



MARKETWATCH

Stimulus Spending and Lost Hope

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By: Peter Morici

American workers face a jobless recovery and more stimulus spending won't fix what's broke.

Unemployment fell to 10 percent in November, but progress was achieved only because 291,000 more adults did not look for work and were not counted in the monthly tally of jobless Americans.

Though job losses were trimmed, the footprint of the \$789 billion dollar stimulus package was not to be found. Construction, despite an uptick in housing starts, shed 27,000 jobs, and governments added a paltry 7,000 new workers.

Only \$100 billion of the stimulus was earmarked for infrastructure and the federal bureaucracy is slow about spending it. Much of the rest of the money went to tax cuts used to pay down credit card debt, payoffs for congressional constituents, like summer grants for professors, and to shore up state and local budgets, where officials shortened furloughs but did not add workers.

A second stimulus package could provide some temporary jobs if given quickly to states and municipalities for repair and rehabilitation projects. Also tax credits for energy saving improvements in homes and commercial buildings would help if the rules and paperwork were simple and not like the nightmare created by cash for clunkers.

Businesses need customers and capital to create permanent jobs but have neither because of Washington's bad energy and trade policies and its failure to use the TARP as promised.

The \$400 billion trade deficit is terrible for jobs creation.

Simply, money spent on Middle East oil and Chinese coffee makers cannot be spent on U.S.-made goods and services, unless it returns to buy U.S. exports.

When imports substantially exceed exports, the demand for what Americans make is inadequate, inventories pile up, and layoffs result.

The trade gap is mostly imports of oil and Chinese consumer goods, and the Obama jobs strategy ignores those problems.

President Obama's near term energy policies address mostly the more efficient use of domestic coal and natural gas, and alternative energy sources to cut CO2 emissions, and will do little to quickly reduce oil imports. Increased mileage standards for cars and trucks will not meaningfully reduce the cost of imported oil for many years.

The United States has vast untapped supplies of natural gas and could create incentives for Detroit to much more rapidly deploy fuel efficient cars and trucks. Developing domestic energy and making more efficient vehicles could create thousands of jobs in 2010, not in the next decade.

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President Obama emphasizes diplomacy to persuade China to stop massively subsidizing exports of consumer goods that are so prominent on shelves at Wal-Mart and other retail outlets. These destroy American jobs, and are not fair competition based on comparative advantage.

Diplomacy failed for Presidents Clinton and Bush and will not end Chinese protectionism.

Chinese protectionism is destroying American manufacturing, and President Obama's response is simple appeasement, much more remindful of Neville Chamberlain than Franklin Roosevelt.

The TARP was intended to create a Bad Bank to clear failing mortgage and commercial real estate loans off the books of most banks. The Resolution Trust did that during the Savings and Loan Crisis, and ultimately turned a profit for the government.

The big Wall Street banks wanted those profits for themselves, and President Obama and Treasury Secretary Geithner relented and relied on massive Federal Reserve lending at near zero interest rates to the biggest banks to sort out their mess.

Main Street banks really needed a Bad Bank and are now in terrible shape. The Federal Deposit Insurance Company is now technically insolvent after closing 130 regional banks. That number is growing every week.

Thanks to dumb energy, trade and banking policies, businesses of all sizes don't have enough customers and can't borrow to expand and hire new workers.

More stimulus spending won't create permanent jobs, just add more debt to burden our children.

Until President Obama and his team of the best and the brightest recognize the wisdom of developing domestic energy, well up the courage to stand up to Chinese protectionism and address the plight of Main Street banks, American workers can look forward to high unemployment, stagnant wages, and lost hope.

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