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The President's New "Jobs Speech": More Economic Alchemy Likely

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Judging by the accounts published to date, the "jobs" plan President Obama proposes Thursday night will likely include the typical set of infrastructure spending, school construction, aid for teachers, unemployment benefits, "targeted" tax breaks, and the like.[1] In other words, the President will call for more of the same discredited Keynesian strategies (with a smaller price tag) as contained in his 2009 stimulus bill—a costly and spectacular failure.

Defenders of this approach continue to insist that the $825 billion[2] American Recovery and Reinvestment Act (ARRA) was just not large enough or needed a different mix of policies to generate adequate "demand." They can never concede, however, that their underlying fiscal/economic theory itself might be wrong—even though 1.7 million *fewer* Americans are working today than were employed when ARRA was enacted.[3] The Administration itself tacitly admits—through the alternative economic scenario in the Mid-Session Review released last week—to the failure of Obamanomics.[4] Yet the President will likely continue pursuing this failed economic dogma. He might as well take the advice of liberal economist Paul Krugman and simply declare an invasion from Mars.[5]

It is unlikely that Congress will approve more of this "spend now, save later" fiscal malpractice—and the President knows it. But a healthy debate about the folly of the approach might still be worthwhile if it can further disabuse policymakers and the public of the notion that large doses of government spending can cure an ailing economy.

A Sampling of Potential Spending Proposals. The package is expected to total about $300 billion, some of which may be offset, most likely with tax increases. Regarding specific spending policies the President may propose, here are five likely candidates, with a brief review of their drawbacks.

1. Infrastructure Bank. This proposal would combine two bad ideas. Financing road and bridge construction is a highly popular response to a slumping job market—and a famously unsuccessful one.

The most obvious problem with this idea as economic stimulus is that it requires new legislation, which would take months to pass. Then a new government agency would have to be created, which could easily take yet another year before it raised or spent its first dollar. Further, as the President himself recently acknowledged (with his "not as shovel-ready as we expected" admission), there are typically long delays in getting the money flowing for construction projects—and then further lags before the concrete is poured.

The broader problem is the nature of the infrastructure bank itself: It is mainly a mechanism for more central planning of transportation policy and

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more bureaucracy. In that sense, it is consistent with the President's other ideological plans: government-run medical care, government-provided student loans, Washington-based financial regulation, and so on.[6]

But even if these problems could be overcome, infrastructure spending would not yield any net increase in jobs. A dollar for government-directed highway construction is a dollar lost to the private sector for private investment. Resources would simply be redirected by government dictate.

2. School Construction. Education is a quintessentially state and local priority, but the federal government's reach has deepened ever since the Elementary and Secondary Education Act of 1965[7]—and the Obama Administration has poured even more funds into this area, accelerating the trend toward centralized control over schools. ARRA heaped $79.9 billion into elementary and secondary education programs, vastly exceeding their normal annual discretionary funding of about $39 billion.[8] Yet the President may propose as much as $50 billion more for school construction. As with other infrastructure spending, the first problem is timing. These expenditures will be just as ineffective as other infrastructure spending and for the same reasons.

3. Spending on Teachers. The President may also propose more money to hire or retain teachers, repeating another error of the 2009 stimulus. Once again, nothing about this policy would boost the economy. Government borrows more to spend more, leaving less saving to the private sector for it to spend. The net benefit to the economy is zero;

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1. Catherine Hollander, "Some Possible Proposals in Obama's Big Jobs Speech," *National Journal*, September 1, 2011, at *http://www.nationaljournal.com/economy/some-jobs-proposals-obama-could-make-in-his-big-jobs-speech-next-week-20110831* (September 6, 2011).
2. Congressional Budget Office, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from April 2011 Through June 2011*, August 2011, at *http://www.cbo.gov/ftpdocs/123xx/doc12385/08-24-ARRA.pdf* (September 6, 2011).
3. According to the Bureau of Labor Statistics' Establishment Survey, 132.8 million Americans held jobs in February 2009; 131.1 million were employed in August this year. U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics Database.
4. See J. D. Foster and Patrick Louis Knudsen, "White House Mid-Session Review: Still Too Optimistic About the Economy," Heritage Foundation *WebMemo* No. 3351, September 2, 2011, at *http://www.heritage.org/Research/Reports/2011/09/White-House-Mid-Session-Budget-Review-Shows-Slow-Economic-Growth*.
5. Apparently Krugman was not being entirely facetious when he made this suggestion on CNN's *Fareed Zakaria GPS* program on August 14, saying, in part: "If we discovered that, you know, space aliens were planning to attack and we needed a massive buildup to counter the space alien threat…this slump would be over in 18 months." Fareed Zakaria, "Watch GPS: Krugman Calls for Space Aliens to Fix U.S. Economy?" *CNN World*, August 12, 2011, at *http://globalpublicsquare.blogs.cnn.com/2011/08/12/gps-this-sunday-krugman-calls-for-space-aliens-to-fix-u-s-economy/* (September 6, 2011).

   He has since described the proposal as simply an updated version of Keynes's coal mine thought experiment in which bottles of bank notes are buried underground for private enterprise to dig up, boosting economic growth.
6. For a more extended analysis, see Ron Utt, "Obama's Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival," Heritage Foundation *WebMemo* No. 3346, August 30, 2011, at *http://www.heritage.org/Research/Reports/2011/08/Using-Infrastructure-Banks-to-Spur-Economic-Recovery*.
7. See Lindsey M. Burke, "Reducing the Federal Footprint on Education and Empowering State and Local Leaders," Heritage Foundation *Backgrounder* No. 2564, June 2, 2011, at *http://www.heritage.org/research/reports/2011/06/reducing-the-federal-footprint-on-education-and-empowering-state-and-local-leaders*; Jennifer A. Marshall, "Effects of the Federal Role and Intervention in Education," testimony before the Subcommittee on Early Childhood, Elementary and Secondary Education, Committee on Education, U.S. House of Representatives, March 15, 2011, at *http://www.heritage.org/research/testimony/2011/03/effects-of-the-federal-role-and-intervention-in-education*.
8. Figures are from the U.S. Department of Education, *Summary of Discretionary Funds, FY 2008–FY 2012 President's Budget*, February 6, 2011, at *http://www2.ed.gov/about/overview/budget/budget12/summary/appendix1.pdf* (September 6, 2011).

the net effect on the national debt is a dollar-for-dollar increase.

Another flaw in this concept was demonstrated by ARRA's $56.3 billion State Fiscal Stabilization Fund, which included $48.6 billion partly to pay teachers. Beyond this further encroachment on state and local responsibilities, the Education Department's Inspector General found, as expected, that some states were actually *reducing* their own outlays on education by supplanting them with federal funds, freeing up state dollars for other things. As a result, Congress had to pass another $10 billion "education stimulus" in 2010.

Throwing more teacher funds at states is likely to yield one of two results: It will either tempt states toward further substitution practices, or it will require the federal government to hamstring states in how to use the money.

4. Extending Unemployment Benefits. With the unemployment rate now widely expected to remain near 9 percent through 2012—as even the Administration concedes[9]—it may seem compassionate to extend the current 99 weeks of unemployment insurance eligibility, which runs out at the end of the year. But such a proposal would not boost the economy or create jobs; it may even expand the ranks of the long-term unemployed, as explained by economist Robert J. Barro.

In a recent column, Barro challenged the alchemy of the "multiplier effect"—the notion that as each dollar of government spending flows through the economy, it generates more than a dollar's worth of economic output—as it applies to such benefits, referred to as "transfer payments." Barro argues that an expansion of transfers "decreases employment and, hence, gross domestic product (GDP).… Additional transfers to people with earnings below designated levels motivate less work effort by reducing the reward from working." Barro goes on to say that "there is *zero* evidence that deficit-financed transfers raise GDP and employment."[10]

Barro also notes that, since the 99-week eligibility term was enacted in 2009, the fraction of long-term unemployed—those out of work for more than 26 weeks—has jumped to more than 44 percent. The previous high was 26 percent during the 1982–83 recession (and about 23 percent in February 2009). "This pattern suggests that the dramatically longer unemployment-insurance eligibility period adversely affected the labor market."[11] That is, it severely weakens the incentive to find a job.

5. Additional Mortgage Bailouts. The Obama Administration and the past several Congresses have tried several times to help over-extended mortgage-holders. All attempts have failed. The latest version is expected to allow those who are current on their mortgages but who owe more than their houses are worth to refinance. This, too, would fail to boost the economy because these homeowners are unlikely to spend the money saved from their lower monthly payments.

From an economic standpoint, the housing market needs to find its own stability, and it can do that only through price discovery—i.e., finding out what properties are really worth so they can be bought and sold. Constant government meddling only prolongs the healing by fouling this process.[12]

Time to Abandon "Stimulus." Defenders of the Keynesian-style policies described above can

9. See Office of Management and Budget, *Mid-Session Review, Budget of the U.S. Government, Fiscal Year 2012*, table 4, September 1, 2011, at *http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/12msr.pdf* (September 7, 2011).
10. Robert J. Barro, "Keynesian Economics vs. Regular Economics," *The Wall Street Journal*, August 24, 2011, at *http://online.wsj.com/article/SB10001424053111903596904576516412073445854.html* (September 6, 2011). Emphasis in original.
11. *Ibid.*
12. See David C. John, "Free the Housing Finance Market from Fannie Mae and Freddie Mac," Heritage Foundation *Backgrounder* No. 2577, July 12, 2011, at *http://www.heritage.org/research/reports/2011/07/free-the-housing-finance-market-from-fannie-mae-and-freddie-mac*.

offer highly sophisticated reasons about why they will work and elaborate rationalizations when they fail. In this respect, they often sound much like an astrologer trying to explain a string of faulty predictions.

Nevertheless, the President's huge and costly 2009 stimulus experiment may have one benefit: It has shown that this economic dogma and its specific elements do not work; they only increase spending and debt. This time, policymakers should abandon both. Regrettably, the President probably won't.

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