DEMOCRATIC POLICY COMMITTEE

Fact Sheet

DPC

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Setting the Record Straight: The *Recovery Act* is Working to Rebuild America's Economy

"The Recovery Act wasn't designed to restore the economy to full health on its own, but to provide the boost necessary to stop the free fall. It was designed to spur demand and get people spending again and cushion those who had borne the brunt of the crisis. And it was designed to save jobs and create new ones.

"In a little over one hundred days, this Recovery Act has worked as intended. It has already extended unemployment insurance and health insurance to those who have lost their jobs in this recession. It has delivered… tax relief to American working families and businesses. Without the help the Recovery Act has provided to struggling states, its estimated that state deficits would be nearly twice as large as they are now, resulting in tens of thousands of additional layoffs – layoffs that would affect police officers, teachers, and firefighters.

"The Recovery Act has allowed small businesses and clean energy companies to hire new workers or scrap their plans for eliminating current jobs. And it's led to new jobs building roads, bridges and other infrastructure projects, thousands of which are only beginning now. In the months to come, thousands more projects will begin, leading to additional jobs."

- President Barack Obama, Weekly Address, 7/11/09

Answering Frequently-Asked Questions about the *Recovery Act*

Q: Is the *Recovery Act* making a difference?

A: Yes. While the road to full economic recovery will be a long one, the *Recovery Act*, which was signed into law in February 2009, is stabilizing our economy and making a difference in the lives of everyday Americans. Tax credits and other investments are enabling new consumer spending and creating new product demand; businesses are using incentives found in the *Recovery Act* to convert crisis to opportunity; over $80 billion in aid to state and local government is helping to protect critical safety-net programs for Americans in need and prevent further layoffs; and infrastructure improvement projects are bringing new jobs to hard-hit communities. Moreover, economists now believe that the *Recovery Act* prevented our nation from sliding into a deeper recession or, worse, a full-scale depression.

Democrats know that this is little comfort to American families struggling with rising unemployment, but monthly job losses are beginning to slow, GDP contraction is slowing, and the housing market is beginning to stabilize. As *Recovery Act* implementation picks up pace and continues to works its way through the economy, the nation will begin to see and feel more than just jobs saved but jobs created and today's stabilization will become tomorrow's prosperity. *Go to page 3 for a more detailed explanation.*

Q: Did the *Recovery Act* include tax cuts?

A: Yes. The *Recovery Act* provided $288 billion in tax relief for working Americans and businesses. *Go to page 5 for a more detailed explanation.*

Q: Does the *Recovery Act* invest in American small businesses?

A: **Yes.** Small businesses received $730 million in *Recovery Act* funding to help unlock the small business lending market and get much-needed capital flowing again so that business can cancel layoffs, grow, and eventually begin creating jobs. *Go to page 5 for a more detailed explanation.*

Q: Is the *Recovery Act* implementation behind schedule and should it have been designed to work faster?

A: No and not necessarily. Indeed, in some areas, implementation of the *Recovery Act* is ahead of schedule. That being said, the measure was designed responsibly to provide immediate aid to prevent economic catastrophe; a graduated boost to promote sustainable economic growth in the private sector; and investments to ensure the long-term economic viability and prosperity of our nation in the global economy. The goal has been to create jobs for today, tomorrow, and for years to come. As planned, recovery spending will increase its pace during the second half of 2009. Where money is already on the ground, the *Recovery Act* is working to stimulate the economy, spur job creation, and help Americans in need. *Go to page 6 for a more detailed explanation.*

Q: Is the unemployment rate proof that the *Recovery Act* has failed?

A: No. Unemployment is traditionally "a lagging economic indicator," meaning that unemployment will peak even after the economy begins to recover. This is especially true in an economic recession as large and as deep as the one we inherited from years of Republican leadership in Washington. The good news is that monthly job losses have declined since the *Recovery Act* was signed. With less than half of the funds distributed, the legislation has already created or saved one million jobs as businesses and governments have cancelled layoffs and initiated projects that encouraged new hires. *Go to page 8 for a more detailed explanation.*

Q: Has the *Recovery Act* helped state budgets?

A: Yes. State and local governments have been hit hard by the economic crisis and are facing record budget shortfalls. The *Recovery Act* moved quickly to provide relief to states in an effort to avoid mass layoffs, cuts in service to Americans in need, and tax increases, which would have only deepened the recession. Nearly $80 billion has already been made available to states and localities *Go to page 9 for a more detailed explanation.*

Q: Does the *Recovery Act* create new debt that will undermine the economy through higher interest rates and inflation?

A: No. Deficit reduction is a key priority for Senate Democrats, as it is for the American people, but it is both disingenuous and incorrect for Congressional Republicans to blame the *Recovery Act* for our nation's ballooning deficit and debt. Under Republican leadership in Congress and at the White House, our nation went from economic surplus to economic deficit to eventual economic recession. Democrats now have the difficult task of cleaning up their mess by both reducing the deficit and jumpstarting the economy. To stave-off an economic depression, Democrats worked quickly to pass an *Recovery Act* that would get the economy working again without adding unnecessarily to the deficit. Because stimulus spending is temporary, the *Recovery Act* will add only 3 percent to the budget shortfall through 2050. Moreover, interest rates are at historic lows and the Federal Reserve projects inflation to remain "subdued." *Go to page 10 for a more detailed explanation.*

More Detailed Answers to Frequently-Asked Questions about the *Recovery Act*

Is the Recovery Act making a difference?

The *Recovery Act* has made a difference in just the first few months. Already, the recovery plan has:

- **Helped states close part of their budget gaps.** The *Recovery Act* has provided $65 billion in relief to states to help fund Medicaid, support education programs, save education-related jobs, jump-start shovel-ready transportation projects, and avoid tax increases. In communities coast-to-coast there are police officers, teachers, and firefighters on the job today because of the *Recovery Act*;

- **Cut taxes for working families and strengthened the safety net for Americans in need.** The *Recovery Act* has:

  - Provided $43 billion in tax cuts to working families and first time homebuyers;
  - Provided an additional $25 per week, $100 per month, to an estimated 12 million unemployed Americans. [Department of Labor];
  - Reduced COBRA health insurance payments for individuals and families by 65 percent;
  - Increased the Supplemental Nutrition Assistance Program (SNAP) benefit over 13 percent, which amounts to an additional $80 per month for a family of four;
  - Provided relief payments in the amount of $250 to 51 million seniors, as well as veterans and other high-need groups; and
  - Provided 95 percent of working families a pay increase via the Making Work Pay tax credit.

- **Supported the creation of new jobs to partially offset the rise in joblessness.** In October, the White House announced that certain recipients of *Recovery Act* funds have reported the creation of 640,329 direct jobs. About 325,000 of these jobs are in education and over 80,000 are in construction. These numbers, however, represent only about 16 percent of expenditures through September 30 and do not reflect the majority of *Recovery Act* funding to date, which has gone directly to individuals and states, including. Moreover, the reported data does not capture indirect or induced jobs created when prime contractors hire suppliers or other companies to complete projects or when newly employed workers spend their pay checks. It is estimated that, if included, indirect jobs would add another 50 percent or more to the direct jobs numbers and induced jobs would add an additional 36 percent. Taken as a whole, the reported data confirms earlier estimates that the *Recovery Act* would create or save over one million jobs by now, even though less than half of the *Recovery Act* funds have been put to work. [Office of the Vice President, 10/30/09, CBPP, 10/28/09]

- **Laid a foundation for sustainable growth.** In July, the Administration opened competition on over $15 billion in high speed rail, smart grid, and broadband grant programs that will create job opportunities now and well into the future. Moreover, the Department of Education announced it was releasing $2.7 billion to support state education budgets months ahead of schedule.

Even critics acknowledge that the *Recovery Act* has helped those in need. "On humanitarian grounds, hardly anyone should object to parts of the stimulus package: longer and (slightly) higher unemployment benefits; subsidies for job losers to extend their health insurance; expanded food stamps." [*Washington Post*, 7/20/09] "Stories from around the country demonstrate just how much the food made available through the economic recovery legislation is helping bring relief to low-income Americans." [Fox Business, 7/22/09]

Beyond helping those in need, the increase in assistance quickly generates economic activity. "Starting in April, a family of four on food stamps received an average of $80 extra. Money from the program – officially known as the Supplemental Nutrition Assistance Program – percolates quickly through the economy. The U.S. Department of Agriculture calculates that for every $5 of food-stamp spending, there is $9.20 of total economic activity, as grocers and farmers pay their employees and suppliers, who in turn shop and pay their bills." [*Wall Street Journal*, 7/7/09]

***Recovery Act* investments rescued the nation from a longer, deeper recession, including *higher* unemployment.**

- According to Congressional Budget Office (CBO) projections, "The effect of the stimulus legislation on the level of economic activity will probably build during the second half of 2009 [and] have its maximum impact in the first half of 2010… CBO estimates that real GDP will be 1.4 percent to 3.8 percent higher in the fourth quarter of 2009 than it would have been without the stimulus, 1.1 percent to 3.4 percent higher in the fourth quarter of 2010, 0.4 percent to 1.2 percent higher in the fourth quarter of 2011, and zero to 0.3 percent higher by the fourth quarter of 2013." [CBO, 8/09]

- According to economist Mark Zandi, "the stimulus has mainly helped by forestalling bigger job and program cuts by state and local governments. Increased aid to unemployed workers is contributing to the recent firming in consumer confidence (which hit an all-time low in February, just before the stimulus took effect) and helping to stabilize retail sales." "It may be hard to tell when hundreds of thousands of jobs are vanishing each month, but without the stimulus, job losses would be measurably worse." [Economy.com, 7/7/09]

- And in November, the Commerce Department reported that the nation's gross domestic product grew by 2.8 percent in the third quarter, the first expansion in more than a year. [Commerce Department, 11/24/09].

Did the Recovery Act include tax cuts?

The *Recovery Act* included $288 billion in tax relief. The plan provided nearly $15 billion in tax relief for infrastructure and science, $61 billion to protect the vulnerable, $25 billion for education and training and $22 billion for energy incentives. [recovery.gov, visited 8/2/09] The Department of Treasury's Office of Tax Analysis estimates that, through the end of October, approximately $92.8 billion in tax relief has already been made available through *Recovery Act* tax provisions for Making Work Pay, other individual credits, energy incentives, tax incentives for businesses, and COBRA. [The White House, 12/2/09]

Immediate relief measures under the *Recovery Act* are providing some stability for hard-hit families and small businesses. According to the Bureau of Economic Analysis, *Recovery Act* benefits, like the $250 relief payments and the tax credits, boosted after-tax income by $17 billion in May 2009. Making Work Pay alone boosted the take-home pay of nearly 95 percent of working families. These tax breaks were responsible for nearly all of the May 2009 increase in disposable personal income (DPI). DPI rose $178 billion at an annual rate in May, with $158 billion attributable to the tax and transfer components of the *Recovery Act*. And, after two months of downward movement, personal consumption moved higher in May, suggesting that the extra income provided led to an increase in spending. [Department of Treasury, 7/28/09] The rise in consumer spending benefits the private sector, especially small businesses who feel the ups and downs of their customer base more acutely.

The housing market – the eye of our current economic storm – illustrates the far-reaching benefits of the *Recovery Act's* tax incentives. The legislation extended and increased the First Time Homebuyers Tax Credit to $8,000, enabling families who had previously considered home-buying out-of-reach to make a down-payment, take advantage of low interest rates and low home prices, and purchase a home. In January, the National Association of Home Builders (NAHB) estimated that this tax credit would resulted in nearly 200,000 additional home sales across the country. [NAHB, 1/8/09] In July, the U.S. Commerce Department announced that new-home sales rose by 11 percent in June, marking the third consecutive month of improved sales activity; the National Association of Realtors reported that sales of previously owned homes rose for a third month in a row; and Standard & Poor's/Case-Shiller price index showed that single-family-home prices rose .5 percent from April to May. Taken together, economists believe these indicators signal recovery of the housing market. [*Washington Post,* 7/30/09] If this recovery is sustained, the industries that depend on home sales, including the job-rich construction industry will begin to stabilize and eventually begin creating more jobs.

Does the Recovery Act invest in American small businesses?

The *Recovery Act* includes targeted measures to not only help America's small businesses – the largest provider of American jobs – survive, but also to help them grow. For example, the recovery plan provided:

- An extension of the increase in small business expensing (Section 179);
- A new exclusion on the gain from the sale of certain small business stock; and
- Tax incentives to hire unemployed veterans and disconnected youth (Work Opportunity Tax Credit).

Moreover, the *Recovery Act* contains provisions aimed at freeing up capital for small businesses and making Small Business Administration loans more affordable and accessible. The recovery plan:

- Eliminated and reduced loan fees on 7(a) loans and for both borrowers and lenders on its 504 loans. These loans represent SBA's largest loan guarantee program, which serves a wide variety of small business borrowing needs;
- Raised to 90 percent the guarantee on 7(a) loans;
- More than doubled the surety bond guarantee from $2 million to $5 million, providing small businesses with another tool to help them compete for federal construction and service contracts;
- Assisted struggling small businesses with the new America's Recovery Capital (ARC) (ARC) Stabilization Loans program, which provides no-interest, deferred repayment loans of up to $35,000 to viable businesses to help them make debt payments;
- Provided refinancing opportunities for certain eligible loans into SBA-backed 504 loans for expansion and job creation; and
- Expanded access to investment capital for small businesses by increasing funding levels for SBA-licensed Small Business Investment Companies.

The small business provisions of the *Recovery Act* are already making a difference. To date:

- Weekly loan volume has increased more than 45 percent;
- More than $6.5 billion in loans have been supported; this is money that is going directly in the hands of small business owners to help them pay their employees, stock their shelves and keep their doors open; and
- More lenders are making loans; more than 700 lenders that had not made a loan since October 2008 or, in some cases, 2007, have begun making 7(a) loans. [SBA, 7/28/09]

Is the Recovery Act implementation behind schedule and should it have been designed to work faster?

The *Recovery Act* was carefully designed to be both responsive and responsible. As noted by Vice President Biden: "The care with which we are carrying out the provisions of the *Recovery Act* has led some people to ask whether we are moving too slowly. But the act was intended to provide steady support for our economy over an extended period — not a jolt that would last only a few months. Instead of quick-hit rebates, we are giving Americans a tax cut in each paycheck. Instead of pumping out all the state aid immediately, we are spreading it over the two years that it will be needed. Road projects, energy projects and construction projects are being started as soon as they pass review, contracts are competitively bid and reporting systems are in place." [*NY Times*, Op-Ed, 7/26/09]

The *Recovery Act* is right on schedule when it comes to creating jobs, aiding states, and jump-starting shovel-ready projects. The Congressional Budget Office (CBO) originally estimated that one quarter of the recovery-law spending would occur in fiscal 2009, and has said that the funds already expended have helped strengthen the economy. CBO director Doug Elmendorf stated that “the rate of spending is broadly consistent with the assumptions that CBO used to estimate the macroeconomic effects of the legislation.” [CBO, 5/21/09]

The *Recovery Act* is designed to ramp up the pace of spending in the second half of the year, reaching more projects, creating more jobs, and helping more Americans. Office of Management and Budget Director Peter Orszag explained why there will be more fiscal stimulus in the second half of the year than there was in the first half of the year: “In designing the *Recovery Act*, we also recognized that the economic situation we inherited was so severe that we needed to assure producers and consumers that aggregate demand would be boosted not just for a few months, but for a sustained period. That is why we envisioned a *Recovery Act* that would ramp up rapidly in 2009, have its peak impact in 2010, and lay the groundwork for further growth thereafter.” [Remarks by Peter Orszag, 7/22/09]

And economist Mark Zandi confirmed that: “the maximum contribution from the stimulus should occur in the second and third quarters of this year," when it will add more than three percentage points to overall economic growth... It's pretty much according to plan in terms of the payout and in terms of its economic impact. This is in the script.” [*Washington Post*, 7/8/09]

A bigger economic kick from stimulus should be seen this summer, when the stimulus goes on the offensive and begins to create jobs, via personal tax cuts and infrastructure spending. First-time homebuyers also can also receive a tax credit worth up to $8,000 if they close on a home purchase before December 1—meaning they will need to shop this summer and sign a contract not long after Labor Day.” [Economy.com, 6/22/09] “The benefits of lower payroll taxes, increased checks to Social Security recipients, and more infrastructure spending have yet to be seen—but they will be, starting this summer. The housing market should also receive a boost in the next few months through the federal housing tax credit for first-time homebuyers.” [Economy.com, 7/7/09]

Making *Recovery Act* law funding available over a longer period than usual was desirable, given the economic conditions. “Because most periods of economic weakness are fairly short-lived, it is generally preferable that stimulus packages be short-lived. Currently, however, CBO projects that economic output will remain significantly below its potential for several more years, so policies that provide stimulus for an extended period of time may be appropriate. Indeed, a fiscal stimulus that ends before the economy has started to regain its footing runs the risk of exacerbating economic weakness when the stimulus ends.” [CBO, 1/27/09]

In some cases *Recovery Act* spending is actually ahead of estimates. According to GAO: “[O]ur analysis of the latest information available on actual federal outlays reported on www.recovery.gov indicates that in the 4 months since enactment, the federal Treasury has paid out approximately $29 billion to states and localities, which is about 60 percent of payments estimated for fiscal year 2009. Although this pattern may not continue for the remaining 3-1/2 months, at present spending is slightly ahead of estimates.” [GAO, 7/8/09]

The *Recovery Act* set an ambitious benchmark requiring all states to put 50 percent of their highway funds to work within 120 days. Every state not only met that goal, but did it at least 10 days ahead of schedule – and in many cases, 10, 20, and even 30 percent under budget. Every state has now qualified for their share of the $44 billion in State Fiscal Stabilization Funds under the *Recovery Act*, an investment that is expected to create or save hundreds of thousands of education-related jobs.

According to the White House, the *Recovery Act* is on-schedule to meet its target to move 70 percent of total spending by Sept 2010.

Is the unemployment rate proof that the Recovery Act has failed?

The *Recovery Act* has slowed the rate of job loss. In January, the economy lost 741,000 jobs. Over the last few months, the rate of job loss has slowed to the point where we are losing 135,000 jobs per month, i.e. approximately 600,000 fewer jobs lost per month than in January. While this is still unacceptable, and Democrats will not be satisfied until everyone who wants a job can get a job, economists view this as an early sign of economic recovery. [Bureau of Labor Statistics, November 2009]

The *Recovery Act* prevented higher unemployment. While the unemployment rate is higher than consensus forecasts predicted in January, the nation's leading economists believe that the situation would be far worse without the *Recovery Act*. Economist Mark Zandi released an analysis showing that by the end of 2010, the *Recovery Act* will "leav[e] the unemployment rate almost 2 percentage points lower" than it would have been otherwise. [Economy.com, 7/7/09]. The Congressional Budget Office projected that, because of the *Recovery Act*, "the unemployment rate [will be] lower than it would otherwise be by about 0.9 percentage points in the fourth quarter of 2009 and 1.3 percentage points in the fourth quarter of 2010." [CBO, 3/20/09] Zandi adds that "it may be hard to tell when hundreds of thousands of jobs are vanishing each month, but without the stimulus, job losses would be measurably worse. Take the 1.3 million jobs lost in the second quarter; without the stimulus, the economy would have instead lost an estimated 1.8 million jobs." [Economy.com, 7/7/09]

Moreover, since unemployment is traditionally a "lagging economic indicator" it is expected that job losses will continue even after the broader economy begins to improve, just as unemployment can be deceptively low at the beginning of an economic crisis. One reason for this is that employers typically reduce their workforce in an effort to sustain and grow business and then are slow to hire even when business improves in an effort to make up for past losses and to ensure recovery is stable. [CBO, August 2009]. To counteract this phenomenon, the *Recovery Act* included incentives and investments to spur job creation.

The *Recovery Act* has saved or created an estimated one million jobs. In October, the White House announced that certain recipients of *Recovery Act* funds have reported the creation of 640,329 direct jobs. About 325,000 of these jobs are in education and over 80,000 are in construction. These numbers, however, represent only about 16 percent of expenditures through September 30 and do not reflect the majority of *Recovery Act* funding to date, which has gone directly to individuals and states, including. Moreover, the reported data does not capture indirect or induced jobs created when prime contractors hire suppliers or other companies to complete projects or when newly employed workers spend their pay checks. It is estimated that, if included, indirect jobs would add another 50 percent or more to the direct jobs numbers and induced jobs would add an additional 36 percent. Taken as a whole, the reported data confirms earlier estimates that the *Recovery Act* would create or save over one million jobs by now, even though less than half of the *Recovery Act* funds have been put to work. [Office of the Vice President, 10/30/09, CBPP, 10/28/09]

***Recovery Act* funding for Americans in need has spurred job growth.** In Davenport, IA, a mother of five shopping at a farmers' market ignited a little-noticed chain reaction that is an important part of the economic stimulus plan. "Ms. Patrick handed a plastic card loaded with her monthly food-stamp allocation to farmer Ed Kraklio Jr., who swiped it through his electronic reader. Mr. Kraklio now regularly takes in several hundred dollars a month from food-stamp sales, a vital new revenue stream that has allowed him to hire another assistant to help tend a cornucopia of fruits and vegetables. The new worker, in turn, spends her income in nearby stores, restaurants and gas stations." [*Wall Street Journal*, 7/7/09]

The *Recovery Act* is projected to ultimately create millions of jobs. Congressional Budget Office analysis predicts that the *Recovery Act* will create 1.2 to 3.6 million jobs by the end of 2010. [CBO, 1/27/09] Economist Mark Zandi concluded that: "the stimulus [will] resul[t] in approximately 2.5 million more jobs by the end of 2010 than would have been the case without it." [Economy.com, 6/22/09]

Has the Recovery Act helped state budgets?

The *Recovery Act* provided critical assistance to states – the main provider of services to the American people – to help them weather the economic storm. Approximately $80 billion has been made available to state governments to: 1) save education-, police-, and social service-related jobs; 2) support educational programs; 3) fund Medicaid; and 4) jump-start shovel-ready transportation projects that put people back to work.

"The use of *Recovery Act* funds affected the size and scope of some states' budgeting decisions, and many of the selected states reported they would have had to make further cuts to services and programs without the receipt of Recovery Act funds. For example, California, Colorado, Georgia, Illinois, Massachusetts, Michigan New York, and Pennsylvania budget officials all stated that current future budget cuts would have been deeper without the receipt of Recovery Act funds." [GAO, 7/8/09] "Overall, states reported using Recovery Act funds to stabilize state budgets and to cope with fiscal stresses. The funds helped them maintain staffing for existing programs and minimize or avoid tax increases as well as reductions in services." [GAO, 7/8/09]

The *Recovery Act's* assistance to states is meant to provide fast-acting relief. States are required to put their additional federal funds to work as quickly as possible, which in many cases means investing in existing projects and programs rather than mounting major new initiatives. "That helps to achieve the goals of both stimulating demand for goods and services and of saving or creating as many jobs as possible, as quickly as possible." [CBPP, 7/10/09]

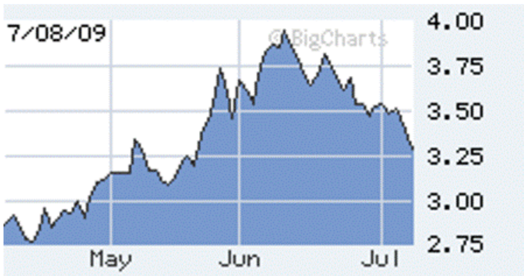
States have received more than $34 billion to avoid Medicaid cuts. This accounts for over 90 percent of the total amount that was appropriated for the program under the *Recovery Act*. Every state has now qualified for their share of the $44 billion in State Fiscal Stabilization Funds under the *Recovery Act*, an investment that is expected to create or save hundreds of thousands of education-related jobs. Ten of the states facing the largest deficits – California, Arizona, New York, Illinois, Connecticut, Washington, Florida, Wisconsin, Massachusetts, and New Jersey – have received a total of more than $25 billion in Medicaid and education funding to supplement their state budgets.

Does the Recovery Act create new debt that will undermine the economy through higher interest rates and inflation?

Despite the Republican rhetoric, the *Recovery Act* is projected to add only small percentage to the long-term budget shortfall. Reducing the deficit is key to the long-term fiscal health of our nation, but after eight years of Bush Republican-led fiscal mismanagement, the nation was in such fiscal straits that federal economic stimulus was required. The Democrat's *Recovery Act* was a responsive and responsible solution to our economic crisis. Not only did it boost the economy, it was designed to have "[o]nly a very small impact on the nation's long-term fiscal problem, adding just 3 percent to the budget shortfall through 2050… The nation faces a very serious long-term budget problem, but the main driver of the nation's long-term budget shortfall is ongoing factors, the most notable of which is steadily rising health care costs." [CBPP, 1/16/09]

Interest rates are low by historical standards. "Over the course of the spring there was a substantial rise in long-term interest rates; it was fed partly by talk of green shoots, but also, I suspect, by all the yelling about deficits and inflation… But the panic seems to be subsiding. Rates are still well above their post-Lehman lows, when credit markets were completely frozen and everyone was piling into gov[ernment] debt. But they're low by historical standards, and not giving much ammunition to the worriers these days." [Paul Krugman, *NY Times* blog, 7/7/2009]

The long-term interest rate was 2.74 percent on the day the *Recovery Act* was signed into law, rose to 3.98 percent in June, but has now moderated to 3.52 percent. [Department of Treasury, visited 8/2/09; *Wall Street Journal*, visited 8/2/09] On July 21, "[t]he 10-year note yield fell 12 basis points, or 0.12 percentage point, to 3.48 percent at 4:22 p.m. in New York, according to BGCantor Market Data. It touched 3.45 percent, the lowest since July 15." [*Bloomberg*, 7/21/09]



[Interest rate on 10-year Treasuries, Paul Krugman,*NY Times* blog, 7/7/2009]

The Federal Reserve expect inflation to remain "subdued." Federal Reserve Chairman Ben S. Bernanke has stated that "limited inflation pressures" will allow policy makers to keep interest rates near zero for an "extended period." [Bloomberg, 7/21/09] Meanwhile, "[a]ll 12 of the Fed's regional banks voted to hold the discount rate at 0.5%, according to meeting minutes released by the Fed on Tuesday. The minutes cover the period from May 18 through June 22. The discount rate is the interest rate charged on discount window loans from the Fed. 'Under these circumstances, directors generally agreed that the current accommodative stance of monetary policy reminded appropriate,' the minutes said. Fed officials justified their decisions, saying most directors expect inflation to 'remain subdued for some time, partly because of economic slack.'" [*Wall Street Journal*, 7/21/09]