

## **Stimulate This** **by Dan Jacoby**

For the next few weeks, much of the news emanating from Washington will be about whatever “economic stimulus package” Congress eventually passes. Naturally, everyone has gripes about the package as it is reported to stand currently, and everyone will have gripes about the final version of the package, whatever it is. Rather than gripe like all the others, however I thought I’d try something positive – outlining what a good, effective stimulus package should look like.

Congress is, of course, made up of many economic experts, who move among their fellow representatives and know better than we do all those things that make an economy, particularly a macroeconomy that generates \$14 trillion a year worth of gross domestic product, work. Congress has, quite naturally, always been this, beginning with the first Congress that examined every move that Alexander Hamilton, the first Secretary of the Treasury, made, even as he was putting the new country on solid economic footing. So it is fairly obvious that my views are relatively uninformed and, therefore, unimportant when compared with those of the experts in Congress.

Like many other Americans, however, whose independent study of economics and history is not officially registered with diplomas and other certificates of achievement, I still have my opinions. I also have this urge to publish my silly opinions, even if they are in opposition to “professional economists” whose primary accomplishments are the ability to explain why they had no idea that our economy would crumble, and the certainty underlying their advice on how to fix the economy to the experts of which Congress is so clearly composed.

So please bear with me.

### **Tax Cuts**

First of all, the concept of “tax cuts” as a stimulus should be abandoned. Either they will be in the form of one-time payments that don’t work, or they will be actual cuts in tax rates that will leave us with a more serious long-term problem, that of structural deficits.

One-time payments have proven more than once to be ineffective as an economic stimulus when consumer confidence is low, and in hindsight we know why. When people don’t know, or are afraid they won’t know, where their next paycheck is coming from, a one-time windfall is used to help pay down the most overdue debt; it is not used to buy something new. As a result, the one-time payment not only fails to engender new spending, but also reduces the money supply.

Long-term tax cuts, such as lowering corporate or personal income tax rates, only serve to lock in debt. The “Laffer curve,” on which the constant Republican Party calls for tax cuts are based, states that at some point higher taxes actually inhibit economic activity and lower revenues instead of the other way around. But the curve has two sides to it – something Republicans constantly ignore. We are most likely on the left side of that curve, as demonstrated by the success of the Clinton tax increases and the ultimate failure of three years of Bush-era tax cuts; further tax cuts will therefore reduce revenue, not increase it. Unless we cut spending first, and permanently (or as permanently as any government action can be), we cannot afford further tax cuts.

We should therefore not consider further tax cuts as either economic stimulants or future sources of revenue that can be used to pay down the debts incurred by the current economic downturn and whatever spending is made to pull us out of that downturn. They simply will not work, and may damage the economy further.

In fact, a case can be made for strategic tax increases, some of which can be balanced – but only balanced – by equal and coordinated tax cuts. For example, we could close certain deductions for business expenses, and offset them by lowering the corporate tax rate. Under current law, multinational corporations can claim that much of their profits stem from operations in low-tax countries and consequently avoid paying taxes here. If we simply taxed all profits, allowing credits for taxes paid to other countries, we would not only raise significant revenue, but also encourage multinational corporations to locate more of their business here in the United States, creating new jobs (or bringing back old jobs that were sent away), since the tax break they receive for moving business overseas would evaporate. In exchange, a lower corporate tax rate would make the move theoretically “revenue-neutral,” but would in fact raise revenue because of the extra business and new jobs.

Since tax cuts are apparently one-third of the current version of the “stimulus package,” by eliminating them (or balancing them to be officially “revenue-neutral”) we would cut the total cost from over \$800 billion to about \$550 billion, reduce the resulting long-term debt, and improve economic activity and job creation.

## **Spending**

What’s left is the spending side of the package, which should be virtually all of it. Spending should be split into two categories. The first category is short-term (up to three-year) assistance to state and local governments to avoid local tax increases or spending cuts, combined with immediate job creation to get Americans working again, begin to pay for the stimulus package, and restore confidence in the economy. The second category consists of various longer-term infrastructure projects that will set the stage for growth throughout the 21<sup>st</sup> century. Some of the spending will actually overlap the two categories, as some long-term infrastructure projects will create short-term jobs.

### **Short-Term Spending**

Most state and local governments are prohibited from running operational deficits. This means that any time the economy turns down, just as revenues decrease and spending needs increase, these state and local governments must do the opposite of what is needed – raise taxes and/or cut spending. They need help, and need it now. A large part of the short-term spending section of the “stimulus package” should therefore be in the form of direct payments to states and cities.

With those direct payments, states and cities will need neither to raise taxes nor to reduce spending – on police and fire protection, education, housing assistance, services for children in need, homeless people, senior centers – in short, on all those services people need most in difficult economic times. They will be able to balance their budgets without causing extra hardship. Fortunately, the current version of the “stimulus package” appears to make a lot of money available to state and local governments.

These state and local governments would do well to create some sort of rainy-day fund, so that when the economy improves they can put money aside for the next recession. The federal government could require such a move as a condition for short-term aid, but some states (New York, for instance) would not be able to pass such a law quickly enough. In those cases, any federal assistance could be in the form of a loan, which could either be repaid (with interest), or forgiven if a rainy-day fund were created as quickly as possible. Further federal government payments to states and cities could – and should – be conditional on maintaining the rainy-day fund properly.

### **Long-Term Spending**

Skipping over non-infrastructure possibilities for short-term job creation, let us tackle the long-term goal.

By “infrastructure,” we should focus on four areas that serve as the foundation for a growing, thriving economy. They are education, energy, transportation, and communication. During the Great Depression, these four areas were primary foci for rebuilding our economy:

- Education was made more accessible to more Americans by, among other things, building new schools (my own high school was originally built as a WPA project).
- New energy sources were created through programs such as the Tennessee Valley Authority (TVA) and the Public Works Association (PWA), which built hydroelectric dams. Additionally, the Public Utilities Holding Company Act stabilized electric power delivery and pricing, and the Rural Electrification Administration brought electricity to many farms and rural communities.
- Transportation was improved by building new roads and bridges through the Civil Works Administration. These new roads and bridges made transporting goods and people easier and cheaper, creating more interstate trade and eventually, by allowing goods to be shipped from the coasts inland and vice versa, more international trade.
- Increased communication got very little direct attention under the New Deal. On the other hand, improvements in communication, primarily through telephone and radio use, were happening by themselves, so little help was needed.

Today, we should focus on the same four areas. In brief:

- Education: We need to modernize older schools that can be modernized, and replace schools that can't.
- Energy: We need to move away from all fossil fuels, through a combination of increased efficiency, expansion of renewable energy sources, and new or improved mass transit systems.
- Transportation: A nationwide, fully electrified, high-speed, integrated passenger and freight rail system would help solve many problems.
- Communication: Many Americans have no access to high-speed internet connections; make access available improves educational opportunity, creates jobs and helps us compete in a global economy.

There is one area that many people feel belongs in this package – universal healthcare coverage. While a properly crafted universal healthcare coverage system will relieve the burden on businesses and, therefore, create more jobs and stimulate the economy, it is too complex an issue for this essay; we will tackle this issue in a separate column later.

## **Education**

It is often said that education is the “magic bullet,” and it is, but for far more than just the students who receive a better education. Certainly, those students will be able to benefit in the form of more job opportunities. But the rest of the community benefits as well. Any realtor knows that the question most often asked by prospective house buyers is, “How are the schools?” This is true whether or not the buyers have, or expect to have, children, and the reason is simple.

Better schools mean children are more likely to be in school, and less likely to be truant, “hanging out” during the day, and committing crimes, both large and small. It means safer streets and cleaner neighborhoods. Better schools are also an incentive for businesses to locate in an area, as the market for skilled workers is better. As a result, there are more job opportunities for the entire community, and consequently more of all the benefits that come with better jobs. In short, education is the magic bullet for everyone in a community, not just students.

Before adding to federal spending on education, however, we need to redirect some of the money that is currently being spent. Simply by eliminating most of the provisions of the ineptly conceived, inaccurately named, and inadequately funded “No Child Left Behind” (NCLB) act, we can make a lot of money available to pay for more teachers and equipment. In addition, valuable classroom time is now being wasted as teachers administer “practice tests” in preparation for the standardized tests required under NCLB. Revoke NCLB, and kids will spend less time taking practice tests and more time actually learning. By itself, that would make a significant improvement in education.

Once NCLB money is properly redirected, what’s left for the stimulus package? Many of our schools are decades old, and cannot meet the needs of a modern classroom. We should first determine which schools can be modernized, and which can’t. Then we should spend money to upgrade those schools where modernization is possible, and build new schools to replace those that are hopelessly outdated. By ensuring that all our children have access to modern schools, sufficient equipment like up-to-date textbooks, computers, science labs, etc., and enough teachers to go around, we will have made a great investment in our future, will see our communities benefit directly, and will be able to compete in an increasingly global society.

By spending money in more effective ways, as well as modernizing schools, we can improve education and educational opportunities across the entire country. This ought to be the top long-term investment priority of the federal government.

## **Energy**

We are using far too much oil, coal, and natural gas. In addition to the national security problem of importing most of our oil, especially that oil imported from countries that support terrorism, there is the economic drain resulting from sending hundreds of billions of dollars to other countries. In addition, the long-term effects from global climate change, resulting in large part from burning fossil fuels, could be catastrophic.

Right now, fossil fuel suppliers are running an advertising blitz, designed to make us feel that greater use of those fossil fuels (“drill, baby, drill”) is at least part of the solution. This is like telling a heroin addict that the solution to his addiction is to take more heroin. For both economic and ecological reasons, we must wean ourselves off of what George W. Bush once called our “addiction to oil.”

Clearly, weaning ourselves off this addiction means expanding our use of renewable energy sources, and in order to do so we must increase funding for research and development in this area. For instance, solar power is only economically viable in a few, limited circumstances. Research into more efficient solar power collecting methods and development of better ways to use solar power will change that equation. But increasing our use of renewable energy sources will barely meet future needs as our economy grows; by itself, this will not reduce our dependence on fossil fuels.

There is one exception to the previous statement. The least talked-about source of renewable energy is in the ground beneath our feet. Geothermal heat exchange systems take advantage of the difference between the temperature of the air and the temperature just a few feet underground. With a geothermal heat exchange system, heat flow is facilitated. That flow can be tapped to provide electricity for our homes and businesses. In many areas of the country, these geothermal heat exchange systems can pay for themselves in energy cost savings in less than a decade. This one renewable energy source can make a tremendous difference in our dependence on fossil fuels; the federal government should aggressively promote their installation and use wherever they can work well enough to be worth the investment.

The greatest savings can be found, and found quickly, merely by using energy more efficiently. We should mount an extensive “smart energy” effort that combines educating the public about energy-efficiency methods with money to make those methods available now. For example, weatherization of homes and businesses can result in tremendous savings in both energy use and the cost of that energy – and can pay for itself in short order. The federal government should make low-interest loans and extra tax credits available to pay the initial cost of such procedures.

In addition, regardless of what renewable energy sources we tap, much of the new energy sources we will find will be far away from where the energy is needed. High-voltage transmission lines must be a part of a major upgrade to the nation’s energy grid, so that clean energy can be brought to where there is a demand. The local politics of this issue can be very thorny, but must be dealt with in order to supply our cities with clean, renewable energy.

By tapping into clean, renewable energy sources, we accomplish several national goals at once. We reduce our need to import oil, which greatly improves our national security. We bring down our trade deficit, which makes more money available for more domestic spending and the jobs that accompany that spending. We lower costs for energy, freeing money for new and expanded businesses. Finally, we cut our output of greenhouse gases and begin to reverse our contribution to global warming.

In addition, we can save more energy by means of properly conceived, designed, and funded transportation systems. For more, continue to the next section.

## Transportation

In 1912, Carl Fisher, who created the Indianapolis Motor Speedway, began work on what would become known as the “Lincoln Highway.” He raised funds privately, but got no help from Henry Ford, because Ford believed that the federal government should pay for roads. Soon afterward, General Motors took up that cause, and spent decades lobbying for an interstate highway system; their efforts were eventually rewarded with the Federal-Aid Highway Act of 1956. (Silly side note: The Interstate Highway System is an enormous waste of energy and consequently a major contributor to global warming. The funding for this project took a long time to figure out, and was finally achieved by three U.S. Senators, one of whom was Al Gore, Sr.)

The result of these efforts at federal funding for roads and highways was a dependence on automobiles all over America. Most people in suburbs, exurbs and small towns and villages require an automobile for everything from shopping to commuting to work to visiting friends. Meanwhile, federal support for air traffic has also been enormous; in the 1960s and 1970s, for instance, federal funding accounted for one-third of investment in airports, according to a Congressional Budget Office (CBO) report.<sup>1</sup>

While the federal government spends more on highways and airports, federal spending on railroads, remains woefully inadequate. Amtrak is constantly operating at a loss, despite ticket prices that are often significantly higher than airfares. Commuter rail and subway and light-rail systems have seen enormous declines in government support. Rail transit is the most energy-efficient means of transporting both people and goods, but it is the method least supported by government.

Building a high-speed, fully electrified, integrated, nationwide freight and passenger rail system would certainly cost hundreds of billions of dollars over many years. It would also reap tremendous benefits, including:

- Create thousands of long-term jobs;
- Take hundreds of thousands of cars and trucks off our roads and highways;
- Cut the cost of maintaining roads and bridges;
- Lower the cost of shipping goods;
- Slash air pollution levels, reducing health problems such as asthma;
- Shrink fossil fuel use, (potentially) eliminating importation of oil; and
- Increase national security.

This one project could soak up a significant portion of the funds spent on the “economic stimulus package.” After the first few years, the savings in maintenance costs on roads and bridges, combined with higher revenues from rail transportation, would help pay the ongoing costs, but this will require an enormous, long-term federal government investment. In the end, however, it will pay off, not only in terms of increased use of more efficient transportation systems, but also by lowering our dependence on fossil fuels, especially imported fossil fuels.

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<sup>1</sup> <http://www.cbo.gov/ftpdocs/50xx/doc5046/doc20-Entire.pdf>, pg. 106

## **Communication**

The major advance in communication over the past generation is via the internet. Today, high-speed internet access provides benefits in many areas, including telecommuting, research needed for many jobs and for education, and personal benefits such as being able to stay in touch with friends and loved ones, plan social events, etc.

The problem is that too many Americans, especially those who need these tools the most, are deprived of high-speed internet access because they cannot afford the cost, cannot afford the computer or other device needed to connect to the internet, or because they lack the training needed to utilize the opportunities the internet provides.

The federal government can make up the difference.

By making high-speed internet connections available to every American, we benefit in terms of better educational opportunities, improved job skills, improved methods of communication between various public and private sector groups, and many other areas. There is no telling exactly what benefits may arise, much as there was no telling how universal access to radio in the 1930s made it possible to inform, entertain, and otherwise communicate with the public. The major difference between radio and the internet is that radio only provided one-way communication, while the internet's networking capabilities seem almost unlimited.

The problem is that many private companies are already heavily invested in internet access; to override their investment goes against the grain of the American capitalist system. A system must be devised to allow competition to thrive while ensuring that all Americans have high-speed internet access.

## **Conclusion**

Taken separately, each of the four areas of long-term investment will make great strides toward a stronger, more competitive America throughout the 21<sup>st</sup> century. Taken together, the synergy among these four areas can only result in an explosion of economic growth and opportunity. If we don't get caught up in the old, partisan arguments and instead forge a "stimulus package" that focuses on what will actually accomplish both the short- and long-term goals on which we all agree, future generations will certainly look on this time as the birth of a renaissance America.

If, on the other hand, Congress passes the kind of package that is being discussed now, we will scrape through this economic downturn, and future historians will debate not how well we faced the problems that confront us, but how badly.