

# WebMemo



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## The Results Are In: Stimulus Bill Neither Timely Nor Targeted

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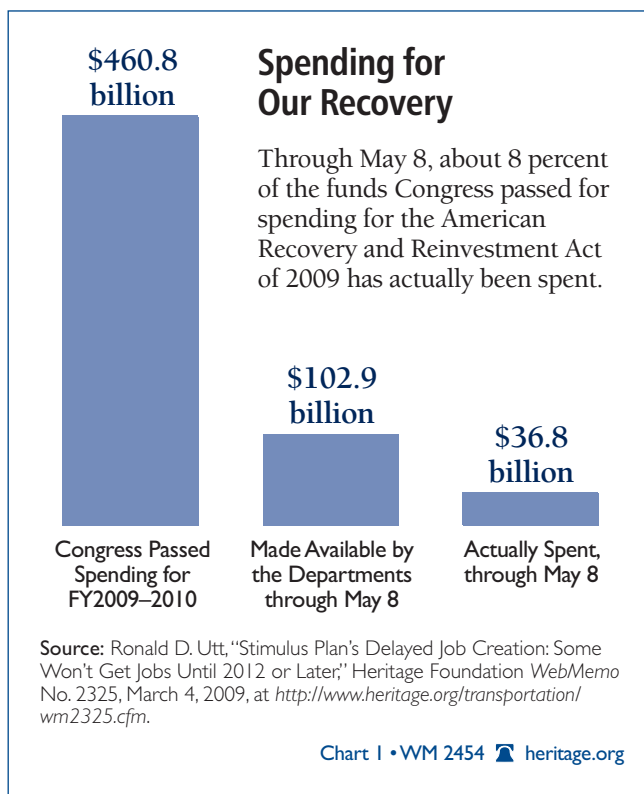
Before the passage of the American Recovery and Reinvestment Act of 2009 (also known as the “stimulus bill”), President Obama and his chief economic advisor, Larry Summers, stressed that the government’s response to the economic crisis needed to be “timely, targeted, and temporary.” As predicted by a Heritage Foundation analyst,<sup>1</sup> the bill is neither timely nor targeted. Only time will tell if it is temporary.

**Not Timely.** Government agencies have spent only a tiny fraction of money planned to be spent in fiscal years 2009 and 2010. Moreover, agencies have not allocated most of the money that has been directed toward them for any named projects.

As of May 8, less than 8 percent of the spending scheduled for fiscal years '09 and '10 has taken place.<sup>2</sup> That 8 percent (\$37 billion) had been spent almost entirely on Health and Human Services until the week of May 1, when \$12 billion was spent in one week by the Department of Labor. Before the week of May 1, just 3.3 percent of scheduled '09 and '10 spending had occurred.

Of the \$461 billion called for to be spent by the stimulus bill before the end of fiscal year 2010, just \$37 billion has been doled out. Of that, \$16 billion has been spent by the Health and Human Services department, \$12 billion has been spent by the Department of Labor, and \$6 billion has been issued in one-time payments to Social Security recipients. All of the other agencies combined have spent a total of \$2.6 billion as of May 8.

**Not Targeted.** Fiscal year 2010 ends September 30, 2010, but the recession could end sooner than



This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Economy/wm2454.cfm](http://www.heritage.org/Research/Economy/wm2454.cfm)

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that. Indeed, a majority of economists surveyed in April predicted the recession will end in 2009.<sup>3</sup> Fed chairman Ben Bernanke also thinks the recession will end this year. The stimulus bill threatens to miss the very target it was meant to address.

Spending to fight an already-ended recession is unnecessary and wasteful. More diffusely, the specific spending programs targeted to fight the recession have mostly not been named.

Of the \$461 billion of the stimulus bill the President's budget blueprint says will be spent in fiscal years 2009 and 2010, just \$102 billion has even been targeted for specific outlays by government agencies. Once again, a large amount of this sum is allocated by the Health and Human Services Department. Several agencies (such as the Agency for International Development, NASA, and the National Science Foundation) have yet to say how any of the billions of dollars granted to them by the act will be spent. Just 22 percent of the fiscal years 2009 and 2010 stimulus spending has been planned by government agencies.<sup>4</sup>

**The New Keynesianism.** The new Keynesian philosophy fashionable among Washington policy-makers is that government spending can pull an economy out of recession—that government spending “injects” new demand into the economy, thereby increasing GDP.

But every dollar Congress injects *into* the economy must first be taxed or borrowed *out* of the economy. Rather than add new demand, government spending merely redistributes existing demand. Even transferring money from savers to spenders will not add new demand, because nearly all savings are banked or invested and then quickly made available for someone else to spend. Simply put, Congress cannot create new demand out of thin air, and this explains the repeated failure of Keynesian policies.

**People Will Spend It Better.** Congress should:

- Call back unspent funds when it is clear the recession has waned, or
- Call them back immediately and budget the unspent money for across-the-board tax cuts.

The former would be fiscally responsible, while the latter would be more effective at fighting the recession than continuing to wait for agencies to decide what to do with the money. Private citizens will spend the money more wisely, or in the case of some, save it. This would be better than having the money go to government overhead and squandering it on more unneeded programs that burn through the wealth of America's children.

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1. Ronald D. Utt, “Stimulus Plan's Delayed Job Creation: Some Won't Get Jobs Until 2012 or Later,” Heritage Foundation WebMemo No. 2325, March 4, 2009, at <http://www.heritage.org/Transportation/wm2325.cfm>.
2. White House Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise* (Washington, D.C.: Government Printing Office, 2009) at [http://www.whitehouse.gov/omb/assets/fy2010\\_new\\_era/A\\_New\\_Era\\_of\\_Responsibility2.pdf](http://www.whitehouse.gov/omb/assets/fy2010_new_era/A_New_Era_of_Responsibility2.pdf) (April 29, 2009); Recovery.gov, “Investments by Agency,” at <http://www.recovery.gov/?q=content/investments-agency> (April 21, 2009); Douglas W. Elmendorf, director of the Congressional Budget Office, letter to Hon. Nancy Pelosi, at <http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf> (April 21, 2009), and The Heritage Foundation calculations.
3. Phil Izzo, “Economists See Rebound in September,” *The Wall Street Journal*, April 9, 2009, at <http://online.wsj.com/article/SB123921340472201877.html> (April 21, 2009).
4. *Ibid.*