

Special Series: Economic Recovery Watch

December 3, 2009

NEW CBO REPORT FINDS RECOVERY ACT HAS PRESERVED OR CREATED UP TO 1.6 MILLION JOBS

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A new Congressional Budget Office (CBO) report estimates that the American Recovery and Reinvestment Act (ARRA) had preserved or created between 600,000 and 1.6 million jobs as of September. This estimate by Congress' non-partisan economic and budget analysts is more comprehensive than the 640,000 jobs that ARRA recipients reported in late October, CBO explains.

ARRA Also Prevented Even Deeper Recession, CBO Finds

CBO also concluded that ARRA boosted economic activity by between 1.2 percent and 3.2 percent this summer and that the unemployment rate would have been 0.3 to 0.9 percentage points higher in the third quarter without ARRA. In other words, without ARRA, the recession would have deepened this summer.¹

Among ARRA's most effective provisions for saving and creating jobs, according to CBO's estimates, are direct purchases of goods and services by the federal government, transfer payments to states (such as extra Medicaid funding), and transfer payments to individuals (such as increased food stamp benefits and additional weeks of unemployment benefits). CBO's estimates indicate that tax cuts are less effective job producers, and tax cuts for higher-income people and corporations have very low bang for the buck.

CBO's Jobs Estimates More Comprehensive Than Earlier Recipient Reports

On October 30, the Recovery Accountability and Transparency Board released jobs figures based on reports by recipients of ARRA grants, loans, and contracts. Recipients reported that ARRA funds preserved or created 640,000 jobs through September. As the new CBO report explains, however, the recipient reports "do not provide a comprehensive estimate of [ARRA's] impact on employment in the United States."

¹ The contraction of the economy began to slow in the second quarter of 2009 and real (inflation-adjusted) gross domestic product (GDP) grew at a 2.8 percent annual rate in the third quarter. Over these two quarters, growth averaged 1 percent at an annual rate. CBO's estimates showing that GDP was between 1.2 and 3.2 percent higher in the third quarter as a result of ARRA imply that without ARRA real GDP would have shrunk at an annual rate of between 1.4 percent and 5.2 percent over the same period rather than growing at a 1 percent annual rate..

Specifically, the recipient reports covered only about one in four ARRA dollars spent through September and did not include some of ARRA's most effective job-creating provisions, such as increased Medicaid support for states and additional support for unemployed workers and food stamp recipients. The reports also did not include the jobs that ARRA grants, loans, and contracts generated *indirectly* by increasing overall economic activity. On the other hand, CBO notes, some of the jobs that recipients reported may have existed without ARRA.

CBO emphasizes that its estimate of 600,000 to 1.6 million jobs preserved or created through September addresses the limitations of using recipient reports to estimate ARRA's impact on jobs. CBO's estimate, which is based on data about how similar policies have affected output and employment in the past, is similar to those of other leading economic forecasters. For example:

- Mark Zandi of Moody's Economy.com estimates that ARRA saved or created 1.1 million jobs as of October.²
- Goldman-Sachs has concluded that "ARRA provided a substantial boost to growth in Q2 and especially Q3, and will continue to support growth into 2010."³

A minority of economists have questioned whether ARRA has in fact boosted the economy. CBO says that it continues to look at new research on the economic relationships between changes in government policy and changes in output and employment, but that its examination of that research has not altered CBO's assessment of ARRA's economic impact.

Conclusion

CBO's analysis finds that ARRA has significantly boosted output and employment and caused the increase in unemployment resulting from the recession to be less than it otherwise would have been. These findings suggest that without ARRA, the economy might still be shrinking.

² Jackie Calmes and Michael Cooper, "New Consensus Views Stimulus as Worthy Step," *New York Times*, November 21, 2009, p. A10.

³ Goldman Sachs, "CBO on Fiscal Stimulus: No News is Good News," US Daily, December 1, 2009.