiglitz (http://www.ft.com/cms/s/0/a78e69a4-e30d-11dd-a5cf-0000779fd2ac.dwp_uuid=3fc493e4-e3f2-11dd-8274-0000779fd2ac.html), Mark Zandi (http://budget.house.gov/hearings/2009/01.27.2009_Zandi_Testimony.pdf), Macroeconomic Advisers (*MacroFocus*, January 15, 2009), and Robert Barro (<http://online.wsj.com/article/SB123258618204604599.html>).

^v Congressional Budget Office (<http://www.cbo.gov/doc.cfm?index=9619>).