Stimulated and Growing: Multiplying the Recovery Act’s Minnesota Impact

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>2</td>
</tr>
<tr>
<td>Key Findings</td>
<td>3</td>
</tr>
<tr>
<td>Recommendations:</td>
<td>3</td>
</tr>
<tr>
<td>Introduction</td>
<td>4</td>
</tr>
<tr>
<td>A rare opportunity for progress</td>
<td>6</td>
</tr>
<tr>
<td>Invisible jobs and tax cuts</td>
<td>9</td>
</tr>
<tr>
<td>Picking up the slack at bargain prices</td>
<td>12</td>
</tr>
<tr>
<td>Conclusion</td>
<td>14</td>
</tr>
<tr>
<td>Sources</td>
<td>15</td>
</tr>
</tbody>
</table>

*Cover photo credit: bridge by Steve Prakope, creative commons*
Perhaps you’ve heard about the “failed” federal stimulus program.

The pejorative adjective has become standard usage among conservatives, whose evidence begins and ends with Minnesota’s and the nation’s still too-high rates of unemployment. What that argument ignores is the much greater joblessness that would have occurred in the absence of fiscal stimulus. It also ignores the many tangible benefits produced by this vital counterweight to the near-collapse of our national economy.

In fact, the American Recovery and Reinvestment Act of 2009 created or saved millions of jobs across the country and tens of thousands in Minnesota, supporting education for the young, health care for the poor and extended unemployment benefits for the jobless, all the while giving a much-needed boost to transportation and water infrastructure. Reputable economists credit it for turning an imminent deflationary catastrophe into the makings of a recovery.

While infrastructure improvements and construction projects symbolized stimulus in the media, their funding comprised only a small fraction of the more than $800 billion package, at $48 billion nationwide and $600 million in Minnesota. What many don’t realize is the recovery act’s $288 billion in tax cuts made up a far larger portion, benefiting 95 percent of the public. As of yet, no one has counted any jobs directly created or saved by stimulus tax cuts, making the overall package an easy target for conservative criticism.

The Pawlenty administration ties fewer than 13,000 Minnesota jobs to direct stimulus funding. However, using well-established economic multiplier calculations, President Obama’s Council of Economic Advisers estimates recovery dollars accounted for 60,000 jobs in the state. Nationwide, public and private studies estimate the recovery act created or saved up to 3.6 million jobs.

Regardless of the debate over its impact, stimulus dollars are about to run out. With half-truth conservative criticism fueling public rage over nearly any discretionary government spending, the country as a whole has little appetite for funding another round of stimulus. In Minnesota, however, we have a rare opportunity to enact an off-year state capital investment bonding bill focused on infrastructure projects to fuel commerce. It would employ thousands of Minnesotans in the short and long terms and spur an economic resurgence.

By custom, the Legislature authorizes most borrowing for improvements to roads, bridges, state buildings and other public infrastructure in even-numbered years – next in 2012. Yet, because of continuing high unemployment, historically low interest rates, the state’s rock-solid bond rating and unexpectedly low contract bids, 2011 is a prudent time to pass a big job-creating bonding bill.
KEY FINDINGS

• Public and private studies estimate that the American Recovery and Reinvestment Act of 2009 (the stimulus) created or saved up to 3.6 million jobs nationwide.

• Using well regarded economic multiplier calculations, stimulus accounted for 60,000 Minnesota jobs.

• In Minnesota, the stimulus has funded more than 200 state and local highway and bridge projects worth nearly $500 million.

• The biggest single chunk of stimulus spending is going to $288 billion in tax breaks, which have benefited 95 percent of the population.

RECOMMENDATIONS

• Minnesota legislators should take advantage of low interest rates and contractor bids to pass an off-year capital investment bonding bill worth at least $1 billion.

• State infrastructure investments should be targeted to projects that will have the greatest impact on long-term economic development.

• Road and bridge expansions should be carefully chosen from projects offering the very best returns in safety, economic efficiency and congestion relief.

• State bonding should support the federal stimulus initiatives for sustainable transit and fast intercity passenger trains.

• When the economy rebounds, Congress should consider an inflation revenue adjustment to the fuel tax in transportation funding reauthorizations. This would end a two-decade drain of buying power from road and bridge user fees linked to declining fuel consumption.
Despite criticism, the American Recovery and Reinvestment Act of 2009 did much of what it was designed to do. It created or saved up to 3.6 million jobs nationwide, 60,000 in Minnesota, kept the economy from falling further into recession and helped spark, albeit slowly, the recovery. Stimulus dollars helped Minnesota prevent even deeper education and health care cuts and kept those out of work from falling further into poverty. More than half a billion dollars in transportation and water projects provided decades overdue Minnesota infrastructure improvements. It helped prevent a depression, reputable economists say.

Meanwhile, the measure’s chief criticism from those quarters has been that, even at the revised figure of $812 billion, it still wasn’t big enough to do the whole job. But that was certainly a lot of money to put on the nation’s credit card.

So it’s no surprise that the stimulus has become a lightning rod for conservative bashing of Washington’s current fiscal policies. The right can focus on stubbornly high unemployment and the mounting national debt (while still pushing to extend deficit-inflating tax cuts to the wealthy), skirting the details that show the full character of the stimulus.

As a result, polls show most Americans think the stimulus hasn’t worked. \(^1\) If you’re one of them, bet you didn’t know that:

- The biggest single chunk of stimulus spending is going to $288 billion in tax breaks, including “Making Work Pay” credits that have benefited 95 percent of the population.

- Public and private studies estimate that up to 3.6 million jobs were created or saved across the country by the recovery act, and millions more thanks to further countercyclical stimulus initiated by former President George W. Bush and the Federal Reserve.

- An estimated 60,000 of those jobs are in Minnesota, according to a study by the president’s Council of Economic Advisers that used well established economic modeling techniques taking into account second- and third-order stimulus effects – for example, more production of concrete for road projects and more household spending by workers who lay it. Simple head counts of employees directly paid with stimulus funds yield deceptively lower figures – fewer than 13,000 in the latest tally from the administration of Gov. Tim Pawlenty, a stimulus critic. The bulk of those jobs are in the public sector, especially the schools. Tens of thousands more jobs, mostly in the private sector, go uncounted by that method. In addition, recipients’ job reports cover only one-fifth of recovery act spending and do not measure the effects of tax cuts and transfer payments such as unemployment benefits. \(^2\)
The transportation component of the stimulus – $48 billion nationwide, $600 million in Minnesota, mostly for roads and bridges – is merely one-sixth of that devoted to tax breaks. As such, those amounts constitute little more than backfill for years of disinvestment in economically vital infrastructure. The result of that disinvestment has been disastrous deterioration of roads and bridges in Minnesota and the nation.

In Minnesota, the stimulus has funded more than 200 state and local highway and bridge projects worth nearly $500 million – all without congressional earmarks. Transit systems across Minnesota are acquiring nearly 230 new buses and vans with about $78 million in stimulus funds. Many of the buses are being built at the American Flyer plant in St. Cloud, Minn.

Even the founder of the congressional Tea Party Caucus, Minnesota U.S. Rep. Michele Bachmann, told federal officials that a project for which she sought stimulus funds, a long-planned $700 million highway bridge over the St. Croix River, would create nearly 3,000 permanent jobs. Meanwhile, in an eerie case of public policy schizophrenia, Bachmann also claimed that the stimulus “has failed at job creation.”
Whatever the politicians’ and the public’s final judgment of the stimulus law, its clearly positive
effects are coming to an end. Despite some critics’ incoherent complaints that the deficit spending
they decry didn’t happen fast enough, recovery act dollars will be exhausted in the coming
months. Given the half-truth-fed mood of the nation, another such program won’t be coming out of
Washington anytime soon.

Fortunately, there is a nearly unprecedented opportunity for
Minnesota policymakers to pick up the slack as the economy
continues to wallow well short of full employment. A big
state capital investment bonding bill with a focus on the
infrastructure that fuels commerce would employ thousands
of Minnesotans at work vital to economic resurgence.

The timing could hardly be better. Bond interest rates are
at historic lows while contractors hungry for work are
bidding down projects to bargain levels unseen in years. This
competitive environment allowed the Minnesota Department
of Transportation to program 23 extra projects with $69
million left over from original stimulus contracts that came in
below independent engineers’ estimates. (see chart on page 8)

The 2011 Legislature should pass an “off-year”
bonding bill authorizing at least $1 billion in
construction projects. The new governor should sign it without the line-item vetoes that have
become common over the past decade.

This kind of robust state-level economic stimulus is well suited to our current situation:

- Minnesota’s construction workers have suffered depression-like unemployment in the wake
  of the residential and commercial building bubble’s collapse, which led to a steep fall-off
  in local public sector infrastructure work that supported private developments. By law,
  Minnesota can borrow money only for capital improvements, not to continue the many other
  job- and income-saving provisions of the federal stimulus.

- Bond interest rates are so low that the state recently refinanced $865 million worth of debt,
  saving the general fund $33 million and the trunk highway fund $13 million. iv

- Rebuilding our state’s infrastructure for the 21st century will involve no Bridges to Nowhere
  or pork-barrel boondoggles. Three years after the deadly collapse of the Interstate Hwy.
  35W bridge in Minneapolis, more than 1,000 of the state’s bridges over 20 feet long remain
  structurally deficient. v Between 2000 and 2009, the percentage of poor pavement on major
  Minnesota highways increased eightfold; the percentage on non-principal routes, mainly in
  rural areas, tripled. At current funding levels, MnDOT projects further rapid deterioration. vi
  Non-highway modes such as transit, short-line railroads, airports, intercity passenger trains
  and ports also have long lists of unmet needs.
Beyond the transportation sector, Minnesota has plenty more brick-and-mortar shortcomings in water and sewer systems, public schools and universities, veterans’ homes, flood control, prisons and more. These needs also have been short-changed in an era of no new [state-level] taxes. Now is the time to start working seriously on these backlogs for the safety and prosperity of Minnesotans in our present economic straits and far into the future.

No bonding bill, no matter how big, will address all these concerns. But a rebirth of fiscally responsible attention to the condition of our infrastructure will provide a model and build private enterprise capacity for pay-as-you-go maintenance and expansion later on. In the transportation arena, this will eventually require increased taxes and user fees, which would counteract fiscal stimulus if imposed now.

But, as we urged in a 2009 report, “the state will need sustainable revenue from transportation users long after the recovery act has expired.” Recommendations from that report still hold:

**Sooner or later, state leaders will have to increase collections from fuel taxes, vehicle registrations, congestion-based tolls and probably transit fares as well. One way would be to index these fees to inflation.**

At the federal level, the 18.4-cents-a-gallon gasoline tax hasn’t changed since 1993, reducing its buying power to 12.2 cents today. Inflation doesn’t reduce other taxes because they automatically follow increases in prices, wages and property values. Congress should consider an inflation revenue adjustment when it reauthorizes transportation funding, perhaps by linking fuel taxes to prices at the pump, as proposed by the American Association of State Highway and Transportation Officials.

As driving’s share of travel declines and highway maintenance lags, road and bridge expansions should be carefully chosen from projects offering the very best returns in safety, economic efficiency and congestion relief. Meanwhile, greater emphasis must be put on developing sustainable transit and fast intercity passenger trains, which are gaining popularity despite fare increases, service cuts and funding shortfalls.

*Photo credit: Aaron Landry, creative commons*
### Added ARRA Projects

<table>
<thead>
<tr>
<th>State Project Number</th>
<th>Route</th>
<th>Earliest Auth Date</th>
<th>Project Description from Ammendment</th>
<th>Obligations Amount from FMIS as of 10/15/10</th>
<th>District</th>
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</thead>
<tbody>
<tr>
<td>0406-53</td>
<td>TH 2</td>
<td>5/8/2009</td>
<td>Remove bridges D4003 &amp; D4004 (over abandoned railroad track) 0.5 Mi W of Jct TH 89 [RP 107.3 to 108.1] Lowering grade to improve safety.</td>
<td>2,515,000.00</td>
<td>2</td>
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<tr>
<td>3280-114</td>
<td>I 90</td>
<td>5/26/2009</td>
<td>OVERLAY PARKING LOT AND REHAB CURB/WALK (ADA) AT 2 REST AREAS, CLEAR LAKE AND DES MOINES REST AREA</td>
<td>344,287.42</td>
<td>7</td>
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<tr>
<td>8828-101</td>
<td>TH 999</td>
<td>6/30/2009</td>
<td>GUARDRAIL REPLACEMENT AT VARIOUS LOCATIONS IN DISTRICT B</td>
<td>921,855.00</td>
<td>8</td>
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<tr>
<td>7000-07</td>
<td>BIKE/PED</td>
<td>10/23/2009</td>
<td>Just West of Scott CSAH 101 in downtown Shakopee - reconstruct historical BR #4175 Ped/Bike Trail</td>
<td>5,557,690.00</td>
<td>M</td>
</tr>
<tr>
<td>8901-03</td>
<td>RR</td>
<td>1/12/2010</td>
<td>Rehabilitation of Mn Valley Regional RR Authority Property and Related Appurtenances located between Norwood-Young America and Hanley Falls, MN</td>
<td>2,675,000.00</td>
<td>M</td>
</tr>
<tr>
<td>5810-6278 / 91-596-05</td>
<td>RR</td>
<td>9/11/2009</td>
<td>ST CROIX VALLEY RR BRIDGE OVER THE SNAKE RIVER IN PINE CITY</td>
<td>1,030,026.00</td>
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<tr>
<td>2726-71</td>
<td>TH 47</td>
<td>11/6/2009</td>
<td>FROM I 35W TO 27TH AVE NE IN MPLS ADA COMPLIANT CURB RAMPS, SIDEWALK, PED X-ING, ETC.</td>
<td>437,563.00</td>
<td>M</td>
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<tr>
<td>6201-84</td>
<td>TH 5</td>
<td>11/9/2009</td>
<td>FROM DAVERN ST IN ST PAUL TO MCKIKNIGHT RD IN MAPLEWOOD AND ON TH 61 FROM MOUNDS BLVD TO WHEELOCK PKWY IN ST. PAUL ADA COMPLIANT CURB RAMPS, SIDEWALK, PED X-INGS, ETC.</td>
<td>1,191,786.00</td>
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<tr>
<td>8825-369</td>
<td>TH 999</td>
<td>12/15/2009</td>
<td>METROWIDE-ADA COMPLIANT UPGRADES AT VARIOUS LOCATIONS IN METRO AREA</td>
<td>795,332.00</td>
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<td>92-090-46</td>
<td>PED/BIKE</td>
<td>12/7/2009</td>
<td>Root River Trail Resurfacing from Fountain to Lanesboro</td>
<td>700,000.00</td>
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<tr>
<td>1913-70</td>
<td>TH 61</td>
<td>11/19/2009</td>
<td>From Cannon St to 4th St in Hastings - Bituminous Mill and Overlay and pedestrian ADA improvements</td>
<td>822,185.00</td>
<td>M</td>
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<tr>
<td>7001-103</td>
<td>TH 13</td>
<td>2/24/2010</td>
<td>From TH 169 to 1000' E of Louisiana Ave in Savage - reconstruct including TH overpass</td>
<td>4,212,469.18</td>
<td>M</td>
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<tr>
<td>8286-64</td>
<td>I 694</td>
<td>12/8/2009</td>
<td>I94 TO 50TH ST-UNBONDED 10' PCC OVERLAY. GUARDRAIL, PIPES, STRUCTURES, TENSION CABLE. REHAB 6 BRS: NB &amp; SB OVER TH5, BR #8287/82808 AND NB &amp; SB OVER UP RR, BR5 #82805/#82806, 4TH ST OVER I694, CSAH10 OVER I694, BR5 #82817/#82818.</td>
<td>13,395,746.00</td>
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<td>8205-111</td>
<td>TH 61</td>
<td>12/23/2009</td>
<td>TH 10 TO ST. PAUL PARK RD IN COTTAGE GROVE AND ST. PAUL PARK - CONCRETE OVERLAY</td>
<td>17,323,825.00</td>
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<td>118-080-40</td>
<td>N/A</td>
<td>1/8/2010</td>
<td>Structural Wall Rehabilitation, Port of Duluth, City of Duluth</td>
<td>1,595,090.00</td>
<td>1</td>
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<tr>
<td>1905-35</td>
<td>TH 52</td>
<td>11/23/2009</td>
<td>1/4 mi N and S of the Progressive Rail crossing N of Cannon Falls on TH 52 - replace existing RR signals and add advance warning signs</td>
<td>281,193.00</td>
<td>M</td>
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<tr>
<td>4007-07</td>
<td>TH 60</td>
<td>12/24/2009</td>
<td>BITUMINOUS MILL AND OVERLAY FROM TH 13 (WATERVILLE) TO TH 21 (FARIBAULT)</td>
<td>3,697,823.00</td>
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<td>6925-129</td>
<td>TH 65</td>
<td>2/25/2010</td>
<td>BETWEEN 60TH AND 61ST AVENUES EAST IN DULUTH, PHASE 11 RESTORATION OF LESTER RIVER BRIDGE (TEA PORTION)</td>
<td>100,000.00</td>
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### Additional ARRA Projects

<table>
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<th>State Project Number</th>
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<th>Earliest Auth Date</th>
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<td>8605-48</td>
<td>TH 25</td>
<td>6/14/2010</td>
<td>BR 86803 AT JCT I-94 TO BR 71012 AT MISSISSIPPI RIVER IN MONTICELLO (NB &amp; SB), MILL &amp; OVERLAY, REPL DETERIORATING CURB &amp; GUTTER</td>
<td>792,826.00</td>
<td>3</td>
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<tr>
<td>5502-73 / 159-010-06</td>
<td>TH 14</td>
<td>6/25/2010</td>
<td>BIT MIL &amp; OVRLY, MEDIAN REPL &amp; REPAIR - JCT TH 52 TO MARION RD, ROCHESTER - INTERSECTION IMPROVEMENT @ INTERSECTION OF TH 14 &amp; OLMSSTD CSAH 36; REVISE SIGNALS AT 3RD AVE SE - TOTAL PROJECT LIMITS ARE FROM THE INTERSECTION OF TH 52 TO OLMSSTD CSAH 22</td>
<td>450,000.00</td>
<td>6</td>
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<tr>
<td>1380-63</td>
<td>I-35</td>
<td>9/21/2010</td>
<td>FROM 0.8 Mi N OF TH 8 IN WYOMING TO TH 95 IN NORTH BRANCH - PAVEMENT PRESERVATION, MISC DRAINAGE &amp; SAFETY IMPROVEMENTS, ETC.</td>
<td>9,529,596.30</td>
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<tr>
<td>6403-31</td>
<td>TH 19</td>
<td>9/9/2010</td>
<td>RESTORATION OF HISTORIC RETAINING WALL AND GUARDRAIL</td>
<td>310,300.00</td>
<td>8</td>
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<tr>
<td>1804-54</td>
<td>TH 169</td>
<td>8/27/2010</td>
<td>DEWATERING SYSTEM CONSTRUCTION AT HISTORIC GARRISON CONCOURSE OVERLOOK WALL IN GARRISON</td>
<td>346,501.00</td>
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Total Obligated: 69,030,093.90
INVISIBLE JOBS AND TAX CUTS

Failed stimulus? Vernon Swing doesn’t think so.

A recovery act project rebuilding Hwy. 169 through St. Peter, Minn., “kept our doors open,” the head of Minnetonka engineering firm RLK Inc. said. “We subcontracted a piece of it out to another firm, and it kept their doors open, too. It has kept us in the game.”

Unemployment for architects, planners and civil engineers is running near a catastrophic 70 percent, Swing added. “Our industry has gotten hammered by the recession,” he said. “It’s the biggest downturn since the 1920s. Without something like the stimulus, we’d be finished.” But with the help of $2.25 million in recovery act contracts, RLK has retained a staff of 45 (down from 130 during the construction boom) and Swing credits the stimulus for early signs of a recovering economy.

If it doesn’t appear that way to many Minnesotans, it’s because the stimulus was spread so broadly across geographic and economic areas. In the interests of reaching needs far and wide, the program is notably lacking in massive, iconic New Deal-style infrastructure projects such as the Hoover Dam.

That can make stimulus effects nearly invisible. In some cases, conservative officials have sought to increase that invisibility by outlawing road signs — 0.02 percent of all project spending, and a job opportunity for sign-makers — that identify recovery act financing. But, as the Duluth News Tribune recently reported, “it might help to think of the federal stimulus program’s impact on the Duluth area like the Matrix: It’s virtually everywhere.”

In fact, the newspaper counted 236 stimulus awards, most without identifying signs, totaling more than $100 million in just the Duluth-Superior area. “Money has gone to almost every employment sector — from industrial, commercial and retail businesses to government agencies and dozens of nonprofits,” the newspaper said. Much of the nonprofit and public sector money then was contracted to private, for-profit enterprises, the paper added.

“Claims that the stimulus did nothing for the economy are bluntly false,” the Mankato Free Press editorialized in October. But the process of funneling grants from Washington to state and local officials who know their areas’ needs to private businesses that do the work complicates thorough reporting of economic effects, leaving many stimulus-funded jobs uncounted. This leads to misleading calculations of hundreds of thousands of dollars spent to create the average stimulus job.
Those numbers are grossly exaggerated, but they look good in comparison with the nonexistent direct job creation from $288 billion in stimulus tax breaks. Nearly half of that money has gone to working households via withholding tax cuts of $65 a month, lowering personal income taxes in 2009 to their smallest percentage of the national economy since 1951. But that, too, has been practically invisible.

In a New York Times/CBS News Poll in September, fewer than one in 10 respondents knew that the Obama administration had lowered taxes. More than three times as many thought their taxes had gone up, a result of both false conservative messaging and a pragmatic stimulus design.

“Faced with evidence that people were more likely to save than spend the tax rebate checks [also deficit-financed] they received during the Bush administration, the Obama administration decided to take a different tack,” the New York Times reported. “They reasoned people would be more likely to spend a recurring extra bit of money that they might not notice. And the quicker the money was spent, the faster it would cycle through the economy.”

Although an apparent political failure, the strategy, by any reasonable measure, was a real, if incomplete, economic success:

- The recovery act alone boosted 2010 U.S. gross domestic product by 3.4 percent, held unemployment 1.5 percentage points lower and added 2.7 million jobs to U.S. payrolls, according to economists Alan Blinder of Princeton University and Mark Zandi of Moody’s Economy. Including stimulative efforts from the Federal Reserve’s asset purchases and the Bush administration’s Troubled Asset Relief Program (TARP), government response “probably averted what could have been called Great Depression 2.0,” they wrote. Without any of it, “GDP would be about 11.5 percent lower, payroll employment would be less by some 8.5 million jobs and the nation would now be experiencing deflation.”

- The nonpartisan Congressional Budget Office reported in August that recovery programs boosted national employment by up to 3.3 million jobs, equal to a 1.8 percentage point reduction in the jobless rate. A July study by the president’s Council of Economic Advisers found up to 3.6 million jobs saved or created by the stimulus.
• The official end of the recession and a rebound in national private-sector employment, which suffered more than 700,000 monthly job losses previously, coincided precisely with the release of recovery act funds in the second quarter of 2009. The private sector is now adding more than 100,000 jobs every month. \textsuperscript{ix}

![Average Monthly Private-Sector Job Growth](source)

\textit{Figure 2: Average Monthly Job Growth by Quarter since the Start of the Recession}

\textsuperscript{Source: Recovery Act report, September 2009 whitehouse.gov}

• In just the first eight months after enactment in February 2009, the recovery act kept 66,000 Minnesotans and more than 6 million people nationwide out of poverty. Another 33 million — 293,000 in Minnesota — suffered less severe poverty thanks to the program’s withholding tax cuts, extended food stamp benefits, child tax credits and unemployment insurance, plus one-time payments of $250 to veterans, the elderly and the disabled. \textsuperscript{xx}

Although, like tax cuts, these transfer payments based on need directly create no jobs, they tend to be spent quickly rather than saved, boosting overall employment indirectly. In fact, according to Moody’s Economy, these payments, as well as infrastructure spending, all outperform tax cuts significantly in positive economic impact, in some comparisons by nearly a ratio of 6 to 1. \textsuperscript{xxi}

• Of nearly 200,000 recovery act contracts, grants and loans, fewer than 0.2 percent have triggered “consequential investigations.” \textsuperscript{xxii} That’s such an unusually small incidence of fraud and waste in government that some critics have argued that the program’s emphasis on transparency and accountability hampered its effect. “We might have been better off with a bigger, faster stimulus that created more jobs, even if it generated more waste along the way,” wrote Jonathan Cohn in the New Republic. \textsuperscript{xxiii} (Minnesota 2020 does NOT recommend that.)
PICKING UP THE SLACK AT BARGAIN PRICES

President Obama has proposed a $50 billion infrastructure initiative that would produce approximately $1 billion of investment in Minnesota. But despite ample proof of need in the absence of a six-year federal transportation reauthorization from Congress and a $50 billion projected funding shortfall just for Minnesota highways, the measure has gained sparse support from politicians and the public. Its prospects are uncertain at best.

Regardless of inaction in Washington, however, Minnesota is in an excellent position to enact its own recovery program. How? With capital investment that boosts private-sector job creation in both construction and ongoing operations, revitalizing the economy for years to come.

As mentioned above, historic low interest rates around 3 percent combined with 7 percent state unemployment forcing down contract bids mean the state can get the most bang for the buck in living memory from capital bonding.

New debt capacity guidelines issued by the Pawlenty administration last December allow for borrowing even more than the $1 billion recommended in this report. In early March, the Minnesota Department of Management and Budget estimated the state’s available principal capacity for all tax-supported debt at $1.835 billion. Following $319 million in Pawlenty line-item vetoes of job-creating initiatives for schools, public safety, housing, roads, transit and more, a mid-March bonding bill authorized $680 million in new general fund borrowing, leaving more than $1.1 billion available for bonding next year.

The new guidelines raise the debt limit from the previous 2.5 percent of total state personal income to 3.25 percent, a welcome loosening for a state that Fitch Ratings said has a debt burden “on the lower end of the moderate range.” Fitch rates Minnesota bonds at AAA, its top level, which allows the state to borrow at the lowest possible interest rates.

The executive policy guidelines, however, omit a longtime limit on debt service payments of 3 percent of undedicated general fund spending. Officials now say that benchmark offers poor state-by-state comparisons because of differences in dedicated budgets. But eliminating the debt service guideline fails to recognize potential benefits of low current interest rates on Minnesota borrowing – 3.16 percent on $635 million in general obligation bonds sold Aug. 3, 3.12 percent on $225 million in trunk highway bonds. Rural Finance Authority taxable bonds came in even lower – an unheard-of 1.86 percent.
The subprime mortgage crisis taught us that borrowing money just because it’s cheap and available is not a sustainable financial strategy. But carefully chosen state bonding projects provide more than the sugar rush of easy cash. They boost jobs and prosperity long after the money has been spent. In some cases, state bonding has complemented federal stimulus investments.

For example:

- 2010 bonding for a $20.5 million reconstruction of the obsolete, deteriorating Rice St.-Hwy. 36 interchange in the northern St. Paul suburbs will support a major expansion of St. Jude Medical’s campus on both sides of the highway. xxviii

- 2010 bonding of $2.1 million for a heated hangar at the Thief River Falls airport will ease year-round air shipments of Digi-Key Corp.’s high-value electronic components. A projected 62 percent increase in company sales this year has already contributed 400 new workers to the current staff of 2,300, all but a handful located in Thief River Falls. With help from the airport project’s completion in 2011, Digi-Key expects to add another 600 jobs at its Thief River Falls facility by 2012. xxix

- 2009 bonding of $1.2 million for a new, better located commercial dock will increase efficiency, capacity and tonnage at Winona’s port on the Mississippi River upon completion in 2012. The southern Minnesota port already ships 2 million tons of corn and soybeans annually worth at least $300 million. xxx

- 2008 bonding of $7.15 million (to be repaid over 20 years) plus a $1.8 million federal stimulus grant to expand Litchfield’s wastewater treatment plant will allow the First District Association dairy cooperative to double its milk processing next year. The 89-year-old coop’s multimillion-dollar self-financed expansion will boost employment beyond the current staff of 135, while also benefitting its 1,000 farmer-members in 30 counties. “It actually will allow a thousand small businesses to grow as well,” said First District executive Dean Garbow. xxxi

- Several years of state bonding, a 2009 federal stimulus grant and local contributions totaling $17.5 million have financed rehabilitation of the Minnesota Valley Regional Railroad Authority’s 94 miles of publicly owned tracks from Norwood Young America to Hanley Falls. The work allows for increased weight and speeds of freight trains plus lower costs for farm and business shippers in five counties. A University of Minnesota Extension study found that annual economic impacts of rail shipments for the region totaled $302 million in output, 671 jobs and $28 million in labor income. xxiii A decade ago, with the railroad lying dormant, those benefits were nonexistent.
CONCLUSION

Despite a drumbeat of misleading, politically motivated criticism, the American Recovery and Reinvestment Act of 2009 is a vital part of broader government efforts that brought the nation back from the brink of economic collapse and into a growing recovery. It is the only stimulus initiative — counting former President Bush’s rebates and bank bailouts plus Federal Reserve actions — that both reduced taxes and directly created and saved jobs in the public and private sectors.

Minnesota can create more jobs in partnership with private enterprise through extraordinary public works capital investment next year. This would copy the successful strategy of not only the federal stimulus but also of countless private businesses — borrowing and spending money to build workforces and the capacity for a prosperous future.

In these still troubled times, Minnesota leaders should take advantage of unprecedented positive conditions for investing in long-neglected infrastructure: rock-bottom bond interest rates, plenty of economic capacity for prudent state borrowing, bargain bids from work-hungry contractors, plus the needs of thousands of idled construction workers and planners to get back on the job.

This unique opportunity won’t return unless inaction and huge public-sector cutbacks send our economy into a double-dip tailspin. To keep the current recovery on track while laying a strong base for better times ahead, Minnesota shouldn’t shrink from more stimulus.


xii. Brandon Stahl, op.cit.


xvii. Congressional Budget Office, op.cit.


xxix.  Todd Bills, Digi-Key vice president, Oct. 27, 2010. Telephone interview.


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