PERSONALLY SPEAKING

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PRESIDENT OBAMA'S STIMULUS PACKAGE: WHAT WENT WRONG

Edward J. O'Boyle, Ph.D.
Mayo Research Institute

Two principal factors account for the anemic performance of the roughly $800 billion stimulus package that was sold to the American public as necessary to re-energize the dismal U.S. economy and was signed into law by President Obama in February 2009. First, it was not a real stimulus package. Second, the president and his economic advisers did not expect U.S. consumers to tighten their belts.

Regarding the first, consider where the monies went according to *Recovery.gov*. The following five not-for-profit organizations are representative of the many others funded by the stimulus package:

> **Roman Catholic Archbishop of Portland (Oregon): $35,362**
> **American Federation of State, County, & Municipal Employees (Kansas): $1,522,384**
> **Columbia Urban League Inc (South Carolina): $55,000**
> **Miami County Young Men's Christian Association (Indiana): $1,594,284**
> **Thelonius Monk Institute of Jazz (Louisiana): $50,000**

All of these expenditures can be rationalized under the official language of the American Recovery and Investment Act.

> **An act making supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization, for the fiscal year ending September 30, 2009, *and for other purposes*. (emphasis added).**

Thus stimulus monies were allocated even to prestigious institutions such as ten Ivy League universities that have received more than $750 million. The University of Michigan alone has taken $223 million. More than $715 million was paid out to the University of California system. An equal amount was paid out to the California State University system.

Though "shovel-ready" has been used on numerous occasions to characterize the intent of the Act, nowhere on *Recovery.gov* does one find the total amount of national expenditures on infrastructure projects. The curious researcher has to go state by state for that information and even then the state totals are not listed. Included as *infrastructure* projects, for example, are:

Metropolitan Organization to Counter Sexual Assault (Missouri): $92,203
Northeast Kingdom Community Action Inc (Vermont): $411,464
Lewis-Clark Early Childhood Program Inc (Idaho): $83,848
Northeast Service Cooperative (Minnesota): $124,008
Presbyterian Medical Services Inc (New Mexico): $1,293,945

It seems that in following Rahm Emanuel's dogmatic principle "never let a serious crisis go to waste" the architects of the stimulus package intended it primarily to line up and solidify support among friendly and otherwise sympathetic constituencies across the nation for the White House's aggressive agenda to change America and only secondarily to re-start the economy. Their mistake was to presume that simply spreading the wealth around would be sufficient to accomplish the second task. Crudely paraphrasing Lord Acton: *money buys favors and bundles of it buys lots of favors.*

Regarding the second reason, the architects of the Act assumed that consumption expenditures would be boosted by the $144 billion in entitlements and $223 billion in tax benefits paid out to date. Apparently, they did not anticipate that consumers would use those monies to pay down debt. According to the Federal Reserve, on an annual basis consumer credit outstanding began to decline in IVQ 2008 (-3.2 percent) and continued to decline in every quarter in 2009 including fourth quarter (-6.1 percent). The latest information indicates a second quarter 2010 decline of -3.2 percent. Further, by filing for bankruptcy, 1.4 million consumers and businesses last year were able to unload or restructure their debts.

On top of that, 2.8 million properties were foreclosed in 2009 removing the mainstay asset of millions of Americans, and from second quarter 2009 to second quarter 2010 the inflation adjusted price of homes dropped by 4.4 percent. Expecting consumers to step up spending when their net worth is eroding gets a beginning student in economics a grade of F. Buying favors rather than putting America back to work gets the White House the same failing grade.

Had President Obama focused stimulus funding more intensely on *physical* infrastructure projects like highways, water and sewage systems, levees, airports, rail systems, bridges, and harbors in February 2009 when the jobless rate for construction workers stood at 21.4 percent, the construction industry would have been able to supply the labor necessary to carry those projects forward. That kind of sharpened focus would have directly stimulated the demand for material supplies, design and engineering services, and heavy equipment, and indirectly the demand for consumer goods and services. It's safe to say that the jobless rate in construction would have been considerably lower than the current 17.0 percent and for that reason the national jobless rate today would be lower than 9.6 percent.

Obama let a serious crisis go to waste.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute.
Offices in New Orleans, Lake Charles, and West Monroe
www.mayoresearch.org 318-381-4002 edoboyle@earthlink.net