Stimulus Too Slow To Have Mattered

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Amid reports that the stimulus spending distribution has been indolent and poorly focused there may be a silver lining of early economic recovery happening independent of any significant stimulus effect. This is causing some economists to call for dumping the stimulus program which they feel could still do more harm then good.

The Congressional Budget Office report on the *State of Economy* filed today notes that only a small part of the American Recovery and Investment Act, more commonly known as the "stimulus bill" has been spent. Initially the plan called for $380 billion to be spent by the end of April but instead only about 5% which is equal to $19 billion has actually been disbursed or planned. They predict that although the Gross Domestic Product may increase from 1.4% to 3.8% by the end of this year, the recovery "may falter in 2010" if consumer spending in goods and services does not increase.

Critics complain that what spending has been done was not in the areas which would most likely create jobs. Patrick Tyrell of the *Heritage Foundation* reported today that counting payments through the first week in May most of the spending was done by the Departments of Health and Human Services, Labor, and towards Social Security recipients.

A recent Dow Jones Infrastructure Summit found the promises of the Obama administration lacking in terms of a real commitment to infrastructure improvement and upgrades. Infrastructure is one area were many conservatives and economists agreed that spending may yield some long term benefits. According to the *Wall Street Journal*, Patrick Natale, executive director of the American Society of Civil Engineers said he would give a grade of D- to the effort.

Many reports have been coming in from all around the country of states, cities, and towns having significant problems with the program. The White House has said that some delays are due to the need to adequately oversee the project. Vice-President Biden who is charged with supervision of the program made a statement quoted in the *New York Times* that the stimulus payouts are "ahead of schedule in most programs," which seems contradicted by a chorus of complaints from small local governments.

The poor organization of fund distribution and project approval is making for wasteful and inefficient spending. Some states and localities have been substituting less prioritized projects to get funds instead of more necessary ones that take more formal planning because they are given notice of upcoming deadlines beyond which they lose a chance at any funding. Rather than encourage the best spending for the most jobs this has just become a rush to get money. Other states made decisions about staffing or budgets thinking they would receive federal funds sooner rather than later and now find themselves in a worse crisis then if they had gone ahead planned a lower budget.

Many governors and state legislators had to make changes in programs like Medicaid and unemployment insurance to qualify for the "whole package" which may cause a permanent spending level well above their ability to fund in the years to come when there will be no further stimulus aid which will necessitate significant increases in state or local taxes.

Reports on consumer spending and unemployment from government agencies and private entities at best show a tapering of their steep decline but no real improvement. Peter Morici, an economist at the University of Maryland, who has been a vocal opponent of the Detroit bailout and the stimulus package says his examination of the trends in employment do not support the claim of the Obama administration that 150,000 jobs have been saved or created.

The Congressional Budget Office says that before any improvement can be seen in unemployment the economic output of the United States will have to increase for 6 months to a year. So far the output has slowed in the rate of decline but not yet clearly bottomed out and certainly has not yet increased.

Many economists feel that there must be improvement in not only unemployment and consumer spending, neither of which has yet occurred, but also in banking and the financial markets. Both the CBO and Treasury Secretary Geithner say the banks are improved but still having significant problems.

An analysis of these situation as noted by Patrick Tyrell at the *Heritage Foundation* creates a paradox. Advocates of the stimulus package like chief Presidential economic advisor, Larry Summers, said

Presidential economic advisor, Larry Summers, said that the stimulus had to "timely and targeted" to act relatively quickly to help the economy. However, the fact that only a small part of the funds have been spent and only minimally in infrastructure while at the same time the economy may be leveling off suggests to Tyrell that maybe a stimulus was never needed.

Members of the administration have been declaring that if the economy continues to level off or even improve the benefit and value of the stimulus will be vindicated. However, Tyrell says that history shows that economies normally recover from recessions without stimulus and that further spending at this point would be counterproductive. He notes that money given to the economy by the government is first removed from the taxpayers so there is no net gain. He is calling for recall on unspent stimulus funds and instead recommends a broad increased tax cut which will most quickly increase consumer spending.

An analysis done by Doug Bandow at the *CATO Institute* in March predicted the present circumstances and supports Tyrell's concept. He predicted at that time looking at the CBO projections that the long term economic effect of the stimulus bill would slow economic growth. Increasing government debt, the deficit is now at record levels, has the effect of a "crowd out" of private investment . This loss of potential capital for private investment will also mean he contends that even if unemployment improves it will do so with lower wages.

Some liberal Democrats amazingly are actually calling for more rather than less stimulus spending. Instead Congress should immediately consider halting any further stimulus payments because the national debt is now over $ 11 trillion and increasing by almost $4 billion per day even with the "slow" rate of spending of the stimulus bill. Thankfully, in least on this one occasion government inefficiency may have provided some temporary protection to America's wallet.

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