

Background

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President Obama's Son of Stimulus: More Costs, Fewer Jobs

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Abstract: *President Obama has announced a third stimulus plan, which he presented as a “jobs plan.” It promises to be at least as ineffective as previous attempts to stimulate the economy because it relies heavily on government infrastructure spending even though this has been one of the least effective components of the previous stimulus plan. The latest plan is far less likely to stimulate the economy than it is to stimulate government expansion and the federal deficit, leading to higher taxes on Americans who will receive little in return.*

If nothing else, President Barack Obama's speech at the Brookings Institution proposing a third stimulus reveals his stubborn persistence in trying to demonstrate that liberal economic nostrums based on big spending can work; it just takes a lot of practice to “get it right.” Of course, these multiple practice sessions come at considerable cost to the taxpayer, not to mention the growing misery and poverty among the 7 million Americans who have lost their jobs since the recession began.

With mortgage default and foreclosure rates now at a record high of 14.4 percent, each month's delay in “getting it right” means that tens of thousands more families will lose their homes to foreclosure. As Jay Brinkman of the Mortgage Bankers Association has observed, “mortgages are paid with paychecks, not percentage point increases in GNP.”¹

Talking Points

- The President's proposed third stimulus plan relies heavily on government infrastructure spending, one of the least effective components of the ineffective and increasingly discredited American Recovery and Reinvestment Act.
- More than half of the projects approved nationwide had not yet started six months after enactment of the stimulus bill.
- Of the \$8 billion that the stimulus bill allocated to higher-speed rail, none will be spent until sometime in 2010, more than a year after the law's enactment.
- President Obama acknowledges the slow start in infrastructure spending, but rather than seeing it as a problem, he contends that the delays were intentional.
- The Administration and Congress appear intent on repeating previous mistakes by passing yet another stimulus bill that would be largely ineffective and increase the federal deficit.

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Same Old, Same Old

With his latest plan calling for another \$50 billion in infrastructure spending (e.g., roads, trolleys, trains, and sewer systems), the President's "Son of Stimulus" plan relies heavily on government infrastructure spending, one of the least effective components of the increasingly discredited American Recovery and Reinvestment Act (Stimulus II). Government infrastructure spending is widely believed to be a quick ticket to job creation and economic prosperity. The House of Representatives acted first in mid-December by adding the Jobs for Main Street Act to H.R. 2847.

Based on the many congressional debates on the subject of stimulus spending, as well as the practical results of those debates, it appears that many Members of Congress feel that a stimulus plan must meet at least five criteria:

1. The policy must be ineffective, as confirmed by independent studies published over several decades.
2. Recent implementation of a similar policy must fall well short of expectations and coincide with soaring unemployment.
3. It must waste several billions of dollars and add to the federal deficit.
4. It must pander to influential constituencies.
5. It must be subject to long delays in implementation.

Learning from Mistakes

Notwithstanding the federal government's growing obsession with spending vast amounts of money on nearly everything, the President is apparently learning from some of his earlier mistakes in economic policy and is showing a willingness to reach across the aisle and embrace ideas and concepts endorsed by the opposition party.

For example, taking a lesson from Republican Bob McDonnell's immensely successful gubernatorial campaign in Virginia, during which he focused

almost exclusively on jobs, President Obama now refers to his Son of Stimulus plan as a jobs plan, not a stimulus plan. Indeed, he never mentioned the word "stimulus" in his recent Brookings speech, but "jobs" appeared about two dozen times.

Similarly, the costly infrastructure projects to be funded by the policy are no longer described as "shovel-ready," but as "ready-to-go" in appreciation of the extraordinary delays in starting the Stimulus II shovel-ready projects. As the nation discovered in the months following the enactment of Stimulus II, the only things being shoveled were empty promises and vast volumes of bureaucratic paperwork.

None of these problems would have occurred if the President's economic team had paid attention to the economic literature instead of press releases from business trade associations and labor unions or op-eds by partisan Nobel laureates. As the Congressional Research Service noted in its earlier review of such stimulus plans:

To the extent that financing new highways by reducing expenditures on other programs or by deficit finance and its impact on private consumption and investment, the net impact on the economy of highway construction in terms of both output and employment could be nullified or even negative.²

Slow Stimulus, Slow Recovery

Compounding this pattern of little or even negative net impact are the significant delays often associated with stirring cumbersome federal and state bureaucracies into action and inducing them to do what many once believed was their unique talent: making lists and spending money.

For example, House Transportation and Infrastructure Committee Chairman James Oberstar (D-MN) publicly complained about the ineffectiveness of the Virginia Department of Transportation. The Stimulus II package passed in February delivered \$695 million in road money to the state, but by

1. Alan Abelson, "A Break in the Clouds," *Barron's*, December 7, 2009, p. 7.
2. David J. Cantor, "Highway Construction: Its Impact on the Economy," Congressional Research Service *Report for Congress*, January 6, 1993. For a listing of other studies finding little or no impact from stimulus policies based on government spending, see Ronald D. Utt, "More Transportation Spending: False Promises of Prosperity and Job Creation," Heritage Foundation *Background* No. 2121, April 3, 2008, at <http://www.heritage.org/Research/budget/bg2121.cfm>.

August, Virginia had begun work on only 16 percent of its designated projects compared to 43 percent nationwide. Noting that many states were working to get the projects underway, Mr. Oberstar wrote to Governor Tim Kaine that “your state ranks last among all states [51 out of 51, including the District of Columbia], based on an analysis of the percentage of Recovery Act highway formula funds put out to bid, under contract and under way.”³

Sadly, Virginia’s bureaucratic bungle was not the first time the state was accused of mishandling Recovery Act money. States were first required to submit their project requests to the U.S. Department of Transportation (USDOT), and Virginia was the last state to provide its list. As *The Washington Post* noted:

For a state that has struggled for years to find road and transit money, Virginia would seem the least likely candidate to be the last one to ask for federal stimulus money for transportation. But state officials started submitting lists of shovel-ready projects to the federal government last month after the other 49 states had.⁴

While Virginia was last, it was not the only state that suffered delays. More than half of the projects approved nationwide had not started six months

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after enactment of Stimulus II. At a December hearing before the House Transportation and Infrastructure Committee, staff reported that work had begun on projects representing only 54 percent of the formula-based funds.⁵

As problematic as Virginia’s performance was, USDOT’s performance as the lead federal agency

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overseeing much of the infrastructure program was even worse. Of the \$8 billion that Stimulus II allocated to higher-speed rail, none will be spent until sometime in 2010, more than a year after the law’s enactment. Indeed, the states were given until October 2009 (eight months after the law’s enactment) to submit their proposed projects to the Federal Railroad Administration (FRA) for possible funding. Reflecting the perennial popularity of “free” money, states requested a total of \$57 billion, almost seven times more than the government is authorized to spend.

Recently, the FRA announced that the proposals were under review and that winning submissions would be announced sometime in early 2010. Once awarded, project plans must be developed in detail and then put out for competitive bid. Sometime later, the contracts will be awarded, and work will finally get underway nearly two years after the enactment of Stimulus II. Presumably, Son of Stimulus, which includes an additional \$800 million for Amtrak in the House version, will be coupled to the same slow train to economic recovery.

Intentional Delays

In his speech, President Obama acknowledges the slow start in infrastructure spending, but rather than seeing it as a problem, he contends that the delays were intentional: “It was planned that way for two reasons: so the impact would be felt over a two year period; and more importantly, because we wanted to do it right” to ensure that only sound and worthy projects were funded. He then added that thanks to this scrutiny, “we’re going to see even more

3. Bob Lewis, “Virginia Criticized for Slow Pace of Stimulus Spending,” *Free Lance Star* (Fredericksburg, Va.), October 3, 2009, p. C3.
4. Anita Kumar, “VA Is Last State to Request Stimulus Funds for Roads,” *The Washington Post*, June 17, 2009, p. B1, at <http://www.washingtonpost.com/wp-dyn/content/article/2009/06/16/AR2009061603086.html> (December 31, 2009).
5. Adam Snider, “Lawmakers Press for Infrastructure Funds in Jobs Bill, But Consensus Remains Elusive,” *Bureau of National Affairs Daily Report for Executives*, December 1, 2009, p. A1.

work—and workers—on recovery projects in the next six months than we saw in the last six months.”⁶

Perhaps, but if the President actually believes that these programs would make a difference in economic recovery and would create jobs, then this planned delay seems surprisingly callous toward the millions of families whose homes went into foreclosure during the scheduled delay.

This excuse, of course, will not come as a relief to the millions of people who may have believed in the plan but have still lost their jobs and houses since Congress passed the Recovery Act. Sadly, with the unemployment rate now at 10 percent, their intentional sacrifice was certainly in vain, and taxpayers are again being forced to bail out the reputations of their elected officials who now bizarrely claim ownership of this fiasco.

As the record reveals, the “do it right” claim would come as a surprise to the many journalists who have uncovered hundreds of instances of laugh-out-loud waste in Stimulus II. For example, Senators Tom Coburn (R-OK) and John McCain (R-AZ) have identified a long list of wasteful projects, including \$350 million for a broadband map that duplicates existing maps, a \$5 million thermal energy award to a largely vacant shopping

mall, \$1.57 million for fossil research in Argentina, and \$50,000 to fund performances of an anti-capitalist puppet show.⁷

Conclusion

In the end, voters must wonder whether Congress and the President really care whether these repeated stimulus plans work. On one hand is the view of Rahm Emanuel, the President’s chief of staff: “Never allow a crisis to go to waste.... They are opportunities to do big things.”⁸ In this case, the opportunity is to expand federal intrusion into the economy and the daily lives of Americans to a degree never before experienced in peacetime and to use fear of the trillion-dollar-plus deficit as an excuse for massive tax increases. On the other hand is Albert Einstein’s definition of insanity: “doing the same thing over and over again and expecting different results.”

In less than a year, American voters will have the opportunity to decide whether either one (or both) of these options is what they are looking for in the nation’s political leadership.

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6. Barack Obama, “Remarks by the President on Job Creation and Economic Growth,” The White House, December 8, 2009, at <http://www.whitehouse.gov/the-press-office/remarks-president-job-creation-and-economic-growth> (December 31, 2009).
7. Tom Coburn and John McCain, “Stimulus Checkup: A Closer Look at 100 Projects Funded by the American Recovery and Reinvestment Act,” December 2009, at http://coburn.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=a28a4590-10ac-4dc1-bd97-df57b39ed872 (December 31, 2009).
8. Jeff Zeleny, “Obama Weighs Quick Undoing of Bush Policy,” *The New York Times*, November 9, 2008, at <http://www.nytimes.com/2008/11/10/us/politics/10obama.html> (December 31, 2009).