

SALVAGING THE STIMULUS

By Harry Moroz

The enactment of the American Recovery and Reinvestment Act of 2009 ended a highly partisan debate in Congress that reverberated throughout the country. While opponents criticized the stimulus as representing bloated, wasteful spending, it was largely greeted by others—New Yorkers foremost among them—as critical, landmark legislation, desperately needed to create new jobs.

Without question, the funds New York City will receive from the stimulus package—between \$4 billion and \$5 billion—represent an extraordinary investment by the federal government in the nation’s most important city. Since Gerald Ford’s presidency a generation ago, Washington has, with few exceptions, ignored urban areas. Between 1977 and 2000, for example, federal aid to cities dropped 59.4 percent.¹ Yet, despite the enthusiasm by which it was greeted by many New Yorkers, the stimulus package’s sizeable investment does not yet mark a shift in how the federal government treats cities. In fact, the stimulus is even at risk of failing in New York if certain adjustments are not made.

In short, the stimulus has placed on local government agencies the burden of spending effectively and, at the same time, chronicling those efficiencies in ways they have never before had to detail. What’s more, there is a growing concern that the funds from the stimulus are being allocated in a manner that benefits politicians as much as the people they seek to represent.

Since virtually the moment the act was passed, New York City and New York State have emphasized transparency and accountability as the keys to the success of the stimulus. Transparency and accountability, it was reasoned, would help prevent waste and abuse and

ensure that the best projects—those that create the most jobs most quickly and that establish the foundations for long-term economic recovery—are undertaken. To this end, Governor David A. Paterson created an Economic Recovery and Reinvestment Cabinet, which is in charge of distributing much of New York’s \$27 billion share of stimulus funds. Meanwhile, Mayor Michael R. Bloomberg launched Stimulus Tracker, a website complete with interactive maps and detailed descriptions of the progress of individual projects.

Despite all that, a lack of coordination between the federal government and cities like New York threatens to undermine efforts at transparency and accountability. First, federal guidelines for tracking the stimulus do not (at least initially) require reporting of how stimulus funds are ultimately used or if they are passed from a state government to a local government and on to another organization like a contractor.² Furthermore, cities already face budget shortfalls that are leading to cuts of oversight staff at the very time that these personnel are most needed. The Department of Investigation, New York City’s independent government watchdog, reduced its budget by 8 percent in the 2009 fiscal year. And it foresees another 8 percent cut for the following fiscal year, when it will employ just half as many staffers as it did in 2002.³ Though Congress has introduced legislation to help fund such staff, the Recovery Act does not include money for this purpose and additional oversight spending is unlikely to garner enough congressional support for passage. Indeed, after years of federal disinvestment from cities, the staff that remains is generally unaccustomed to expending large sums of federal money and certainly has never before been expected to expend so much so quickly.

Finally, city agencies face a difficult challenge in determining the impact, and thus evaluating the success, of the stimulus package. For instance, Timothy Gilchrist, the chairman of the Recovery Cabinet, has expressed concern that states, local governments, and other stimulus-fund recipients have not been provided a common set of tools to report the job creating effects of the Recovery Act.⁴ Indeed, in announcing \$423 million in new federal funding for the New York City Housing Authority, the Mayor emphasized the number of jobs that the funds would create as much as he emphasized the important improvements to public housing that the money has made possible.

One wonders how effectively NYCHA, normally focused on providing affordable housing, can track the jobs created by its projects.⁵

These problems are particularly worrisome because spending at the local level, in general, and in New York City, in particular, is so important. The Brookings Institution estimates that nearly 43 percent of spending under the Recovery Act will occur in metropolitan areas and it points out that the concentration of people, jobs and economic activity in metropolitan areas “means that any national recovery will be driven substantially by the recovery of U.S. metro areas.”⁶

While many observers believed New York City to be immune to the economic crisis as the city’s economy outperformed much of the country until late 2008, the Independent Budget Office now warns that the city’s economy will “contract more sharply and recover more slowly than the U.S. as a whole.”⁷ Job losses are expected to total 270,000 with most of these to occur in 2009 and 2010.⁸ Total tax revenues will fall by \$2.6 billion in fiscal year 2009 and an additional \$1.3 billion in the following fiscal year.⁹ It currently appears that economic recovery in New York will be more L-shaped than V-shaped: a high unemployment rate will persist, while vital city services that have already been pared will remain at risk of budget cuts. Furthermore, New York City will be forced to wean itself from its overreliance on a booming financial services industry, which is unlikely to return to its former prominence.

Thus, the effectiveness of the stimulus package—its ability to create jobs quickly while investing in medium- and long-term economic recovery—is particularly important to New York City. To make the stimulus work for New York, significant guidance must come from the federal government. The stimulus should serve as an opportunity for the federal government to distance itself from recent history when Washington held cities at arm’s length while occasionally bribing them with Community Development Block Grant funds and other sweeteners.

First, the federal government must establish guidelines for the assessment of progress, such as number of jobs created, as Mr. Gilchrist has advised. There is no reason why New York City agencies should

learn new modes of assessment from scratch at a time when agency expertise is needed to carry out the very projects best suited to economic recovery. Besides, patchwork assessment schemes in cities and states across the country would make broader evaluations of the stimulus's success extremely difficult. (The inconsistent state standards required by the federal No Child Left Behind law are just one example of the danger of such a conflicting patchwork system.)

But, more importantly, the federal government must make its presence felt in New York City beyond guidelines for assessment and requirements for oversight. Indeed, the notion that federal oversight of city stimulus spending is sufficient relies on an antiquated view of the relationship between cities and the federal government that portrayed Washington doing best for cities when it was doing least.

Instead, the Obama administration should rebuild its formidable political operation as a policy operation. This team of operatives would certainly assist New York City with assessment in such areas as job creation and expenditures. But the team's primary role would be to support project development and implementation, always emphasizing the need for city agencies and officials to think both about short-term job creation and a medium- and long-term economic recovery based on sophisticated infrastructure decisions and strategic investments in areas like green technology, energy retrofits and even the rehabilitation of foreclosed properties into rental housing.

Consider the scene in the New York State capitol building¹⁰ last March: Mr. Gilchrist and the Recovery Cabinet sat in Room 246—the cabinet's "situation room"—pouring over innumerable proposals for spending stimulus dollars and weighing rival priorities alongside federal requirements for timeliness and legitimacy. Now imagine representatives of the Obama White House—staffers for, say, his urban policy chief—inviting representatives of the Metropolitan Transit Authority and New York City and sitting with the New York leaders to establish parameters for stimulus spending. They would clarify the federal requirements and move projects that create sustainable jobs and serve broader interests to the top of the pile. They would think less about the current geographical distribution of stimulus projects and more about the medium- and long-term benefits to New York as

a whole, pointing out the broader benefits of investment in New York City. For example, they might focus on coordinating funds to rehab foreclosed properties with funds to improve mass transit service, an effort that would spur growth and development in different areas.

Many stimulus watchers have emphasized the importance of accountability and transparency to ensure that Recovery Act funds are spent appropriately and effectively in New York City. While necessary, this emphasis is insufficient. For accountability and transparency to have significance, the federal government must partner with New York City to guide stimulus spending as it happens. It is not too late for this effort to begin, as much of the spending will occur in 2010 and beyond.

The likelihood of an extended downturn in New York, characterized by high unemployment and low tax revenue, makes efficient expenditure of stimulus funds in the city particularly important. And effective coordination between the federal government, state government, and city officials will help ensure the long-term viability and economic and social benefits of the investment in stimulus funds.

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Endnotes

- 1 See Wallin “Budgeting for Basics: The Changing Landscape of City Finances”.
- 2 See Robinson testimony.
- 3 <http://query.nytimes.com/gst/fullpage.html?res=9500E1DA163EF933A15750C0A96F9C8B63>.
- 4 Gilchrist testimony.
- 5 See GAO report.
- 6 Brookings ARRA.
- 7 Lowenstein testimony.
- 8 Lowenstein testimony.
- 9 Lowenstein testimony.
- 10 <http://www.nytimes.com/2009/03/05/nyregion/05albany.html?hp>.