Federal Stimulus Spending and the Private Sector

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The views expressed here are those of the speakers and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.
Cletus Coughlin, senior vice president and chief of staff to St. Louis Fed President and CEO James Bullard

WELCOME AND INTRODUCTION
The Status of U.S. Infrastructure
## Cumulative Infrastructure Needs, Based on Current Trends, billions of 2015 dollars

<table>
<thead>
<tr>
<th>Infrastructure System</th>
<th>Estimated Funding</th>
<th>Additional Needed Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surface Transportation</td>
<td>941</td>
<td>1,101</td>
</tr>
<tr>
<td>Electricity</td>
<td>757</td>
<td>177</td>
</tr>
<tr>
<td>Schools</td>
<td>490</td>
<td>380</td>
</tr>
<tr>
<td>Rail</td>
<td>125</td>
<td>29</td>
</tr>
<tr>
<td>Airports</td>
<td>115</td>
<td>42</td>
</tr>
<tr>
<td>Water/Wastewater</td>
<td>45</td>
<td>105</td>
</tr>
<tr>
<td>Others</td>
<td>54</td>
<td>230</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>2,526</strong></td>
<td><strong>2,064</strong></td>
</tr>
</tbody>
</table>

Notes: "Others" category includes Inland Waters & Marine Ports, Public Parks and Recreation, Levees, Dams, Hazardous & Solid Waste. Source is American Society of Civil Engineers.
U.S. infrastructure gets a grade of \textit{D+}.

Source: “2017 Infrastructure Report Card,” American Society of Civil Engineers (ASCE).
Aviation

ASCE Grade: D
Levees

ASCE Grade: D
Roads

ASCE Grade: D
Solid Waste

ASCE Grade: C+
The State of U.S. Infrastructure

The Administration’s Infrastructure Plan

The 2009 Recovery Act

Estimating the Keynesian Multiplier

Conclusion
Public Opinion Towards Infrastructure Investment

79% of Americans approve of a Trump proposal to increase spending on infrastructure.¹

But, only 16% of Americans are willing to pay at least $250/year in taxes to improve infrastructure.²

The Trump Infrastructure Plan: What We Know So Far
Trump Infrastructure Plan (so far)

$200 billion proposal new federal spending initiative for infrastructure over the next 10 years

$15 billion for “transformative” projects

$25 billion for rural infrastructure

Most of this budget will be incentivizing dollars to local & state governments

Sources: Whitehouse.gov, President’s 2018 Budget Proposal, various media reports.
The Administration’s Key Principles

1. Make Targeted Federal Investments

2. Encourage Self-Help

3. Align Infrastructure Investment with Entities Best Suited to Provide Sustained and Efficient Investment

4. Leverage the Private Sector

Cost Sharing Under the New Initiative

Federal Highway Administration, Current Cost Sharing Model (simplified)

Trump Infrastructure Spending Initiative, Proposed Cost Sharing Model
Jobs and the Infrastructure Initiative

REBUILD AMERICA’S Infrastructure

BY THE NUMBERS

✓ $200 Billion IN INFRASTRUCTURE FUNDING
✓ 8 Year Reduction IN PERMIT PROCESS TIME
✓ $25 Billion FOR RURAL INFRASTRUCTURE
✓ $15 Billion FOR TRANSFORMATIVE PROJECTS
✓ $100 Billion FOR LOCAL PRIORITIZATION OF INFRASTRUCTURE NEEDS
✓ 1 Million Apprentices IN 2 YEARS

Source: whitehouse.gov.
Government Spending and Private Economic Activity
Measuring the Effect of Fiscal Policy

The Keynesian multiplier is the ratio of the change in output to the change in government spending that it causes.
The 2009 Recovery Act


Source: Congressional Budget Office, Congressional Research Service.
A Breakdown of the Recovery Act

The Recovery Act appropriated $136 billion in government investment in infrastructure.

The Jobs Effect of the Recovery Act
Recovery Spending is a Slow Process

Source: Recovery.gov and author’s calculations.
Job Projections Missed the Mark

Directly created jobs in infrastructure & energy, 2010Q4 (thousands of persons)

Sources: Recovery Act Recipient Reports and author’s calculations, Bernstein and Romer (2008).
The Direct Jobs Impact of the Recovery Act

166 thousand of the 682 thousand jobs directly created & saved (24%) were in the private sector, at the one year mark following the start of the 2009 American Recovery and Reinvestment Act.

Who Took the Recovery Act Jobs?

Based on their sample of interviewees, approximately one-half of the individuals filling positions directly created by Recovery Act funding were leaving other jobs.

… And the indirect effects of government spending?

Perhaps there is a Keynesian multiplier effect: each directly created/saved job may lead to further job creation.

Estimating the counterfactual using the Recovery Act creates two problems:

* The Act provides only one data point.
* Stimulus was during a recession.
... And the indirect effects of government spending?

There is division among experts on this question.

Several high quality papers on this question.

Some of the best use U.S. military expenditures to estimate the Keynesian multiplier.
Economic Activity & Defense Spending

Defense spending since the Civil War

Another paper examines military expenditure data back to 1889.

They find multipliers are less than one, except possibly when interest rates are at zero.

States & local governments may have incentive to reallocate funds
### Change in state government spending on various categories from 2008 to 2010, per capita for 16 states

<table>
<thead>
<tr>
<th>State</th>
<th>Change in highway infrastructure spending</th>
<th>Change in government administration spending</th>
<th>Change in government administration plus education spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>-109</td>
<td>-9</td>
<td>82</td>
</tr>
<tr>
<td>Texas</td>
<td>-98</td>
<td>20</td>
<td>288</td>
</tr>
<tr>
<td>Maryland</td>
<td>-73</td>
<td>4</td>
<td>129</td>
</tr>
<tr>
<td>Kentucky</td>
<td>-45</td>
<td>0</td>
<td>147</td>
</tr>
<tr>
<td>Virginia</td>
<td>-44</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Florida</td>
<td>-35</td>
<td>-16</td>
<td>-24</td>
</tr>
<tr>
<td>Indiana</td>
<td>-28</td>
<td>-18</td>
<td>559</td>
</tr>
<tr>
<td>Louisiana</td>
<td>-21</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Alabama</td>
<td>-12</td>
<td>3</td>
<td>-20</td>
</tr>
<tr>
<td>Mississippi</td>
<td>-10</td>
<td>20</td>
<td>58</td>
</tr>
<tr>
<td>Ohio</td>
<td>-10</td>
<td>-38</td>
<td>131</td>
</tr>
<tr>
<td>Hawaii</td>
<td>-9</td>
<td>-58</td>
<td>-169</td>
</tr>
<tr>
<td>Illinois</td>
<td>-9</td>
<td>9</td>
<td>83</td>
</tr>
<tr>
<td>Colorado</td>
<td>-7</td>
<td>-4</td>
<td>236</td>
</tr>
<tr>
<td>Arkansas</td>
<td>-6</td>
<td>-13</td>
<td>129</td>
</tr>
<tr>
<td>Kansas</td>
<td>1</td>
<td>24</td>
<td>86</td>
</tr>
</tbody>
</table>

Sources: FHWA National Highway Statistics and U.S. Census Bureau Annual Survey of State & Local Governments
The Engineers’ Plea

“Put the ‘trust’ back into ‘trust funds.’ Dedicated public funding sources on the local, state, and federal levels need to be consistently and sufficiently funded from user-generated fees, with infrastructure trust funds never used to pay for or offset other parts of a budget.”

- From the ASCE 2017 Infrastructure Report Card.
Regulations and permitting time will continue to be a major issue
Cutting Back the Red Tape

One component of the Administration’s proposal is to reduce the permit process time by 8 years.

“One Federal Decision”

“The Administration supports putting infrastructure permitting into the hands of responsible State and local officials where appropriate.”

Sources: Fact Sheet 2018 Budget: Infrastructure Initiative, whitehouse.gov.
Red Tape and the Recovery Act

The act contains approximately 175,000 words and makes references to 100s of existing U.S. codes.

Davis-Bacon wage requirements in home weatherization

Highway infrastructure project approval deadlines
Unnecessary inflexibility

- Recovery Act passed Feb. 2009
- Deadline for FHWA dollar obligations Sept. 2010
- Deadline for FHWA dollar expenditures Sept. 2015
- 50 percent of FHWA dollars had been spent at this time
Wrapping Up

Recovery Act (2009-2014)
Problems limited the act’s effectiveness.

Defense spending (1889-2015)
An increase in government spending usually crowds out private economic activity.
I’ll conclude optimistically

A new infrastructure proposal stands a good chance at passage.

New cost-sharing rules mean fiscal substitution is less likely to be a problem.

De-emphasis on the Keynesian approach.
AUDIENCE Q & A
Thank you for attending.