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# 'Jobs Created or Saved' Is White House Fantasy: Caroline Baum

Commentary by Caroline Baum - Oct 27, 2009

Oct. 28 (Bloomberg) -- Heresy, thy name is Christina Romer.

Last week, the chairman of President Barack Obama's Council of Economic Advisers -- a position that carried the title "chief economist" until Larry Summers took up residence in the White House -- testified to the Joint Economic Committee on the economic crisis and the efficacy of the policy response.

Here's the executive summary in case you missed it:

The crisis: "Inherited."

The economy: "In terrible shape" (the inherited one).

The shocks to the system: "Larger than those that precipitated the Great Depression."

The policy response: "Strong and timely."

The efficacy of the policy response: a 2 to 3 percentage point addition to second-quarter growth; 3 to 4 percentage points in the third; and 160,000 to 1.5 million "jobs saved or created," a made-up metric if there ever was one. (More on that later.)

What was most puzzling about Romer's Oct. 22 testimony was her comment on the waning effect of fiscal stimulus.

"Most analysts predict that the fiscal stimulus will have its greatest impact on growth in the second and third quarters of 2009," Romer said. "By mid-2010, fiscal stimulus will likely be contributing little to growth."

At first it was just fringe elements, such as conservative blogs and the not-really-a-news-organization Fox News, that pounced on Romer's statement. Then other news outlets started to question her statement, which seemed to fly in the face of White House assertions that only a small portion of the stimulus -- $120 billion, or 15 percent -- has actually been spent. Most of the criticism of the stimulus coming from the president's own party has been, "too little, too late," and here's Romer saying it's kaput.

## Thanks for That

Instead of being banished to the woodshed, Romer was consigned to the White House blog, where she slipped into professorial mode to explain the arcane distinction between the effect of the stimulus on the change in gross domestic product and its effect on the level of GDP.

Stimulus has its biggest impact on the growth rate of GDP when it's implemented, Romer said, using a car-and-driver analogy: Step on the accelerator, the car goes from zero to 60.

Stimulus will keep the level of GDP and employment higher than they would have been even after the growth-rate effect fades, she said.

Her logic is impeccable. It's her premise that's flawed.

## Dispensing Lucre

When the government distributes lucre or loot, people spend it. If your interest is national income accounting, spending other people's money is great. Spending is a back-door way for government statisticians to measure what matters, which is the real output of goods and services.

But the government has no money of its own to spend; only what it borrows or confiscates from us via taxation. Oops.

"Government job creation is an oxymoron," said Bill Dunkelberg, chief economist at the National Federation of Independent Business. It is only by depriving the private sector of funds that government can hire or subsidize hiring.

That's why "jobs created or saved" is such pure fiction. It ignores what's unseen, as our old friend Frederic Bastiat explained so eloquently 160 years ago in an essay.

Econometric models synthesize all sorts of variables and spit out a GDP forecast. From there they derive the change in employment using something called Okun's Law, named after the late economist Arthur Okun, which describes the relationship between the two.

## Fiction Lags Reality

Actual hiring seems to be lagging behind the model's land of make-believe. For small businesses, which are the source of most job creation in the U.S., the government's increased and changing role in the economy isn't a confidence builder. Businessmen have no idea what health-care reform will mean for their cost structure or what whimsical tax policies the government might impose when it realizes those short-term deficits are running into long-term unfunded liabilities.

No wonder capital spending plans were at an all-time low in the third quarter, according to the NFIB monthly survey.

Only 30,383 jobs were created or saved by the American Recovery and Reinvestment Act, according to Recovery.gov, the government's once-transparent Web site that has become a complex blur of numbers, graphs and pie charts. These are only the jobs reported by federal contract recipients. The Obama administration will report the larger universe of ARRA-related jobs on Oct. 30.

An extrapolation of what would have happened without the fiscal stimulus isn't much consolation to the 9.8 percent of the workforce that is unemployed. Nor is Romer's prescription for the economy and labor market very comforting in light of the trillions of future tax dollars that have been spent, lent or promised by the federal government.

"If you take your foot off the gas, the car goes from 60 back down to a slow crawl," Romer said in clarifying blog post.

Gentlemen, start your engines.

(Caroline Baum, author of "Just What I Said," is a Bloomberg News columnist. The opinions expressed are her own.)

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