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## BLOG ROLL

## HAPPY SECOND BIRTHDAY ARRA!

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While the budget world is caught up in the President's budget, it's time to celebrate an important birthday. On this day two years ago, President Obama signed into law the [American Recovery and Reinvestment Act \(ARRA\)](#), which provided \$821 billion in spending and tax cuts over ten years, although most of these funds were targeted for the first three years. (Previous estimates from CBO have put the cost initially at \$787 billion, then \$862, then \$814.)

For more info and background on ARRA, see our [report on ARRA](#) last year and [Stimulus.org](#) for up-to-date tracking of recovery measures.

ARRA was the centerpiece of the Administration's response to the economic downturn. Indeed, it was signed at a time of some of the most severe job losses of the recession and after growth has contracted by about negative 6.8 percent growth in the fourth quarter of

2008. In an effort to reverse this trend, the Recovery Act provided spending on numerous projects, including infrastructure spending, clean energy spending, extended unemployment benefits, increased food stamp benefits, increased Pell Grants, and aid to states.

The package also included a variety of tax cuts to help buttress the economy. The package included the creation and expansion of numerous refundable tax credits--Making Work Pay tax credit, American Opportunity tax credit, earned income tax credit (EITC), and a child tax credit--along with business tax breaks, an extension of the homebuyer tax credit, and an AMT patch. CRFB's latest estimate of the mix of spending and tax cuts puts it at **\$359 billion** and **\$306 billion**, respectively. In total, ARRA has paid out roughly **\$665 billion** so far.

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While controversy exists about the magnitude of and, to a lesser extent, the direction of the impact of ARRA, general consensus among economists is that it significantly helped the economy. CBO's latest estimate in November 2010 said that through the third quarter of 2010, ARRA had lowered the unemployment rate by somewhere between 0.8 percent and 2.0 percent and raised real GDP by between 1.5 percent and 4.2 percent. CBO's employment estimates from ARRA correspond to between 1.4 and 3.7 million more people (or full-time equivalents) employed as a result of ARRA.

	GDP			Employment (millions)		
	2010: Q1	2010: Q2	2010: Q3	2010: Q1	2010: Q2	2010: Q3
CEA: Model Approach	+2.5%	+2.7%	+2.7%	+2.2	+2.5	+2.7
CEA: Projection Approach	+2.7%	+2.7%	+2.7%	+2.7	+3.4	+3.7
CBO: Low	+1.7%	+1.7%	+1.5%	+1.2	+1.4	+1.4
CBO: High	+4.1%	+4.5%	+4.2%	+2.8	+3.4	+3.7
IHS/Global Insight	+2.0%	+2.2%	+2.3%	+1.7	+2.1	+2.3
Macroeconomic Advisers	+1.7%	+2.1%	+2.1%	+1.5	+1.8	+2.1
Mark Zandi, Moody's Economy.com	+2.5%	+2.7%	+2.7%	+1.9	+2.2	+2.6
<b>Average Estimate</b>	<b>+2.5%</b>	<b>+2.7%</b>	<b>+2.6%</b>	<b>+2.0</b>	<b>+2.4</b>	<b>+2.6</b>

Source: CEA Fifth Quarterly Report on The Economic Impact of the American Recovery and Reinvestment Act of 2009 (November 18, 2010).

The average of most forecasts shows that ARRA likely increased real growth by 2.6 percent and employment by 2.6 million in the third quarter of 2010. Of course, we can never know the exact levels, given that we can never witness what would have happened absent the stimulus.

But ARRA's legacy doesn't stop there. Since it was enacted, lawmakers have enacted several extensions of expansions of policies originally passed in ARRA, and even passed an **\$858 billion** package of tax cuts, a 2 percentage point payroll tax holiday, and other extensions. In total, roughly **\$940 billion** in additional recovery measures have been enacted since ARRA.

Hopefully, with all of these extraordinary measures (not to mention those provided by the Federal Reserve) to prop up the economy, we can now turn our attention to our long-term fiscal problems. The recent economic collapse has transformed our long-term problems into obstacles we could run into this decade if we don't rebalance our spending and tax levels.

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