



Joint Economic Committee

Representative Kevin Brady • Chairman

REPUBLICAN STAFF ANALYSIS

ARRA's Five Year Anniversary

Reviewing the Performance of the American Recovery & Reinvestment Act

February 18, 2014

Introduction

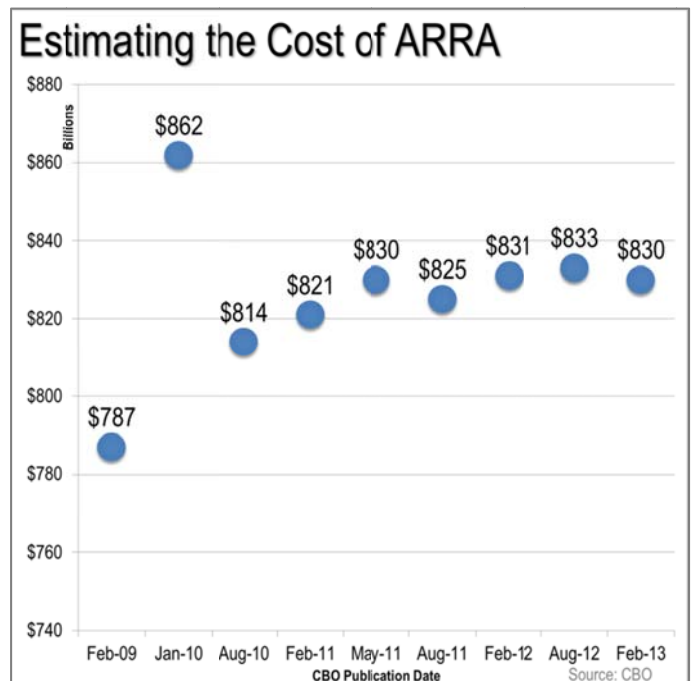
President's Day, February 17th, 2014, marked the fifth anniversary of the American Recovery and Reinvestment Act (ARRA). The economy has achieved prerecession levels in several important broad measures, including real gross domestic product (GDP), real consumer spending, real personal income, real consumer credit and net exports. Payroll employment continues its painfully slow pace towards pre-recession levels. However, there are many underlying indicators that prove worrisome in the aftermath of the Great Recession and mount further concern of the persisting "Growth Gap." The current data suggest that stimulus was not very effective.

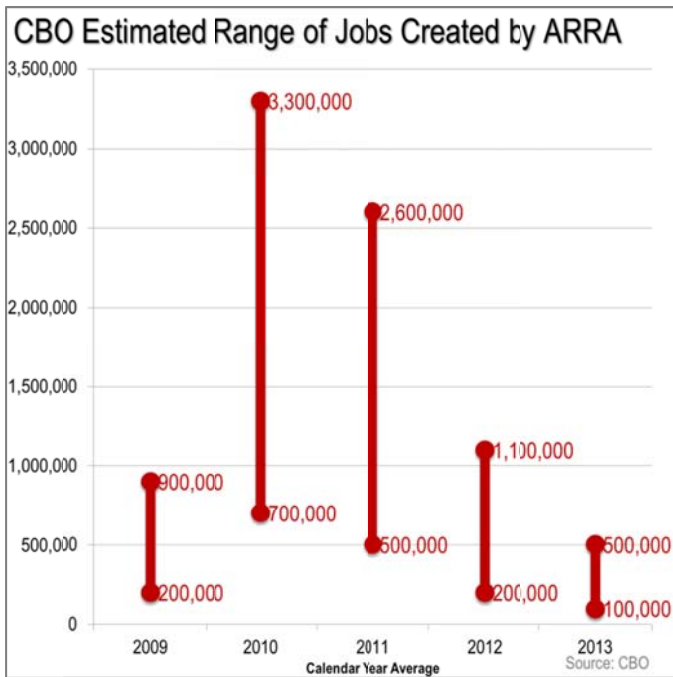
Furthermore, as noted by Harvard economist Larry Summers in testimony before the Joint Economic Committee, "a stimulus program should be timely, targeted and temporary."¹ It was also how the Obama Administration marketed ARRA. Despite this recovery ranking as the slowest post-1960 recovery, it is important to review whether or not ARRA achieved the targets that it intended. Was it timely, targeted, and temporary? A look back over the past five years should help answer that question.

Measuring the Cost Effectiveness of Stimulus

The Congressional Budget Office (CBO) has provided a number of estimates over the years of how much ARRA actually cost. The number ranged between the initial \$787 billion to as high as \$862 billion, before the CBO finally settled on \$830 billion in February 2013.

Though the CBO tracks the cost of the stimulus, measuring its effectiveness is not so easy. It is important to remember that the CBO's estimates of jobs saved or created are exactly that—estimates, not actual data. Accurately measuring jobs saved as a result of ARRA, let alone created, is quite difficult if not impossible. So the same general mathematical models with spending multipliers are applied to ARRA spending to date in order to estimate ARRA's effects on output and employment for the quarterly reports to determine the estimates.² The CBO estimates that ARRA increased the number of people employed by a rather large range for each year between 2009 and 2013.



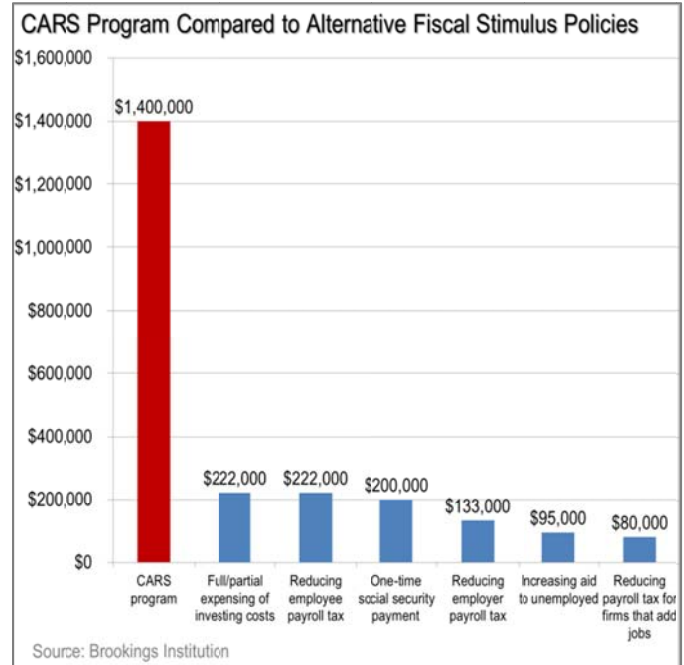


Even if the best estimates of each year are added together, 8.4 million jobs created or saved is \$98,810 per job. In the worst case scenario, which amount to 1.7 million jobs, the cost is \$488,235 per job.

Alternatively, CBO estimates more than 90 percent of ARRA’s budgetary impact was realized by the end of December 2012. Using 90 percent of the latest \$830 billion cost estimate and generously assuming that the net number of total nonfarm payroll jobs created through December 2012 was affected by ARRA, then between February 2009 and through December 2012, 1.8 million jobs were created at \$417,551 per job. These estimates are similar to the findings from researchers at Dartmouth published in NBER that found a cross state analysis suggests one additional job created by ARRA cost \$107,000; however, a time series analysis at the state level “suggests a smaller response with a per job cost of about \$400,000.”³

Additionally, research from the Mercatus Center found that just 42.1 percent of workers hired at ARRA-recipient organizations after Jan 31, 2009 were unemployed at the time of hire, and 47.3 percent were previously employed elsewhere when hired, suggesting a roughly even split between “job creating” and “job switching.”⁴

Furthermore, the past five years revealed a plethora of cases of “stimulus waste,”⁵ including \$500 million spent to define, promote, and train individuals for “green jobs,” which helped a mere 38 percent of the program’s target of more than 81,000 jobs; nearly half of the targeted participants already had jobs.⁶ However, there were many more cases that could fall under “success at all costs.” For example, a study on the stimulus funds spent on extending broadband to rural areas that had unserved households amounted to \$349,234 per unserved household—households whose median household income fell between \$40,000 and \$51,000 with median home prices between \$94,000 and \$189,000.⁷ According to the Brookings Institution, the “Cash for Clunkers” program cost as much as \$1.4 million per job created, a sum many times over alternative stimulus policies.⁸



Over the long term, the CBO estimates long run costs of ARRA will reduce GDP by between zero and 0.2 percent after 2016. ARRA’s long-run effect will result from the increase in government debt, as each dollar of additional debt crowds out about one-third of a dollar of private domestic capital. Other research from the Mercatus Center has found that federal grants like ARRA (which awarded more than \$200 billion in additional grants to states) can actually increase state and local taxes, creating a “permanent ratchet” in the size of state and local governments. They find that for the long-run impact of a

\$1 federal grant, states must increase their total own-source revenue by \$0.42 and total tax revenue by \$0.33.⁹

While it is not possible to know what would've happened in absence of ARRA, compared to the average of other recoveries, the growth gap remains large. Compared to the 19.9 percent average of post-1960 recoveries, the current recovery falls far below, with real GDP growth of a mere 11.2 percent. If the current recovery had been merely average, GDP would be greater by \$1.25 trillion.

Timely, Temporary and Targeted?

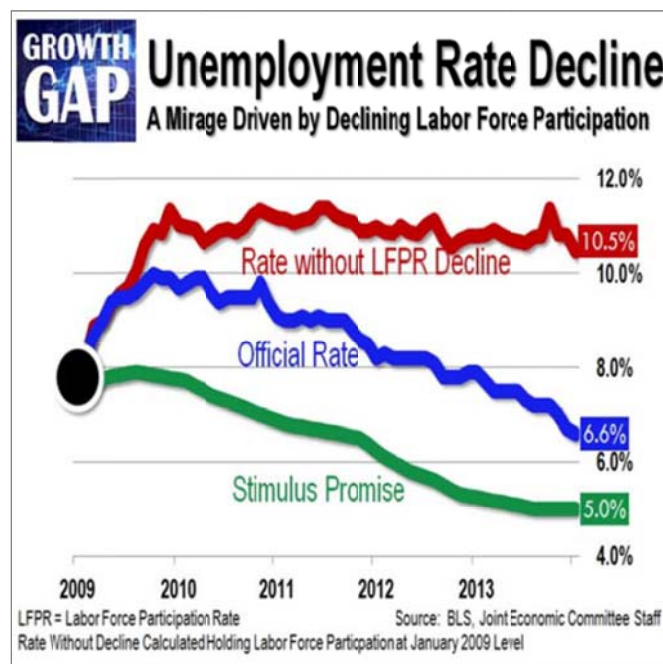
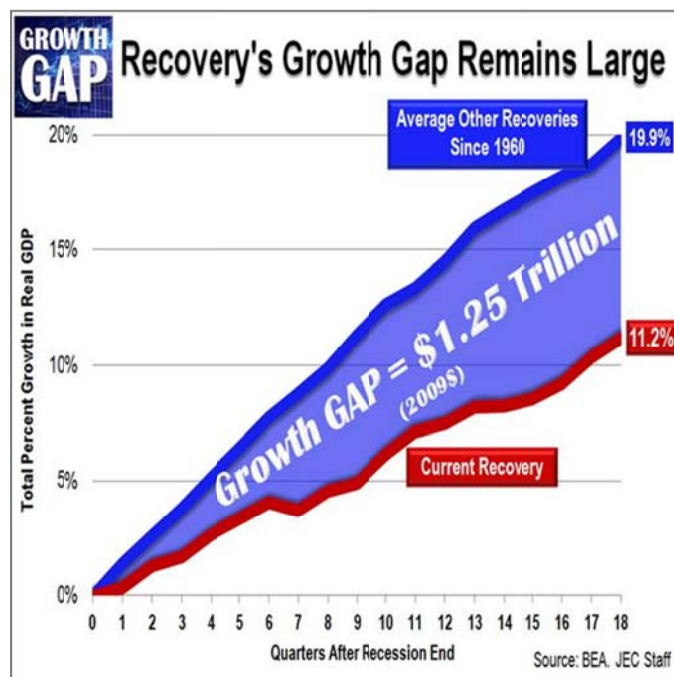
In terms of timeliness, nearly 60 percent of ARRA was spent through fiscal year 2011 and 90 percent through December 2012, but the remaining 10 percent of ARRA funds were still being spent through 2013, four years later.¹⁰ State and local government responsible for disseminating their portion of ARRA funds were pressed for time with limited resources for oversight and speed of distribution. The

Government Accountability Office notes that ARRA was measured mostly on outputs rather than outcomes, and found challenges with both existed.¹¹ In addition, recipients of ARRA spending programs, such as energy efficiency programs or funds to hire workers, complained of ARRA's detailed paperwork and rigorous reporting requirements, which cost time and resources.¹²

With regard to whether or not ARRA was temporary remains to be seen, and is subjective depending on what length of time 'temporary' is; some ARRA programs are only beginning to wind down. For example, the temporary expansion of Supplemental Nutrition Assistance Program benefits expired in November 2013, totaling \$45.2 billion. The emergency extension of unemployment benefits only recently expired, and it remains to be seen if it stays that way.

Additional research from the Federal Reserve Bank of New York looked into whether the stimulus was targeted and found that the expanded assistance to the unemployed was highly correlated with state unemployment rates, and most other state allocations had little association either positively or negatively with state unemployment rates.¹³

Not only was stimulus generally unsuccessful at achieving timeliness, temporariness, and accuracy, it failed when measured against the projected data in the Christina Romer and Jared Bernstein paper.¹⁴ The official unemployment rate doesn't come close to how off the track the projections were. As the Romer and Bernstein forecast ends at the first quarter of 2014, if we used the December 2013 jobless rate with the 2009 labor force participation rate, the jobless rate



would've been 10.8 percent instead of 6.7 percent. Even when using the CBO's 2008 forecast for 2013 labor force participation, which took into account estimated demographic changes, the December 2013 jobless rate would have been 10.1 percent.¹⁵ As for the January 2014 jobless rate, had the 2009 labor force participation rate remained the same, the jobless rate would be 10.5 percent. In addition, the drop in employment participation of prime working age (ages 25-54) individuals and the percent of unemployed workers that are long-term unemployed remain worrisome issues for future economic growth and Americans' well-being.

Conclusion

This coming June will mark the fifth year into what has been an excruciatingly slow recovery. Though some individual programs may have achieved the Keynesian standard of being timely, temporary and targeted, over the past five years, ARRA as a whole has failed to meet the standards set in place by the Obama Administration. While it is not possible to have known the outcome in absence of ARRA, it is plain to see that many of the programs implemented were costly without much "bang for the buck." What remains is a substantial increase in federal debt and a weak economy, neither of which appear to have a resolution on the horizon. The CBO has expressed increasing concern for a fiscal crisis,¹⁶ which when paired with a recent report noting that lower labor force participation will slow economic growth,¹⁷ could have dire consequences sooner than anticipated. Until policymakers can unite on real reforms, increasing invasive regulatory action, a cumbersome tax code and federal spending as a percent of GDP will all but ensure a "new normal" of slow growth.

¹ Lawrence H. Summers, "Fiscal Stimulus Issues," testimony before the Joint Economic Committee, January 16, 2008,

http://larrysummers.com/wp-content/uploads/2012/10/1-16-08_Fiscal_Stimulus_Issues.pdf

² "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2012 Through December 2012," Congressional Budget Office, February 2013, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/43945-ARRA.pdf>

³ James Feyrer and Bruce Sacerdote, "Did the Stimulus Stimulate? Effects of the American Recovery and Reinvestment Act," NBER, June 21, 2012, http://www.dartmouth.edu/~bsacerdo/Stimulus2012_06_21.pdf

⁴ Garrett Jones and Daniel M. Rothschild, "Did Stimulus Dollars Hire the Unemployed? Answers to Questions about the American Recovery and Reinvestment Act," Mercatus Center at George Mason University, September 2011,

http://mercatus.org/sites/default/files/publication/Did_Stimulus_Dollars_Hire_The_Unemployed_Jones_Rothschild_WP34.pdf

⁵ Sen. Tom Coburn, M.D., "100 Stimulus Projects: A Second Opinion," United States Senate, June 2009,

http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=59af3ebd-7bf9-4933-8279-8091b533464f

⁶ "Recovery Act: Green Jobs Program Reports Limited Success in Meeting Employment and Retention Goals as of June 30, 2012," U.S. Department of Labor, October 25, 2012, <http://oversight.house.gov/wp-content/uploads/2012/10/6-30-12-Report-on-Recovery-Act-Green-Jobs.pdf>

⁷ Nick Schulz, "How Effective Was the 2009 Stimulus Program?" Forbes, July 5, 2011,

<http://www.forbes.com/sites/nickschulz/2011/07/05/how-effective-was-the-2009-stimulus-program/>

⁸ Ted Gayer and Emily Parker, "Cash for Clunkers: An Evaluation," Brookings Institution, October 30, 2013,

<http://www.brookings.edu/research/interactives/2013/cash-for-clunkers-gayer>

⁹ Russell S. Sobel and George R. Crowley, "Ratcheting Taxes," Mercatus Center at George Mason University, October 2010,

http://mercatus.org/sites/default/files/publication/Do%20Intergovernmental%20Grants.MoP_Sobel_10.25.pdf

¹⁰ Douglas W. Elmendorf, "The Accuracy of CBO's Budget Projections," Congressional Budget Office, March 25, 2013,

<http://www.cbo.gov/publication/44017>

¹¹ "Recovery Act: Grant Implementation Experiences Offer Lessons for Accountability and Transparency," Government Accountability Office, January 2014, <http://www.gao.gov/assets/670/660353.pdf>

¹² Garrett Jones and Daniel M. Rothschild, "No Such Thing as Shovel Ready: The Supply Side of the Recovery Act," Mercatus Center at George Mason University, September 2011, http://www.realclearmarkets.com/blog/No_such_thing_as_shovel_ready_WP1118%5B1%5D.pdf

¹³ James Orr and John Sporn, "The American Recovery and Reinvestment Act of 2009: A Review of Stimulus Spending in New York and New Jersey," *Current Issues* Vol. 18, No. 6, Federal Reserve Bank of New York, 2012, http://www.newyorkfed.org/research/current_issues/ci18-6.pdf

¹⁴ Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Act," January 9, 2009,

http://otrans.3cdn.net/45593e8ecbd339d074_l3m6bt1te.pdf

¹⁵ James Pethokoukis, "That Bernstein-Romer jobs chart: A final appraisal," AEIdeas, January 10, 2014, <http://www.aei-ideas.org/2014/01/that-bernstein-romer-jobs-chart-a-final-appraisal/>

¹⁶ Douglas W. Elmendorf, "The Budget and Economic Outlook: 2014 to 2024," testimony before the Senate Budget Committee, February 11, 2014, http://www.cbo.gov/sites/default/files/cbofiles/attachments/45098-Testimony_Senate.pdf

¹⁷ "The Budget and Economic Outlook: 2014 to 2024," Congressional Budget Office, February 2014,

<http://cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014.pdf>