

## The Stimulus Bill: The Other Long-Term Deficit Challenge

By Alex Brill

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### A. Introduction

While there has been much discussion in the media about the potential long-term negative impact of some healthcare reform proposals pending in Congress on the U.S. fiscal deficit, there has been scant attention paid to the potential impact of the recently enacted stimulus bill on the long-term deficit. This article identifies and discusses the policies contained within the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5) that are likely to become permanent and attempts to quantify their cost. I identify more than \$130 billion in annual increased spending or tax reductions likely to materialize an annual deficit increase of more than \$130 billion from the extension of policies initiated in ARRA.

### B. Overview of the Stimulus Bill

ARRA was signed into law on February 17, 2009. The final conference report to the agreement passed the House 246 to 183 and passed the Senate 60 to 38. The bill, intended to provide a fast-acting and temporary economic stimulus to the economy, contains a mix of tax cuts and spending increases. The major categories within the bill include \$288 billion in tax cuts, \$144 billion in transfers to the states, and \$357 billion in federal spending. The three-year cumulative deficit impact of the bill is \$719 billion, the seven-year impact is \$809 billion, and after that the bill actually reduces the deficit by about \$7 billion a year. The bill is widely cited as costing \$787 billion, the 10-year cumulative deficit impact. I estimate that the average annual impact of the bill through fiscal 2011 (excluding the one-time \$70 billion alternative minimum tax patch) to be \$250 billion per year.<sup>1</sup> Table 1 on the

<sup>1</sup>The total cost of ARRA over the period fiscal 2009 to fiscal 2011 is \$719 billion. The AMT patch costs \$70 billion. Because the bill was enacted into law in February 2009, I divide the total amount (excluding AMT) by 2.6.

following page (reproduced from the Congressional Budget Office report) summarizes the budget impact of the bill.

### C. Estimating the Long-Run Impact of ARRA

The intent of this article is not to devise a precise estimate of the cost of future policy but rather to demonstrate that the long-run budgetary impact of the stimulus bill will be larger than generally reported — in fact, it will be larger than that of current healthcare reform proposals. To estimate the impact of the stimulus bill as a result of the likely permanent extension of some policies, I undertook a simple two-step process. I first determine whether the policy is likely to be extended and, if so, then estimate an approximate annual budget impact of the extended policy.

To determine whether a particular policy is likely to become permanent, I reviewed President Obama's fiscal 2010 budget proposal and made educated guesses based on the likely congressional attitude toward allowing identified programs that would be politically unpopular to eliminate once enacted. In some instances, there is historical precedent to draw on. For example, because unemployment benefits have been regularly extended by Congress during recessions without being made permanent, I do not project that policy to become permanent.

To estimate the cost of extending a given policy or program, I draw on a variety of sources and methods. For tax policies, I generally used Joint Committee on Taxation estimates as those numbers are consistent with the estimating method for ARRA and are binding in the congressional budget process.<sup>2</sup> For spending proposals whose levels are not affected by the business cycle (for example, National Institutes of Health (NIH) spending), I attempted to determine the average annual cost based on the CBO's estimate of ARRA,<sup>3</sup> and I generally used the estimate for fiscal 2010, the first full year that ARRA was in effect.

Finally, I excluded any policy costing less than \$1 billion per year from this analysis, as well as any policy that existed previously and was only extended by ARRA. As discussed below, I also excluded other items from the analysis. I now discuss the items expected to be made permanent.

<sup>2</sup>JCT, "Estimated Budget Effects of the Revenue Provisions Contained in the Conference Agreement for H.R. 1, the 'American Recovery and Reinvestment Act of 2009,'" JCX-19-09, Feb. 12, 2009, Doc 2009-3215, 2009 TNT 28-17; and JCT, "Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2010 Budget Proposal as Described by the Department of the Treasury," May 2009, JCX-22-09, Mar. 30, 2009, Doc 2009-7128, 2009 TNT 59-24.

<sup>3</sup>CBO, "Estimated Macroeconomic Effects of ARRA," Mar. 2, 2009, Doc 2009-4596, 2009 TNT 40-15.

**Table 1. Year-by-Year Budget Impact of the American Recovery and Reinvestment Act of 2009**  
(by fiscal year, in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2019
Revenues	-\$65	-\$180	-\$8	\$10	\$3	\$6	\$7	\$6	\$5	\$5	—	-\$212
Outlays	-\$120	-\$219	-\$126	-\$46	-\$30	-\$28	-\$12	\$2	\$3	\$1	\$1	-\$575
Net Increase or Decrease in the Deficit	\$185	\$400	\$134	\$36	\$27	\$22	\$5	-\$7	-\$8	-\$6	-\$1	\$787

*Source:* CBO Report, Estimated Macroeconomic Effects of ARRA, March 2, 2009.

**1. Items for which permanent extension is proposed in the administration's 2010 budget.** Obama proposed extension of the following components of ARRA in his fiscal 2010 budget:

- Permanent extension of the Making Work Pay credit (estimated by the JCT to cost \$64 billion per year).
- Permanent extension of ARRA's expansion of the earned income tax credit (estimated by the JCT to cost \$3 billion per year).
- Permanent extension of the American opportunity tax credit (estimated by the JCT to cost \$6 billion per year).
- Permanent extension of ARRA's expansion of the refundability of the child tax credit (estimated by the JCT to cost \$9 billion per year).
- Expanded student financial assistance. The stimulus included substantial funding for additional federal grants for college students via expanded Pell grants. The additional funding increased the maximum Pell grant award by \$500 in 2009 and an additional \$200 in 2010. An item in the president's budget entitled, "Make Pell Grant funding mandatory and increase and index maximum awards," serves the same purpose. The president's budget estimates that the total cost of this project will be \$10 billion in 2012, which is when the stimulus dollars completely run out. The CBO estimates that this provision will cost \$15 billion in 2010. I assume that the cost of expanding the Pell grant program will be near the midpoint of the two estimates, \$12 billion per year.

These five programs alone are estimated to have a long-run annual cost of \$94 billion per year.

**2. Additional programs likely to be extended.**

**a. Health insurance assistance/COBRA.** ARRA contained a provision that provided a subsidy for the purchase of COBRA benefits for laid-off workers who lose their job between September 30, 2008, and December 31, 2009. This policy costs \$25 billion for 15 months or \$20 billion per year. Recognizing that the number of eligible workers is far greater during the current recession than it will be in most future years, I assume a long-run cost of 30 percent of that amount, or \$6 billion per year.<sup>4</sup>

<sup>4</sup>According to the Bureau of Labor Statistics, the average number of layoffs per month from October 2008 through July 2009 has been approximately 280,000 per month. In 2006, the last full year the U.S. economy was in expansion, the average number of layoffs per month was approximately 120,000 per month. Also, the average length of unemployment has increased drastically, reaching as high as 25.1 weeks in July 2009, compared with 16.8 weeks in 2006. Thus, I estimate that the

(Footnote continued in next column.)

ARRA expands funding for the Supplemental Nutrition Program (food stamps) by increasing the monthly payments scaled to the number of people per household (for a family of four, the increase is \$80 per month). The program is estimated to cost \$6 billion in 2010 and \$20 billion for 2009 through 2013. Given that the number of eligible families may decrease as the economy recovers, I estimate permanent extension of this policy to cost \$4 billion per year.

ARRA contains a tax provision that excludes \$2,400 of unemployment benefits from gross income for tax year 2009. This policy costs \$4.7 billion. The seasonally adjusted unemployment insurance rate as of August 2009 was 4.7 percent compared with an average rate of 1.9 percent in 2006. Therefore, while I expect this policy to be extended, I estimate the long-run cost to be \$2 billion per year.

**b. Education funding for disadvantaged and special education.** ARRA contains \$12 billion for an increased federal share of special education costs and \$13 billion in grants to schools to help disadvantaged kids. These funds are a fraction of the more than \$100 billion in education-related spending in ARRA.<sup>5</sup> Given Obama's stated commitment to education and the political difficulty of even contemplating a reduction in support for disadvantaged and special education, I expect the increase in federal support for these two education spending initiatives to be extended. I assume a cost of \$12 billion per year.

**c. Energy policy.** ARRA contains numerous energy programs ranging from \$20 billion in tax incentives to \$17 billion in energy efficiency and renewables funding and \$22 billion in other energy programs. Here I project the cost of only two programs: the energy efficiency and renewables spending, which costs \$3 billion in 2010, and the innovative technology loan guarantee program, which costs \$2 billion in 2011 and 2012, for a total cost of \$5 billion per year. The 14 energy tax policies included in ARRA are either too small to consider in this analysis or are extensions of already existing policies and are therefore excluded from this analysis.

unemployment intensity of layoffs (number of layoffs times average time out of work) is approximately 30 percent of current intensity when the economy is in expansion.

<sup>5</sup>See "The American Recovery and Reinvestment Act: Saving and Creating Jobs and Reforming Education," U.S. Department of Education, Apr. 3, 2009, available at <http://www.ed.gov/policy/gen/leg/recovery/presentation/arra.pdf>.

The stimulus bill contains a variety of bonding authority programs aimed at facilitating financing for infrastructure spending. This includes Build America Bonds, school construction bonds, recovery zone bonds, and associated changes with the tax treatment of bond income for AMT purposes. I estimate the long-term cost of these policies to be approximately *\$3 billion per year*.

I assume that spending for the NIH and for the National Coordinator for Health Information Technology (HIT) are both extended. The total ARRA cost for NIH is \$9.7 billion and includes \$400 million for comparative effectiveness research, \$8.2 billion for scientific research, and \$1.5 billion for construction and repair of facilities. I assume that *\$3 billion per year* is extended. The HIT coordinator spends \$2 billion in ARRA and \$1.3 billion in 2010. I assume conservatively that this will cost *\$1 billion annually* when it is extended.

The National Science Foundation receives \$3 billion from ARRA of which \$1.3 billion will be spent in 2010. I assume this will be extended at a cost of *\$1 billion annually*.

ARRA provides \$4 billion in increased spending for Employment and Training Administration including \$1.2 billion for youth activities (including summer employment for youth); \$495 million for adult services (including supportive services and needs-related payments); \$1.4 billion for dislocated worker training; and \$396 million for public employment office activities. Politically, policies such as these would be difficult to reduce. I estimate the long-run cost of extending these programs at *\$2 billion per year*, the approximate 2010 outlays in ARRA.

The stimulus bill included \$7.2 billion in funding for the Commerce Department's National Telecommunications and Information Administration and the Department of Agriculture's Rural Utilities Service to expand access to broadband technology. Of that total, \$4.7 billion is dedicated to providing broadband in unserved and underserved communities through the Broadband Technology Opportunities Program. I assume that only the Broadband Technology Opportunities Program will be extended, at an annual cost of *\$1 billion per year*.

In response to the weak financial condition of the U.S. auto industry, ARRA included a tax incentive for the purchase of a new vehicle. The sales tax deduction for new cars costs \$1.7 billion for the 10½ months that it will be in place. This program, targeted to cars costing less than \$49,500 and households earning less than \$250,000 (married), will likely be permanently extended at a cost of about *\$2 billion per year*. In final conference negotiations, Congress dropped a much larger tax incentive that would have excluded interest on auto loan payments and therefore this program will be seen by auto-sector advocates as modest.

The total annual cost of these programs likely to be extended is estimated to be *\$42 billion per year*.

**3. Large programs that may be extended, but that are assumed not to be.** There are many big-ticket items that are more difficult to determine if they will be extended. To obtain a cautious estimate, I assume that they will not be extended. They include the first-time home buyer tax credit, which was first enacted in the Housing and Economic Recovery Act of 2008 and applied to houses

purchased after April 8, 2008, and which was extended and expanded in ARRA. Given that this policy is intended to address the temporary excess supply of housing, perhaps Congress will let it expire. If Congress did extend the policy, it could cost *\$6 billion per year*.

ARRA contains \$21 billion in spending on HIT between 2009 and 2015 to encourage its adoption by physicians and hospitals. ARRA then imposes penalties for healthcare providers not equipped with qualified HIT equipment after 2015. How and if Congress will reprogram this policy is highly uncertain. Congress could increase or extend the subsidies or could increase the penalties in an effort to increase compliance. Also, the program's subsidies could be extended beyond 2015, but still eventually end. I assume the policy is not altered or extended. However, if, for example, the penalties are not imposed, the budget impact would be approximately \$5 billion per year, due to the loss of penalty revenue.

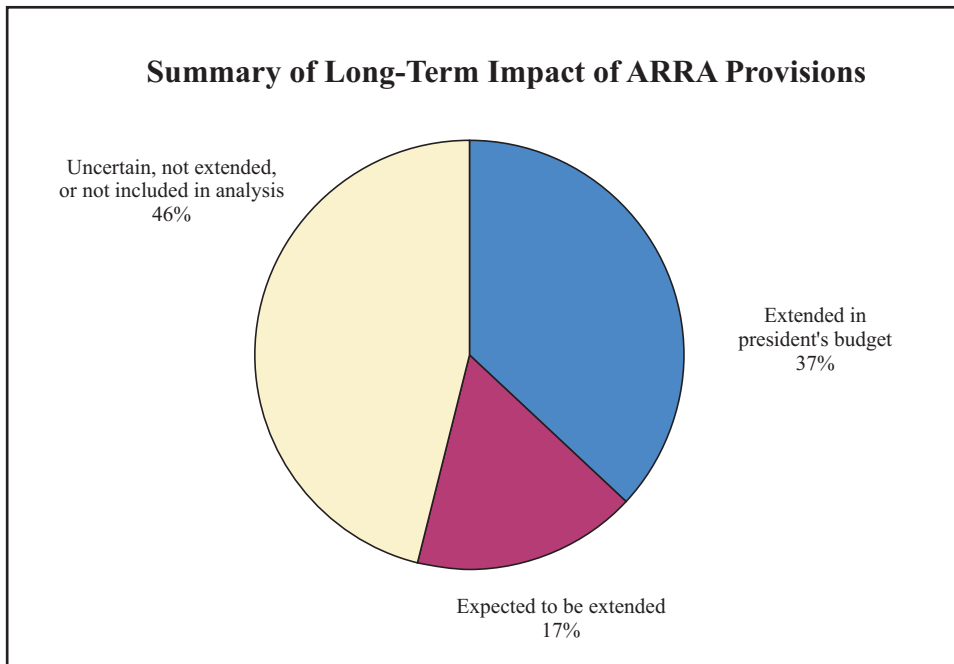
**4. Likely to be extended, but excluded from this analysis.** Some policies in ARRA are likely to continue, but are excluded from this estimate.

**a. Tax policy.** First, the one-year patch for the AMT that was included in ARRA and cost \$70 billion is a perennial tax extender rather than a new program in ARRA. While it too can be expected to continue, including it in this analysis would exaggerate the long-term impact of ARRA. Also, ARRA's extensions of a handful of other tax provisions that were scheduled to expire are excluded from this analysis for the same reason. These include section 45, qualified zone academy bonds, and the new markets tax credits. ARRA expanded, as well as extended, the latter two policies, but I exclude these expansions from this analysis because their annual cost is less than \$1 billion.

**b. Infrastructure spending.** I also exclude the funding increases for highway construction (\$25 billion) and water infrastructure (\$6 billion), as well as the funds for mass transit (\$8 billion), airport construction (\$1 billion), smart grid (\$4 billion), funds to the Army Corps of Engineers (\$5 billion), and construction at Department of Defense and Veterans Affairs (\$4 billion). In the case of highway and water, both policies are typically funded from trust funds and their costs are offset with an explicit, dedicated tax. In my view, spending on these two categories can be expected to increase by an amount greater than increases in ARRA, but those future expenditures will not be from the general treasury. It is likely that the other infrastructure spending will continue at a higher level, but it is difficult to estimate that amount on an annual basis.

**5. Adding it all up.** \$94 billion per year in the policies identified from the president's budget and the \$42 billion per year identified as also likely to be extended sum to a total of \$136 billion per year in likely permanent spending or tax cuts resulting from ARRA. When compared with the \$250 billion average annual cost of the bill, I estimate that at least 54 percent of the bill will become permanent.

It is reasonable to view this estimate as being conservative. First, nearly \$70 billion of ARRA spending is characterized in the CBO score of the bill as various categories of "other" spending, including \$22 billion in "other energy program" spending, \$20 billion in "other



The chart on this page summarizes my results.

**D. Conclusion**

This analysis indicates that the long-term consequence of the stimulus bill is likely to be large. I have identified more than \$130 billion in spending and tax cuts that can reasonably be expected to continue. There are tens of billions of dollars in programs that were not explicitly analyzed that may be extended as well.

To put this cost in context of the large debate over budget deficits, it is worthwhile to consider the current healthcare reform debate. A preliminary estimate of the America's Affordable Health Choices Act of 2009 (H.R. 3200) by the CBO projects that H.R. 3200 would increase the deficit every year after 2011, with a \$51 billion increase in 2019. In fact, CBO Director Douglas Elmendorf testified that,

"In the legislation that has been reported, we do not see the sort of fundamental changes that would be necessary to reduce the trajectory of federal health spending by a significant amount and, on the contrary, the legislation significantly expands the federal responsibility for health care costs."<sup>6</sup> While the concern regarding the impact of healthcare reform on the long-term deficit is valid, the public may be missing the larger deficit threat posed by ARRA.

transportation" spending, \$10 billion in "other Department of Health and Human Services," and \$9 billion in "other housing assistance." An analysis of the numerous programs underlying these portions of ARRA was beyond the scope of this analysis, but a rough inspection suggests that a permanent extension of all of these policies would likely cost more than \$15 billion per year.

Also, I assume that all of the funds made available for fiscal relief to the states (\$144 billion total) will be temporary. I also assume that the one-time payment of \$250 to Social Security recipients will be temporary (\$15 billion in 2009). As discussed earlier, I assume that extended unemployment insurance benefits, scheduled to cost \$20 billion in fiscal 2010, will expire.

<sup>6</sup>Greg Hitt, "Budget Blow for Health Plan," *The Wall Street Journal*, July 17, 2009, A1.