Stimulus dry-up hurts Florida's economic recovery

By EMILY ROACH

Palm Beach Post Staff Writer

Updated: 6:59 p.m. Monday, Feb. 6, 2012
Posted: 6:51 p.m. Monday, Feb. 6, 2012

With job cuts, scaled-back public projects and shrunken property tax collections because of declining home values, the government has turned into a drag on the recovery, according to many economists.

Last year, Palm Beach County lost 2,400 government workers, according to employment figures released this month by the Florida Department of Economic Opportunity.

Across the state, federal stimulus money pumped $2.5 billion into the economy in the last fiscal year, but dried up this year.

Federal money for capital projects shrank by about 20 percent since 2009, according to a study by the National Association of State Budget Officers.

"It's not that the government is doing damage by cutting back," said economist William Stronge, professor emeritus at Florida Atlantic University. "It's that local government is being required to cut back because the stimulus is ending."

The Wells Fargo Economics Group concluded that the cutbacks, which reined in many local governments after years of rampant spending, detracted from job and economic growth over the past year. This year, the public sector won't help the economy, and could harm it, the group forecasts.

It certainly cut into gains last year. Despite the best bump in growth in a year and a half, the nation's measure of GDP for the fourth quarter of 2011 came in at 2.8 percent, slightly lower than the 3 percent predicted.

Businesses boosted inventories; consumers spent money. It was Christmas, after all, even if people didn't spend as freely as preliminary numbers suggested and dipped into savings and used the credit cards for the 2 percent gain in personal consumption.

But the report on GDP reflected the situation: Government spending cuts are offsetting private sector growth to some extent.

Government consumption overall, as tracked in 2005 dollars, fell 7.3 percent from the third quarter. National defense dropped 12.5 percent, but state and local government consumption has been down for six straight quarters and most of the last three years.
Government spending could make a quarter of a percent difference in the nation's growth rate for the next couple of years, said John Silvia, chief economist for the Wells Fargo Economic Group. It's a significant impact when the Federal Reserve is predicting growth rates of less than 3 percent this year.

"It does lower the overall growth rate for the U.S. economy for the next year or two," Silvia said.

Federal stimulus money propped up state and local government budgets that were hammered by declines in property taxes and sales taxes, he said. Now that the stimulus is gone, the governments have to set responsible budgets.

The majority of states are starting to see improvement, Silvia said, but not Florida and a few others hit hardest by the housing crisis and spending that didn't match revenues.

The government pullback is normal, Stronge said, although it may be happening faster than the struggling economy needs. Stimulus money was intended to sustain government jobs and pump money into the economy through public projects, but the political climate in Washington has reduced that type of infusion.

Temporary federal stimulus money to keep teachers and police employed is expected to drop from $66 billion nationwide in the last fiscal year to $23 billion in the current year, the state budget officers association concluded. Florida's capital expenditures shrunk from $10 billion in fiscal year 2009-10 to $8 billion last year and are calculated by the association to be $9.6 billion this year, although the federal portion declined.

Yet, the biggest hits are yet to come, with the cuts due to the debt ceiling standoff kicking in next year and an array of tax breaks set to expire at the end of the year, Stronge said.

Lynn University finance professor Ralph Norcio said it's about time the government started cutting back, but everyone must share the burden to get the economy back on track.

"We need people (in government) who are going to be honest with people, who say, 'If you really want to see your children not have a standard of living that is considerably lower than what you have, then you need to do something now,' " Norcio said.