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Infrastructure Stimulus Spending: Pandering to Organized Labor

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As is apparent from President Obama's declining approval ratings, the majority of Americans have lost confidence in the ability of Washington's leadership to get the economy moving again. More to the point, many now recognize that the \$814 billion in spending authorized by the American Recovery and Reinvestment Act (ARRA) of 2009—which included \$48.1 billion for transportation infrastructure—did little to spur the recovery and nothing to create new jobs. Instead, what legacy ARRA will leave is future federal budgets with unprecedentedly large, and potentially destabilizing, deficits.

In a normal world, one would expect that the sorry outcome of an increasingly unpopular ARRA would have discouraged the President and his economic team from repeating the mistake. But apparently not, albeit for different reasons: The President's new spending plan should be seen as an effort to shore up support within a key constituency: organized labor. First revealed at a Wisconsin labor union picnic on Labor Day, the \$50 billion in infrastructure spending represents tens of billions of dollars in high, federally mandated, Davis-Bacon wages for unionized construction workers.

Why It Will Not Work. ARRA authorized \$48.1 billion of transportation infrastructure spending: \$27.6 billion for highways, \$8.4 billion for transit, \$1.3 billion for aviation, \$1.3 billion for Amtrak, \$100 million for shipyards, \$8 billion for high-speed rail, and \$1.5 billion for other programs. Notwithstanding the sense of urgency President Obama

invoked to compel Congress to quickly enact the bill, the vast federal bureaucracy over which the President presides (and his handpicked cabinet manages) implemented the program in a plodding, bureaucratic manner.

An analysis of ARRA's performance through the first seven months of 2010 by *The Wall Street Journal* found that the Department of Transportation (DOT) had paid out only \$16.8 billion (35 percent) of the \$48.1 billion authorized.¹ Given that more rail infrastructure spending will be a key component of Obama's new spending proposal, it is worth taking a closer look at the spending patterns for the \$8 billion that ARRA allocated to so-called high-speed rail (much of which instead went to the for-profit freight railroads).²

According to the Federal Railroad Administration (FRA), none of the money would be spent until sometime in 2010, more than a year after ARRA's enactment. Part of the problem is that states were given until October 2009 (eight months after the law's enactment) to submit their proposed projects to the FRA for possible funding. Reflecting the popularity of "free" money, states requested a total of \$57 billion, almost seven times more than the gov-

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ernment was authorized to spend, and the FRA had to hire and train new staff to review and select among the many proposals received.

In late 2009 the FRA announced that the proposals were under review and that winning submissions would be announced sometime in early 2010. Once awarded, project plans had to 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 ARRA.

Typical of this slow process is the Administration's recent announcement that \$3.6 million for the Michigan high-speed rail's Battle Creek Station will be allocated as the first installment of the \$40 million available for the state's high-speed rail program.³

What Past Studies Show. In 2008, The Heritage Foundation published a comprehensive review of many of the academic studies conducted to determine the extent to which increases in federal transportation spending create new jobs.⁴ Most studies reviewed found little evidence of meaningful job creation. One study by the Congressional Research Service concluded that:

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.⁵

Another study Heritage reviewed was by the Government Accountability Office (GAO), which found that "implementation...was not effective and timely in relieving the high unemployment caused by the recession." Specifically, the GAO found that:

Funds were spent slowly and relatively few jobs were created when most needed in the economy. Also, from its review of projects and available data, the GAO found that (1) unemployed persons received a relatively small proportion of the jobs provided, and (2) project officials' efforts to provide employment opportunities to the unemployed ranged from no effort being made to working closely with state employment agencies to locate unemployed persons.⁶

"Transformation" More Important Than Jobs or Economy. The Administration now admits that it does not see rail infrastructure spending as a jobs or stimulus activity. In the DOT's second quarter 2010 report on its ARRA activities, "the Recovery Act included \$8 billion to jumpstart high-speed and intercity rail programs in the United States. This investment is not likely to provide the immediate economic recovery benefits that could be achieved through existing highways and transit systems, but it represents a down payment for our efforts to transform travel in the United States and helps ensure that we reap benefits from our transportation system for years to come."⁷ Transportation "transformation" trumps economic concerns for Team Obama.

1. Louise Radnofsky, "White House Under Fire for Unspent Infrastructure Cash," *The Wall Street Journal*, August 16, 2010.
2. See Ronald D. Utt, "Will Obama's High-Speed Rail Plan Become a Subsidy for Freight Railroads?," Heritage Foundation WebMemo No. 2637, October 1, 2009, at <http://www.heritage.org/Research/Reports/2009/10/Will-Obamas-High-Speed-Rail-Plan-Become-a-Subsidy-for-Freight-Railroads>.
3. Press release, "U.S. Transportation Secretary LaHood Announces \$3.6 Million for Michigan High-Speed Rail," U.S. Department of Transportation, September 2, 2010, at <http://www.dot.gov/affairs/2010/fra1410.html> (September 8, 2010).
4. 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/Reports/2008/04/More-Transportation-Spending-False-Promises-of-Prosperity-and-Job-Creation>.
5. David J. Cantor, "Highway Construction: Its Impact on the Economy," Congressional Research Service Report for Congress No. 93-21E, January 6, 1993.
6. U.S. General Accounting Office, *Emergency Jobs Act of 1983: Funds Spent Slowly, Few Jobs Created*, GAO/HRD-87-1, December 1986, at <http://archive.gao.gov/f0102/132063.pdf> (September 8, 2010).
7. U.S. Department of Transportation, "American Recovery and Reinvestment Act of 2009 Agency and Program Plans Update: Second Quarter 2010," at <http://www.dot.gov/recovery/docs/performanceupdate.pdf> (September 8, 2010).

Legislative Delays. Reinforcing the view that this plan is little more than a political stunt to score points with labor unions is the proposal that this \$50 billion spending scheme be enacted as part of the pending reauthorization of the federal highway program. That program expired in August 2009 but has since been extended on a temporary basis by legislation until a new reauthorization bill is enacted. A highway reauthorization bill is a vast and complex endeavor, and the last reauthorization bill—which totaled 1,972 pages—took two years to complete.

As of September 2010, neither the Administration nor the Senate has introduced legislation to reauthorize the program, and an incomplete draft version has been discussed in the House. As such,

an early 2011 implementation of the proposed vehicle to carry the \$50 billion plan is impossible.

Transportation Transformation. Rather than promote a plan to stimulate the economy and lessen the pain of long-term unemployment, the President has opted for a new spending plan. But this plan should be seen for what it is: an effort to shore up support within a key constituency (organized labor) and at the same time lay the groundwork for a fundamental transformation of the nation's transportation systems.

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