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The Economic Stimulus Package and the Limits of Infrastructure Jobs Creation

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As the economy slips into one of its worst recessions in several decades, many in Congress have been arguing the need for more government spending to create new jobs to offset those lost and to jumpstart the economy. President Obama supports that effort, as do many in the media, academia, and business.

But despite the clamor for bold federal jobs programs, the evidence from past such efforts—here and abroad—suggest that little may come of it. Indeed, the growing nostalgia for a reprise of the New Deal programs of the 1930s fails to note that the Great Depression lasted more than a decade. What ended it was the rearmament and mobilization for war against Germany and Japan, not the unprecedented expansion of federal jobs programs.

As the federal stimulus legislation winds its way through the Senate, much of its focus is on "infrastructure." Recognizing that parts of America's infrastructure—notably roads—suffer from neglect, many urge their upgrade, thereby gaining a double benefit of short-term jobs and long-term mobility.

The Limits of Infrastructure Job Creation. The benefits of these infrastructure proposals appear intuitively plausible, but a review of past such efforts reveals that the promise exceeds performance. Problems arise in large part because of three limitations: (1) the difficulty in getting such large, complicated projects up and running in a short period of time; (2) the tendency of many states to substitute federal for dedicated state money; and (3) the shortage of skilled labor needed to build them.

Both Presidents Hoover and Roosevelt implemented ambitious infrastructure programs in the aftermath of the stock market crash of late 1929, but nine years later the unemployment rate in the United States was still over 17 percent.[1] Following its stock market crash in the early 1990s, the Japanese government attempted to revive its economy through several infrastructure spending initiatives. None succeeded. Instead the Japanese economy has suffered from pervasive stagnation over the past decade and a half, and economic growth averaged only 0.6 percent per year since the early 1990s.[2]

More recently, numerous studies of post–World War II infrastructure spending stimulus schemes have concluded that the benefits of such programs are modest at best and largely ineffective, despite the vast financial resources applied to them.[3]

While there has been considerable debate in Congress about the start-up delays common to infrastructure spending, there has been little mention of the obstacles posed by the shortage of skilled, heavy construction labor in the United States, where much of the American population manages to avoid the kind of outdoor, physical labor common to con-

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struction work. Consequently, a significant portion of construction workers are recent immigrants, mostly from Latin America. Increased infrastructure spending may lead to increased immigration, thereby leaving the existing domestic pool of unemployed workers unchanged.

What Sort of Jobs Should Be Created? This obsessive focus on infrastructure jobs has led to the neglect of employment-generating opportunities in other important sectors of the U.S. economy also hammered by the recession, specifically the financial services sector, where substantial job losses have occurred among well-educated professionals with specialized skills. It is highly unlikely that any of these unemployed investment bankers, mortgage brokers, actuaries and bond counsel, and other skilled workers who make the financial system work would instead bang rivets into West Virginia bridges or hang drywall in Chicago schools. Indeed, even if these pale and doughy office people wanted the work, it is unlikely that a construction foreman would hire them if skilled construction workers could be obtained elsewhere.

So rather than risk scarce resources on uncertain infrastructure jobs, why not focus on other important segments of America's economy where a successful revival would yield big benefits in income growth and enhanced global competitiveness—notably in the financial service sector, which to date has experienced the brunt of the damage caused by the financial crisis and recession? Indeed, if the nation really does want to recharge the economy and generate sustained prosperity, these many unemployed financial services workers should be encouraged to stay within their skill set and redeploy their valuable talents to help revive and sustain America's financial industry and economy.

America's rising incomes and prosperity are the result of the incessant reshuffling of U.S. resources—labor and capital—from low-valued manufacturing to high-valued technology and services, of which finance has been among the most lucrative. In the process, the U.S. became a world leader at providing sophisticated financial services to global investors, allowing the American people the luxury of exchanging paper IOUs for valuable resources and products mined and made by others.

Many across the globe now think that the role of financial leadership is up for grabs, and America will have to fight to keep it. Turning loan officers and credit analysts into trim carpenters and backhoe operators will not win that fight, but getting them back in the business they are trained to perform will.

Focus on the Future. So what does all this mean for jobs and stimulus? For starters, the focus on the restoration of solvency in American financial markets must look beyond the pressing needs of the moment—and the policy mistakes of the recent past[4]—to ensure that steps taken today also serve the long-term interests of the nation. Otherwise America risks losing its commanding global market share of the profitable financial services business. As financial markets stabilize, future actions should not undermine opportunity by ignoring the abundant human financial services talent that helped generate a good bit of the nation's recent prosperity.

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1. Amity Shlaes, *The Forgotten Man: A New History of the Great Depression* (New York: Harper Perennial, 2007), p. 352.
2. Ronald D. Utt, "Learning from Japan: Infrastructure Spending Won't Boost the Economy," Heritage Foundation *Backgrounder* No. 2222, December 16, 2008, at *http://www.heritage.org/Research/Economy/bg2222.cfm*.
3. For more detail on these studies see Ronald D. Utt, "More Transportation Spending: The False Promise of Prosperity and Job Creation," Heritage Foundation *Backgrounder* No. 2121, April 2, 2008, at *http://www.heritage.org/Research/Budget/bg2121.cfm*.
4. Stuart Butler, "Time to End the TARP Bailout Program," Heritage Foundation *WebMemo* No. 2174, December 15, 2008, at *http://www.heritage.org/Research/Economy/wm2174.cfm*.