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Paving Projects Won't Boost Economy

By WILLIAM F. SHUGHART II | Posted Tuesday, January 06, 2009 4:20 PM PT

President-elect Obama has announced plans for a new stimulus package containing \$500 billion to \$700 billion worth of public works projects.

The package would be "the single largest new investment in our national infrastructure since the federal highway system," he said.

America's governors already are scrambling to compose lists of "shovel-ready" projects so no bridge or highway is left behind.

But while a "new" New Deal will produce certain visible results — more construction materials will be sold, more construction workers will be employed and some of the nation's infrastructure may indeed be improved — it is unlikely to give the economy much of a boost.

Most projects qualifying for funding will be selected not because they are urgent national or regional priorities, or because they are likely to produce the greatest benefit at the most reasonable cost, but because they please important political constituencies: organized labor, for example.

Let's be honest: Anybody who has seen a "work" crew on an Interstate knows full well that the federal highway program is a poster child for pork barrel spending.

Owing to lax oversight, public works projects have always been plagued by delays, corruption, shoddy workmanship and cost overruns. Remember Boston's "Big Dig"?

Because Congress likely will require contractors to pay union scale — the euphemism is "prevailing wages" — the costs of the projects will be bloated, even if the stimulus package doesn't lead to sensational scandals.

While unionized workers may benefit, union wages will price less-skilled workers out of construction jobs, meaning that many of the "new" hires will replace other workers, producing something significantly less than an employment boom.

In addition, Obama's proposed massive transfer of resources to the construction industry will shift funding away from other potentially more-valuable uses. America's future is still the knowledge industries, not road building.

The truth is government cannot "create" jobs or wealth in one sector of the economy without destroying them in others. Look no further than the old New Deal for proof.

Despite all the credit given to Franklin D. Roosevelt's bold experimentation in confronting the economic free fall of the Great Depression, prosperity didn't return to the United States until after World War II.

Nearly a decade of then-unprecedented increases in federal spending on public relief and public works projects never managed during the Depression to lower the unemployment rate into single digits or restore our gross domestic product (GDP) to the level it had achieved in 1929.

Attentive students of the New Deal now understand that FDR's willingness to try something and, if that didn't work, try something else, created a climate of uncertainty that discouraged private investment in the factories and equipment that could have put America back to work.

It should not be forgotten that it is Roosevelt's Works Progress Administration, the WPA, to which we owe the word "boondoggle."

With this year's federal budget deficit now being forecast to be north of \$1 trillion, perhaps even a spendthrift Congress will hesitate to add a

minimum of \$500 billion to the burden that will fall on the shoulders of our children and grandchildren.

But don't bet on it. Another election is just two years away, and politicians will be eager to claim credit for bringing Obama's infrastructure largesse to their states.

Taxpayer money could be better spent elsewhere than on Obama's infrastructure plan.

Shughart, a senior fellow at the Independent Institute in Oakland, Calif., is the Frederick A. P. Barnard Distinguished Professor of Economics at the University of Mississippi and served as Special Assistant to the Federal Trade Commissions' Bureau of Economics during the Reagan Administration.

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