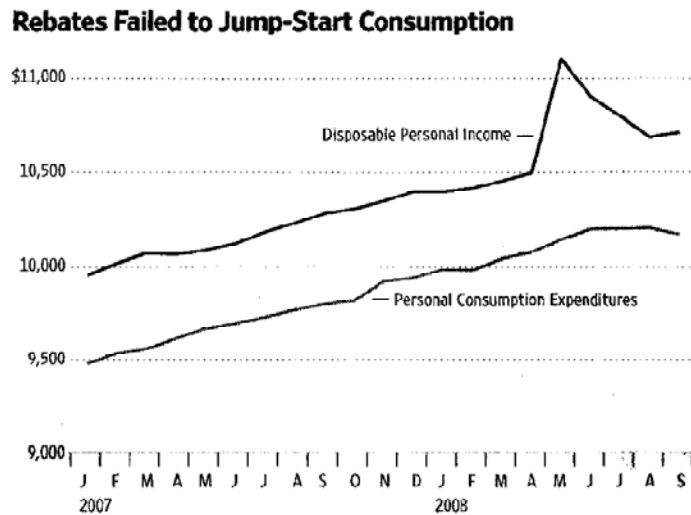


## Here We Go Again

John B. Taylor

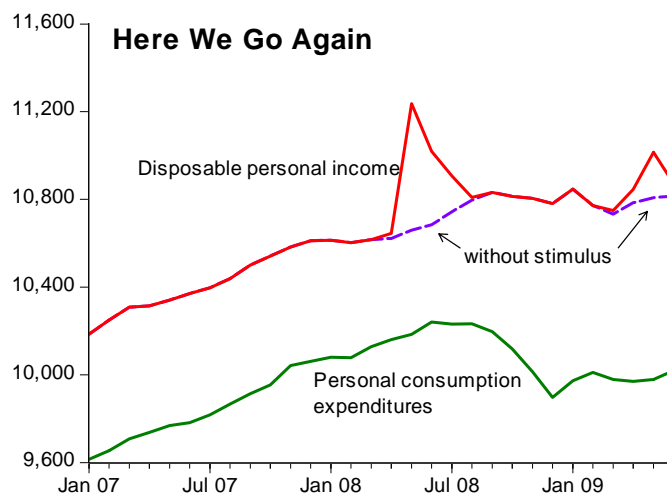
August 2009

Last November I published this chart in the *Wall Street Journal* showing that the temporary rebates included in the *Economic Stimulus Act of 2008* failed to jump-start consumption as had been hoped.



Rebates paid in spring 2008 caused disposable personal income to increase sharply, but had no noticeable impact on consumption, much as predicted by “permanent income” or “life-cycle” theories of consumption, because the boost to income was temporary. At the American Economic Association meetings in January I confirmed the results using regression techniques to control for oil prices.

Despite the evidence, another stimulus—*The American Recovery and Reinvestment Act of 2009*—included temporary rebates in the form of one-time transfer payments and temporary reductions in withholding for refundable tax credits through 2010. This extended version of my chart shows the effect of stimulus 2.0 on income and consumption so far using the latest available data through June.



Once again the government actions are causing disposable personal income to jump temporarily with no noticeable impact on consumption. Anyone for stimulus 3.0?