



## **Stimulus for the Long Run**

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When Congress returns to Washington following the election, its first priority will be to pass another stimulus package for the sinking economy. It's already clear that the package will involve about \$200 billion in new stimulus or a boost equal to about 1.4 percent of GDP. The question is what form the package should take. The path of least political resistance is another round of tax rebates for American families, which they could spend to jumpstart demand and, ultimately, the business investments and jobs to meet that demand. The catch is, that path is very unlikely to work this time. Moreover, the new president-elect and Congress can put that \$200 billion to uses that will stimulate long-term growth and income gains much more effectively.

Most people won't spend small windfalls when they're worried about losing their jobs or homes next month or finding themselves unable to pay their health care premiums or their kid's tuition. Instead, they save such windfalls or use them to pay down debts. That's just what happened this past spring with most of the tax rebate in the last stimulus. With unemployment rising, home values continuing to fall and the stock market down nearly 40 percent over the last year, most Americans are even more anxious today and feeling a lot poorer. In this environment, two-thirds of more of those rebate checks would simply be saved, providing virtually no stimulus.

But we still need that stimulus, if only as an insurance policy against future economic shocks that could deliver serious new blows to the faltering economy, such as a run on the dollar that would drive up interest rates or another wave of financial failures if the deterioration in the housing market gets worse. And since the recessions in countries that suffer financial meltdowns are usually longer and deeper than normal, we should prepare ourselves for another year or more of tight times.

There are better paths for the coming stimulus package than tax rebates. A piece of it should go to ease some of the recession's immediate pressures and pain: extend unemployment benefits for the millions more Americans likely to lose their jobs in 2009, and give states and cities infusion of funds so they don't have to make sharp cuts in the payrolls of teachers, police and other public workers, or in Medicaid services for sick, low-income people.

The President-elect-to-be and Congress, however, should direct the lion's share of the \$200 billion in a new direction: investments in the basic elements of growth for the next decade. In effect, we should use the stimulus to drive policy reforms that will affect the shape and strength of the next expansion, rather than simply its timing. A third or more of

the new funding should go to infrastructure – and most of that not for traditional roads and bridges, but for the public requirements of the low-carbon, energy efficient economy we know we have to build. The package could provide, for example, the first support for modernizing the nation’s electricity grid. The federal government also could make itself a model of climate-friendly and energy-efficient ways of doing business, with large-scale, new investments to upgrade the heating, cooling and lighting systems of all federally-owned buildings for low-carbon energy efficiency and to shift the federal fleet to hybrid and other energy-efficient vehicles. The package also could include new tax preferences for businesses and households to upgrade their systems. Investments in public transportation could be another important focus for stimulus spending. Today, public transportation accounts for just one percent of U.S. passenger miles, compared to five percent in Canada, 10 percent in Europe and 30 percent in Japan. For the short term, the stimulus package could include subsidies for local transit systems to cut their fares by half or more. For the long term, the package can include down payments on a new national program to promote the construction or extension new light rail systems for metropolitan areas, which can also create jobs quickly.

Through this recession and into the next expansion, wage and productivity gains will increasingly be tied to a person’s capacity to operate in workplaces dense with information and telecommunications technologies. Knowing that, we also can direct some of the stimulus to a plan we developed and which Senator Obama has endorsed, to provide grants to community colleges to keep their computer labs open and staffed in the evenings and on weekends for any adult to walk in and receive free computer training. Since we know that every American student also needs to develop computer and Internet-based skills, the stimulus also can include the first funding for an innovative program to provide inexpensive laptops developed by the MIT Media Lab for every sixth-grade student. Finally, the stimulus package can fund the extension of broadband installation and service for users in every school, local library, and local and state human services offices.

These are all investments which we know we have to make, if we really intend to make the U.S. economy more efficient, innovative, and sustainable. We also know that Congress will pass some \$200 billion in new stimulus within a month’s time. The new President-elect can use this coming occasion not only to create more jobs, but to do so in ways that will help drive the development of a real, 21st century workforce and genuine 21st century economic infrastructure. And taking this course could be an early and important opportunity for him to practice both his new politics and a new form of economic leadership.