

# Background

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## Obama's Plan to "Create or Save" Jobs: A Promise Unfulfilled

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President Barack Obama has repeatedly claimed that his economic stimulus bill will "create or save" 3.5 million new jobs by 2011, including 600,000 jobs "created or saved" by the end of this summer. It is impossible to hold the President accountable to these promises because there is no way of measuring "jobs saved." However, the Bureau of Labor Statistics (BLS) does closely monitor the state of the labor market, including job creation, job-loss rates, and the total number of hours worked.

Job losses will slow and unemployment will stabilize at some point in the business cycle—the economy will not continue to lose hundreds of thousands of jobs a month indefinitely. For the Obama Administration to claim credit for creating and saving jobs, the labor market should have already started to show signs of real improvement. This has not happened. Since President Obama signed the stimulus bill, job creation has hit new lows and the total number of hours that employees work has continued to fall. The data do not support the President's claim that the stimulus has "created or saved" jobs.

### Meaningless Promise

The economy has continued to deteriorate since President Obama took office. In response, President Obama campaigned for, and won enactment of, a massive \$787 economic stimulus bill, primarily composed of new spending on traditional liberal priorities. The President has promised that this stimulus will "create or save" 3.5 million new jobs by the end of 2010.<sup>1</sup> The President recently reiterated that promise,

### Talking Points

- President Obama has repeatedly claimed that his economic stimulus bill will "create or save" 3.5 million new jobs by 2011, including 600,000 jobs "created or saved" by the end of this summer.
- It is impossible to hold the President accountable to these promises because there is no way of measuring "jobs saved."
- Job losses will slow and unemployment will stabilize at some point in the business cycle—the economy will not continue to lose hundreds of thousands of jobs a month indefinitely. For Obama to claim credit for creating and saving jobs, the labor market should have already started to show signs of real improvement.
- The job-creation rate among private-sector employers will have to increase before employment begins rising again.
- Redirecting resources toward special-interest priorities through massive government spending does not stimulate job creation; it merely crowds out private-sector investment.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Economy/bg2305.cfm](http://www.heritage.org/Research/Economy/bg2305.cfm)

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claiming that the stimulus bill had already created or saved 150,000 new jobs and would create or save another 600,000 jobs by the end of the summer.<sup>2</sup>

The President's calculation of 150,000 new jobs comes from estimates by his economic advisers that assume that every dollar of new government spending will boost the gross domestic product and create new jobs. These estimates are unreliable at best, as demonstrated by the fact that the authors would not vouch for their accuracy. The President's advisers note that:

It should be understood that all of the estimates presented in this memo are subject to significant margins of error .... Our estimates of economic relationships and rules of thumb are derived from historical experience and so will not apply exactly in any given episode. Furthermore, the uncertainty is surely higher than normal now because the current recession is unusual both in its fundamental causes and its severity.<sup>3</sup>

Such a tepid defense hardly inspires great confidence—let alone supports the claim that the stimulus will “create or save” 600,000 jobs by the end of the summer.

Analysts have also criticized the promise to create or save millions of jobs as being deliberately amorphous.<sup>4</sup> While the Bureau of Labor Statistics measures job creation in great detail, no government statistics measure “jobs saved.” In order to measure how many jobs a policy has saved, the BLS would have to know how many jobs would have been lost had that policy not been enacted. This involves assumptions about alternative futures that are not knowable. No matter how many jobs are lost, the

President can claim that the recession would have cost 3.5 million *more* jobs without his policies. No one can prove otherwise. The President has knowingly chosen a metric that cannot be verified and—for which he, therefore, cannot be held accountable.

### Tracking Jobs

While it is impossible to measure how many jobs the stimulus bill “saved,” the BLS does measure job-creation rates, job-loss rates, and the total number of hours employees work.

The fact that the labor market will stabilize as the recession eases does not mean that the Administration can then justifiably claim the stimulus bill improved the labor market. In order to credit the stimulus bill with improving the economy, these labor market indicators should show real improvement in the near future.

The rule of thumb that forms the basis for the President's claims says that increasing government spending by one percentage point of gross domestic product (GDP) creates one million new jobs.<sup>5</sup> The government spent \$56 billion of the stimulus by the end of June 2009, with billions more already obligated for expenditure. The President's estimates that justified the stimulus imply that this spending should have created 400,000 new jobs.<sup>6</sup> If these estimates are correct, these jobs should be reflected in the data as higher job-creation rates, lower job-loss rates, and longer hours worked.

### Job Creation Continues to Drop

President Obama claimed that the stimulus would create jobs and two BLS surveys shed light on job-creation rates. The Current Population Survey (CPS) shows the proportion of unemployed

1. Associated Press, “Stimulus Plan Will Create or Save 3.5 Million Jobs, White House Says,” May 11, 2009, at [http://www.cleveland.com/business/index.ssf/2009/05/stimulus\\_plan\\_will\\_create\\_or\\_s.html](http://www.cleveland.com/business/index.ssf/2009/05/stimulus_plan_will_create_or_s.html) (July 17, 2009).
2. Doug Palmer, “Obama Speeds Projects to Create, Save 600,000 Jobs,” Reuters, June 8, 2009, at <http://www.reuters.com/article/marketsNews/idUSN083333820090608> (July 17, 2009).
3. Christina Romer and Jared Bernstein, “The Job Impact of the American Recovery and Reinvestment Plan,” January 9, 2009, p. 2, at [http://otrans.3cdn.net/45593e8ecbd339d074\\_l3m6bt1te.pdf](http://otrans.3cdn.net/45593e8ecbd339d074_l3m6bt1te.pdf) (July 17, 2009).
4. “Media Fall for Phony ‘Jobs’ Claims,” *The Wall Street Journal*, June 10, 2009, at <http://online.wsj.com/article/SB124451592762396883.html> (July 17, 2009).
5. Romer and Bernstein, “The Job Impact of the American Recovery and Reinvestment Plan,” p. 3.
6. The government had paid out \$56 billion of the stimulus bill by June 26, 2009—0.40 percent of the \$14.09 trillion economy.

workers who find a job each month—the job-finding rate for the unemployed.<sup>7</sup> The Job Opportunities and Labor Turnover Survey (JOLTS) shows the proportion of workers starting at a new job each month. It reveals how many total new jobs employers create and includes the unemployed who find jobs, workers who switch jobs, and workers who re-enter the labor force. Chart 1 shows rates since the recession began in December 2007.

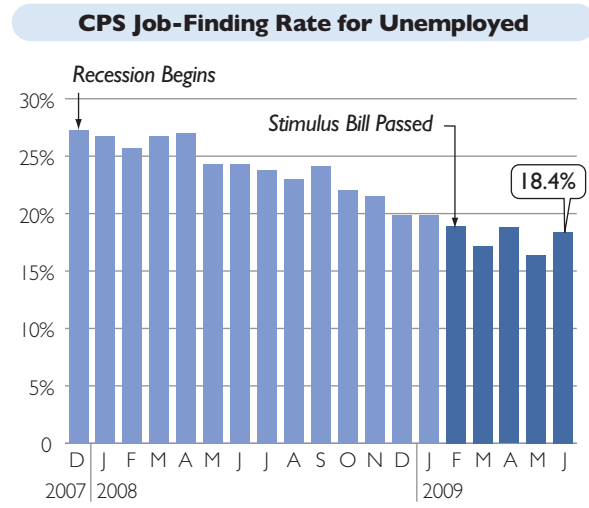
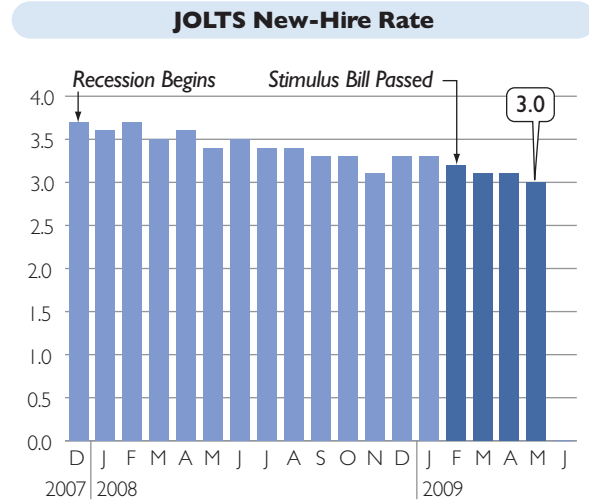
Chart 1 explains why unemployment has risen so rapidly: Job creation has fallen sharply since the recession began. At the start of the recession, over one-quarter of unemployed workers found a new job each month. By June 2009, that figure had fallen to below one-sixth.

Employers and businesses have cut back sharply on investment. Equipment and software investment has fallen by one-fifth since the recession began.<sup>8</sup> In the current economic climate, many businesses and investors have retrenched, holding off on non-essential projects until they are more confident they will recoup their investment. With less investment, employers are creating fewer jobs, making it more difficult for the unemployed to find new work. Employment will not increase to previous levels until businesses and investors resume risk-taking and entrepreneurship.

The stimulus bill will not promote such job-creating investment. Spending hundreds of billions of dollars on federal projects does little to increase private-sector entrepreneurship. The prospect of steep tax hikes to fund this excessive spending also discourages wealth creation.

Since President Obama signed the stimulus bill into law in February, the job creation rate has decreased. In February 18.9 percent of the unemployed workers found jobs and 3.2 percent of all workers started at a new job. By May 2009, the new-hire rate had fallen to 3.0 percent—the lowest

## Job Creation Since the Recession



Source: Heritage Foundation calculations based on data from the Department of Labor, Bureau of Labor Statistics/Haver Analytics.

Chart 1 • B 2305 [heritage.org](http://heritage.org)

level recorded since the BLS began the JOLTS survey in 2000.<sup>9</sup> In June 2009, the job-finding rate for

7. For example, this rate is the number of workers with jobs who were unemployed in the previous month divided by the total number of unemployed workers in the previous month. Note that CPS data contain a serious limitation when used to measure labor flows: The CPS does not follow individuals when they move. So the CPS does not record unemployed individuals moving to take a new job. These individuals simply fall out of the sample and are ignored. Consequently, the JOLTS data provide more reliable estimates of changes in hiring rates, although the CPS also provides useful insight.

8. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, “Table 5.3.6. Real Private Fixed Investment by Type, Chained Dollars,” July 17, 2009.

the unemployed stood at 18.4 percent. The stimulus bill simply has not promoted job creation.

## Layoffs Still High

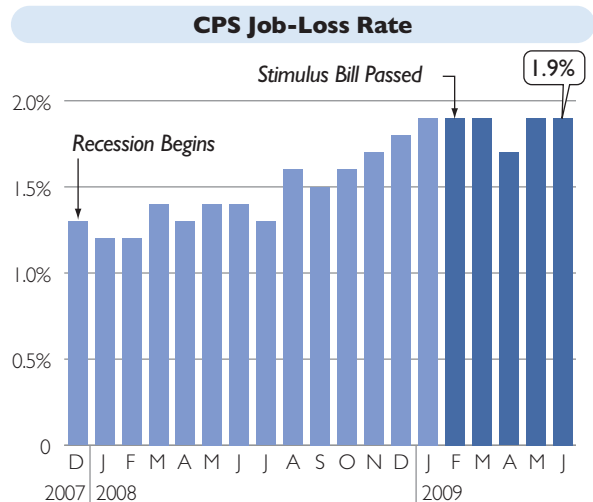
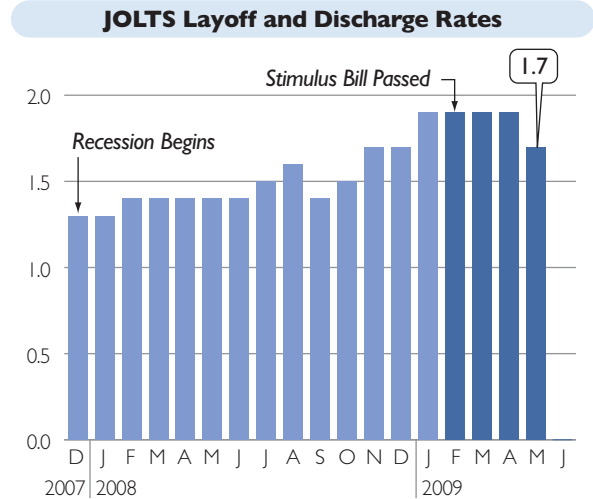
President Obama also claims that the stimulus will “save jobs,” while both the CPS and JOLTS surveys report job-loss rates. CPS data show the proportion of employed workers that lose their job and become unemployed each month.<sup>10</sup> JOLTS reports the proportion of workers laid off or discharged each month. Chart 2 reports both job-loss measures.

Both measures show that job-loss rates increased sharply since the start of the recession and have remained high since President Obama signed the stimulus bill. JOLTS provides some evidence that layoffs have decreased, showing that in February, 1.9 percent of workers involuntarily left their jobs. By May 2009, that figure fell slightly to 1.7 percent. The CPS data show no improvement, reporting that 1.9 percent of workers employed in January 2009 lost their jobs in February—a figure unchanged in June.<sup>11</sup> Both data sources show that, despite the President’s pledge to “save” jobs, job losses have—at best—slowed only slightly since the stimulus became law.

## Fewer Hours

Employers who are cutting back on labor costs may lay workers off. They may also reduce employees’ working hours. Many employers have adopted the second approach. While layoff rates have slightly improved, the latest data show that employers are cutting back hours. Chart 3 shows the length of the average work week and an index of the aggregate hours worked. Both have fallen sharply since the recession began at the end of 2007 and that the decline has continued unabated since the stimulus was enacted. This past June, the employment survey reported that the average number of weekly hours worked had fallen to its lowest record level in the survey’s 45 years of existence.

## Job-Loss Rates Since the Recession



Source: Heritage Foundation calculations based on data from the Department of Labor, Bureau of Labor Statistics/Haver Analytics.

Chart 2 • B 2305 [heritage.org](http://heritage.org)

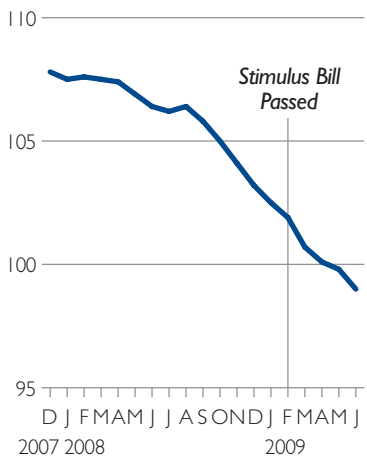
## Pro-Growth Policies Needed

The job-creation rate among private-sector employers will have to increase before employment

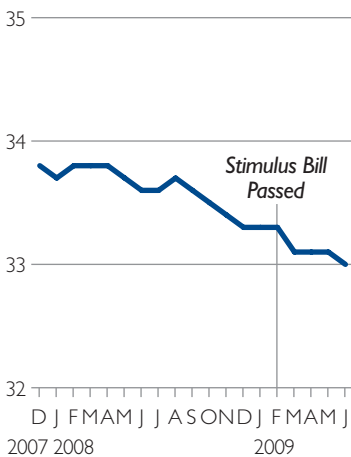
9. May 2009 is the most recent month of JOLTS data at the time of the writing of this paper.
10. That is the number of currently unemployed workers who had a job in the previous month divided by the total number of employed workers in the previous month.
11. The surveys report different results for two reasons: (1) They are separate surveys using different methodologies, and (2) not all workers who involuntarily lose their jobs become unemployed and look for new work. Some leave the labor force, such as retirees or parents who stay home with their children.

## Hours Worked Continue to Decline

Index of Aggregate Weekly Hours



Average Weekly Hours



Source: Heritage Foundation calculations based on data from the Department of Labor, Bureau of Labor Statistics/Haver Analytics.

Chart 3 • B 2305 [heritage.org](http://heritage.org)

begins rising again. If the job-creation rate had remained steady since the recession began, employers would have created 900,000 more jobs a month this year than they did. Instead of payrolls falling by 500,000 jobs, they would have grown by

400,000 jobs a month and the economy would now be gaining—not losing—jobs.

Redirecting resources toward special-interest priorities through massive government spending does not stimulate private-sector job creation. Instead, it crowds out private-sector investment.

While some want to change the current stimulus bill by trying to spend more quickly or even pass a new stimulus package, the 2009 stimulus bill shows that this would be a waste of money. Again. Instead, Congress should pass policies that encourage investment, risk-taking, and entrepreneurial activity. Congress should reduce regulatory barriers, make the 2001 and 2003 tax relief permanent, and cut unnecessary government spending.

Americans depend on it.

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