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**Special Series: Economic Recovery Watch**

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## **NEW CBO REPORT FINDS UP TO 3.6 MILLION PEOPLE OWE THEIR JOBS TO THE RECOVERY ACT**

By Michael Leachman

A new Congressional Budget Office (CBO) report estimates that the American Recovery and Reinvestment Act (ARRA) increased the number of people employed by between 1.4 million and 3.6 million jobs as of September.<sup>1</sup> In other words, between 1.4 million and 3.6 million people employed in September owed their jobs to the Recovery Act. This estimate, by Congress' non-partisan economic and budget analysts, is more comprehensive than the 675,000 jobs that ARRA recipients reported in late September, CBO explains.

While the report focuses primarily on the third quarter of 2010, CBO also includes new projections of the Recovery Act's jobs impact through 2012. It finds that in the current quarter (the fourth quarter of 2010), there are 1.3 million to 3.5 million more people employed because of ARRA.<sup>2</sup>

### **ARRA Also Boosted Worker Hours, CBO Finds**

In addition to saving and creating jobs, ARRA has increased the number of hours worked, CBO has concluded. That is, without ARRA, many full-time workers would have been reduced to part-time status and fewer would have worked overtime. The combination of the increase in jobs and the increase in hours means that ARRA boosted the number of full-time-equivalent jobs by between 2.0 million and 5.2 million as of September, the report estimates. CBO finds that this figure peaked in the third quarter of this year, and stands at up to 5.0 million full-time equivalent jobs in the current quarter.<sup>3</sup>

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

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<sup>1</sup> Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From July 2010 Through September 2010," November 2010, available at <http://www.cbo.gov/doc.cfm?index=11975>.

<sup>2</sup> ARRA succeeded in its primary goal of protecting the economy during the worst of the recession. As the economy recovers, ARRA's effects will decrease. CBO projects that ARRA's impact on employment peaked in the third quarter of 2010, and will decline gradually in the future.

<sup>3</sup> Ibid.

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**

In early November, the Recovery Accountability and Transparency Board released new jobs figures based on reports by recipients of most ARRA grants, loans, and contracts. Recipients reported that ARRA funds preserved or created 675,000 full-time-equivalent jobs as of the third quarter of 2010. As the new CBO report explains, however, the recipient reports "do not provide a comprehensive estimate of [ARRA's] impact on U.S. employment."

Specifically, *the recipient reports covered only about one in five ARRA dollars spent during the third quarter of 2010* 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 1.4 million to 3.6 million more people employed as of 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 Analytics and Alan Blinder of Princeton University estimated in a July paper that ARRA is adding almost 2.7 million jobs to U.S payrolls in 2010.<sup>4</sup>
- Earlier this year, Macroeconomic Advisers estimated that ARRA's employment impact would peak at the end of 2010, when there will be 2.5 million more people employed because of the legislation.<sup>5</sup>

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 significantly altered CBO's assessment of ARRA's economic impact.

### **Conclusion**

CBO's analysis finds that ARRA has significantly boosted both the number of people employed and the number of hours worked. Without ARRA, millions more workers would be either unemployed or struggling to get by on less income.

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<sup>4</sup> Mark Zandi and Alan Blinder, "How the Great Recession Was Brought to an End," July 27, 2010, p. 1, available at <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>.

<sup>5</sup> Macroeconomic Advisers, "MA on Fiscal Stimulus, the Definitive Answer: It Works," The Blog of Macroeconomic Advisers, February 19, 2010, available at <http://macroadvisers.blogspot.com/2010/02/ma-on-fiscal-stimulus-definitive-answer.html>.