Analytics

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RE: Stimulus Spending

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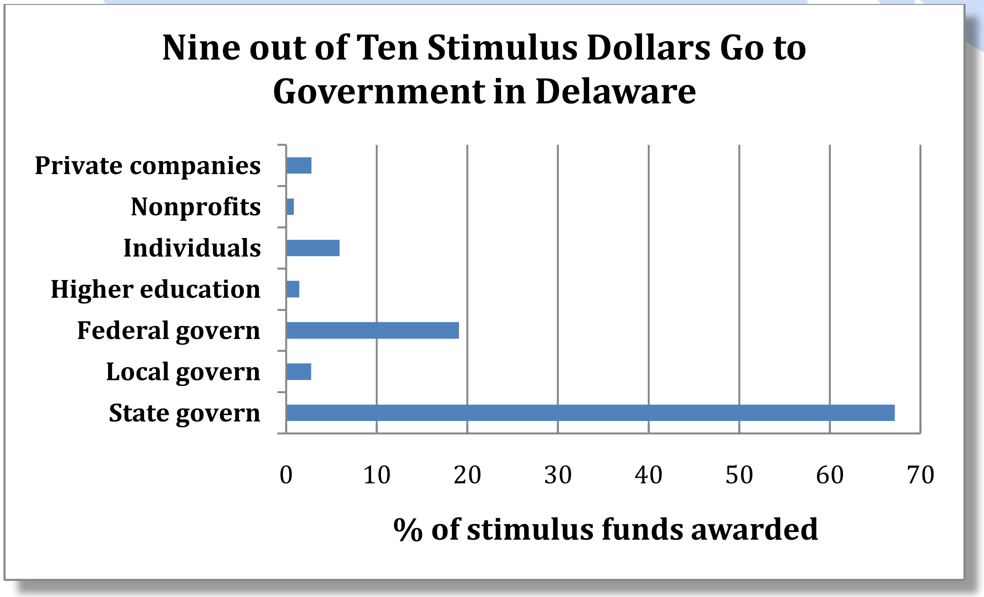
THE STIMULUS THAT ISN'T

Delaware was awarded $1.463 billion under the American Recovery and Reinvestment Act. After a year, almost 22% of the three-year stimulus money has been spent. The impact on Delaware's economy has been and will remain minimal. The primary purpose of this Act is to maintain government at the expense of the remainder of the economy.

This is seen clearly in Chart 1. Over 90% of Delaware's stimulus money is awarded to government while less than 1% is awarded to nonprofits, 6% to individuals and almost 3% to private companies.

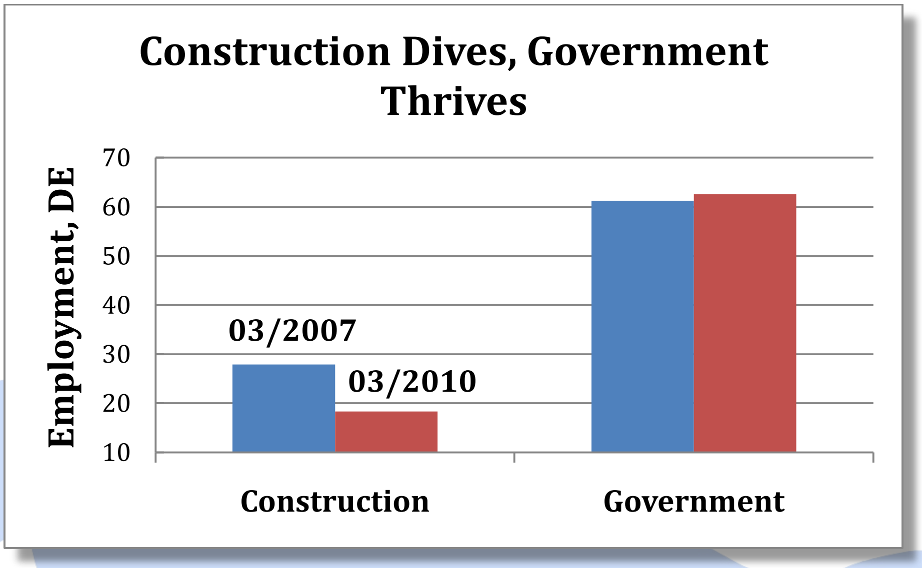
Chart 1



Source: State of Delaware

Charts 2 and 3 confirm the economic impacts to date. Despite one year of stimulus spending, from before the recession (March, 2007) to date (March, 2010) total employment in Delaware has dropped 6%, construction employment has fallen 34% and government jobs in Delaware have *risen* by 2%.

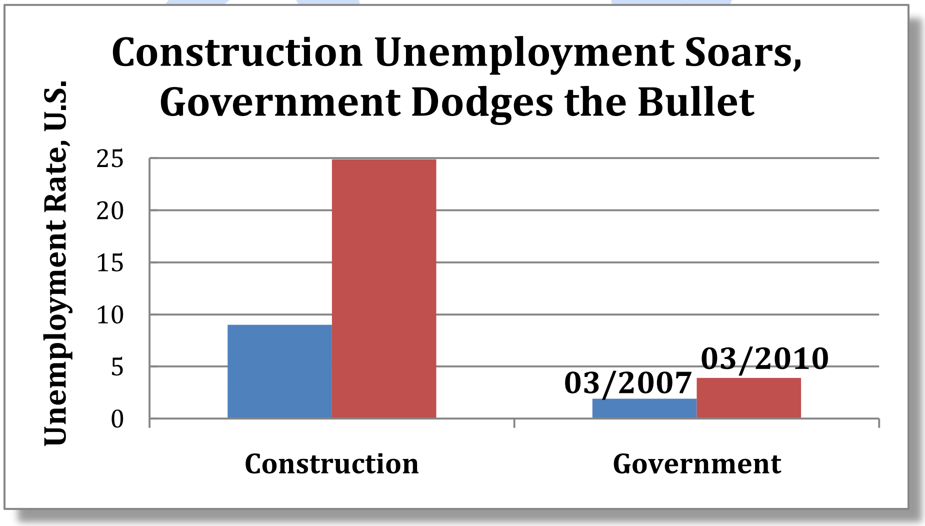
Chart 2



Source: BLS

Over the same time period, Delaware's unemployment rate jumped from 3.4% to 9.2%, nearly a historical high. Across the nation, the unemployment rate in construction is approaching 25% while the unemployment rate in government has hardly budged.

Chart 3



Source: BLS

Not all of the stimulus money will, of course, remain with government. Net of administrative costs, over one-fifth of the funds will be used for Medicaid reimbursements to healthcare providers. This ostensibly keeps the fiscal burden from Delaware taxpayers. Despite these funds, however, Delaware raised the top personal income tax rate, the gross receipts tax rate and the cigarette tax rate, and reinstated the estate tax on the affluent. Moreover, there has been little discussion of where the revenue will come from to support this expanded Medicaid coverage once the stimulus funds disappear. The same applies to the $45 million boost to unemployment insurance benefits, the $189 million being used to avoid cutbacks in public education, the $29 million increase in SNAP benefits, and the funds whose sole purpose is to help close the state's budget deficit.

Also, some stimulus funds net of administrative fees are destined for capital projects. Highway and bridge projects are slated to receive $122 million and $62 million is for construction at the Dover Air Force Base. The key issue here is whether the construction contracts will go to Delaware firms and Delaware construction workers. For the Delaware economy to benefit the multiplier effects must be primarily captured in the state. The experience with the Indian River bridge project is not heartening. The state estimates that through the end of 2009 the stimulus funds have created or retained between 1,493 and 4,406 jobs. Thus the jobs created or retained range between 0.4 and 0.9 percent of total employment in Delaware. The largest portion of these jobs to date is accounted for by "purely job retention" in local school districts. Further, this data does not reflect a net change in jobs. According to the BLS JOLTS data, at least 85,000 jobs are created each year in Delaware even when there is a net drop in total employment.

For the most part, it appears that the stimulus funds simply delay the day of reckoning that government in Delaware has been living beyond its means. If growing government grows Delaware's economy, then we are on the right track.

Dr. John E. Stapleford, Director
Center for Economic Policy and Analysis