Memorandum

TO: House Republican Leader John Boehner

FROM: Allan Meltzer, Professor of Political Economy, Carnegie Mellon University

DATE: Friday, October 30, 2009

RE: Administration Stimulus Job Claims – Putting Fiction Before Fact

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The Obama Administration's latest report on jobs allegedly saved or created by the stimulus package should be viewed with more than just a healthy dose of skepticism, and below is an explanation of why.

Jobs Saved?

There is no greater recognition of the failure of the stimulus program to create jobs than the efforts to mislead the public into believing the program had saved thousands, or millions, of jobs. One can search economic textbooks forever without finding a concept called "jobs saved." It doesn't exist for good reason: how can anyone know that his or her job has been saved?

The Administration can make up any number it pleases. The number has no meaning. The Council of Economic Advisers gets a number for jobs saved using the same model that Dr. Christina Romer and Jared Bernstein used when they forecast that the $787 stimulus program would keep the worst unemployment rate in this recession at about eight percent. But as we all know, since that bill became law, our economy has shed some three million jobs and the unemployment rate is nearing double digits.

Did the Stimulus Bring Recovery?

It is a mistake to credit the stimulus with some of the positive economic signs we are seeing. Many other changes have been at work. Monetary policy has remained highly expansive. The "clunker" program paid buyers to shift future purchasers into the present. The $8,000 tax credit increased housing purchases in the third quarter because the credit expired. Any first time buyer planning to purchase a home had to use the credit or take the chance it would not be renewed. Neither the clunker program nor monetary policy is part of the stimulus program.

Much of the stimulus spending has not been made. Further the stimulus offered a temporary tax cut. Economic theory and past experience warn that temporary tax cuts have very little effect. Permanent tax cuts – the Kennedy-Johnson and Reagan tax cuts – had big effects because they were permanent and because they lowered marginal tax rates.

Much of the stimulus went to reduce state and local government deficits. That simply transferred the deficit from the states to the federal government. Not much stimulus there.