
Special Series: Economic Recovery Watch

May 26, 2010

NEW CBO REPORT FINDS RECOVERY ACT HAS PRESERVED OR CREATED UP TO 2.8 MILLION JOBS

By Michael Leachman

A new Congressional Budget Office (CBO) report estimates that the American Recovery and Reinvestment Act (ARRA) had preserved or created between 1.2 million and 2.8 million jobs as of March. In other words, there were between 1.2 million and 2.8 million more jobs in the economy in March than there would have been without ARRA. This estimate, by Congress' non-partisan economic and budget analysts, is more comprehensive than the 682,000 jobs that ARRA recipients reported in late April, CBO explains.

While the report focuses primarily on the first 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 second quarter of 2010), there are 1.4 million to 3.4 million more jobs in the economy because of ARRA, and it predicts that ARRA's jobs impact will peak this fall, when there will be 1.4 million to 3.7 million more jobs because of the legislation.

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 1.8 million and 4.1 million as of March, the report estimates. Later this year, this figure will peak at up to 5.3 million full-time-equivalent jobs, CBO finds.

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 April 30, 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 682,000 full-time-equivalent jobs as of the first quarter of 2010. 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.”

Specifically, *the recipient reports covered only about one in six ARRA dollars spent during the first 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 1.2 million to 2.8 million jobs preserved or created through March 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 estimated in April that ARRA saved or created nearly 1.9 million jobs in the first quarter of 2010.¹

Macroeconomic Advisers reaffirmed its earlier findings that the Recovery Act’s employment impact would peak at the end of 2010, when there will be 2.5 million more jobs in the economy because of the legislation.²

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 jobs in the economy and the number of hours worked. Without ARRA, millions more workers would be either unemployed or struggling to get by on less income.

¹ Council of Economic Advisers, “The Economic Impact of the American Recovery and Reinvestment Act of 2009, Third Quarterly Report,” April 14, 2010. See Table 7 and footnote 10.

² 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>.