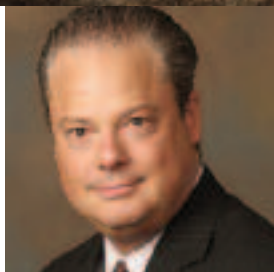


The Stimulus Package

What's in it for **M**ercer?



Ken Kamen



Joel Naroff



Peter Inverso



Rush Holt

Ken Kamen calls it the \$15 haircut theory. The president of Hamilton-based Mercadien Asset Management recalled visiting his barber recently who told him that since the onset of the recession business has been quite good. "He said customers are coming in and saying, 'What do I need a \$30 haircut for?'" "People," Kamen said, "are starting to make value decisions."

In the wake of the nation's worst economic crisis since the Depression, such common-sense consumerism is re-emerging. "That's not going to go away anytime soon," he said.

And now, with parts of President Barack Obama's \$787 billion stimulus package starting to flow to the states—New Jersey is expected to receive approximately \$17 billion in tax breaks, job training, or infrastructure projects—economic experts in central New Jersey are pretty much in agreement that it will take some time—well into 2010—before visible signs emerge that that money is producing the anticipated results: healthier credit markets, increased employment, restored confidence.

Analysts pretty much agree that for New Jersey, the stimulus will have a two-fold effect: increased infrastructure projects along with the rest of the country, but also a reassessment of priorities on the part of consumers.

As Joel Naroff, chief economist for TD Bank, explained it, until people see exactly what infrastructure projects are being worked on over the summer and into next year, it will be difficult to gauge how the impact is affecting central New Jersey.

"Some people may find themselves in traffic jams," he said, a bit tongue-in-cheek. "The more we complain about traffic jams, the more the stimulus bill is working. I remember in 1984 after the recession we were still spending massive amounts on construction. You could not drive anywhere without getting caught in construction. By the spring of 2010 that could be happening here."

While there are early signs of how the stimulus package in New Jersey will be spent over the course of the next 18 months—on affordable housing, on infrastructure such as highways and school buildings, on energy efficiency—and while analysts agree that over the short term such projects will generate jobs and income, there is one thing the package has already stimulated: controversy.

For instance, there is concern about the long-range direction being chosen.

As Kamen put it: "Building roads, that will keep people in areas employed for certain amounts of time. They may be building a bridge for three years, but that does not do a ton to make them comfortable about retirement."

Also, hand in hand with the stimulus money comes increased governmental involvement and oversight in how the private sector operates, and that is raising red flags among experts who speculate whether the cure to the disease will carry undesirable consequences.

Peter Inverso, the head of Mercer County's largest regional bank, Roma Bank, and a former longtime state senator, put the issue in perspective: "We now are facing the prospect of nationalization of the private sector," he said. "What has the government run for us that we are proud of? The private sector is what has grown our economy. Government is not a contributor to economic growth."

Nevertheless, visible signs of the stimulus package will become apparent over the course of the next two years, when a lion's share of the money is supposed to be spent:

Trenton, the state capital, will receive approximately \$1.25 billion to help combat homelessness.

In Newark, about \$312 million will be appropriated for affordable housing efforts. In fact, federal and state officials agree that it will be in the troubled cities that people should begin to see the earliest tangible signs of the stimulus money being spent.

Approximately \$73 million will be doled out to municipalities throughout New Jersey for energy efficiency programs.

There also will be more than \$7 billion in the form of tax relief to residents of New Jersey.

There will be approximately \$1.075 billion appropriated for highway, bridge, and transit infrastructure projects.

Some of this money will move to the state directly, while some will be made available in the form of competitive grants.

In addition, unemployment recipients are starting to receive additional money—\$25 a week beginning March 7—as part

of the overall stimulus package.

But while the hoped-for goal is that residents will have restored confidence and spend that money to further grease the economic wheels, there is not a consensus among local experts that people will do that in the short-term.

Naroff said that although jobless residents will see that extra unemployment compensation, these small amounts take time to produce results.

"It's a small amount that will build up," he said, "and six months from now people might have enough for dinner and a movie. It's not a big amount, but to the extent that it allows them to do extra things, that's critical."

The problem, he explained, is that unemployed residents will spend some of that extra money because they have no choice. They are living paycheck to paycheck and must spend that money on necessities.

But for those still working and in fear of losing their jobs, any extra money acquired through tax relief likely will be socked away. "It's a psychological thing right now. If you are too worried about whether you will keep your job, you are not going to party," he said.

That mind-set is critical for the already unemployed or at-risk consumers, and it's equally critical to the overall economy, two-thirds of which comes from consumers opening their wallets.

The bottom line is that central New Jersey certainly is not immune to national economic problems. "In New Jersey, the recovery is likely to be uneven," Naroff said, "and I think part of knowing exactly what is happening in any one area is difficult, because we know there is more stuff likely to come out."

There are several reasons for the unevenness in central New Jersey:

It is this region's bread-and-butter employers—financial-sector and pharmaceutical titans—who are among the hardest hit in this recession;

The state's burdensome business and property taxes work against some of what the stimulus is intended to foster;

And technology is changing the relationship between boss and worker.

"In an environment where people really have the ability to vote with their feet, if you will, they don't have

to live here anymore," said Mercadieu's Kamen. "With telecommunicating, Internet systems allow for a far greater mobility."

It was less than three years ago that the Rutgers University Bloustein School of Business issued its report stating that high taxation was forcing an exodus of workers and residents from the Garden State.

"If you go back a generation," Kamen said, "People needed to be near the money centers. A lot of the population in New Jersey was in that spot because they needed to commute to those job centers. That allowed the taxing power to collect whatever it needed because where else were they going?"

That dynamic has shifted, and no amount of stimulus money will change that.

In other words, "I think a lot of those jobs will never come back (to New Jersey)," Naroff said. "If it's in the financial sector, most of those are gone."

Yet there is cause for optimism.

"This is not a meltdown that melted everybody," said Naroff. "It tended to melt larger companies. Some of the mid-sized companies are still doing OK."

Smaller, regional banks such as Robbinsville-based Roma Bank count themselves in that category.

Despite, or possibly due to, the recession, "We are seeing at our bank tremendous growth in deposits," Inverso said. "In these times, people recognize the importance in savings."

Without going into specifics, he said that so far this year, the pace of deposit growth at Roma is ahead of last year's.

And because of the health of the community banks, some have been able to avoid the bankruptcies and takeovers that have remade the landscape of larger banks in the last year.

"We've been providing loans all along," Inverso said of Roma specifically and community banks in general. He pointed out: "We have continued to make money available. If you are a good credit risk, you should have no trouble getting loans."

But proving that the devil is indeed in the details, the community banks are being affected in another way, if not by the recession itself, then by its cure, the stimulus package that is

supposed to jump-start the economy.

According to Inverso, banks have been informed that for the second quarter, they will be assessed by the Federal Deposit Insurance Corporation an additional 20 basis points—.002 cents—on each dollar of deposits, as one of the ways to help pay for this massive expenditure coming out of Washington. For a bank such as Roma, that means a six-figure assessment that the community banks call unexpected as well as unfair. "We didn't cause this crisis," Inverso said.

While the spotlight will shine brightest over the next year or so on the large-scale infrastructure and energy-savings projects that will utilize large chunks of the stimulus pack-

age, smaller entities such as the community banks will soldier on as they have been. According to Inverso, some of the aspects of the stimulus package, such as the hidden fee assessments on smaller businesses and the increased 'ownership stake' the federal government takes in institutions run counter to what he believes the stimulus was originally designed to do.

"Our country was built on the economy of work, that capital investment is good, it has grown our country."

And Kamen pointed out, "The press never covers the thousands of companies that are hiring five people apiece."

And he said it is just such smaller operations that will propel New Jersey's economy forward again through the

stimulus funding, especially if—as many experts fear—some of the jobs of those larger financial or pharmaceutical institutions never return here.

Whatever help emerges from large-scale infrastructure projects in New Jersey, according to Kamen, is serendipity, and short-lived. The true, longer-lasting effects of the stimulus will be seen in those smaller and mid-sized operations, such as with his \$15-a-haircut barber and with the customers who choose to patronize them.

"I was meeting with a client who is wealthy," Kamen said. "He is not a Wal-Mart shopper, but he said he went in and saw slacks for \$14.99, so he bought them. He said to me, 'what the heck have I been buying \$80 slacks for?'" ■

Mercer Sees Some Stimulus Dollars

As drops in the bucket go, this one makes a nice, loud splash.

Central New Jersey will receive approximately \$53.9 million as the first installment of President Obama's economic stimulus package. The money was scheduled to go out the week of March 9th and be obligated within 120 days.

According to Democratic U.S. Rep. Rush Holt of Hopewell Township, "This is funding that will create jobs now, while making needed repairs to our nation's aging infrastructure."

The \$53.9 million will go toward several projects:

- \$37 million will be used to resurface Interstate 287, which includes Franklin Township, Somerset County;
- \$10 million will be used to resurface Route 1 in West Windsor and Lawrence townships in Mercer County.
- \$4 million will be used on infrastructure improvements on Route 18 and Interstate 95. The improvements should have an affect on traffic in Lawrence and Ewing townships in Mercer County as well as Old Bridge Township in Middlesex and Colts Neck and Marlboro townships in Monmouth County.
- \$2.2 million will be used for resurfacing and other work on Route 29 in West Amwell Township and Lambertville in Hunterdon County.
- \$700,000 will be used for designing a new bridge deck over Interstate 78 in Hunterdon County.

Overall, New Jersey is scheduled to receive a total of \$1.3 billion for various transportation infrastructure improvements, including about \$423 million for N.J. Transit.

Holt pointed out that in some cases there would have to be local and/or state monies as well spent on infrastructure projects.

In addition, the stimulus bill also provides extra money to assist the unemployed nationwide.

Also, the stimulus package makes available a subsidy of 65 percent for COBRA premiums for up to nine months. This is to assist those who lost health coverage when they suffered an involuntary job loss.

"The purpose of the stimulus bill, of course, is to create jobs," Holt said. "We are doing things that need to be done for the long-term productivity of our local economy.

"Certainly, improving transportation meets those criteria, and produces things that will be used for decades to come."