

The Implementation of the Recovery Act: Networks Under Stress

George Mason University, Centers on the Public Service

Department of Public and International Affairs

EXECUTIVE SUMMARY

The Congress passed the American Recovery and Reinvestment Act (ARRA) in February, 2009 in the midst of the worst economic crisis since the Great Depression. More than \$800 billion was ultimately provided to stimulate the economy through a mix of tax and spending actions – the largest stimulus enacted in the postwar era.

Numerous credible studies have shown that the Recovery Act was relatively successful in achieving economic stimulus, preventing the economy from going into a deeper recession than it already experienced.¹ The George Mason University research team found that achieving these results called for heroic actions by managers at all levels of government and sectors to overcome barriers and weave together numerous programs under the Recovery Act umbrella.

Daunting Management Challenges

Substantial challenges were built in to the Recovery Act at its birth. Rather than provide assistance through a single major grant, Congress chose to carve up funding among a daunting range of over 200 categorical grant programs as well as tax expenditures, loans and contracts. Unlike the New Deal where millions of unemployed were hired in direct federal projects, the Recovery Act largely used networks of states, counties, cities, nonprofits and private contractors – a recipe often fraught with potential for goal conflict, program slippage and confusion.

Managers and professionals across all levels of government and sectors were consigned to make tradeoffs between oft-conflicting objectives built into the legislative framework of the Recovery Act - to both spend funds quickly to jump start jobs and recovery while observing strict, centrally-determined policy and accountability provisions under nearly unprecedented levels of attention and oversight from political leaders, stimulus opponents, interest groups and the media.

Networks Make a Difference

The high stakes and speed needed to implement the Recovery Act placed a premium on relying on long standing decentralized networks where trusting relationships have been established. Management challenges were more easily handled when Recovery funds were channeled through existing programs such as highways and Title I education.

In contrast, the implementation of new or dramatically enlarged programs was more difficult. Such programs as the federal Weatherization Assistance Program (WAP) and broadband programs experienced serious delays in program roll out due to the lack of professional networks with capacity to manage the influx of new federal funds and policy mandates.

The Research Approach for the George Mason University Recovery Act Study

The George Mason research team consisted of faculty from the Public Administration program. The team reviewed the management record of the Recovery Act by examining the experience in depth of seven major initiatives covered under the stimulus program. All of the programs studied were: 1) in priority policy areas (i.e., education, energy, and infrastructure assistance); 2) received significant increases in spending in the stimulus legislation; 3) represented a mix of policy “tools” (i.e., project grants, formula grants and tax expenditures); and 4) included both established and new programs.

- **State Fiscal Stabilization Fund:** assistance to states and local school districts to avoid employee layoffs and meet other priority needs;
- **Weatherization Assistance Program:** grants to states to engage local agencies to weatherize homes of low income persons;
- **Advanced Energy Manufacturing Tax Credit:** a new 30 percent investment credit for facilities that produce cleaner energy;
- **Broadband Access Grants:** new grants to states, localities, and nonprofits to increase broadband access to rural, unserved, and underserved areas;
- **New Markets Tax Credits:** encourages private equity investment in qualified low-income areas in order to spur economic development;
- **The Federal-Aid Highway Program:** the largest federal infrastructure assistance program to states for building, repair, and maintenance of highways; and
- **Auditing and Accountability Entities:** the Recovery Act strengthened their role in providing for transparency and accountability for federal funds.

Managing From the Top

The Administration’s use of decentralized networks created a political dilemma – credit for stimulus outcomes was realized at the local level while blame was often placed at the President’s doorstep. Given the greater potential for fraud and waste that might come with the combination of large new federal funds and pressures to expedite spending, the Administration took pains to adopt a strategy to institutionalize accountability up front at

the outset of program formation. The strategies developed promoted greater oversight and attention but also had other consequences for program management and outcomes.

- Oversight was centralized in the Executive Office of the President. The Vice President himself became the “chief sheriff” appointed by the President to ride herd over federal agencies and nonfederal actors, supported by the Office of Management and Budget whose prolific guidance asserted an active management role that was uncharacteristic for this small agency. While new collaborative relationships were formed with top elected state and local officials, the centralization of authority created new tensions with federal, state and local managers in charge of individual programs.
- Federal auditors were invited by the Administration to become significant players in management, with new staff and a new agency within the Executive Office of the President to scour the nation for abuse of stimulus funds. Yet, managers at all levels of government – the front lines in securing program success – received no additional funding or staff, even though they faced the twin burdens of implementing Recovery programs alongside their normal responsibilities for other programs.
- New reporting systems were instituted that promoted greater transparency for stimulus projects across the nation – systems that many hoped would further deter abuse and promote greater public engagement with government. However, the result was a data deluge that stoked conflicting interpretation between program advocates, managers and Recovery Act critics.

Ultimately, reports suggest that outright fraud for Recovery funds alone was lower than expected. However, other programs outside the stimulus umbrella may have experienced diminished oversight by hard-pressed managers. Moreover, fraud is only one indicator of management outcomes. Programs without established networks and management capacity experienced delays and performance shortfalls.

Public accountability proved to be particularly challenging. Notwithstanding a veritable outpouring of new information and audits, the public expressed broad skepticism about the impact of the program on jobs. In the face of higher overall unemployment rates, most had trouble agreeing with the economists’ consensus that the jobs picture would have been even worse if the stimulus had not been enacted. Moreover, the decentralized and widely dispersed allocation of funds made it difficult for the President to clearly establish a link between the federal funds and their actual impacts in communities several layers removed from Washington.

Lessons Learned

The Recovery Act experience provides several valuable lessons for federal policy makers and managers, both in normal times and in crises:

- **Policy is Management** – anticipate implications of policies for management outcomes during legislative formulation of programs
- **Know Your Network** – understand strengths and weaknesses of networks engaged in managing federal programs at all levels
- **Know Your Tools** – understand how different tools – for instance grants and tax credits – affect the impact of federal funds on policy outcomes
- **One Size Does Not Fit All** – recognize the need for different federal management strategies for programs with differing networks and tools
- **Invest in Management** - prepare for the next crisis now by adopting stronger network management capacity throughout programs at all levels
- **Streamline for the Next Recession** – design broad based grants to states and localities to reduce layoffs and tax increases with less cost and burden.

Please note: a complete version of the GMU report is available at <http://publicservicecenters.gmu.edu/what-we-do/publications>

ⁱ Zandi, M. and A. Blinder (2010), 'How the Great Recession Was Brought to an End', 27 July, <<http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>>.