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NEW ANALYSIS SHOWS STRONG JOB EFFECTS FROM INCLUDING AID FOR HARD-PRESSED FAMILIES AND STATES IN A RECOVERY PACKAGE

by Chad Stone

Temporary programs to protect people who are the most vulnerable in a deep recession will have a powerful impact on job creation relative to their cost, based on an analysis of the job creation effects of the proposed Obama economic recovery plan by Christina Romer, who will be chair of the President's Council of Economic Advisers, and Jared Bernstein, who will be Chief Economist in the Office of the Vice President.[1] Their analysis, issued January 9, also finds that substantial job creation will result from fiscal relief to states facing large budget shortfalls. These findings are consistent with a Center on Budget and Policy Priorities analysis issued last week on the importance for job creation of including such measures in an economic recovery package.[2]

In particular, results from the Romer-Bernstein analysis show that:

- Temporary increases in safety net programs like food stamps and unemployment insurance will generate more than one-fifth of all the jobs the package would generate in 2009, even though the amount spent on these programs would likely be less than 10 percent of the total package.

- Together, these safety net programs and fiscal relief to states would account for nearly two-fifths of the jobs generated by the package in 2009 and 2010, even though the amounts spent in these areas would likely be much smaller than two-fifths of the cost of the package.

- The implication of these results is that the measures proposed in these two areas are, on a dollar-for-dollar basis, among the most effective (if not *the* most effective) components of the package in preserving and creating jobs.

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[1] Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Investment Plan," January 9, 2009.

[2] Chad Stone, "Assistance for Hard-Pressed Families Is One of the Best Ways to Preserve and Create Jobs," Center on Budget and Policy Priorities, January 9, 2009.

The Recovery and Reinvestment Plan

The American economy has already lost 2.6 million jobs in the recession that began in December 2007. Without a substantial stimulus package, those job losses could easily double before the economy begins to recover. Stimulating new demand for goods and services is the key to limiting lay-offs, putting people back to work, and ultimately creating new jobs as the economy begins to recover. Measures that create new demand quickly are particularly necessary to put a brake on job losses. Given the severity of the recession, measures that take more time to have an effect will be beneficial as well.

Romer and Bernstein analyze the job impacts of a package "slightly larger than the $775 billion currently under discussion" that "includes a range of measures, all of which have been discussed publicly." The following are the key components:

- Substantial investments in infrastructure, education, health, and energy;
- Temporary programs to protect those who are most vulnerable in a deep recession, including increases in food stamp benefits and expansions of unemployment insurance;
- Fiscal relief for states facing large budget shortfalls in order to alleviate cuts in health care, education, and other programs and to prevent increases in state and local taxes;
- Individual income tax cuts along the lines of the President-elect's Making Work Pay tax cut;
- Tax incentives for businesses designed to encourage new investment.

How the Plan Would Create Jobs

These measures have a *direct* impact on jobs when people who would otherwise be laid off are retained or new people are hired to carry out the program or meet the increased demand for goods and services that these measures generate. The measures have a further *indirect* effect on job creation that unfolds over time, as workers and firms who benefit spend their increased income on a broad variety of goods and services throughout the economy, which in turn preserves or creates jobs and leads to additional spending. The split between direct and indirect effects varies among the various types of measures as follows:

- Infrastructure and other core spending measures have a direct dollar-for-dollar impact on spending when they are made, although, except in the case of truly "shovel-ready" projects, there is a lag between when funds are made available and when they are actually spent. These measures also have some indirect effects, but those are typically smaller than the direct effects and occur later.
- Broad-based tax cuts do not have any direct effect on jobs, and the size of their indirect effect depends on how much of any tax cut is spent (generating jobs) and how much is saved (which does not generate jobs). Tax cuts focused on low- and moderate-income households, who are likely to spend them, create more demand and more jobs than tax cuts focused on higher-

income taxpayers, who are likely to save a substantial fraction of any tax cut especially if it is temporary.

- Measures that protect vulnerable populations have modest direct effects on jobs but quite substantial indirect effects. The indirect effects are very large because the people who benefit from these programs are likely to spend any additional income they receive and to spend it quickly.

- State fiscal relief involves both spending and taxes. Romer and Bernstein assume that 60 percent of fiscal relief takes the form of higher government purchases (averting budget cuts), 30 percent takes the form of lower taxes (by averting tax increases); and 10 percent avoids drawing down state rainy day funds. The direct and indirect job effects are roughly equal in size.

Job Creation in 2009-2011

Table 1 shows the impact of the assumed recovery package on nonfarm payroll employment in the fourth quarter of 2010 as well as the breakdown between direct and indirect effects for each measure. Romer and Bernstein show there would be roughly 3.7 million more jobs on employers' payrolls in the fourth quarter of 2010 with the package than without it. About 1.5 million of those jobs reflect the direct effects of the measures in the recovery package; about 2.2 million of the jobs reflect indirect effects.

Table 1:
Additional Jobs Due to the Major Components of a Recovery Package
Fourth Quarter 2010

	Total	Direct	Indirect
Protecting the Vulnerable	**549,000**	140,000	409,000
State Fiscal Relief	**821,000**	442,000	379,000
Making Work Pay Tax Cut	**505,000**	0	505,000
Business Tax Incentives	**470,000**	0	470,000
Energy	**459,000**	305,000	153,000
Infrastructure	**377,000**	236,000	142,000
Health	**244,000**	166,000	78,000
Education	**250,000**	166,000	83,000
Total number of jobs	**3,675,000**	1,456,000	2,219,000

Source: Romer and Bernstein, Table 2.

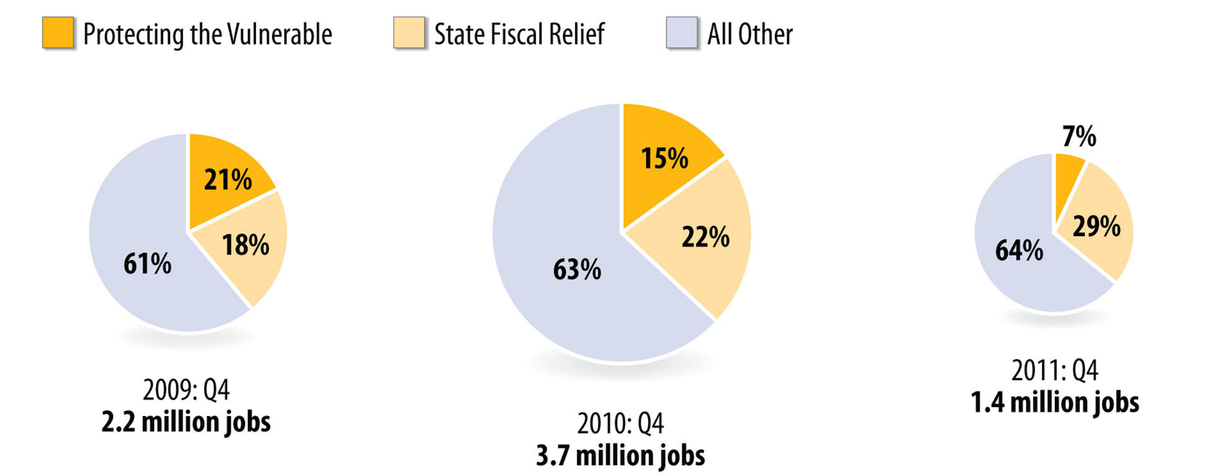
Based on information presented in the Romer-Bernstein paper, it is possible to calculate the number of additional jobs attributable to the package in the fourth quarter of 2009 (2.2 million) and in the fourth quarter of 2011 (1.4 million), but not the split between direct and indirect effects. The impact of the package is smaller in 2009 than in 2010 because many of the measures take time to have an effect. Although the package is only a two-year package, job impacts from earlier spending continue to be felt in 2011, helping to strengthen the recovery anticipated to be underway by then.

Programs that protect vulnerable populations raise employment by 456,000 jobs (21 percent of the total increase) in the fourth quarter of 2009 and by 549,000 jobs (15 percent of the total increase) in the fourth quarter of 2010 (See Figure 1). These are significant increases for measures that probably account for less than 10 percent of the entire package (the Romer-Bernstein analysis does not specify the dollar amount of the individual components of the package). The stimulus to aggregate demand — and hence to job creation — from this component of the package is critical, especially in 2009, because it takes time for the other measures in the package to reach their maximum effectiveness.

Together, programs to protect vulnerable populations and state fiscal relief account for 850,000 additional jobs (39 percent of all jobs due to the recovery package) in the fourth quarter of 2009 and 1.4 million additional jobs (37 percent of all jobs due to the recovery package) in the fourth quarter of 2010. These measures are important not simply as safety net programs and programs to relieve severe budget pressures on state governments — they are also among the most important and most effective job-preserving and job-creating measures in the recovery package.

FIGURE 1:

Percentage of Jobs Created by Different Measures in a Recovery Program



Source: CBPP calculators from Romer and Bernstein, Tables 2 and 3.