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OBAMA'S STIMULUS PACKAGE ONE YEAR LATER

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The Obama White House, Congressional Democrats, and the media are feeling affirmed and encouraged by the recent increase in jobs as reported in the payroll survey (CES) and employment as detailed in the household survey (CPS). Between March and April, payroll jobs increased by 290,000 and the number of persons employed grew by 550,000. The 255,000 increase in unemployment is explained away by the re-entry of workers who exited the work force some time in the past, and for that reason the unemployment rate that climbed from 9.7 percent to 9.9 percent can be dismissed.

This account, however, does not square with the March-April increase of 203,000 in the number of discouraged workers. And it draws attention away from labor force developments since the stimulus package was approved shortly after Obama was inaugurated in January 2009 and from a possible glitch in the CES and CPS data regarding illegal aliens.

Compared to April 2009 employment according to the CPS is down (-1,447,000) nearly across the board for adult women, teenagers, whether white or African American, and white adult men. For adult African American men employment over the year was up by 55,000. At the same time, unemployment is up (+1,444,000) for adult men and women whether white or African American, and white teens. The one exception is African American teens where joblessness is down by an estimated 16,000. Further, there has been a 457,000 increase in the number of discouraged workers.

Oddly, and quite unexpectedly, year-to-year employment was *not* down for persons 25 years of age or older with less than a high school diploma and their unemployment was *not* up.

The Obama administration argues that the stimulus package is working because without it employment would have fallen further and unemployment would have risen even higher. For the record, the White House website *Recovery.gov* reports that as of the end April 2010 a total of \$205.2 billion had been approved mostly for state and local governments, universities and other research institutions, nonprofit organizations, and private companies. The same website claims that the stimulus package created or saved a total of 682,779 jobs. In a worst case scenario where all those with jobs linked to the stimulus package instead were unemployed it follows that there would have been 15.943 million out of work in April not 15.260 million. The

April unemployment rate would have been 10.3 percent not 9.9 percent.

The problem with the stimulus package, which comes as no surprise to anyone familiar with government spending to stimulate the economy, is that it takes time to approve proposals in order to assure that they are well conceived and consistent with the goal of putting people back to work. Though 81,636 awards had been approved by the end of April 2010, only \$61.6 billion had been funded and transferred to the recipient parties. Compared to the entire U.S. economy as measured by current-dollar GDP, the \$61.6 billion represents less than one-half percent. The stimulus funds passing through the fiscal pipeline even for “shovel-ready” projects hardly qualifies as a flow. At best they are no more than a trickle. This is no way to fight a recession that began more than two years ago.

If one accepts Obama’s own promise that the jobless rate would not exceed 8 percent if Congress approved the stimulus package, the centerpiece of his economic policy has fallen short of its primary goal. Based on the last time unemployment hit 9.5 percent (September 1983 after it had peaked at 10.8 percent in the preceding December), it took until March 1989 for the jobless rate to fall to 5.0 percent. It did not drop to 4.0 percent until December 1999.

The lesson is simple enough: in a deep recession unemployment rises quickly and falls slowly. In December 2007 unemployment stood at 5.0 percent; it rose to 10.1 percent in less than two years. It could take 10 years or more for joblessness to decline to 4.0 percent.

There appears to be a serious glitch in the CES and CPS data that might misrepresent economic performance and mislead policymakers. To explain, with more than 10 million illegal aliens in the United States, it’s problematical that they are being accurately counted in either data series. Every month the CPS randomly selects housing units across the United States and then interviews the persons living in those units. To assure that respondents do not get bored answering the same questions month after month, some units are rotated out of the sample each month and others are rotated in.

Are the housing units in which illegal aliens are living actually included in the CPS sample? Aren’t illegals taking steps to hide where they live in order to avoid detection by immigration authorities? If such a “hiding place” is included in the sample, is it reasonable that the household respondent would truthfully answer questions regarding any illegals living there put by a CPS enumerator who is an official agent of the federal government? Regarding the CES, are employers honestly reporting their payrolls when they have been employing illegal aliens?

Three years ago Mayo Research Institute inquired of the BLS about the counting of illegal aliens in the CPS and the CES. Here is the Bureau’s reply:

Neither the establishment [CES] nor household [CPS] survey is designed to identify the legal status of workers. Thus, while it is likely that both surveys include at least some undocumented immigrants, *it is not possible to determine*

how many are counted in either survey.

... it is not possible to estimate their number and, therefore, we do not make any adjustments to [the CES] data.

Your question talks about adjustments [to the CPS estimates] if any for undocumented aliens who deliberately misrepresent their labor force status. Since no questions are asked about their legal status, *there is no way of knowing if there are any misrepresentations and who the illegal aliens are.*

At least two problems arise with the CPS and CES data when immigration status is unknown. First, to be counted as employed in the CPS a person has to hold a paid job for one hour or more during the reference week. With day labor, detailed records are not kept making it especially attractive for employers and households who hire illegal aliens and for illegal aliens who therefore may be undercounted in both surveys. Second, illegal aliens may be taking jobs that American citizens and immigrants who are here legally might otherwise hold. In other words, they may be boosting the CPS count of the number of persons classified as unemployed.

Until there is some resolution of the status of immigrants living illegally in the United States, we should not feel confident that the monthly employment and unemployment data are truly accurate indicators of economic performance especially in the southwest border states and sanctuary cities where many illegal immigrants live and are likely to work.

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