



Priming the Pump: Government Stimulus Policies





What People are Saying About the Government Stimulus Package

Bernanke- "To be useful, a fiscal stimulus package should be implemented quickly and structured so that its effects on aggregate spending are felt as much as possible within the next twelve months or so"

Pelosi- "We have to spend the money, invest the resources, give the tax relief in a way that again injects demand into the economy, puts it in the hands of those who need it most and into the middle class ... so that we can create jobs."

President Bush- "This package recognizes that lowering taxes is a powerful and efficient way to help consumers and businesses."



What *Business Week* Asked REMI About the Government Stimulus Package

- Frederick Treyz- “Computed the number of jobs that would be created if we used the \$150 billion just to eat out, say, or gamble”
- Some spending on pleasurable pursuits could ripple through the economy. The following figures assume 150 billion dollars are spent consuming one particular type of good or service.

Type of Spending	Jobs Created (Mil.)
Attending sporting events	4.7
Going out to dinner/ Getting take-out	4.1
Personal Care (Haircuts, Working Out, etc.)	3.3
Entertainment (arts, recreation)	3.2
Buying jewelry/watches	2.0




Government Spending vs. Consumer Spending

- The Connection between Government Spending and Consumer Spending
- What stimulates them?
- Saving vs. Spending: America as a Consumer Economy



What Consumption Depends Upon

- What determines consumption?
 - Region
 - Income
 - Age
 - Prices
 - Taxes



The Purpose of a Government Stimulus Package

- Stimulate the economy to avoid a Recession
- Means by which to do so:
 - Tax Rebate to Consumers
 - Tax Break
 - Business Tax Incentives



What Does it Mean for You?

- What are the benefits to a region as a result of a government stimulus package?
- How can it affect a given area?
- What are some concerns people have about government stimulus packages?
- Do they work?



Simulating a Government Stimulus Package (1)

Simulation 1

- Decrease Personal Taxes by \$600
 - This will decrease everyone's personal taxes by \$600.
 - Key Outputs
 - Consumer Spending
 - Income
 - Employment
 - Demand



Simulating a Government Stimulus Package (2)

Simulation 2: State Fiscal Stimulus

Increase real disposable income by \$600 but you *can't deficit spend* (i.e. you have to fund the rebate at some point)

- This will decrease everyone's personal taxes by \$600.
- Key Outputs (Essentially the same as the previous slide)
 - Consumer spending
 - Income
 - Employment
 - Demand



Simulating a Government Stimulus Package (3)

Simulation 2

- Tax Credit
 - Decrease Production Costs to mimic a tax break.
 - Key Outputs
 - Output
 - Demand
 - Employment
 - Labor Productivity



Coming Up Next Time

April 21st-25th

Powering the Future: Evaluating
Environmental and Energy Policy