

DIALOGUE
WITH
THE FED

Beyond Today's Financial Headlines

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.



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WELCOME AND INTRODUCTION

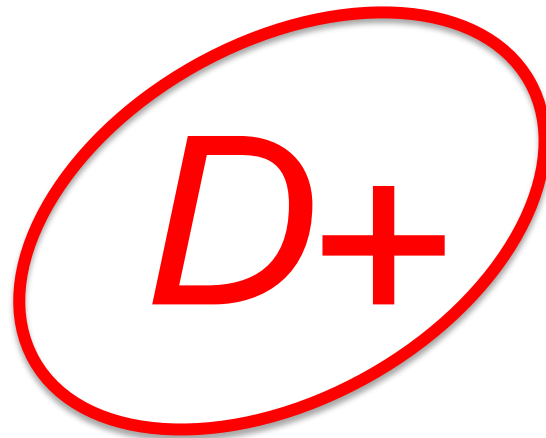
The Status of U.S. Infrastructure

Cumulative Infrastructure Needs, Based on Current Trends, billions of 2015 dollars

2016-2025 (Ten Years) Infrastructure System	Estimated Funding	Additional Needed Funding
Surface Transportation	941	1,101
Electricity	757	177
Schools	490	380
Rail	125	29
Airports	115	42
Water/Wastewater	45	105
Others	54	230
Totals	2,526	2,064

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



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

(1) CNN/ORC Poll, March 2017.

(2) Rasmussen Poll, February 2017.

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

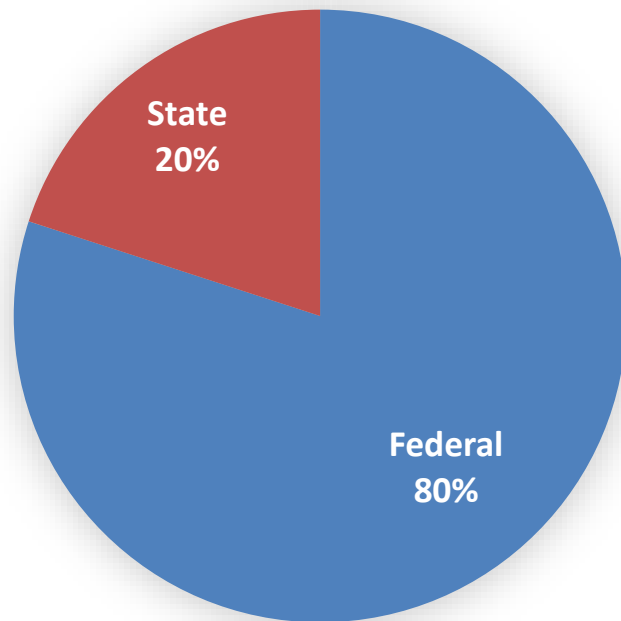
Sources: Whitehouse.gov, President’s 2018 Budget Proposal, various media reports.

The Administration's Key Principles

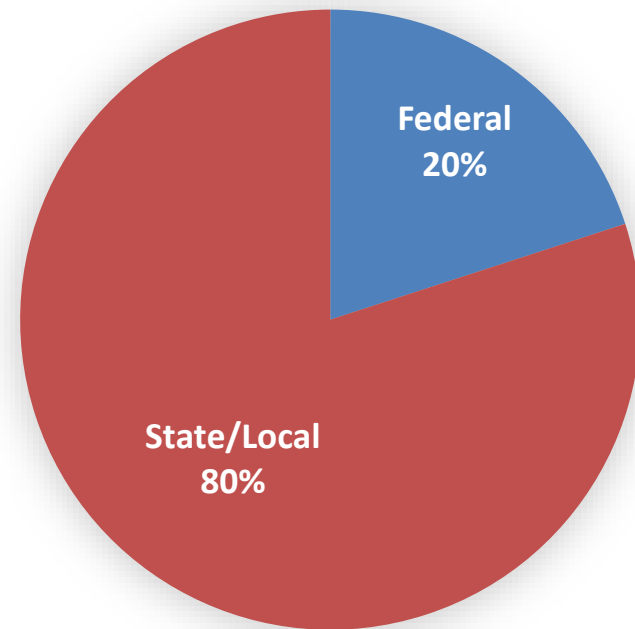
1. Make Targeted Federal Investments
2. Encourage Self-Help
3. Align Infrastructure Investment with Entities Best Suited to Provide Sustained and Efficient Investment
4. Leverage the Private Sector

Source: “Fact Sheet, 2018 Budget: Infrastructure Investment,”
[whitehouse.gov](https://www.whitehouse.gov).

Cost Sharing Under the New Initiative

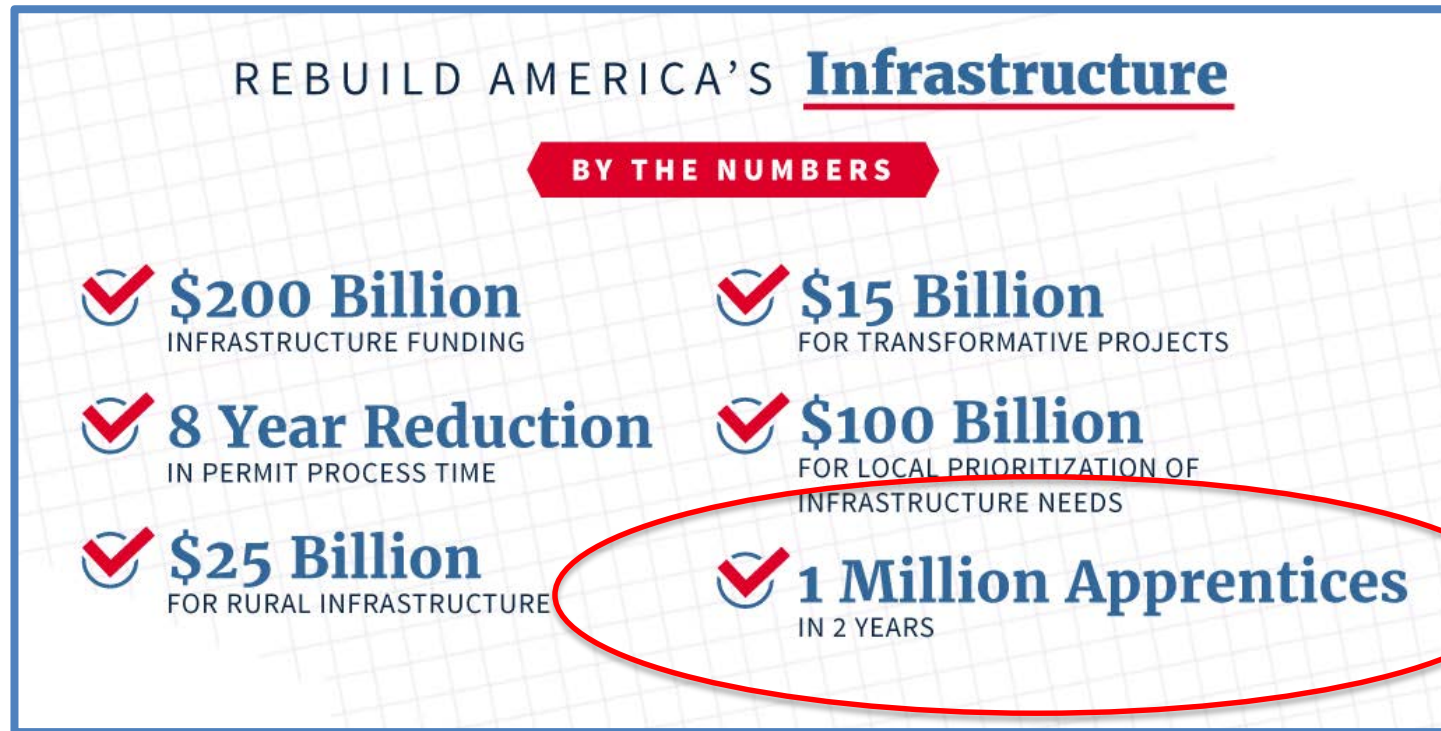


Federal Highway Administration,
Current Cost Sharing Model
(simplified)



Trump Infrastructure Spending
Initiative, Proposed Cost Sharing
Model

Jobs and the Infrastructure Initiative



Source: [whitehouse.gov](https://www.whitehouse.gov).

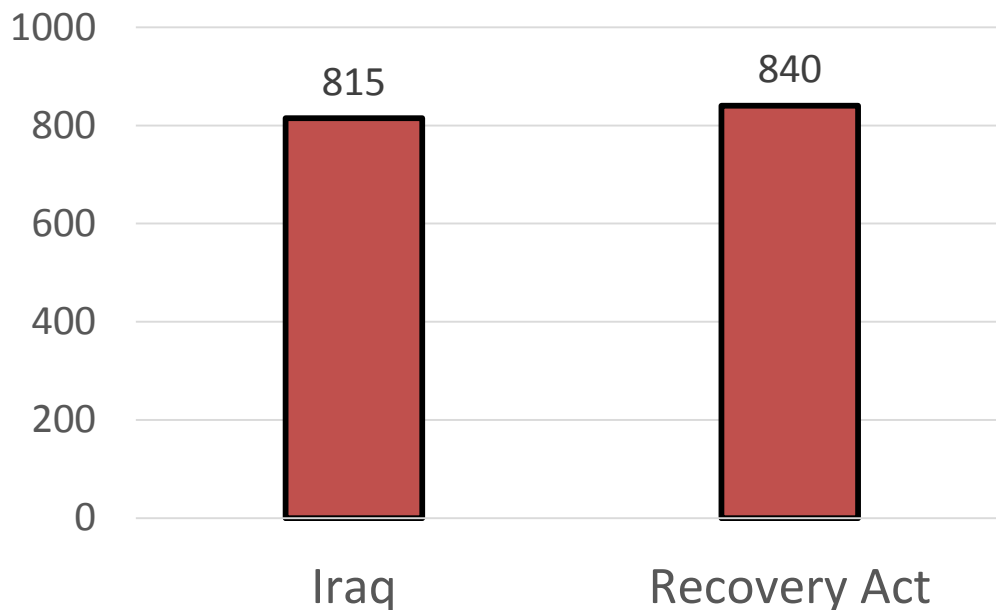
Government Spending and Private Economic Activity

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.

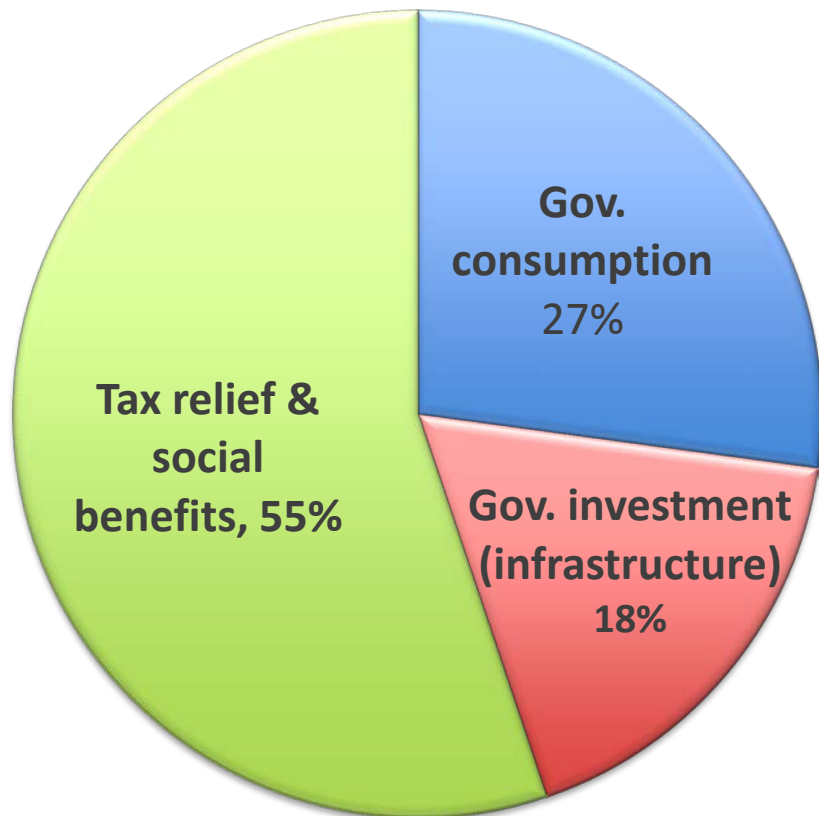
The 2009 Recovery Act

US military appropriations in Iraq between 2002 and 2014, and Federal budget impact of the 2009 Recovery Act, billions of dollars



Source: Congressional Budget Office, Congressional Research Service.

A Breakdown of the Recovery Act

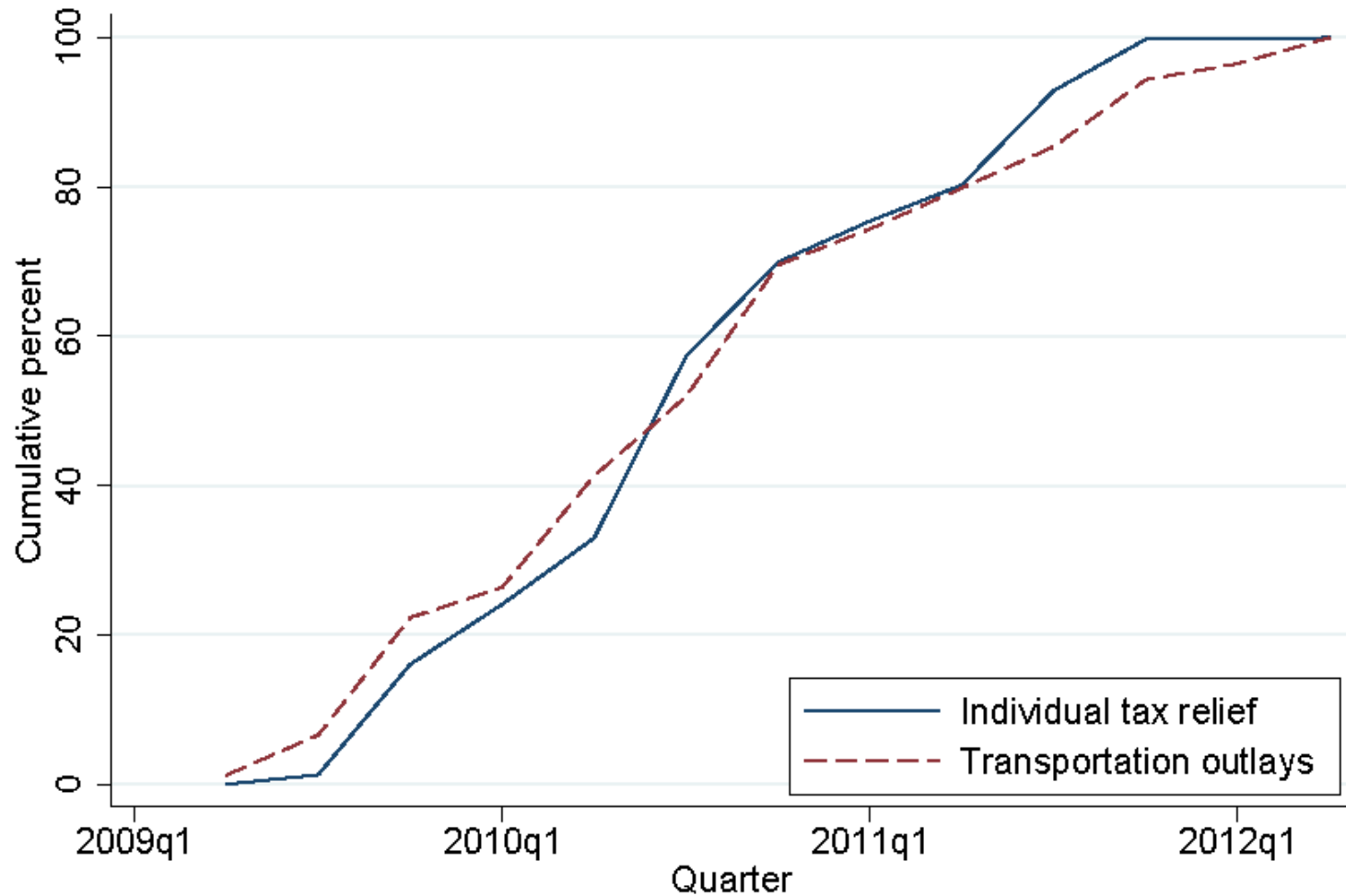


The Recovery Act appropriated \$136 billion in government investment in infrastructure.

Source: Drautzburg and Uhlig (2015).

The Jobs Effect of the Recovery Act

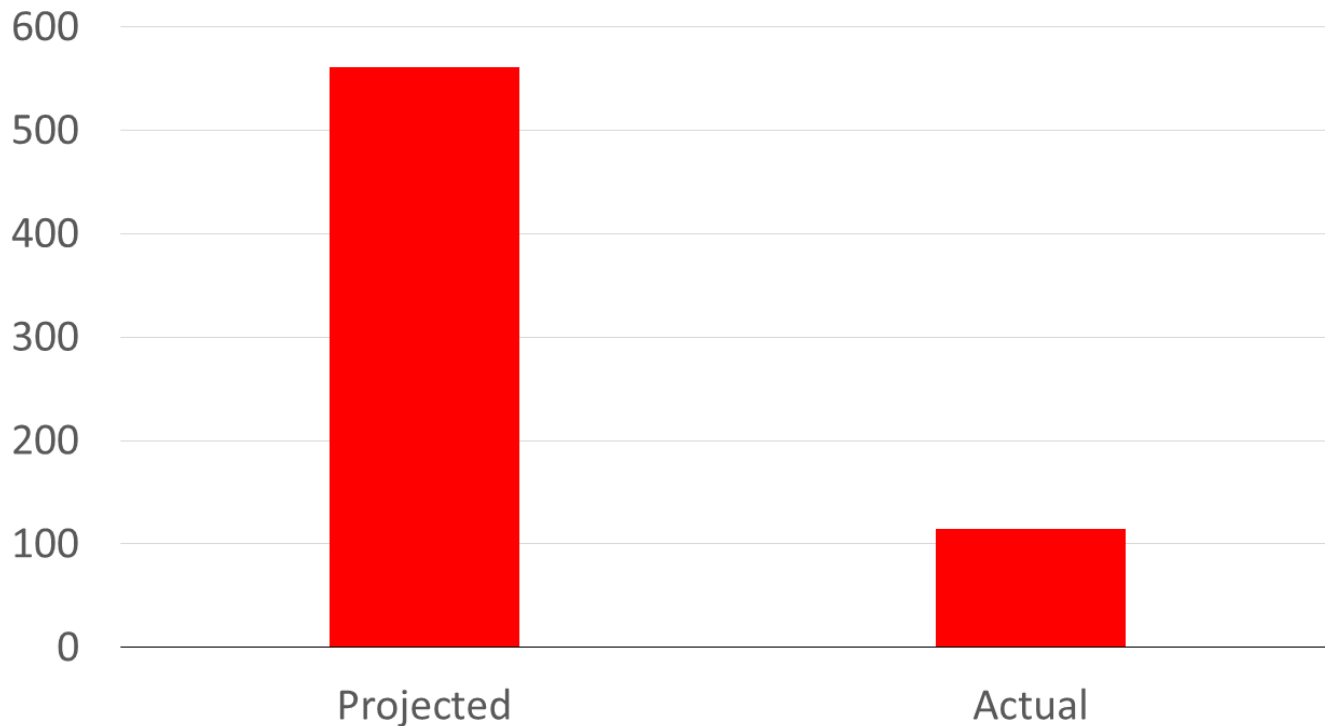
Recovery Spending is a Slow Process



Source: Recovery.gov and author's calculations.

Job Projections Missed the Mark

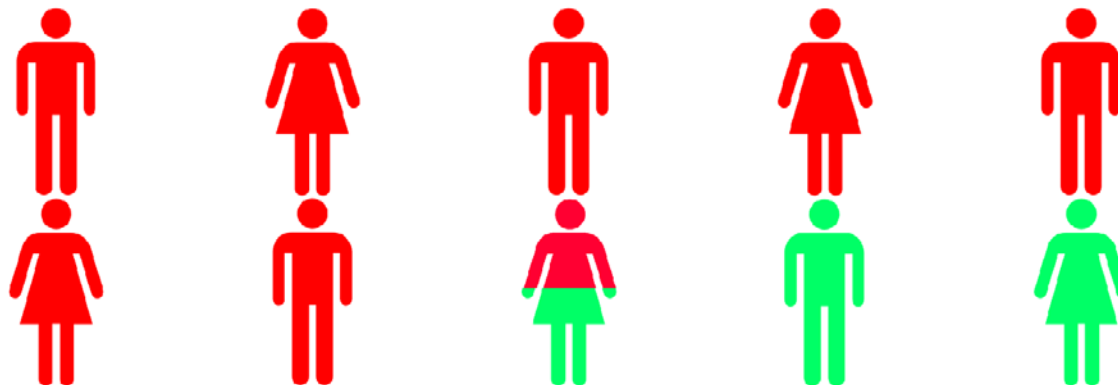
Directly created jobs in infrastructure & energy,
2010Q4 (thousands of persons)



Sources: Recovery Act Recipient Reports and author's calculations, Bernstein and Romer (2008).

The Direct Jobs Impact of the Recovery Act

Government Jobs



Private-sector Jobs

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.

Source: Dupor (2014), “The 2009 Recovery Act: Directly Created and Saved Jobs Were Primarily in Government,” Federal Reserve Bank of St. Louis Review.

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.*

Source: Jones and Rothschild (2011), “Did Stimulus Dollars Hire the Unemployed? Answers to Questions about the American Recovery and Reinvestment Act,” George Mason University, working paper.

... 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.

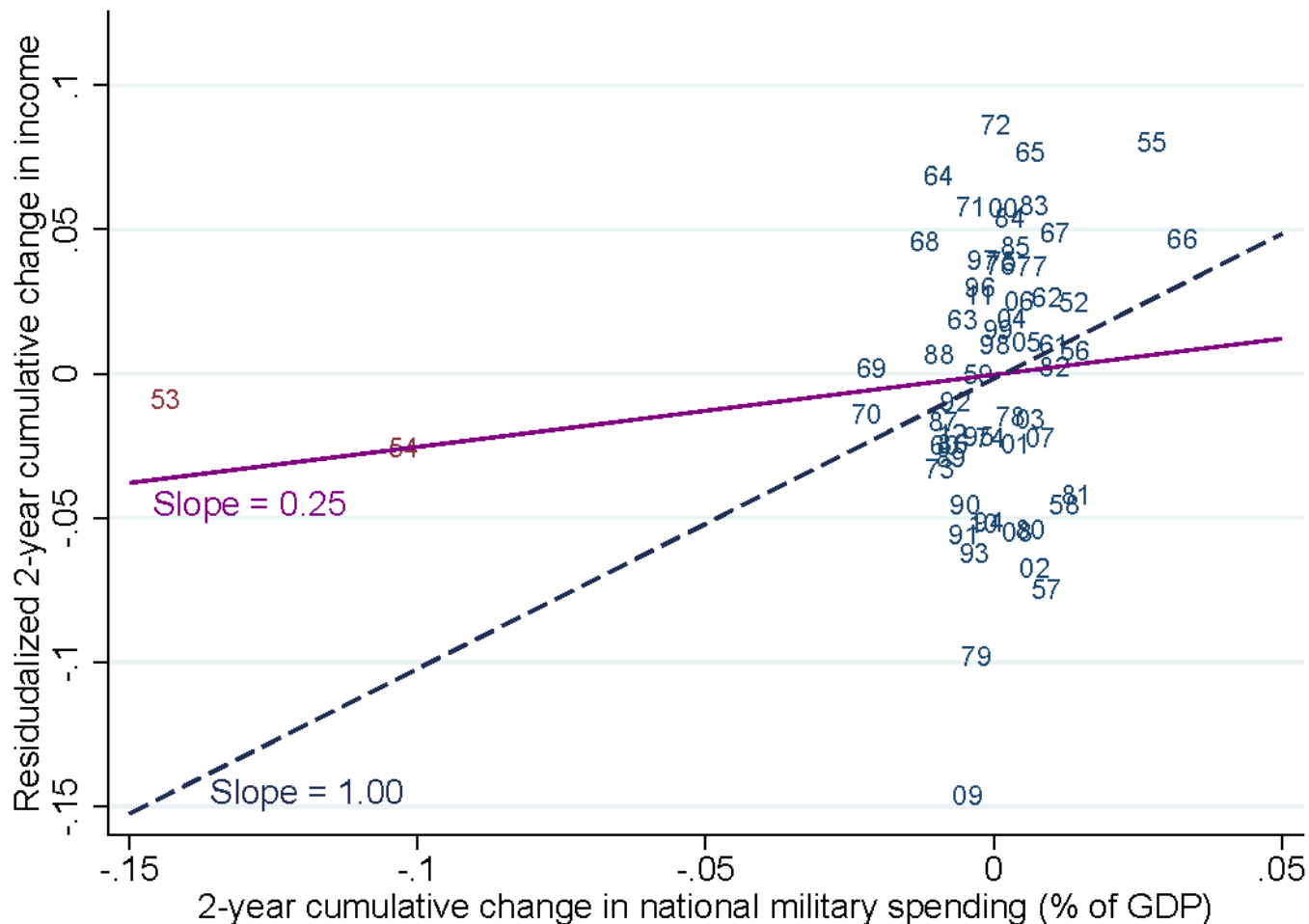
... And the indirect effects of government spending?

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



Source: Dupor and Guerrero (2017), "Local and Aggregate Fiscal Policy Multipliers," *Journal of Monetary Economics*.

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.

Source: Ramey and Zubairy (2017), “Government Spending Multipliers in Good Times and in Bad: Evidence from U.S. Historical Data,” *Journal of Political Economy*.

**States & local governments may
have incentive to reallocate funds**

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

Change in state government spending on various categories from 2008 to 2010, per capita for 16 states

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](https://www.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

Deadline for FHWA
dollar obligations
Sept. 2010

Recovery Act passed
Feb. 2009

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.



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