The Wall Street Journal December 2, 1992

If It Ain't Broke, Don't Fix It
By Bruce Bartlett

The U.S. has emerged from its ninth postwar recession -- in fact, new positive numbers on the economy have already excited the press so much that it has started referring to "Clinton Prosperity." Nevertheless, pressure for the federal government to enact an antirecession program has not abated, and President-elect Clinton has yet to abandon his stimulus plans. This follows the pattern of postwar countercyclical programs: All were enacted well after the end of the recession. They exacerbated inflation, raised interest rates and made the next recession worse. (The recession dates given are from the the National Bureau of Economic Research. Figures in parentheses are in 1992 dollars.)

November 1948-October 1949. Although the recession began in November 1948, it was not until July 11, 1949, that President Truman put forward an 11-point program to combat the recession. Only one proposal was enacted by Congress-the Advance Planning for Public Works Act, signed on Oct. 13, 1949. This legislation authorized $100 million ($2.2 billion) in interest-free loans over two years for local governments to plan public works projects.

August 1957-April 1958. Eisenhower and Kennedy August 1957-April 1958. President Eisenhower opposed any countercyclical policy. However, Democrats in Congress proposed several actions on their own, many of which were then signed by the president. First was an emergency highway bill, signed on April 16, 1958, that increased grants to states by $600 million ($7.5 billion) and suspended for two years the pay-as-you-go provisions of the Highway Trust Fund. Second was a bill, signed on June 4, advancing federal funds to states agreeing to extend unemployment compensation. Third was a rivers and harbors public works act, signed July 3, that authorized $750 million ($9.3 billion) for new projects and raised limits on earlier projects by $870 million ($10.8 billion).

April 1960-February 1961. On taking office in January 1961, President Kennedy moved quickly to put together an antirecession program. On Feb. 2, he sent a special message to Congress asking for an extension of unemployment compensation, increased Social Security payments, and aid to distressed areas, among other things. The unemployment bill was signed on March 24, providing some $800 million ($9.3 billion) in benefits. The Area Redevelopment Act became law in May and authorized almost $400 million ($4.7 billion) in aid for depressed areas. The Social Security bill increased benefits by about $800 million ($9.3 billion) and was enacted in June.

Additional action was taken against the lingering effects of the recession in 1962, with the Public Works Acceleration Act. This bill, signed into law on Sept. 14, was a companion to the Area Redevelopment Act, authorizing $900 million ($9.4 billion) for public works in designated areas. The legislation was designed to create 55,300 man-years of employment. But a General Accounting Office study found that fewer than half that number were created. Moreover, the peak number of jobs created came in June 1964, 37 months after the recession bottomed out.

December 1969-November 1970. The only major legislation addressing this recession was passed more than a year after it ended. The Public Works Impact Program, signed Aug. 5, 1971, targeted public works spending to designated areas with high unemployment. About $48 million ($238 million) was expended in fiscal 1972, $43 million ($191 million) in 1973 and $38 million ($156 million) in 1974. It was predicted that the program would create 62,000 man-months of employment in the first two years, with 75% of jobs going to the previously unemployed. A Commerce Department study, however, found that only 39,000 man-months of employment were created and only 22% of jobs went to the unemployed. Moreover, the average job in this program lasted only 4.1 weeks and 60% of participants worked two weeks or less.

November 1973-March 1975. The first action taken was a tax rebate plan enacted in March 1975. This $22.8 billion ($86 billion) bill gave taxpayers a 10% rebate on their 1974 tax payments up to $200, payable in the second quarter of 1975. It was phased out as incomes rose. The bill also extended unemployment benefits, increased the investment tax credit from 7% to 10% and made other tax changes. The purpose was to pump up demand by putting dollars into people's pockets. But subsequent analysis indicates that most of the money was saved initially and thus had a negligible effect on spending.

In 1976, Congress believed that the aftereffects of the recession justified further antirecessionary action. Over President Ford's veto, it enacted the antirecession

Fiscal Assistance Program (ARFA). Also enacted was the Public Works Employment Act of 1976, signed on July 22, which established the Local Public Works Program (LPW). ARFA increased revenue sharing to the states by $1.25 billion ($4.2 billion). The amount of aid was dependent on the local unemployment rate. LPW increased funding to state and local governments for public works projects by $2 billion ($6.8 billion).

As late as 1977, Congress was still enacting legislation to deal with the aftermath of the recession, in the form of the Local Public Works Capital Development and Investment Act of 1976, which was enacted on May 13, 1977, early in the Carter Administration. This legislation added $4 billion ($12.2 billion) to the LPW program. The ARFA program was also extended a year and its funding increased by $1.75 billion ($5.3 billion).

Subsequent analysis shows that these programs utterly failed. A Treasury Department study of ARFA found that because the funds were not disbursed until well after the end of the recession, it failed to provide assistance when it was most needed and probably contributed to inflationary pressures during the expansion.

It was also found that rather than spend federal money immediately, state and local governments tended to, in effect, save it. Thus state and local government budget surpluses increased during this period, thereby mitigating the stimulative effect of the federal programs.

An Office of Management and Budget (OMB) study of the public works programs found they did little to help the unemployed because of the relatively low labor intensity of public works projects and the high skill level required. Moreover, because of substitution effects (replacing state and locally funded jobs with federally funded jobs) the net employment effect was extremely low. OMB found that the gross federal cost per job created was between $70,000 and $198,000. The average job lasted just 3.5 weeks and only 12% of jobs went to the unemployed.

July 1981-November 1982. Despite its general aversion to such programs, even the Reagan administration adopted two programs specifically designed to be countercyclical. First was the Surface Transportation Assistance Act of 1982, signed on Jan. 6, 1983, which raised the gasoline tax by five cents and increased expenditures for highways and mass transit by $33.5 billion ($59 billion) over five years. Second was the Emergency Jobs Appropriations Act of 1983, signed March 24, which increased spending by $9 billion ($15.8 billion) for 77 different programs.

Only 2.5% of the funds under the surface transportation bill were expended in fiscal 1983 and net additional funding to existing programs amounted to just $606 million ($1.1 billion). But the gasoline tax increased federal revenues by $1.7 billion ($3 billion) in fiscal 1983. Thus, on balance, the program was contractionary rather than stimulative in the first year. Moreover, state and local governments may have pulled back on public works spending in anticipation of new federal funds, as shown by the sharp increase in state and local budget surpluses beginning in 1983's second quarter. It is doubtful that any net jobs were created in the short run.

As to the Emergency Jobs Act, a GAO study found that funds were spent slowly and that the unemployed received only a small portion of the jobs created. Most funds were not spent before June 1984, well after the end of the recession. Peak employment created by the program was only 35,000 jobs, of which only 25% went to people who were unemployed.

Only since the advent of Keynesian economics have governments come to believe that they can moderate, or even eliminate, the business cycle by pumping up demand through countercyclical tax and spending programs. Yet even John Maynard Keynes expressed deep skepticism about government's ability to do this. "Organized public works, at home and abroad," he said, "may be the right cure for a chronic tendency to a deficiency of effective demand. But they are not capable of sufficiently rapid organization (and above all they cannot be reversed or undone at a later date), to be the most serviceable instrument for the prevention of the trade cycle."

Many things need to be done to address our economy's problems. But we should not delude ourselves that such problems began with the recession or can be cured by an antirecession program.

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