



New Mexico Fiscal Policy Project

NEW MEXICO'S ECONOMY AND THE RECOVERY ACT OF 2009

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INTRODUCTION

Confusion is abundant about the effectiveness of the federal stimulus package, the American Recovery and Reinvestment Act of 2009 (ARRA). The most common misconception seems to be that the ARRA has not done enough to relieve the economic recession in New Mexico. The reality is that the ARRA is expected to have a clear beneficial effect on the state's economy, but it will take time.

Passed in January 2009, the ARRA began to take effect in the second quarter of 2009. The ARRA's impact will begin to show up in data on personal income for the second quarter of 2009, but that data will not be available until September 2009. This paper will describe the probable impact of the ARRA on the trajectory of the state's economy, as well as the state of the New Mexico economy prior to ARRA enactment.

The stock market crash of 2008 mirrored the crash of 1929 in many ways. While we are not currently facing as deep a downturn as the Great Depression, which saw an unemployment rate of 25 percent, we are in the midst of the worst economic downturn since World War II. This can be called the Great Recession. Unemployment has reached double digits in some states, and will likely get worse before getting better. And like New Mexico, most state governments are facing budget shortfalls.

The idea behind the ARRA, like the Depression's New Deal, is to prime the nation's economic pump by investing federal dollars in local projects and programs.

ECONOMIC STIMULUS

The ARRA will provide some \$3.4 billion to New Mexico over the 2009 to 2012 period to buoy the state's economy. The ARRA funds will provide investment in health care, education, transportation, and technology. Public perception is that the stimulus package was intended for "roads and bridges," but infrastructure spending will be only \$252.6 million (or one-twelfth) of the total. Tax credits, put in place in March and April of 2009 and designed to stimulate consumer and business activity, comprise the largest category of spending. The other large categories will be in Medicaid and public health (\$573.6 million), K-12 education (\$556.1 million), and programs to assist low-income families (\$291 million). (See Table I, page 2; the appendix to this report provides a comprehensive listing of New Mexico's allocation of ARRA funding.)

ARRA funding for Medicaid and education will enable the state government to maintain these programs as state tax revenues decline, saving jobs and protecting those most vulnerable during the recession. Tax cuts

for low- and moderate-income tax payers will also help to maintain consumption in the down economy. ARRA funds will also mitigate the worst effects of the current recession by providing support to those losing their jobs. Support for programs such as Medicaid, food stamps, and increased unemployment benefits will enable those affected most by the recession to make it through.

PERSONAL INCOME AND THE STATE'S ECONOMY

As measured by personal income, the New Mexico economy was still growing slightly in the first quarter of 2009. (Personal income includes income from all sources including wages and salaries, non-earned income such as dividends, interest and rent, and transfer receipts.¹) The state's personal income grew slowly over the course of 2008, from a total of \$62.5 billion in the first quarter to \$64.3 billion in the fourth quarter. (See Table II.)

Program	Estimated ARRA Amount
Tax Credits	\$1,137,000,000
Medicaid and Public Health	\$573,602,000
Public Education	\$556,179,000
Benefits to Individuals and Families	\$291,009,000
Highway Infrastructure	\$252,644,000
Higher Education	\$191,422,000
Unemployment Benefits and Services	\$179,972,000
Energy Efficiency	\$79,286,000
Environment	\$40,533,000
Housing	\$34,393,000
Transportation	\$27,750,000
Public Safety	\$11,926,000
Other Government Services	\$5,529,000
Total Estimated ARRA Funds	\$3,381,245,000

Though still growing in 2008, the state's economy was beginning to slow as the national economy slid further into recession. Income from dividends, interest and rent increased until the third quarter of 2008, and then began to decline, as the stock market took its deepest dive. Salaries and wages continued to increase through the fourth quarter of 2008 before falling in the first quarter of 2009. By this time, the composition of personal income growth in New Mexico had changed. (See Table III, page 3.)

By the first quarter of 2009, the New Mexico economy had stalled. Salaries, wages, and income from dividends, interest and rent were all dropping. Only transfer receipts were keeping the state from an economic free fall. Economists call transfer receipts an 'automatic stabilizer,' since transfer receipts rise when other sources of economic growth are stalling. In this recession, transfer receipts are playing their key role as an automatic stabilizer, keeping the state economy from contracting. But merely keeping the economy from contracting is not sufficient.

As earnings dropped by \$263 million and income from dividends, etc., fell

Year and Quarter	2008, 1st Qtr	2008, 2nd Qtr	2008, 3rd Qtr	2008, 4th Qtr	2009, 1st Qtr
Total Personal Income	\$62,590	\$64,201	\$64,139	\$64,336	\$64,366
Personal Income Sources					
Salaries and Wages	\$41,213	\$41,379	\$41,828	\$41,932	\$41,669
Dividends, Interest, Rent	\$9,705	\$9,897	\$10,083	\$9,944	\$9,647
Transfer Receipts	\$11,672	\$12,926	\$12,228	\$12,460	\$13,050

Source: US Bureau of Economic Analysis

¹ Transfer Receipts include Social Security, Medicare, Medicaid, Unemployment Compensation, Food Stamps and Temporary Assistance to Needy Families (TANF).

by \$297 million, transfer receipts took up the slack, growing by \$590 million. This allowed the economy to grow by a miniscule \$30 million. Without transfer receipts, the economy—as measured by personal income—would be contracting. Even so, the current situation is unsustainable. A flat economy is translating in to a substantial loss of jobs. About 30,000 jobs were lost in New Mexico between July 2008 and July 2009, devastating many of New Mexico’s working families.

As Table IV (page 4) shows, the ARRA provides the resources to move personal income growth in New Mexico back into the positive column and will create or save up to 10,000 jobs in 2010 and 2011. This paper assumes, for the sake of argument, that 16 percent of the total allocation will be spent in the years 2009

and 2012, and 34 percent will be spent each in years 2010 and 2011. That would mean that \$700 million would be spent in 2009 and 2012, and \$1 billion in 2010 and 2011.

CONCLUSION

Without the American Recovery and Reinvestment Act the current recession would undoubtedly be far worse. ARRA funds have allowed states to ward off drastic spending cuts. Deep spending cuts lead to job losses, which would deepen and prolong the recession. Stemming job losses is one of the more immediate effects of the ARRA. Job creation takes longer, but will undoubtedly occur. When more New Mexicans are put to work, the state’s total personal income will rise and New Mexico’s economy, by that measure, will grow.

Table III Changes in New Mexico Personal Income, by Quarter (Dollars in millions)					
	2008, 1st Qtr	2008, 2nd Qtr	2008, 3rd Qtr	2008, 4th Qtr	2009, 1st Qtr
Amount Change in Total Personal Income		\$1,611	-\$62	\$197	\$30
Percent Change in Total Personal Income		2.6%	-0.1%	0.3%	0.0%
Personal Income Sources					
Amount Change in Salaries and Wages		\$166	\$449	\$104	-\$263
Percent Change in Salaries and Wages		0.4%	1.1%	0.2%	-0.6%
Amount Change in Dividends, Interest, Rent		\$192	\$186	-\$139	-\$297
Percent Change in Dividends, Interest, Rent		2.0%	1.9%	-1.4%	-3.0%
Amount Change in Transfer Receipts		\$1,254	-\$698	\$232	\$590
Percent Change in Transfer Receipts		10.7%	-5.4%	1.9%	4.7%

Source: Calculations based on US Bureau of Economic Analysis data

TABLE IV					
Effect of ARRA on New Mexico Personal Income and Employment, by Year (Dollars in millions)					
	2008	2009	2010	2011	2012
Total Personal Income*	\$63,680	\$65,101	\$66,881	\$69,882	\$73,264
Percentage Growth of Personal Income		2.23%	2.73%	4.49%	4.84%
Recovery Act Funding					
Recovery Act Funding (estimated)		\$700	\$1,000	\$1,000	\$700
Recovery Act Funding as Percentage of Total Personal Income		1.1%	1.5%	1.4%	1.0%
Personal Income with Recovery Act					
Personal Income with Recovery Act	\$63.680	\$65.801	\$67.881	\$70.882	\$73.964
Total New Mexico Jobs*					
Total New Mexico Jobs*	848,870	830,100	836,930	852,600	868,030
Jobs Created/Maintained by ARRA of 2009 (@ \$100,000 per job)**		7,000	10,000	10,000	7,000

*Source: Personal Income and Employment Forecasts from FOR-UNM: A Quarterly Economic Forecast of the New Mexico Economy, University of New Mexico, Albuquerque, NM. March 2009

**Source: White House Council of Economic Advisors

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