

## **ARRA Provides Economic Stimulus, Not Stagnation**

John Dove's recent commentary that the impact of the American Recovery and Reinvestment Act (ARRA) has been economic "stagnation" is flawed and misleading. Dove further asserts that Paul Krugman wants a second stimulus because the first one isn't working and uses these two assumptions to conclude that, "At what point and after what cost will we all truly wake up and learn that government meddling in the economy only hurts and prolongs rather than helps and relieves economic problems." Let's examine these two underlying assumptions in further detail.

After only six months and one-quarter of the \$787 billion ARRA dollars actually spent, isn't too early to conclude that ARRA isn't working? In fact, there is plenty of data to show how ARRA is "meddling in the economy" to minimize hurt and relieve economic problems. Both Mark Zandi, Chief Economist at Moody's Economy.com and a former advisor to John McCain's presidential campaign, and Goldman Sachs estimate that ARRA has led to substantial impacts on economic growth in the second quarter of 2009. They conclude that without the stimulus the economy (GDP) would have shrunk by 3-4 percent, instead of the annualized 1 percent.

Joblessness is also on the decline. For the first time in 15 months the national unemployment rate declined. West Virginia's unemployment rate also declined in July, the first decline in 12 months. According to Fed Chairman Ben Bernanke the economy now appears to be "leveling out." The free fall in monthly job losses has been cut in half from an average of 450,000 per month to 247,000 in the month of July.

The Dow Jones, Nasdaq, and the S&P 500 are regaining previously lost market positions. Finally, the Chief Economist of Decision Economics, a private New York forecasting firm concluded, "the signs of stimulus are there...Government-federal, state and local- is helping take the economy from recession to recovery. I think it's the primary contributor."

Dove provides no concrete data that ARRA isn't working. The economic impact of ARRA will emerge fully as we move into the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2009 and into 2010 as the remaining balance of stimulus funds works its way into the economy.

Dove's misunderstanding of ARRA's stimulus effects also leads him to incorrectly conclude that Paul Krugman's request for a second stimulus is confirmation that the initial stimulus hasn't worked. Krugman, like many economists, originally believed that the stimulus wasn't large enough to counteract the \$2.6 trillion two-year shortfall in demand. Krugman has been lamenting over the inadequate size of the stimulus plan from the very beginning. In fact, Krugman wrote a letter in January urging incoming President Obama to enact a stimulus plan that would provide \$800 billion in federal spending in 2009 and 2010—ARRA spending amounts to only half of this.

A second stimulus is needed if we want to recover the nine million jobs lost and to increase aggregate demand and consumption in our economy. Dove's concern of the long term need to create wealth plays second fiddle to the short term need to create jobs. Paychecks keep working families in their homes and provide for their immediate economic needs. Paychecks play an

important role in wealth creation; paychecks prevent the erosion of current wealth which naturally occurs as jobless families lose their homes once their accumulated savings and assets are gone.

The evidence shows that the stimulus of \$288 billion in tax cuts and the \$499 billion in spending is working to support consumption and minimize the loss of jobs. Mr. Dove, the answer is economic stimulus, not stagnation.