The Heritage Foundation

ISSUE BRIEF

No. 6043 | JANUARY 25, 2021

GROVER M. HERMANN CENTER FOR THE FEDERAL BUDGET

Why Infrastructure Spending Will Not Help the Pandemic Recovery

Adam N. Michel, PhD

KEY TAKEAWAYS

Congress has already provided nearly $4.5 trillion in response to the pandemic. Spending trillions more risks stunting economic recovery and wasting taxpayer money.

"Shovel-ready" jobs are anything but, often taking years to execute, and such stimulus jobs are ripe for abuse and corruption—at the expense of American workers.

Congress should prioritize removing unnecessary restrictions and regulations that prevent the private sector and state governments from meeting constituents' needs.

In February, President Joe Biden plans to outline an infrastructure plan intended to help America "build back better." Congress has already provided nearly $4.5 trillion in response to the coronavirus outbreak. Spending more—possibly trillions more—risks stunting the economic recovery and wasting taxpayer money.

Many arguments are made for expanded infrastructure spending: Low interest rates make investment now cheaper than ever; federal investments in new energy technologies will help to aid certain politically favored industries while curbing others; American infrastructure is crumbling and needs to be rebuilt by the federal government; the American economy needs a stimulus plan that can create jobs and boost the recovery. While none of these arguments for new federal spending is fact-based or convincing, this *Issue Brief* focuses on the final claim.

This paper, in its entirety, can be found at **http://report.heritage.org/ib6043**

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Economic stimulus programs have generally failed to jump-start economic recovery. The spending can make economic recovery more difficult because individuals and businesses react to new government programs by scaling back their private spending and shifting—rather than expanding—production, canceling out any theoretical benefits of additional government expenditures.[1] The historical evidence is clear that increased infrastructure spending is an especially inappropriate response to economic downturns.

Not So "Shovel Ready"

The theory of infrastructure spending as an effective economic stimulus requires the money to be deployed and create jobs while the economy is struggling. Infrastructure and energy investments are notoriously slow-moving projects that take years to plan and execute. In a review of the 2009 stimulus, the Congressional Research Service explains that "infrastructure spending was slower than other types of stimulus."[2] In 2011, President Barack Obama acknowledged this fact, quipping that "shovel-ready was not as shovel-ready as we expected."[3]

Large new projects require design, engineering, permitting, and environmental reviews before construction can begin. Few projects are ready to break ground and start the labor-intensive construction phase quickly. Those that are ready can be delayed by federal involvement.

In September 2009, the Federal Emergency Management Agency (FEMA) awarded San Antonio, Texas, $7.3 million to build two new fire stations, which the city had previously been planning to fund with local revenue sources. After receiving the federal grants, the "shovel ready" projects were delayed by a year due to federal environmental and historical regulatory reviews, which forced layoffs as the contract was rebid and construction waited for federal approval.[4]

One federal environmental review process under the National Environmental Policy Act (NEPA) requires a report that averages 669 pages and a process that takes four and a half years to complete.[5] The Trump Administration attempted to clarify and streamline some of these requirements, but the process still substantially slows down the deployment of federal funds.[6]

Years of delays mean that the bulk of federal funding on projects authorized by Congress in 2021 will not be substantially deployed until the economy is multiple years into the recovery.

Unsuccessful Jobs Program

Most jobs, especially infrastructure construction jobs, require skills specialization and training to be effective, safe, and efficient. The temporary influx of government money does not induce an expansion of the construction industry, because training unemployed workers without prior construction experience to expand payrolls temporarily is often not worth the time investment and high cost. For example, a commercial paving contractor requires an average of 508 days of government-mandated training and licensing.[7] The government money crowds out existing projects as federal contractors hire skilled workers from private-sector contractors at inflated wages. Additionally, construction unemployment rates are almost half the rates of the harder-hit service-sector industries that have been most negatively affected by the pandemic restrictions.[8]

After the large influx of federal funds from the 2009 American Recovery and Reinvestment Act (ARRA), research from the Federal Reserve Bank of St. Louis found that "the number of workers on highway and bridge construction did not significantly increase."[9] Fieldwork by Garett Jones and Daniel Rothschild confirms that stimulus funding "went to firms that were already busy, not those that suffered the most from the downturn."[10] Several surveyed firms turned down private-sector non-ARRA-funded work, highlighting the fact that government spending was directly competing with private activity. The same researchers found that "rehiring of laid-off workers was rare," with only 4.4 percent of their surveyed workers being rehired after a layoff. The plurality (47 percent) of the measured ARRA-created jobs were filled from the ranks of the already employed at other competing firms.[11] Temporary stimulus programs are more successful at shifting resources within industries than at expanding the industry.

Ineffective Spending Boost

Federal dollars also crowd out state and local project funding by allowing recipient governments to decrease own-source funding on infrastructure and reduce debt issuances or fund other priorities.[12] Following the 2009 ARRA federal infrastructure package, total spending on infrastructure across state and federal sources remained relatively unchanged as states cut their own-source funding:

- Former Maryland Governor Martin O'Malley (D) cut spending and raided the state's infrastructure trust fund for other priorities following the receipt of ARRA infrastructure money so that net state funding for transit infrastructure decreased by $90 million.[13]

- The St. Louis Fed study also found the total amount of highway spending "barely budged" in the years after the ARRA's passage and that "the highway system saw little improvement."[14]

- Stanford economists John Cogan and John Taylor find that ARRA grants have "not increased [state and local government] purchases of goods and services. Instead they reduced borrowing and increased transfer payments," almost entirely offsetting the increased federal spending.[15]

Wasteful and Corrupt Projects

Federal stimulus spending funnels taxpayer money to federal bureaucrats who misallocate resources to wasteful and corrupt special interest projects. Stimulus crowds out productive private-sector projects with less productive government priorities. Additional costs are incurred when the public money dries up and the industry must again reshuffle to meet private-sector demands.

When spending someone else's money, governments tend to waste funds. Here a few examples:

- Dubbed "the tunnel to nowhere" by the *Pittsburgh Tribune-Review*, the U.S. Department of Transportation awarded more than $62 million to extend the Pittsburgh light rail under the Allegheny River to the casino and professional sports arenas. Rather than serving commuters, the project primarily served well-funded commercial interests; a decision that Pennsylvania Governor Ed Rendell (D) later called "a tragic mistake." The project was plagued with delays and significant cost overruns.[16]

- In California, $54 million in stimulus funds were used to renovate railroad tracks, bridges, and a station, all exclusively used by a private Napa California wine train. The mayor of a local town that the train runs through noted that the money would have been better spent repaving roads that everyone used.[17] Stimulus money was also sent to California's high-speed rail project, which, after more than a decade of delays, is currently not estimated to wrap up until 2033.[18]

- Malinvestments in the energy sectors include the infamous $535 million loan to the failed solar manufacturer Solyndra and a similarly

sized grant to Abound Solar, which subsequently filed for bankruptcy. Following a large federal investment, First Solar laid off workers and paid out large sums to its executives.[19] A Nevada biomass electricity plant shut its doors after the federal stimulus funds dried up.[20]

Stimulus Does Not Work

Infrastructure spending is not unique in its failure to provide a meaningful boost to the economy. Following the economic crisis of 2008, the United States and governments around the world enacted fiscal stimulus programs, guided by economists predicting large benefits and promising shorter, less painful recessions. In the years that followed, a new cohort of fiscal researchers reinvestigated historic examples of fiscal action and found that government spending does not boost private activity and likely crowds it out, resulting in a smaller private sector.[21] Instead of boosting private economic activity as predicted by proponents, government stimulus spending artificially increases short-term output measures by inefficiently stealing resources from the future.

Economists communicate the effect of stimulus programs using a "multiplier," which is the ratio of the expected change in output (gross domestic product) over the proposed government outlay. A multiplier below one means that additional government spending would shrink private activity and could slow down total economic output over time. The Congressional Budget Office reports a wide range of multipliers for infrastructure spending, ranging from 0.4 to 2.2, indicating a disagreement among economists about the effects of new spending.[22] The more plausible lower-end estimates come from more data-driven time series and narrative methods, while the upper bounds are the outputs of more complicated calibrated models. However, the calibration effectively builds in the desired result because strong assumptions about how the real world works are necessary for the model to identify the fiscal policy effect. The bulk of fiscal stimulus multiplier estimates from the leading methods are well below one.[23]

When it comes to paying for large spending programs, the new taxes and bigger debt impose additional costs that more than cancel out any short-run boost from fiscal stimulus. Most economic estimates show that tax increases reduce the economy's size by two or three times the increase in revenue, and large government debts also diminish growth.[24] The historical record clearly shows that stimulus spending is ineffective across countries and implementation strategies, making it a wasteful use of public funds.[25]

Conclusion

Rather than spending additional billions or trillions of dollars on a federal infrastructure package, Congress should first remove unnecessary restrictions and regulations that prevent the private sector and state governments from meeting their constituents' needs.[26] If history is any guide, federal infrastructure spending will not significantly boost employment or improve the quality of the nation's energy infrastructure, trains, roads, or bridges.

Adam N. Michel, PhD, is Senior Analyst for Fiscal Policy in the Grover M. Hermann Center for the Federal Budget, of the Institute for Economic Freedom, at The Heritage Foundation.

Endnotes

1. Adam N. Michel, "The False Promise of Stimulus Spending: Lessons from the Great Recession," Heritage Foundation *Backgrounder* No. 3493, May 6, 2020, https://www.heritage.org/markets-and-finance/report/the-false-promise-stimulus-spending-lessons-the-great-recession.
2. William J. Mallett, "Transportation Infrastructure Investment as Economic Stimulus: Lessons from the American Recovery and Reinvestment Act of 2009," Congressional Research Service, May 5, 2020, https://fas.org/sgp/crs/misc/R46343.pdf (accessed January 21, 2021).
3. David Jackson, "Obama Jokes About 'Shovel-Ready Projects,'" *USA Today*, June 13, 2011, http://content.usatoday.com/communities/theoval/post/2011/06/obama-jokes-about-shovel-ready-projects/1#.YAHAYdhKg2w (accessed January 20, 2021).
4. Tom Coburn and John McCain, "Summertime Blues: 100 Stimulus Projects that Give Taxpayers the Blues," Coburn.Senate.gov and McCain.Senate.gov, August 2010, https://www.washingtonpost.com/wp-srv/politics/documents/GOP_simulus_index.pdf (accessed January 19, 2021), and Sandra Santos and John Tedesco, "Red Tape Delays Some Stimulus Projects," My San Antonio, June 29, 2010, https://www.mysanantonio.com/news/local_news/article/Red-tape-delays-some-stimulus-projects-785353.php?showFullArticle=y (accessed January 19, 2021).
5. Council on Environmental Quality, "Length of Environmental Impact Statements (2013–2017)," July 22, 2019, https://ceq.doe.gov/docs/nepa-practice/CEQ_EIS_Length_Report_2019-7-22.pdf (accessed January 19, 2021), and Council on Environmental Quality, "Environmental Impact Statement Timelines (2010–2017)," December 14, 2018, https://ceq.doe.gov/docs/nepa-practice/CEQ_EIS_Timelines_Report_2018-12-14.pdf (accessed January 19, 2021).
6. Diane Katz, "Curbing Abuses of a Politicized NEPA," Heritage Foundation *Backgrounder* No. 3524, August 25, 2020, https://www.heritage.org/government-regulation/report/curbing-abuses-politicized-nepa.
7. Dick M. Carpenter, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, "License to Work," Table 2: Burdens of Licensure, Institute for Justice, November 2017, https://ij.org/wp-content/themes/ijorg/images/ltw2/License_to_Work_2nd_Edition.pdf#page=18 (accessed January 21, 2021).
8. U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey–Household Data Not Seasonally Adjusted: A-31. Unemployed persons by industry, class of worker, and sex," January 8, 2021, https://www.bls.gov/web/empsit/cpseea31.htm (accessed January 21, 2021).
9. Bill Dupor, "So, Why Didn't the 2009 Recovery Act Improve the Nation's Highways and Bridges?" Federal Reserve Bank of St. Louis *Review*, Vol. 99, No. 2 (Second Quarter 2017), pp. 169 and 170, https://research.stlouisfed.org/publications/review/2017-04-12/so-why-didnt-the-2009-recovery-act-improve-the-nations-highways-and-bridges (accessed January 19, 2021).
10. Garett Jones and Daniel M. Rothschild, "The Limits of Infrastructure Stimulus," Mercatus Center *Policy Brief*, March 25, 2020, https://www.mercatus.org/publications/covid-19-policy-brief-series/limits-infrastructure-stimulus (accessed January 20, 2021).
11. Ibid.
12. Sheila Campbell, "Fiscal Substitution of Investment for Highway Infrastructure," Congressional Budget Office *Working Paper* No. 2018-08, August 2018, https://www.cbo.gov/system/files?file=2018-08/54371-workingpaper_1.pdf (accessed January 20, 2021).
13. Jim Epstein, "Why Obama's Stimulus Failed: A Case Study of Silver Spring, Maryland," *Reason*, December 8, 2011, https://reason.com/2011/12/08/why-obamas-stimulus-failed-a-case-study/ (accessed January 20, 2021).
14. Dupor, "So, Why Didn't the 2009 Recovery Act Improve the Nation's Highways and Bridges?"
15. John F. Cogan and John B. Taylor, "What the Government Purchases Multiplier Actually Multiplied in the 2009 Stimulus Package," National Bureau of Economic Research *Working Paper* No. 16505, October 2010, p. 1, https://www.nber.org/papers/w16505 (accessed January 19, 2021).
16. Eric Boehm, "Pittsburgh's Tunnel to Nowhere Heads Bad Stimulus Projects," *Pennsylvania Independent*, August 3, 2010, https://www.patownhall.com/pittsburghs-tunnel-to-nowhere-heads-bad-stimulus-projects/ (accessed January 19, 2021), and Coburn and McCain, "Summertime Blues."
17. Jonathan Karl, Michael Callahan, and Kristina Wong, "Public Stimulus Funds Spent on Private Wine Train," ABC News *Good Morning America*, February 1, 2010, https://abcnews.go.com/GMA/public-stimulus-funds-spent-private-wine-train/story?id=9721488 (accessed January 19, 2021).
18. Michael Cooper, "Slice of Stimulus Package Will Go to Faster Trains," *The New York Times*, February 19, 2009, https://www.nytimes.com/2009/02/20/us/20rail.html (accessed January 19, 2021), and Kathleen Ronayne, "What's Next for California's Long-Delayed High-Speed Rail Project," NBC Los Angeles, March 26, 2019, https://www.nbclosangeles.com/news/california-news/california-high-speed-rail-gavin-newsom-jerry-brown/82303/ (accessed January 19, 2021).
19. Institute for Energy Research, "Recapping the Obama Administration Green Energy Stimulus Failures," January 9, 2013, https://www.instituteforenergyresearch.org/renewable/solar/recapping-the-obama-administration-green-energy-stimulus-failures/ (accessed January 20, 2021).
20. Coburn and McCain, "Summertime Blues."
21. Valerie A. Ramey, "Ten Years After the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?" *Journal of Economic Perspectives*, Vol. 33, No. 2 (Spring 2019), https://pubs.aeaweb.org/doi/pdf/10.1257/jep.33.2.89 (accessed January 19, 2021).

22. Charles J. Whalen and Felix Reichling, "The Fiscal Multiplier and Economic Policy Analysis in the United States," Congressional Budget Office *Working Paper Series*, February 2015, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/workingpaper/49925-FiscalMultiplier_1.pdf (accessed January 21, 2021).
23. Ramey, "Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?"
24. Adam N. Michel, "The Promise of Fiscal Consolidation: How Cutting Spending Can Help to Return America to Prosperity," Heritage Foundation *Backgrounder* No. 3528, September 9, 2020, https://www.heritage.org/budget-and-spending/report/the-promise-fiscal-consolidation-how-cutting-spending-can-help-return.
25. Michel, "The False Promise of Stimulus Spending: Lessons from the Great Recession."
26. Michael Sargent and Nicolas D. Loris, "Driving Investment, Fueling Growth: How Strategic Reforms Can Generate $1.1 Trillion in Infrastructure Investment," Heritage Foundation *Backgrounder* No. 3209, May 3, 2017, https://www.heritage.org/transportation/report/driving-investment-fueling-growth-how-strategic-reforms-can-generate-11.