The Business Journal
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**Coming soon in The Business Journal**

- **Special publications**
  - CFO Awards — July 30
  - How-To Guide — Aug. 20
  - Fast 50 — Sept. 24
  - Location Matters — Oct. 29

- **Special news reports**
  - Money (Banking and financial services) — July 2

- **Health Care** — July 9
- **Residential Real Estate** — July 16
- **Technology** — July 23

For more information on any of these special sections, contact Associate Editor Lloyd Whittington at (336) 370-2914 or lwhittington@bizjournals.com.

**Upcoming Business Journal events**

- **Chief Financial Officer Awards** — Thursday, July 29 at the Starmount Forest Country Club. Registration starts at 5:30 p.m. For more information or to register, contact Grace Johnston at (336) 370-2905 or gjohnston@bizjournals.com.

- **Fast 50 — Deadline for nominations is July 2.**

Event: Wednesday, Sept. 22. For information on submitting a nomination, contact Lloyd Whittington at (336) 370-2914 or lwhittington@bizjournals.com.

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**BUSINESS PULSE SURVEY**

**What is your level of interest in World Cup soccer?**

**Next week’s question: Should governments give incentives to companies that promise to make large investments but not create jobs?**

Go to http://triaj.bizjournals.com and click on Business Pulse Survey to participate.

 Druid
OHP card. Yawn. What's the hoo-ho about? 43%
Red card. Yawn. What's the hoo-ho about? 43%
Yellow card. Mildly interested 32%
Unsure 3%
Gooood! I live for this! 22%

**BASED ON 345 RESPONSES.**

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**VIEWPOINT**

**ANDREW BROOK**

**How the ‘anti-anti-stimulus package’ works**

One of the many questions floating around policy circles is whether we need a second stimulus. The economy is still quite weak even though the Great Recession is technically over. One of forecasters' biggest fears is that private-sector spending will not be ready to replace the federal stimulus after it wanes down in the coming months.

Regardless of what the experts say (and not all of them favor another stimulus), the politics of the moment make a second stimulus essentially impossible. In an uncanny echo of 1936, the voters want austerity and a reduction in the government deficit. Let's hope the result doesn't mimic what happened in 1937, which was a return to recession.

But all this talk about stimulus ignores the fact that most government spending in the U.S. is by state and local governments. The aggregate spending of those governments is currently 50 percent larger than the federal government’s. The gap was even larger 10 years ago, prior to a decade of burgeoning federal spending.

When one factors in state and local spending, it becomes clear that the federal stimulus was forced to do its job with one hand tied behind its back. While it’s been in effect, there have been 48 state “anti-stimulus” packages working against it.

Why? As a rule, states cannot run deficits and must balance their operating budgets each year. The federal government is subject to no such rule and can use deficit spending to lean against the winds of recession.

According to the Center on Budget and Policy Priorities, the total shortfall in state budgets in fiscal year 2009 (before balancing) was $110 billion. For the current fiscal year the figure is $200 billion, and the CBPP projects a total shortfall of $300 billion in 2011 and 2012. At the state level, recovery from the Great Recession is happening very slowly.

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The situation is actually less dire (though still pretty serious) for cities and counties, which aren’t included in the above figures. State revenues are generally more volatile than local revenues because states depend more on income and retail sales, which dropped sharply in this recession. In contrast, local revenues depend more on asset values like real estate, which on average haven’t fallen as much as earnings and spending.

The divergence between expanding federal spending and contracting state and local spending has accelerated since the Great Recession ended. In the fourth quarter of 2009 and the first quarter of this year, federal spending rose at an annual rate of 2.4 percent, while state and local spending contracted by 11.7 percent.

As a result, federal spending has contributed to the economy’s growth in recent quarters, but state and local spending has subtracted from overall growth. And it appears that the state and local drag is exceeding the federal stimulus.

The upshot is that on balance, it’s not clear that we’ve actually had a stimulus. The main effect of the federal stimulus has been to offset the contractionary effects of state and local spending cuts. In effect, it’s been an “anti-anti-stimulus package.”

And now it’s winding down, leaving economists to fret about the horrid state of state finances in addition to the uncertain growth in private spending.

Fortunately, private consumption is moving in the right direction, if slowly. If its growth picks up, then we won’t have to worry about state budgets, let alone a second federal stimulus that will never happen.

Anonymous is the director of UNC’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at (336) 334-4867 or andreabrookbang@gmail.com. Archived columns available at http://cber.uncg.edu.

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Greensboro Office
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Advertising: (336) 370-2900
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305 W. Fourth St., Suite 2B
Winston-Salem Office
Winston-Salem, NC 27101
Phone: (336) 725-1163
Fax: (336) 572-1556

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