
Special Series: Economic Recovery Watch

Updated November 23, 2011

NEW CBO REPORT FINDS UP TO 2.4 MILLION PEOPLE OWE THEIR JOBS TO THE RECOVERY ACT

By Michael Leachman and Christine Mai

A new Congressional Budget Office (CBO) report estimates that the American Recovery and Reinvestment Act (ARRA) increased the number of people employed by between 0.4 million and 2.4 million jobs as of September.¹ In other words, between 0.4 million and 2.4 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 400,000 jobs that ARRA recipients reported in October, CBO explains.

While the report focuses primarily on the third quarter of 2011, 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 2011), there are 0.3 million to 2.0 million more people employed because of ARRA.

The CBO report indicates that ARRA succeeded in its primary goal of protecting the economy during the worst of the recession. As the economy recovers, ARRA's effects will continue to decrease. CBO estimates that ARRA's impact on employment peaked in the third quarter of 2010, when between 0.7 million and 3.6 million people owed their jobs to the Recovery Act.

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 0.5 million and 3.3 million as of September, the report estimates. CBO finds that this figure peaked in the third quarter of 2010, and stands at up to 2.6 million full-time-equivalent jobs in the current quarter.²

¹ Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from July 2011 Through September 2011," November 2011, available at <http://www.cbo.gov/ftpdocs/125xx/doc12564/11-22-ARRA.pdf>.

² *Ibid.*

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 funding for infrastructure and 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 have very low bang for the buck.

CBO's Jobs Estimates More Comprehensive than Earlier Recipient Reports

In October, 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 about 400,000 full-time-equivalent jobs as of the third quarter of 2011. 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 2011* 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 0.4 million to 2.4 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 Economy.com, Macroeconomic Advisers, and IHS/Global Insight all estimate that ARRA added about 2.4 million jobs in the first quarter of 2011, according to a survey by the Council of Economic Advisers.³

A minority of economists have questioned whether ARRA has in fact boosted the economy. The preponderance of the evidence does not support that minority view, but in this report CBO has reduced its estimate of the low end of possible effects as a result of its ongoing review of relevant research and its efforts to produce estimates that encompass most economists' views.

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.

³ Council of Economic Advisers, *The Economic Impact of the American Recovery and Reinvestment Act of 2009, Seventh Quarterly Report*, July 1, 2011, p. 12, available at http://www.whitehouse.gov/sites/default/files/cea_7th_arra_report.pdf.