Why Stimulus Funds Create Few Jobs

The Obama administration has recently reduced by 60,000 the number of jobs created or preserved by stimulus funds. The acknowledged overstatement of jobs underscores the problem with all government statistics: There is an inherent bias to report success and no real incentive to report problems.

The stimulus itself has another serious problem: It discourages productivity, or doing more work with fewer people. Those twin problems make it very difficult to expend tax dollars in an economically effective way.

Consider the problem of reporting jobs. Any expenditure of public funds to pay for government-supported jobs will, superficially, create or save the particular jobs funded by the tax dollars. But does a job artificially created with public funds mean a net increase in employment? The reduction of the value of the dollar means that private companies have less real dollar value to spend on jobs, and an increase in the business tax burden means that private companies have less after-tax money to spend on employment.

Inflation reduces the real value of the money that private business can spend. Taxation, the other way that the federal government pays for its expenditures, comes out of the pockets of the private sector. Without this inflation or higher tax burdens, would private firms be able to spend more real dollars on hiring people? Yes: Most private businesses would be at least as quick to spend money on new employees (or to prevent layoffs) than artificial jobs created by the stimulus funds.

Personnel costs tend to be very elastic in most business operations. Companies cannot reduce fixed costs like rent, taxes, and utilities. Supplies, travel costs, and equipment expenses can be cut, but only to certain limits. Newly hired employees, other employees close to retirement, and employees who companies planned to hire are the easiest and safest cuts to make by strapped businesses. The Obama administration has not calculated the employment losses caused in the private sector by its inflationary policies, but the job losses are still very real.

Equally serious is the economic inefficiency of “make work” federally funded jobs. When the federal government is seeking just to increase employment, the problem grows much more severe. If a small city can keep the grounds in its municipal parks with five highly efficient and hard-working employees or add five more people with stimulus funds to do the same work much less economically, then there is “job creation” by having 10 men do the work of five, but there is no economic benefit at all. In fact, acclimating a city to have 10 men to do a job that five could do makes city operations more inefficient.

This assumes that five more park workers were actually hired at all. Financially distressed cities might very likely identify the five park workers as “jobs preserved,” which would account in the stimulus employment calculation as real jobs saved. As a practical matter, though, all that has happened is that the source of funding for the five park jobs has temporarily shifted from city revenues to federal revenues, with the additional loss of meaningful work consumed by the intermediate layers of bureaucracy.

What if the city decides that, even with stimulus money, it must still reduce the number of park workers from five to three? If the city claims in its application for stimulus funds that it is creating or preserving five jobs, even though those jobs are largely illusory, who is going to object? It is in the interest of all those government employees at the municipal and federal level involved to assume that the fictitious job numbers are right. The stimulus funds will be used to pick up this or that municipal employee in different parts of city government without increasing services at all, or, indeed, while still reducing services.

The private sector is made economically honest because the market punishes fiction quickly and effectively. Except when ordered by government, private businesses hire and keep people because it makes economic sense. Cutting taxes reduces inflationary spending, and ending overregulation will increase productive employment (and national wealth) very quickly — business, especially small businesses, can make smart decisions very fast. If full, productive employment is the goal of the Obama administration, stimulus funds move the nation in exactly the opposite direction. And it is not just jobs that are lost by pouring oceans of tax dollars on make-work projects: Valid information, like job numbers, is lost too.