

U.S. House of Representatives
Committee on Oversight and Government Reform
Darrell Issa (CA-49), Ranking Member



Who's Right on Stimulus Job Creation?
The Obama Administration's Fiction
vs.
The American People's Reality

STAFF REPORT
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Fourteen months have passed since the enactment of the nearly \$1 trillion stimulus package pushed through Congress by the Obama Administration and Congressional Democrats. The President has dispatched members of his Cabinet across the country to “highlight the stimulus program's first year”¹ and “tout programs putting people back to work under the \$787 billion spending bill.”²

At the same time, a CBS News/New York Times poll reports that only 6 percent of Americans “think [the stimulus] has created jobs.”³ Clearly, a massive disconnect exists between the Administration’s claims and the American people’s daily experiences.

Whatever economic models the Obama Administration chooses to rely upon to claim the success of the stimulus and set the groundwork for additional massive federal spending, the facts remain: since the stimulus was passed, more than 3 million Americans have lost their jobs, bringing the total of out-of-work Americans to more than 15 million, unemployment has hovered around 10 percent, and the number of people seeking jobs has outnumbered job openings by more than 6-to-1.⁴

This report attempts to explain the discrepancies between the stimulus claims made by the Administration and the facts in an attempt to arrive at a conclusion about who’s right on stimulus jobs creation: the Obama Administration or the 89%⁵ of the American public who do not believe the stimulus has created jobs?

Obama Administration Claim: Stimulus Spending Has Created or Saved More than 2 Million Jobs

In the Administration’s February 2010 “Annual Report to the President on Progress Implementing the American Recovery and Reinvestment Act of 2009,” Vice President Joe Biden wrote that “[o]ne year after the passage of the Act, we can report that approximately 2 million jobs have been created or saved thanks to the Act’s impact on hiring in the private sector, by local and state governments and by non-profits.”⁶ The latest report heralded by the Administration proclaims that between 2.2 and 2.8 million jobs exist that otherwise would not if not for the stimulus.⁷ Other Administration officials, however, seem to have been confused as to

¹ “Stimulus Anniversary: Obama Dispatches Cabinet, GOP Called Out For Hypocrisy,” *Associated Press*, February 16, 2010. Available at http://www.huffingtonpost.com/2010/02/16/obama-dispatches-cabinet_n_463602.html.

² *Id.*

³ Stephanie Condon, “Poll: Economy Brings Down Obama’s Job Approval Rating,” *CBS News’ “Political Hotsheet” blog*, February 11, 2010. Available at <http://www.cbsnews.com/blogs/2010/02/11/politics/politicalhotsheet/entry6199106.shtml>.

⁴ Jessica Dickler, “Too many job seekers, not enough jobs,” *CnnMoney.com*, January 12, 2010. Available at http://money.cnn.com/2010/01/12/news/economy/jolts_november/index.htm?postversion=2010011211.

⁵ See Note 3, *supra*. According to the poll, 6 percent of respondents believe the stimulus has created jobs, 41 percent believe the stimulus has not but will create jobs, and 48 percent believe the stimulus will not create jobs.

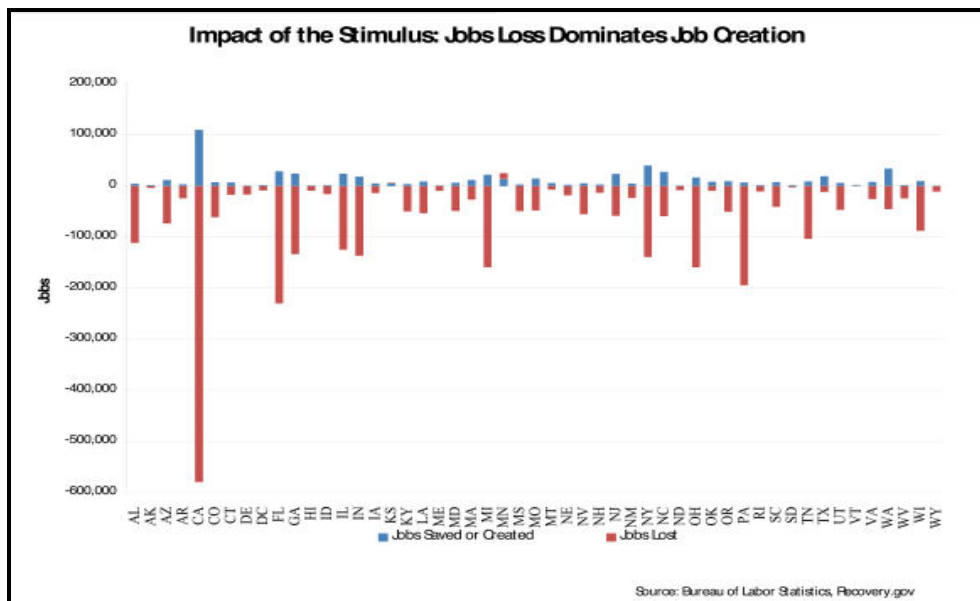
⁶ Vice President Joe Biden, “Annual Report to the President on Progress Implementing the American Recovery and Reinvestment Act of 2009,” February 16, 2010. Available at <http://www.whitehouse.gov/sites/default/files/20100216-annual-report-progress-recovery-act.pdf>.

⁷ White House Council of Economic Advisors, “The Economic Impact of the American Recovery and Reinvestment Act of 2009 Third Quarterly Report,” April 14, 2010. Available at <http://www.whitehouse.gov/sites/default/files/microsites/CEA-3rd-arra-report.pdf>.

how many jobs the stimulus actually created. On one day in January, three different White House advisors provided three wildly different estimates of job creation attributable to the stimulus. For example, White House Senior Advisor David Axelrod claimed the stimulus “created more than – or saved more than 2 million jobs.”⁸ However, White House Press Secretary Robert Gibbs said the stimulus had only “saved or created 1.5 million jobs.”⁹ Valerie Jarrett, another Senior White House Advisor, was even less optimistic, acknowledging that the stimulus only “saved thousands and thousands of jobs.”¹⁰

American People’s Reality: Massive Job Losses and High Unemployment Rates

In selling the stimulus package to the American people, the Obama Administration claimed that between 3.3 million and 4.1 million jobs would be created or saved.¹¹ Instead, the nation has lost more than 3 million jobs since the stimulus was enacted; the Administration’s estimates were off by more than 6 million jobs.¹² The following chart shows the number of jobs lost (according to the Bureau of Labor Statistics) and the number of jobs the Administration claims to have “created or saved” (according to the Administration’s Recovery.gov web site) between February and October 2009.¹³



As the chart shows, using the Administration’s own data, between February and October 2009 the nation lost more than 3 million jobs while the Administration reported that 638,825 were created or saved, meaning that for each job the Administration claimed to have created or

⁸ David Axelrod, *CNN State of the Union*, January 24, 2010.

⁹ Robert Gibbs, *Fox News Sunday*, January 24, 2010.

¹⁰ Valerie Jarrett, *NBC Meet the Press*, January 24, 2010.

¹¹ Christina Romer and Jared Bernstein, “The Job Impact of the American Recovery and Reinvestment Plan,” (January 9, 2009), available at http://otrans.3cdn.net/ee40602f9a7d8172b8_ozm6bt5oi.pdf.

¹² Brian M. Riedl, “Fantasy Jobs,” *The New York Post*, February 18, 2010. Available at http://www.nypost.com/p/news/opinion/opedcolumnists/fantasy_jobs_D6GKuDSEWzwCea4il0rCkI.

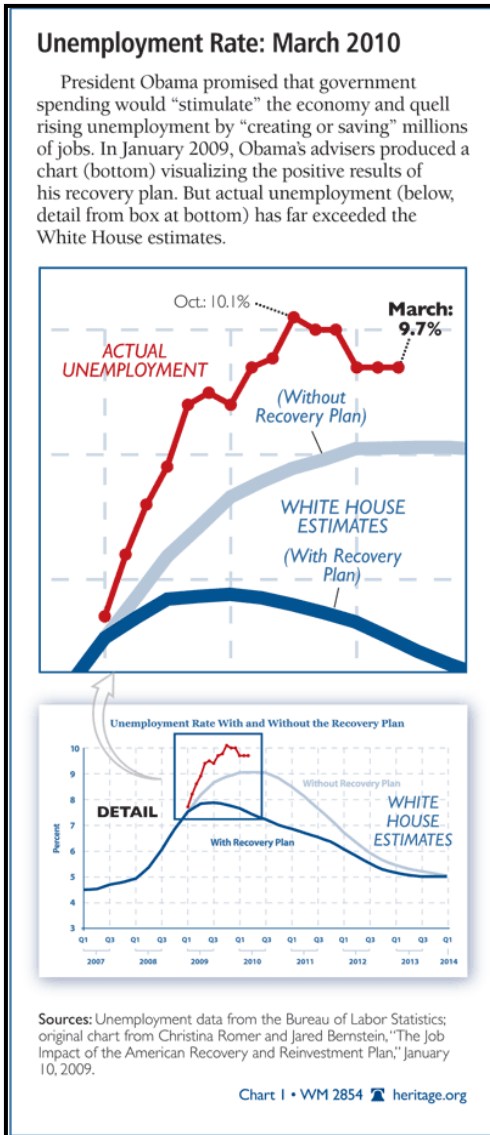
¹³ Veronique de Rugy, “Did the Stimulus Create Jobs?” *Reason.com*, December 11, 2009. Available at <http://reason.com/archives/2009/12/11/did-the-stimulus-create-jobs>

saved, more than 6 jobs were lost.¹⁴ The Administration has blamed the massive discrepancies between its forecasts and reality by stating that “[w]e misread how bad the economy was,”¹⁵ and claiming that without the stimulus things would have been even worse.

In January 2009, the Administration claimed that without the stimulus package, total U.S. payroll employment would fall to 133.9 million by the end of 2010; with the stimulus package, the Administration predicted that the total number of jobs would rise to 137.6 million.¹⁶ Instead, in the first quarter of 2010, there were a total of only 129.7 million U.S. jobs, 4.2 million below what the Administration predicted would happen without the massive injection of stimulus funds. Despite these figures, the Administration has simply lowered the baseline from its previous estimate and continues to claim that between 2.2 million and 2.8 million jobs currently exist that would not without the stimulus.¹⁷

The Administration’s economic models also predicted that the stimulus package would keep the national unemployment rate below 8 percent, and that without the stimulus unemployment would top 9 percent. The reality for the American people has been an unemployment rate that reached 10.2 percent in October 2009 and remains near that level today, as seen in the chart on the left.¹⁸

How can the Administration claim stimulus success in the face of stark job losses and the unemployment realities experienced by the American people? The more than 2 million jobs the Administration claims to have created or saved through the stimulus are “based not on observations of the economy’s recent performance -- but merely on the administration’s unshakable belief that deficit spending must create jobs and growth. ... [T]he White House staff’s ‘proof’ that the stimulus created jobs is an economic model that they programmed to assume that stimulus spending automatically creates jobs.”¹⁹ In other words, the Administration is heralding the success of the stimulus based not on what is actually happening to American employment but rather on what its economic models say



¹⁴ *Id.*

¹⁵ Sean Lenggell, “Biden: Administration misread economy,” *The Washington Times*, July 5, 2009. Available at <http://www.washingtontimes.com/news/2009/jul/05/biden-administration-misread-economy/>.

¹⁶ See Note 11, *supra*.

¹⁷ See “White House Caught Altering Stimulus Baseline Projection by 7 Million Jobs,” *BigGovernment.com*, April 19, 2010. Available at <http://biggovernment.com/capitolconfidential/2010/04/19/white-house-caught-altering-stimulus-baseline-projection-by-7-million-jobs/>.

¹⁸ Rea S. Hederan, Jr. and James Sherk, “Heritage Employment Report: March Jobs Report Springs Forward,” *Web Memo, The Heritage Foundation*, April 2, 2010. Available at <http://www.heritage.org/Research/Reports/2010/04/Heritage-Employment-Report-March-Jobs-Report-Springs-Forward>.

¹⁹ See Note 12, *supra*.

must be happening, despite overwhelming evidence to the contrary.

Economists John F. Cogan, Tobias Cwik, John B. Taylor, and Volker Wieland have explained the inadequacy of the Administration's economic models, saying that there are "serious doubts about the robustness of the models and the approach currently used for practical fiscal policy evaluation."²⁰ The economists state that the Administration is using an outdated Keynesian model and note that even "the more modern 'new Keynesian' analysis shows economic and jobs impacts of one-sixth the size of those estimated by the White House last year."²¹ The Administration's economic model also does not take into account the fact that "every dollar Congress injects *into* the economy must first be taxed or borrowed *out* of the economy. No new purchasing power is created; it is merely transferred from one part of the economy to another."²² According to Cogan, Cwik, et. al., massive government spending programs such as the stimulus mean that "non-government components are crowded out by government spending."²³

Obama Administration Claim: 90% of Stimulus Jobs will be in the Private Sector

On January 10, 2009, in a radio address designed to sell the need for passage of the stimulus, President Obama promised that the stimulus would be a boon for private sector job creation:

90 percent of these jobs will be created in the private sector – the remaining 10 percent are mainly public sector jobs we save, like the teachers, police officers, firefighters and others who provide vital services in our communities.²⁴

American People's Reality: Fewer Private Sector Jobs, Bigger Government

Instead of the 90/10 ratio between private sector and public sector job creation promised by the President, "the data [from the first period of recipient reporting] suggests that well over half of the jobs claimed so far have been in the public sector. They include the 325,000 jobs in education, including teachers, administrators and support staff, as well as many of the 73,000 other jobs paid for with education grants, many of which were in public safety."²⁵ Further analysis by one economist shows an even starker contrast between the Administration's claims and the American people's reality: of the 640,329 jobs reported as created or saved following the first recipient reporting period in the fall of 2009, only 22 percent, or 140,765 jobs, were reported

²⁰ John F. Cogan, Tobias Cwik, John B. Taylor, Volker Wieland, "New Keynesian versus Old Keynesian Government Spending Multipliers," February 2009. Available at <http://www.volkerwieland.com/docs/CCTW%20Mar%202.pdf>.

²¹ Brian Riedl, "White House Report Claims Stimulus Success-Despite 3.5 Million Job Losses," *Web Memo, The Heritage Foundation*, January 14, 2010. Available at <http://www.heritage.org/Research/Economy/wm2755.cfm>.

²² *Id.*

²³ See Note 20, *supra*.

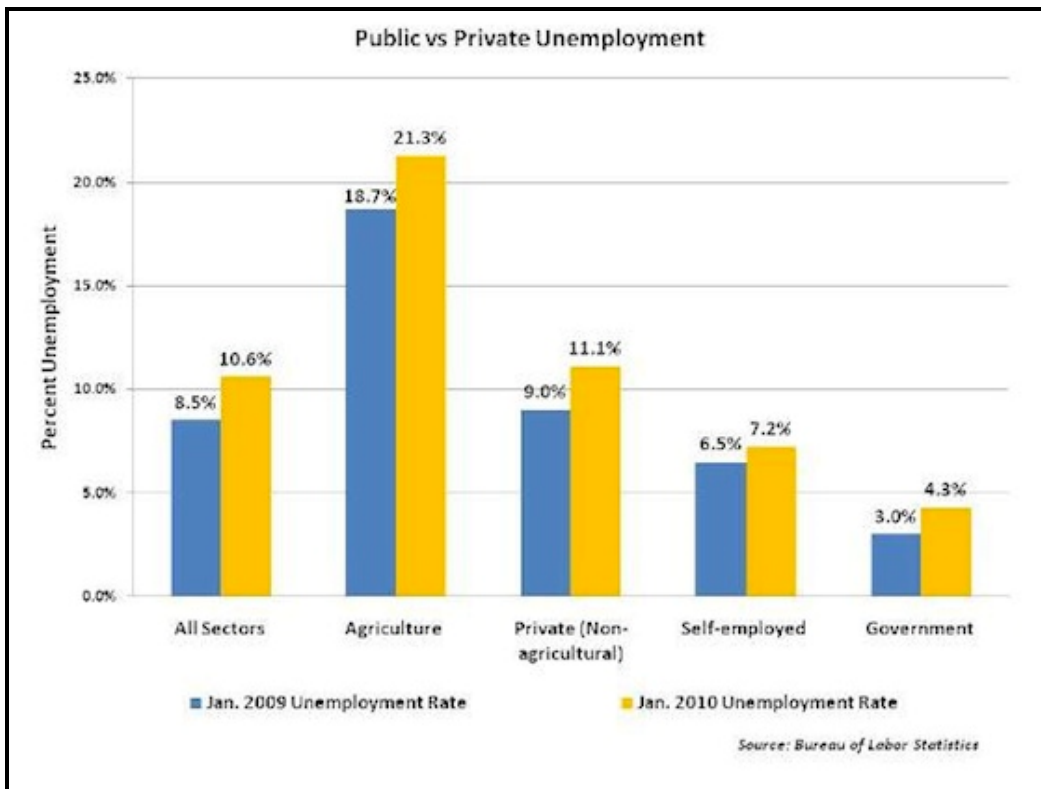
²⁴ Remarks of President-Elect Barack Obama, Radio Address, January 10, 2008. Video and transcript available at http://change.gov/newsroom/entry/your_weekly_address/.

²⁵ Brad Heath and Matt Kelley, "Analysis finds stimulus confusion," *USA Today* (November 2, 2009), available at http://www.usatoday.com/news/washington/2009-11-02-stimjobs_N.htm.

as created or saved in the private sector.²⁶ The remaining 78 percent of the jobs reported as created or saved by the stimulus were in the public sector.

Data from the Bureau of Labor Statistics confirms the impact of the stimulus on private versus public sector jobs. According to an analysis by George Mason University economist Veronique de Ruyg:

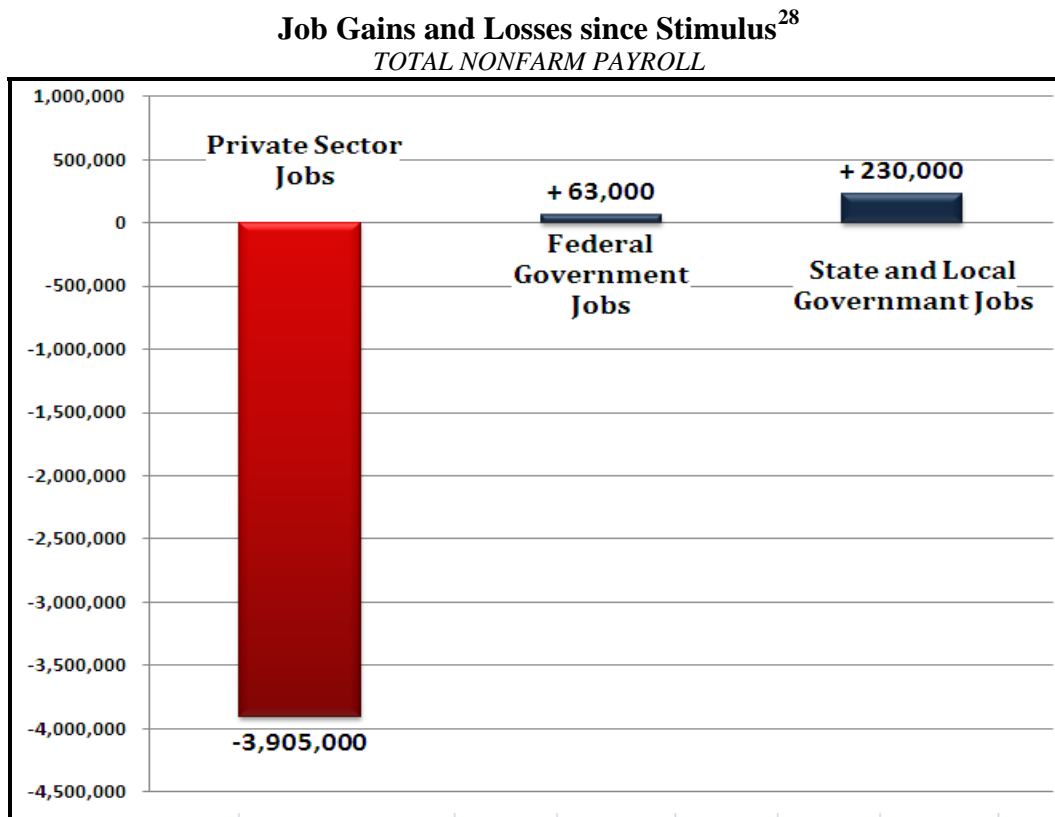
From January 2009 to January 2010, plummeting employment has been concentrated in the private sector. During the time period examined, employment in the private sector decreased by 3.5% while employment within government decreased by 0.5%. Furthermore, employment has consistently decreased more quickly in the private sector than within the government (in addition to decreasing more on net). Since January 2009, employment has decreased in the private sector at an average rate of 0.3% each month; this is 6 times faster than employment decreased in government.²⁷



²⁶ See Note 13, *supra*.

²⁷ Veronique de Ruyg, "Public vs. Private Unemployment," *Mercatus Center*, February 15, 2010. Available at <http://mercatus.org/publication/public-vs-private-unemployment>.

The following chart issued by the Joint Economic Committee, showing net job gains or loss by major sector from February of 2009 to February 2010, provides an even starker image of the impact of stimulus funding on private sector jobs compared to public sector employment:



Data Source: Haver / Bureau of Labor Statistics

Obama Administration Claim: Stimulus Created the Conditions for Companies to Hire New Workers

On April 2, 2010, President Obama spoke in Charlotte, North Carolina, on jobs and the economy, stating that the nation’s economy is “beginning to turn the corner.”²⁹ The President also said that the stimulus created the conditions necessary for the private sector to hire again. The relevant portion of his talk in North Carolina follows:

The true engine of job growth in this country has always been the private sector ... What government can do is create the conditions for companies to succeed. It can help to create the conditions for companies to hire again. What it can do is build the infrastructure and create the incentives that will allow small businesses to add workers; that will help entrepreneurs to take a chance on an idea; that will

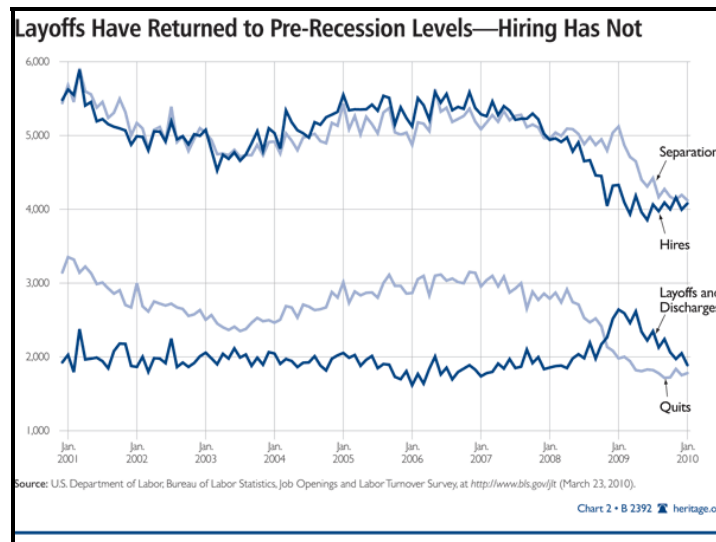
²⁸ The Honorable Kevin Brady, Ranking Republican, Joint Economic Committee, “Glance at Job Growth: Government Grows since February 2009,” March 23, 2010.

²⁹ President Barack Obama, Remarks on Jobs and the Economy in Charlotte, North Carolina, April 2, 2010. Available at <http://www.whitehouse.gov/the-press-office/remarks-president-a-discussion-jobs-and-economy-charlotte-north-carolina>.

lead manufacturers to set up shop in places like Charlotte. And that's what we did last year through the Recovery Act, also known as the stimulus bill. (emphasis added)³⁰

American People's Reality: the Private Sector Still isn't Hiring

According to a recent report by the Heritage Foundation, in the last quarter before the recession began in 2008, private sector employers laid off an average of 1.9 million workers per month. One year later, in January 2009, 2.6 million workers were laid off. January 2010 saw a return to 1.9 million workers being laid off. Layoffs, therefore, have returned to pre-recession levels.³¹ However, private sector hiring has not followed a similar path.



At the end of 2007, the private sector averaged 5.2 million new hires per month. Two years later, in January 2010, the level of monthly new hires had dropped to 4.1 million.³² As the chart below shows, while layoffs have returned to pre-recession rates, private sector hiring remains far below its January 2007 level despite the injection of massive stimulus funding into the economy. In direct contrast to the President's claims, the stimulus bill has not had a positive impact on either the number of private sector new hires or creating the conditions necessary for companies to hire again.

Conclusion: the American People are Right about the Impact of the Stimulus

Fourteen months after its passage, the Obama Administration and many Congressional Democrats have celebrated the stimulus package as a sensational success. Using outdated and flawed economic models and continually shifting the goal posts from the creation of millions of new jobs to unverifiable declarations that even more jobs would have been lost without the

³⁰ *Id.*

³¹ James Sherk, "The Cause of High Unemployment: Still Due to Dwindling Job Creation," The Heritage Foundation. March 24, 2010. Available at http://www.heritage.org/Research/Reports/2010/03/The-Cause-of-High-Unemployment-Still-Due-to-Dwindling-Job-Creation#_ftn7.

³² *Id.*

stimulus, the Administration has continued to ignore all evidence that proves both the fallacy of its economic models and the folly of its economic policies.

The American people simply do not believe the hype. They have compared the claims they are hearing from the Administration with the reality that they are experiencing every day – unemployment hovering near 10 percent, massive and continuing job losses, new jobs for government workers while the private sector hiring remains far below its pre-recession levels – and have rightfully come to the conclusion that, despite what the Administration says, the nearly trillion dollar stimulus has failed to generate substantial job creation or economic growth.

About the Committee

The Committee on Oversight and Government Reform is the main investigative committee in the U.S. House of Representatives. It has authority to investigate the subjects within the Committee's legislative jurisdiction as well as "any matter" within the jurisdiction of the other standing House Committees. The Committee's mandate is to investigate and expose waste, fraud and abuse.

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