

Special Series: Economic Recovery Watch

November 9, 2009

RECENT GAO REPORT ON RECOVERY ACT'S JOBS IMPACT WIDELY MISUNDERSTOOD

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Many observers have misread a November 19 report from the Government Accountability Office (GAO) examining the government's claim that the part of this year's American Recovery and Reinvestment Act (ARRA) consisting of grants, contracts, and loans has created or saved roughly 640,000 jobs to date.¹ Some observers have interpreted the GAO report as concluding that ARRA *as a whole* has created or preserved fewer than 640,000 jobs. Others seem to assume the report suggests that ARRA has created few if any jobs. Both claims are mistaken.

Jobs Reported by Recipients Are Only a Portion of Recovery Act Jobs

The Recovery Act requires recipients of its grants, contracts, and loans to report on the number of jobs these funds have created or preserved. The GAO report states, "In interpreting recipient reporting data, it is important to recognize that the recipient reporting requirement only covers a defined subset of the Recovery Act's funding." Specifically, GAO finds that 27 percent of total ARRA funds spent as of September 30 (when the reporting period ended) were included in the recipient reports. GAO also notes that ARRA funds also create jobs indirectly, such as by generating business for the suppliers of goods and services to projects receiving ARRA funds. Similarly, the Recovery Act's support for unemployed workers, increased food stamps, and additional Medicaid funds for states are cited as effective economic stimulus by Moody's Economy.com and the Congressional Budget Office, among others, but none of the jobs impact of these provisions is included in the recipient reports.²

GAO adds, "Even after data quality issues are addressed, these data will represent only a portion of the employment effect. Beyond the jobs that are reported, further rounds of indirect and induced employment gains result from government spending. The Recovery Act also includes entitlement

¹ "Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention," Government Accountability Office report GAO-10-223, November 2009, <http://www.gao.gov/new.items/d10223.pdf>.

² Mark Zandi of Moody's Economy.com estimates that each dollar spent on a temporary increase in food stamps generates \$1.74 in economic activity, and that the comparable figures for extending unemployment benefits and providing general aid to states are \$1.61 and \$1.41, respectively. Mark Zandi, "The Impact of the Recovery Act on Economic Growth." Testimony before the Joint Economic Committee, October 29, 2009, p. 3.

spending and tax benefits, which themselves create employment. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to understand the overall employment effects of the stimulus.”

Comprehensive Analyses of ARRA Show Significant Jobs Impact

Estimates by private economists, the Congressional Budget Office, and the Council of Economic Advisers conclude that ARRA as a whole had saved or created 600,000 to 1.* million jobs as of August; Mark Zandi of Moody’s Economy.com estimates the jobs impact at 1.1 million jobs as of October.³

³ Christina Romer, “From Recession to Recovery: The Economic Crisis, the Policy Response, and the Challenges We Face Going Forward,” Testimony before the Joint Economic Committee, October 22, 2009, p. 7; Jackie Calmes and Michael Cooper, “New Consensus Views Stimulus as Worthy Step,” *New York Times*, November 21, 2009, p. A10.