

The Federal Stimulus Plan and Sustaining Jobs in the Iowa Economy

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In February of 2009 Congress passed and the President signed the American Recovery and Reinvestment Act. That act is more commonly known as the “stimulus bill” because its primary purpose was to help create new economic activity to help offset the downward pressures of the current recession that began in December, 2007. Each state receives allocations from the stimulus bill, and Iowa’s announced share is \$1.91 billion. This article looks at the kinds of aid the state is receiving and estimates the types of impacts that spending may have on job creation or job stability.

When the details are analyzed and reaggregated, the stimulus bill allocation in Iowa can be broken down into (1) a capital enhancement and infrastructure development component, (2) an array of safety net spending to help people most vulnerable and in need due to the recession, and (3) spending to assist the operations of state and local governments whose revenues are constrained by the economic downturn.

Item 1, is the capital and infrastructure development component, which is pure economic stimulus. It is designed to improve roads, bridges, sewer and water systems, flood control, and other physical public goods. It also has energy efficiency provisions to assist in upgrading government buildings and enhancing weatherization. In so doing, this bill through its funding takes future productivity, capital investment that would have happened over the next decade or so, and moves it up into the present time thus boosting the present economy. This happens, of course, at the expense of productivity down the road.

When all of those spending categories are subtotaled, there will be about \$592 million in capital development and improvements to occur over the next three years. We can calculate, using multipliers from an Iowa input-output modelⁱ, what the annual job creation value of that spending will be. Per \$100 million annual spending in new infrastructure building and infrastructure repair, the state could expect about 1,620 jobs. If the \$592 million were spent over three years, then:

$$\mathbf{\$5.92 / 3 \text{ years} \times 1,620 = 3,196 \text{ jobs per year}}$$

The jobs that are sustained exist only so long as the funding exists, so the annualized job gains from the stimulus spending are 3,196 jobs. It is not appropriate to sum the jobs over the three years because the first year’s jobs disappear when the funding goes away. In addition, the job number includes all of the jobs that are further stimulated by supplying firms to the construction industry, along with all of the jobs that happen when the workers convert their paychecks into household spending in the overall economy.

The second item consists of all of the expenditures to bolster the state’s safety net for those most impacted by the recession – children, the unemployed and low income families. That amount is around \$630 million, about \$554 million of which is direct health care related. These are primarily payments to fund the state’s Medicaid system, which provides health care services to Iowa’s low income residents and to those who are disabled. The assistance takes two forms. First it is an increase in overall

payments to the states to assist those who become eligible for funding because of the recession. This is mainly children who are eligible for health care even though their parents are not receiving traditional welfare assistance (or Temporary Assistance to Needy Families). The second amount is a boost in the national government's share of spending. As Medicaid is matched by the states, this bill provides relief to the states by lowering their match requirements and shifting more of the payment share to the federal government.

These payments are not considered stimulus focused; instead they are designed to stabilize medical services and health delivery. Again, as an example, we can calculate using our input-output model of the Iowa economy, the number of jobs on an annualized basis that depend on this level of medical spending. In Iowa, each \$100 million of medical spending supports 1,570 jobs. If the boost in federal spending is designed to last 3 years, then:

$$5.52 / 3 \times 1,570 = 2,889 \text{ jobs per year}$$

The level of medical spending equates to supporting 2,889 jobs per year in the entire Iowa economy – those providing health care, those providing supplies and services to the health industry, and those that provide goods and services to health care deliverers and their suppliers in the form of household consumption. These are not new jobs as they are already in the state's economy. This spending helps to stabilize those positions, however.

Item 3 looks to assure continuity in government service delivery of education as well as a wide array of other state and local government activities. This, depending on how the numbers are allocated, could be around \$684.5 million. Again, this money will be allocated over three fiscal years and we can calculate the annual job stabilization impacts of education, justice, and general government support using our modeling system. Per \$100 million of annual spending on state and local government activity in Iowa, a total of 2,346 total jobs are supported in the entire state economy. Accordingly, then

$$6.845 / 3 \times 2,346 = 5,353 \text{ jobs per year}$$

This assistance for state and local governments translates into supporting, annually, 5,353 jobs. Again, these are not new jobs – they are already in the economy, but the assistance from the federal government conceivably has offset the need to cut government services, which could have resulted in layoffs.

Using the basic but quite realistic estimates provided here, about \$1.84 billion of the \$1.91 billion federal stimulus bill has the job value of either creating or helping to sustain 11,338 jobs in Iowa per year over the next three fiscal periods.

ⁱ This author continuously maintains an input – output model of the Iowa economy. That model is updated annually, and contains data for all 99 counties and up to 444 different types of Iowa industries. That model produces a variety of multipliers, based on the specifications of the operator, which can be used to anticipate economic impacts, both positive and negative, as the economy changes. It is never appropriate to use national level multipliers to infer economic changes in the states. The national economy is much more developed than any of the constituent states; hence, national multipliers are always higher than state or county multipliers.

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