



Corpus Christi and Coastal Bend Economic Pulse

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Accounting for the Regional Impact of the Recovery Act

By *Jim Lee*

Since the passage of the Recovery Act in early 2009, over 50 infrastructure construction and improvement projects have been undertaken in the Coastal Bend through the federal stimulus program. A counterfactual exercise shows that the most recent economic downturn would have been much more severe without those projects. Regional unemployment would have been as much as 2 percentage points higher.

Increasingly more people are now certain that the recent financial crisis and the ensuing Great Recession are things of the past. As economic and business activities are gradually becoming normal, it would be interesting to see what would have happened to the local economy without the various policy actions undertaken by the government authorities to combat the most severe economic downturn since the Great Depression of the 1930s. Since the financial crisis began to unfold in late 2007, the Bush and Obama administrations as well as the Federal Reserve have implemented a wide range of policy measures in efforts to either prevent a systemic financial panic or salvage the overall U.S. economy on the brink of a total collapse.

By far, the most outstanding policy initiative is the American Recovery and Reinvestment Act (ARRA) that was proposed by President Obama and eventually passed by Congress in early 2009. This massive federal program, widely known as the stimulus package, involves nearly \$1 trillion in government spending and tax reductions.

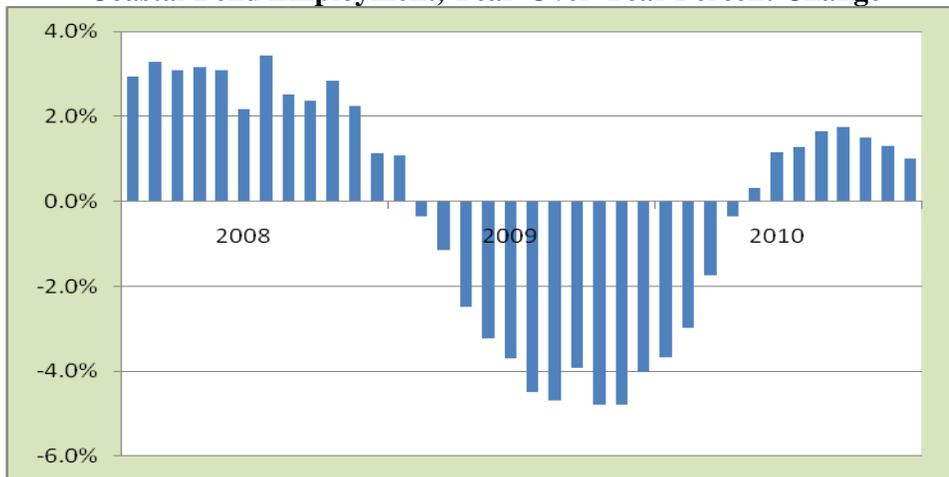
Too Little, Too Late?

Did the fiscal policy intervention bring the most recession to an end? A recent study by Alan Blinder of Princeton University and Mark Zandi of Moody's Analytics suggests that the ARRA program alone raised real GDP by about 3.4 percent in 2010, held down the unemployment rate by about 1.5 percentage points, and added almost 2.7 million jobs to U.S. payrolls. The Congressional Budget Office and the Council of Economic Advisors of the Obama administration have also reported similar estimates for the federal fiscal policy impact. To date, the consensus is that active financial and fiscal policy measures have effectively shortened the duration and alleviated the depth of the Great Recession, despite its stunning resemblance at the outset with the Great Depression of the 1930s.

Could the Recession be More Painful?

How "simulative" has the ARRA program been for our local economy? In 2009, the Coastal Bend lost over 7,000 jobs, an equivalent of 2.5 percent of the regional workforce. This translated into a total loss of \$270 million in wage earnings. The regional unemployment rate surged from below 5 percent in 2007 to over 8 percent by the end of 2009. By these measures, the experience during the trough of the Great Recession was enormously painful. But, as we will explain below, it could have been worse.

Coastal Bend Employment, Year-Over-Year Percent Change



Source: Texas Workforce Commission.

Two prominent websites, recovery.org and recovery.gov, have been reporting data on the progress of ARRA-funded projects. By March 2011—two years after the passing of the 2009 Recovery Act—over 85,000 projects across the United States have been funded under the ARRA, with an estimated total cost of nearly \$226 billion. Texas accounts for over 3,400 of those projects, with a combined value of \$15 billion. Across the 12 counties of the Coastal Bend region, most counties have received funding of varying amounts. Kenedy and McMullen are the only counties that have not been awarded any ARRA funds. For the region as a whole, 52 projects have been awarded or completed since 2009. The list of projects is regularly updated online at pulse.cob.tamucc.edu.

ARRA Projects by Coastal Bend County

	Projects	Estimated Value (adjusted)	Employment Impact	Job Impact as % of Workforce
Aransas	0	\$0	0	0.0
Bee	3	\$5,984,824	65	0.6
Brooks	2	\$67,751,163	740	23.7
Duval	3	\$2,176,766	24	0.5
Jim Wells	6	\$119,271,954	1,302	6.3
Kenedy	0	\$0	0	0.0
Kleberg	1	\$6,723,000	73	0.5
Live Oak	1	\$112,500,000	1,228	26.3
McMullen	0	\$0	0	0.0
Nueces	20	\$64,827,311	708	0.5
Refugio	5	\$5,147,496	56	1.4
San Patricio	14	\$17,048,868	186	0.6
Coastal Bend Regional Total	52	\$401,431,382	4,383	1.7
Corpus Christi MSA	33	\$81,876,179	894	0.5

Source: Recovery.gov and author's calculations.

The majority of projects are related to capital outlay or infrastructure improvements, including construction and repair of roads, highways and waterways. A few projects have been undertaken across various counties within the region, such as the corridor improvement project between Brooks and Live Oak. Some projects were shared with other regions, such as the \$5 billion improvement of the Gulf Intracoastal Waterway that involves Aransas and Nueces counties. One project involved the development of a fiber optic broadband network by Texas A&M University System in Kleberg and Nueces counties along with other regions in Texas.

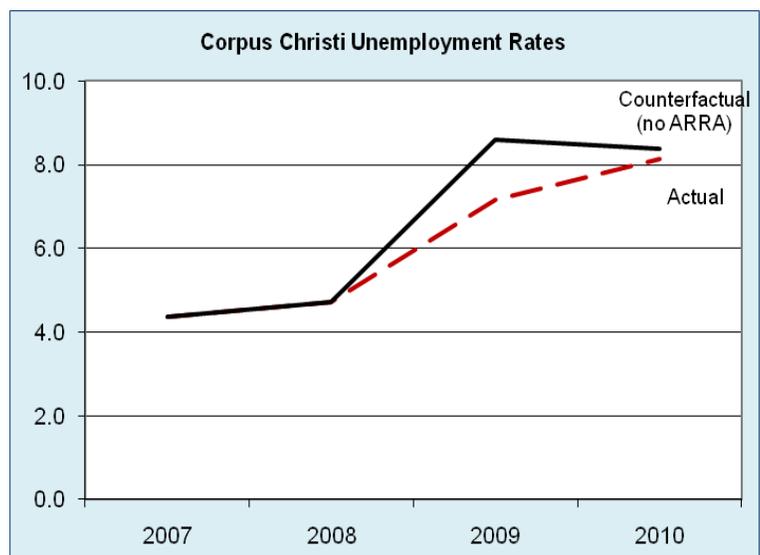
In the city of Corpus Christi, the Port Authority, Regional Transportation Authority and Naval Air Station are the major recipients other than Texas Department of Transportation. The Corpus Christi RTA has received over \$6 million in purchasing new buses and other funds for improving its bus stops.

Given the funding data reported by reovery.org, a total of 52 projects with a combined cost of \$417 million have been awarded to the Coastal Bend region. Together, the three counties of the Corpus Christi metro area—Aransas, Nueces and San Patricio—account for 33 of those ARRA projects with a total cost of \$98 million. Some of the funds that were allocated to a particular area have in fact generated little economic impact on that area because the goods and services were purchased elsewhere outside the area. For example, much of the \$6 million funding for new buses in Corpus Christi has most likely created a local economic impact much smaller than \$6 million because the vehicles were manufactured outside the Coastal Bend region. In addition, various construction projects were shared with other regions, such as the Gulf Intracoastal Waterway improvement, the fiber optic network, so that the actual impacts on this region were smaller than that the estimates using on the costs for the entire projects.

Why Spending Matters?

Adjusting for these factors, the estimate for the total value of ARRA projects in the Coastal Bend reduces to \$401 million. The Corpus Christi MSA accounts for \$82 million of the regional total. These projects have directly boosted construction activity in the region. Yet one major justification for countercyclical fiscal policy rests on the so-called ripple or multiplier effects of government spending. Such effects occurred because local residents who gained employment through ARRA projects would have spent at least some of their additional incomes on goods and services provided by local business vendors. As a result, the total economic impact on the regional economy would be greater than the original estimate of \$401 million because a large number of local business vendors also benefited indirectly from those projects.

Based the multiplier formula used by the Council of Economic Advisors, the total effects of the ARRA projects generated a total of 4,400 jobs in the Coastal Bend economy between 2009 and 2010. According to this impact estimate, the amount of job losses in 2009 would have been 50% higher than the employment losses realized without the federal stimulus program. The regional unemployment rate would have been close to 10 percent instead of the actual 8.2 percent. In Corpus Christi, the ARRA projects have saved or created a total of about 900 jobs. The unemployment rate without those federal funded projects would have been as much as one percentage point higher than otherwise.



Source: Reovery.org, and author's calculations.

No Free Lunch!

The results from the above counterfactual exercise indicate that the economic pain associated with the Great Recession would have been much more severe locally without any federal government intervention. While the effectiveness of the Recovery Act remains to be seen, economists are quick to remind us that “there is no such thing as a free lunch.” Most ARRA projects have been financed primarily by issuing debt instruments such as Treasury bonds. In the long run, however, the ultimate source of government spending is tax revenues, not debt.



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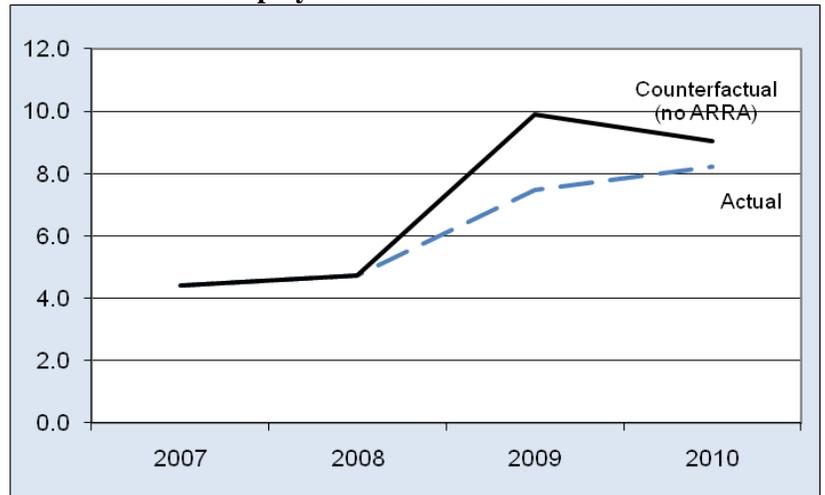
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(cont'd)

Coastal Bend Unemployment Rates With and Without ARRA



Source: Reovery.org, and author's calculations.

References: Alan Blinder and Mark Zandi, "How the Great Recession was Brought to an End," July 27, 2010; accessible online at <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>. The CBO's estimates of the economic impact of ARRA are available at <http://www.cbo.gov/ftpdocs/115xx/doc11525/05-25-ARRA.pdf>. The Council of Economic Advisors' estimates of the economic impact of ARRA are available at http://www.whitehouse.gov/files/documents/cea_4th_arra_report.pdf.