
Congressional Budget Office

Abstract
[Excerpt] The effects of ARRA on output peaked in the first half of 2010 and have since diminished, CBO estimates. The effects of ARRA on employment are estimated to lag slightly behind the effects on output; CBO estimates that the employment effects began to wane at the end of 2010 and continued to do so through 2013.

Although CBO has examined data on output and employment during the period since ARRA's enactment, those data are not as helpful in determining ARRA's economic effects as might be supposed because isolating the effects would require knowing what path the economy would have taken in the absence of the law. Because that path cannot be observed, the new data add only limited information about ARRA's impact.

Keywords
American Recovery and Reinvestment Act, ARRA, employment, economic output

Comments
Suggested Citation
In February 2009, in response to significant weakness in the economy, lawmakers enacted the American Recovery and Reinvestment Act (ARRA). The legislation’s numerous spending and revenue provisions can be grouped into several categories according to their focus:

- Providing funds to states and localities—for example, by raising federal matching rates under Medicaid, providing aid for education, and increasing financial support for some transportation projects;

- Supporting people in need—such as by extending and expanding unemployment benefits and increasing benefits under the Supplemental Nutrition Assistance Program (formerly the Food Stamp program);

- Purchasing goods and services—for instance, by funding construction and other investment activities that could take several years to complete; and

- Providing temporary tax relief for individuals and businesses—such as by raising exemption amounts for the alternative minimum tax, adding a new Making Work Pay tax credit, and creating enhanced deductions for depreciation of business equipment.

When ARRA was being considered, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation estimated that it would increase budget deficits by $787 billion between fiscal years 2009 and 2019. CBO now estimates that the total impact over the 2009–2019 period will amount to about $830 billion. By CBO’s estimate, close to half of that impact occurred in fiscal year 2010, and more than 95 percent of ARRA’s budgetary impact was realized by the end of December 2013.

Various recipients of ARRA funds (most recipients of grants and loans, contractors, and subcontractors) are required to report, after the end of each calendar quarter, the number of jobs funded through ARRA. The law also requires CBO to comment on those reported numbers.1

During calendar year 2013, recipients reported, ARRA funded an average of about 76,000 full-time-equivalent (FTE) jobs.2 Those reports, however, do not provide a comprehensive estimate of the law’s impact on U.S. employment, which could be higher or lower than the number of FTE jobs reported, for several reasons (in addition to any issues concerning the quality of the reports’ data).3 First, some of the jobs included in the reports might have existed even without the stimulus package, with employees working on the same activities


2. Data compiled from recipients’ reports (on jobs funded and other information) are shown at www.recovery.gov/arra/. Recipients were asked to calculate FTEs by taking the total number of hours worked in a quarter that were funded by ARRA and dividing the total by the number of hours that a full-time employee would have worked in that quarter.

or other activities. Second, the reports cover employers that received ARRA funding directly and those employers’ immediate subcontractors (the so-called primary and secondary recipients of ARRA funding) but not lower-level subcontractors. Third, the reports do not attempt to measure the number of jobs that were created or retained indirectly as a result of recipients’ increased income, and the increased income of their employees, which could boost demand for other products and services as they spent their paychecks. Fourth, the recipients’ reports cover only certain ARRA appropriations, which encompass about one-fifth of the total either spent by the government or conveyed through tax reductions in ARRA; the reports do not measure the effects of other provisions of the stimulus package, such as tax cuts and transfer payments (including unemployment insurance payments) to individual people.

Estimating the law’s overall effects on employment requires a more comprehensive analysis than can be achieved by using the recipients’ reports. Therefore, looking at recorded spending to date along with estimates of the other effects of ARRA on spending and revenues, CBO has estimated the law’s impact on employment and economic output using evidence about the effects of previous similar policies and drawing on various mathematical models that represent the workings of the economy. On that basis, and as summarized in Table 1, CBO estimates that ARRA’s policies had the following effects in calendar year 2013 compared with what would have occurred otherwise:

- They increased the number of people employed by between 0.1 million and 0.5 million, and
- They increased the number of full-time-equivalent jobs by 0.1 million to 0.5 million.

The effects of ARRA on output peaked in the first half of 2010 and have since diminished, CBO estimates. The effects of ARRA on employment are estimated to lag slightly behind the effects on output; CBO estimates that the employment effects began to wane at the end of 2010 and continued to do so through 2013.

Although CBO has examined data on output and employment during the period since ARRA’s enactment, those data are not as helpful in determining ARRA’s economic effects as might be supposed because isolating the effects would require knowing what path the economy would have taken in the absence of the law. Because that path cannot be observed, the new data add only limited information about ARRA’s impact.

### Measuring ARRA’s Impact Using Recipients’ Reports

ARRA requires primary and secondary recipients of more than $25,000 from appropriations made under the law to report a variety of information each calendar quarter. That group includes most grant and loan recipients, contractors, and subcontractors, but it excludes individual people. The information to be submitted includes the amount of funding received and spent; the name, description, and completion status of the project or activity funded; the number of jobs funded; and, for investments in infrastructure, the purpose and cost of the investment. Recipients who filed reports in 2013 reported the number of jobs on the basis of the number of employee hours paid for with ARRA funds.5

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5. Specifically, recipients were instructed to calculate the number of FTE jobs funded through ARRA by counting the total number of hours worked that were funded by ARRA during the fourth quarter, divided by the number of hours in a full-time schedule for a quarter. For details and examples, see Office of Management and Budget, “Recovery FAQs for Federal Contractors on Reporting” (accessed February 19, 2014), [http://go.usa.gov/BwZY](http://go.usa.gov/BwZY).
Table 1.

Change Attributable to ARRA

<table>
<thead>
<tr>
<th>Calendar Year Quarters</th>
<th>Real Gross Domestic Product (Percent)</th>
<th>Unemployment Rate (Percentage points)</th>
<th>Employment Years (Millions, annualized)</th>
<th>Full-Time-Equivalent Employment Years (Millions, annualized)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low Estimate</td>
<td>High Estimate</td>
<td>Low Estimate</td>
<td>High Estimate</td>
</tr>
</tbody>
</table>

2009

Q1  *           0.1     *          *          *          *          *          0.1
Q2  0.4         1.3      -0.1       -0.3        0.1        0.5        0.2        0.7
Q3  0.6         2.4      -0.2       -0.6        0.3        1.1        0.4        1.7
Q4  0.7         3.3      -0.2       -1.0        0.5        1.9        0.7        2.7

2010

Q1  0.9         4.3      -0.3       -1.5        0.6        2.7        0.9        3.9
Q2  0.8         4.6      -0.4       -1.8        0.7        3.4        1.0        4.8
Q3  0.7         4.1      -0.4       -2.0        0.7        3.6        1.0        5.1
Q4  0.6         3.5      -0.3       -1.9        0.6        3.5        0.9        4.9

2011

Q1  0.6         3.2      -0.3       -1.8        0.6        3.3        0.8        4.6
Q2  0.4         2.5      -0.3       -1.6        0.5        2.9        0.7        4.0
Q3  0.3         2.0      -0.2       -1.3        0.4        2.4        0.5        3.3
Q4  0.2         1.5      -0.2       -1.1        0.3        2.0        0.4        2.6

2012

Q1  0.1         1.0      -0.1       -0.8        0.2        1.5        0.3        1.9
Q2  0.1         0.8      -0.1       -0.6        0.2        1.2        0.2        1.4
Q3  0.1         0.7      -0.1       -0.5        0.2        0.9        0.2        1.0
Q4  0.1         0.6      -0.1       -0.4        0.1        0.8        0.1        0.8

2013

Q1  0.1         0.5      -0.1       -0.3        0.1        0.6        0.1        0.6
Q2  0.1         0.4      *         -0.3        0.1        0.5        0.1        0.5
Q3  0.1         0.4      *         -0.3        0.1        0.5        0.1        0.4
Q4  *           0.3      *         -0.2        0.1        0.4        *         0.3

Calendar Year Average

| 2009 | 0.4 | 1.8 | -0.1 | -0.5 | 0.2 | 0.9 |
| 2010 | 0.7 | 4.1 | -0.4 | -1.8 | 0.7 | 3.3 |
| 2011 | 0.4 | 2.3 | -0.2 | -1.4 | 0.5 | 2.6 |
| 2012 | 0.1 | 0.8 | -0.1 | -0.6 | 0.2 | 1.1 |
| 2013 | 0.1 | 0.4 | *    | -0.3 | 0.1 | 0.5 |

Source: Congressional Budget Office.

Note: * = Between -0.05 and 0.05.

a. A year of full-time-equivalent employment years is 40 hours of employment per week for one year.
According to those reports, about 76,000 full-time-equivalent jobs were funded by ARRA on average in 2013. However, the reported number of jobs funded is not a comprehensive measure of ARRA’s effect on overall employment or even of those provisions of ARRA for which recipients’ reports are required. The actual impact could, in principle, be significantly larger or smaller than the number of jobs reported.

If, for example, recipients’ reports include employment that would have occurred without ARRA, the impact on employment suggested by the reports could be too great. Some people whose employment was attributed to ARRA might have worked on other activities in the absence of the law—for example, a business might have bid on other projects if its resources had not been committed to projects funded by ARRA. In the case of government employees, state or local taxes might have been raised in the absence of ARRA funding (or transfer payments might have been reduced) to pay for some of the jobs that were counted as funded by ARRA.

Conversely, the reported figure could be too low because the reporting requirement is limited to primary and secondary recipients of funds and thus excludes lower-level recipients, such as subcontractors hired by a main subcontractor. Thus, if expenditures under ARRA led to increases in employment among lower-level subcontractors and vendors, those effects would be missed by the reports.

Recipients’ reports also do not include indirect effects that could increase or decrease the impact on employment. Among those effects are potential declines in employment in other businesses or economic sectors as demand shifts toward the recipients of ARRA funding—a phenomenon often called the “crowding out” effect of government policies. Conversely, spending under ARRA could lead to higher employment at companies that are not directly connected to that spending—for example, because of additional purchases made by people who would be unemployed were it not for ARRA funds. CBO estimates that, under current conditions, the indirect effects, on net, would tend to reinforce the direct effects for most of the range of their estimated magnitude.

Finally, the recipients’ reports reflect only about one-fifth of the total amount of spending increases or tax reductions that are attributable to ARRA’s provisions. The reports cover direct government purchases of goods and services, grants and loans to private entities, and some grants to states and localities, but they do not cover tax cuts or increases in transfer payments to individuals. The tax reductions and spending that are not covered by the recipients’ reports probably had substantial effects on purchases of goods and services and, therefore, on employment.

Measuring ARRA’s Impact Using Economic Models and Historical Data
CBO used various economic models and historical data to guide its estimate of the way in which output and employment are affected by increases in outlays and reductions in revenues under ARRA. CBO’s assessment is that different elements of ARRA (such as particular types of tax cuts, transfer payments, and government purchases) have had different effects on economic output per dollar of higher spending or lower tax receipts. Multiplying estimates of those per-dollar effects by the dollar amounts of each element of ARRA yields an estimate of the law’s total impact on output. To produce estimates of ARRA’s total impact on employment, CBO combined that estimate with estimates of how changes in output affect the unemployment rate and participation in the labor force.

CBO’s Modeling Approach
CBO used evidence from models and historical relationships to determine estimated “multipliers” for each of several categories of spending and tax provisions in ARRA, as shown in Table 2. Each multiplier represents the estimated direct and indirect effects on the nation’s output of a dollar’s worth of a given policy. Therefore, a provision’s multiplier can be applied to the budgetary cost of that provision to estimate its overall impact on output.

Direct effects consist of immediate (or first-round) effects on economic activity. Government purchases of goods and services directly add to the nation’s output, dollar for dollar. For reductions in taxes, increases in transfer payments, and increases in aid to state and local
governments, the size of the direct effect depends on the policy’s impact on the behavior of recipients. If someone receives a dollar in transfer payments and spends 80 cents (saving the other 20 cents), production increases over time to meet the additional demand generated by that spending, and the direct impact on output is 80 cents. Similarly, if a dollar in aid to a state government leads that government to spend 50 cents more on employees’ salaries (but causes no other changes in state spending or revenues, with the other 50 cents used to reduce borrowing or build up rainy-day funds), the direct impact on output is 50 cents.

CBO reviewed evidence on the responses of households, businesses, and governments to various types of tax cuts.

### Table 2.

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Estimated Output Multipliers</th>
<th>Major Provisions of ARRA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low Estimate</td>
<td>High Estimate</td>
</tr>
<tr>
<td>Purchases of Goods and Services by the Federal Government</td>
<td>0.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Transfer Payments to State and Local Governments for Infrastructure</td>
<td>0.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Transfer Payments to State and Local Governments for Other Purposes</td>
<td>0.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Transfer Payments to Individuals</td>
<td>0.4</td>
<td>2.1</td>
</tr>
<tr>
<td>One-Time Payments to Retirees</td>
<td>0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Two-Year Tax Cuts for Lower- and Middle-Income People</td>
<td>0.3</td>
<td>1.5</td>
</tr>
<tr>
<td>One-Year Tax Cut for Higher-Income People</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Extension of First-Time Homebuyer Credit</td>
<td>0.2</td>
<td>0.8</td>
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Continued
Table 2. Continued


<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Estimated Output Multipliers&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Major Provisions of ARRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Tax Provisions</td>
<td>Low Estimate: 0, High Estimate: 0.4</td>
<td>Deferral and Ratable Inclusion of Income Arising From Business Indebtedness Discharged by the Reacquisition of a Debt Instrument; Clarification of Regulations Related to Limitations on Certain Built-In Losses Following an Ownership Change; Recovery Zone Bonds; Qualified School Construction Bonds</td>
</tr>
<tr>
<td>Primarily Affecting Cash Flow</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Notes: Provisions affecting outlays (including refundable tax provisions) are identified by the same names used by CBO in its cost estimate for the conference agreement for H.R. 1, the American Recovery and Reinvestment Act of 2009 (February 13, 2009). Provisions affecting revenues—all of which are included in title I of the American Recovery and Reinvestment Act of 2009 (ARRA)—are identified by the names used in the Joint Committee on Taxation’s (JCT’s) estimate (see www.house.gov/jct/x-19-09.pdf).

The economic impact of three tax provisions with budgetary costs over $5 billion was analyzed using a different methodology, and their effects cannot easily be summarized by a multiplier. Those provisions were titled "Extend by Three Years the Placed-in-Service Date for Each Section 45 Qualified Facility" and "One-Year Extension of Special Allowance for Certain Property Acquired During 2009" in JCT’s estimate and "Health Information Technology" in CBO’s estimate. Some other provisions, with total budgetary costs of less than $7 billion, were included in the analysis but are not shown in the table.

AMT = alternative minimum tax.

<sup>a</sup> The output multiplier is the cumulative impact of spending under the provisions on gross domestic product over several quarters. The ranges shown in the table assume that the Federal Reserve is holding short-term interest rates about as low as possible and would not tighten monetary policy in response to a fiscal stimulus.

b. This provision is a reduction in taxes, but it is treated as having the same economic impact as transfer payments to individuals.

and transfer payments to estimate the size of those policies’ direct effects on output. For example:

- A one-time cash payment is likely to have less impact on a household’s purchases than is a longer-lasting change to disposable income because the one-time payment has a smaller effect on total lifetime disposable income.

- Increases in disposable income are likely to boost purchases more for lower-income than for higher-income households. That difference arises, at least in part, because a larger share of people in lower-income households cannot borrow as much money as they would wish in order to spend more than they do currently.

- Changes to corporate taxes that primarily affect after-tax profits on past investment generally have a smaller impact on output than do policies that alter the return from new investment.

Government policies also can have indirect effects that enhance or offset the direct effects. Direct effects are enhanced when, for example, a government policy creates jobs and those who are hired use their income to boost consumption. Direct effects also are enhanced when greater demand for goods and services prompts companies to increase investment to bolster their future production.

In the other direction, substantial government spending can cause a shift in resources (including employees) away from production in other businesses and sectors to government-funded projects. That indirect crowding-out effect could cause growth in employment among recipients of ARRA funding to be offset by declines in employment elsewhere in the economy. Increases in interest rates are one possible mechanism for such crowding out: Higher interest rates discourage spending on investment and on durable goods such as cars because they raise the cost of borrowing. However, because the Federal Reserve has kept short-term interest rates very low, that mechanism does not appear to have been an important factor in 2013. By another mechanism for crowding out, activities funded by ARRA could reduce production elsewhere in the economy if they used scarce materials or workers with specific skills, creating bottlenecks that hindered other activities. That effect, too, has probably been much smaller since ARRA was enacted than it might have been otherwise because of high unemployment and a large amount of unused resources (as well as the diversity of activities funded under ARRA).

In estimating the magnitude of indirect effects, CBO relied heavily on estimates from macroeconometric forecasting models, informed by evidence from other types of models, direct estimation using historical data, and ongoing review of relevant research.8

The multipliers are applied to outlays when they occur and to changes in taxes or transfer payments when they affect disposable income. CBO’s estimates, therefore, account for the different rates of spending for various types of appropriations and, similarly, for the timing of different tax cuts or transfer payments. In some cases, when different elements of a single provision were estimated to have different multipliers, the total cost of a provision was divided among more than one category. In those cases, the provision is shown in Table 2 in the category to which most of its budgetary cost applied. Provisions that affect outlays (including refundable tax credits) are identified by the same names used in CBO’s cost estimate for the conference agreement on ARRA.9 Provisions that affect revenues are identified by the names used in the revenue estimate prepared by the staff of the Joint Committee on Taxation for the same legislation.10

The estimates of ARRA’s effects on output were translated into estimates of the effects on the unemployment rate, total employment, and FTE employment in a series of steps. First, the impact on the output gap—the percentage difference between actual and potential output—was calculated.11 Next, the effect of the change in the output gap on the unemployment rate was estimated using the historical relationship between those two measures.12 Then, the effect of changes in the unemployment rate on the labor force was taken into account: If unemployment declines and the economic environment improves, discouraged workers and people who have chosen to pursue activities such as education rather than work will tend to return to the labor force. Together, the estimated effect on the unemployment rate and the effect on the labor force were used to estimate the impact on the number of people employed. The change in FTE employment was then estimated using the historical relationship between changes in hours per employed worker and changes in the gap between the unemployment rate and CBO’s estimate of the natural rate of unemployment.13 Because higher spending and lower taxes can affect output and employment for some time after they occur, the impact of ARRA on employment in 2013 depended partly on the law’s effect on spending and revenues in previous years.

A key advantage of the model-based approach used in this analysis is the ability to provide estimates of the total effects throughout the economy of the government

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11. Potential output is the maximum sustainable output of the economy.

12. Changes in the output gap affect unemployment gradually over several quarters. Initially, part of a rise in output shows up as higher productivity and hours per worker rather than as reduced unemployment.

13. The natural rate of unemployment is the rate that arises from all sources except cyclical fluctuations in economywide demand for goods and services.
spending, transfer payments, and tax cuts resulting from ARRA. By focusing on the net change in employment, that approach captures both the jobs created and the jobs retained as a result of ARRA.

A key disadvantage of the model-based approach is the considerable uncertainty about many of the economic relationships that are important in the modeling. Because economists differ on which analytical approaches provide the most convincing evidence about such relationships, they can reach different conclusions about those relationships. In addition, each study involves uncertainty about the extent to which the results reflect the true effects of a given policy or the effects of other factors. For those reasons, CBO provides ranges of estimates of ARRA’s economic effects that are intended to encompass most economists’ views and thereby reflect the uncertainty involved in such estimates.

Changes from CBO’s Previous Estimates of the Impact of ARRA
CBO’s estimates of the economic effects of ARRA are largely identical to those the agency published in February 2013. Changes to CBO’s estimates of the economic effects of ARRA in 2013 reflect small revisions to its previous estimates of the timing and magnitude of changes to federal spending as a result of ARRA. CBO’s estimate of the budgetary impact of ARRA over the 2009–2019 period is about the same as it was in February 2013.

ARRA’s Long-Run Effects
In contrast to its positive near-term macroeconomic effects, ARRA will reduce output slightly in the long run, CBO estimates—by between zero and 0.2 percent after 2016. But CBO expects that the legislation will have no long-term effects on employment because the U.S. economy will have a high rate of use of its labor resources in the long run.15

ARRA’s long-run impact on the economy will stem primarily from the resulting increase in government debt.16 To the extent that people hold their wealth in government securities rather than in a form that can be used to finance private investment, the increased debt tends to reduce the stock of productive private capital. In the long run, each dollar of additional debt crowds out about a third of a dollar’s worth of private domestic capital, CBO estimates. (The remainder of the rise in debt is offset by increases in private saving and inflows of foreign capital.) Because of uncertainty about the degree of crowding out, however, CBO’s range of estimates of ARRA’s long-run effects reflects the possibility that the extent of crowding out could be more or less than one-third of the added debt.

Over the long term, the output of the economy depends on the stock of productive capital, the supply of labor, and productivity. The less productive capital there is as a result of lower private investment, the smaller will be the nation’s output over the long run.

The effect of the crowding out of some private investment under ARRA will be offset somewhat by other factors. Some of ARRA’s provisions, including its funding for roads and highways, may add to the economy’s potential output in much the same way that private capital investment does. Others, including its funding of education, may raise long-term productivity by enhancing people’s skills. Still other provisions create incentives for increased private investment. According to CBO’s estimates, the provisions that potentially add to long-term output account for between one-fifth and one-quarter of ARRA’s budgetary cost.

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15. The reduction in GDP is therefore estimated to be reflected in lower wages rather than less employment, as workers will be slightly less productive because the capital stock will be slightly smaller. See Congressional Budget Office, letter to the Honorable Judd Gregg concerning the estimated macroeconomic impacts of H.R. 1 as passed by the House and the Senate (February 11, 2009), www.cbo.gov/publication/20474. CBO has not updated those estimates.

ARRA’s long-run effect on output also depends on whether it permanently changed people’s saving or their ability or willingness to work. For example, to the extent that ARRA reduced long-term unemployment during the 2009–2013 period, it might improve participation in the labor force, employment, and productivity in later years. However, CBO’s estimates of the long-term effects of ARRA do not incorporate any effects of that sort.