Obama's Stimulus Plan: Failing by Its Own Measure

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By Stephen Gandel

The $787 billion stimulus plan is turning out to be far less stimulating than its architects expected.

Back in early January, when Barack Obama was still President-elect, two of his chief economic advisers — leading proponents of a stimulus bill — predicted that the passage of a large economic-aid package would boost the economy and keep the unemployment rate below 8%. It hasn't quite worked out that way. Last month, the jobless rate in the U.S. hit 9.5%, the highest level it has reached since 1983. (See 10 ways your job will change.)

The two advisers who wrote the paper, Christina Romer and Jared Bernstein, went on to land key jobs in the Obama Administration. Romer is the head of Obama's Council of Economic Advisers, and Bernstein is the chief economist and economic-policy adviser to Vice President Joe Biden. And the stimulus bill that both economists championed became law in mid-February. What has not come to pass, however, is the boom in job creation that Romer and Bernstein predicted. A little over a month ago, the Administration said the stimulus bill had created or saved 150,000 jobs. That's a far cry from the 3 million to 4 million jobs that Romer and Bernstein foresaw back in January.

Lawrence Summers, director of the White House's National Economic Council, said last week that the stimulus bill was on track. This past weekend, the President rejected calls for a second stimulus package, saying the current stimulus needs more time to work, since only a small fraction of the money has been spent. From the beginning, the Administration has said that much of the boost to the economy from the stimulus plan would not come until the second half of this year. Administration officials have also insisted that it's unfair to judge the effectiveness of the stimulus by projections they made back in January since the recession has turned out to be worse than what most economists predicted even just six months ago.

In a report released on July 13, Romer's Council of Economic Advisers says the stimulus bill is creating opportunities for workers in health care, education and energy. The report reiterates that the economists believe the stimulus plan will create 3.5 million jobs by the end of 2010. "The various forms of fiscal stimulus are expected to provide powerful upward pressure on aggregate demand and to aid recovery," Romer's group says. (See 10 perfect jobs for the recession — and after.)

But while the stimulus plan may eventually reach its goal, a look at the paper Romer and Bernstein wrote back in January shows that at least for now, the stimulus plan is at best off to a slow start. The two economists did say in the report that they expect the bulk of the jobs created by the stimulus to happen in 2010 and 2011. Nonetheless, the report says that even by the middle of this year, the stimulus bill would have a positive effect on the unemployment rate. Without the stimulus, the two economists predicted, the unemployment rate would rise to around 8.5% by the middle of this year; add the stimulus, and that rate would drop by half a point. In reality, the unemployment rate is a full percentage point higher than what Romer and Bernstein predicted it would be without a stimulus.

Vincent Reinhart, a fellow at the right-leaning think tank the American Enterprise Institute and a former top economist at the Federal Reserve, says the problem with the stimulus bill is that it stimulates parts of the economy — like the health-care and alternative-energy industries — that were likely to grow anyway. He believes it would have been better to spend on U.S. manufacturing, where demand is much less certain to resurface and jobs are being shed rapidly. "I don't buy the argument that you just have to give the stimulus package more time," says Reinhart. "By the test they put forward to grade the stimulus, it is failing."