The Obama Fiscal Stimulus Program: So Is It Working?

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SOUND BITES FROM DR. ROMER'S SPEECH

Need for Action: With a dramatic fall in household wealth and the rapid spread of the downturn to our key trading partners, there was no realistic prospect that the private sector would generate a turnaround in demand any time soon. Thus, although stabilizing the financial system and helping distressed homeowners were essential, they would not be enough. We needed to bring in the other main tool that a government has to counteract the cataclysmic decline in aggregate demand: fiscal stimulus. **Proven Approach:** Fiscal stimulus has been used to help weak economics by Presidents of both parties….There's ample evidence that fiscal stimulus works. **Diverse Legislation:** Roughly one-third of the $787 billion took the form of tax cuts for American families and businesses. Another third was aid to state governments to help them keep works employed, and to not raise taxes….one-third of the stimulus package was for public investments. **So Is It Working?** The money is absolutely going out the door quickly As of the end of June, more than $100 billion has been spent….Employment is now about 485,000 jobs above what it otherwise would have been in the second quarter of 2009….State and local government spending actually rose to a healthy 2.4% annual rate in the second quarter of 2009….Businesses received about $14 billion of tax relief in the second quarter, and this may have contributed to the slower investment decline. Personal consumption fell sharply in the second half of last year, but has largely stabilized despite rising unemployment and falling GDP…. **Evidence It Is Working:** The Recovery Act, together with the actions taken by the Treasury and the Federal Reserve to stabilize financial markets and the housing sector, is helping to slow the decline and change the trajectory of the economy. It's providing a crucial lift to aggregate demand at a time when the economy needs it most. And we anticipate that the effects will build through the end of this year and the beginning of the next. **Next Question:** Much of what I've discussed so far is focused on the role of the Recovery Act in moderating the GDP decline and in saving jobs in the second quarter of 2009. The next obvious question is: **What Can We Expect Going Forward? First,** the impact of the Recovery Act will almost surely increase over the next several quarters. **Second**, because of the Recovery Act, other rescue measures that we've undertaken, and the economy's natural resilience, most forecasters are now predicting that GDP growth is likely to turn positive by the end of the year. **Third,** it's important to realize that job growth will almost surely lag the turnaround in real GDP growth. **Fourth** and crucially, given how far the economy has declined, the recovery will be a long, hard process. Even if GDP growth is relatively robust going forward, it will take a substantial time to restore employment to normal and to bring the unemployment rate back down to usual levels….The bottom line is, we are no doubt in for more turbulent times.

DAVID RUBENSTEIN: Good morning. I'm David Rubenstein, President of The Economic Club of Washington. Let me begin this morning by introducing our special guest, Dr. Christina Romer. As many of you may know, Dr. Romer is the Chair of the Council of Economic Advisers. That position was established by the Employment Act of 1946, where it was decided that the President of the United States needed independent, objective economic analysis and advice. From the time that the Chair and the Council was created in the late '40s, it has had some of the most distinguished economists in our country serving in that position – Arthur Burns, Walter Heller, Paul McCracken, Marty Feldstein, and obviously, Ben Bernanke served there as well as Alan Greenspan.

So it has had a long tradition of very distinguished economists, and Dr. Romer is certainly within that tradition. She is one of the best-known economists in the country – one of the best-known natural economists in the country. She served for 20 years as a member of the faculty of the University of California, Berkeley, and in that position became an expert on the Depression, the cause of the Depression, the consequences of the Depression, and how the U.S. government responded to the Depression. She also became a leading expert on fiscal policy and what type of effects it had on the economy by changes in tax policy.

She did a lot of this work with her husband, who's also an economist at the University of California, Berkeley. And I would say that shows an enormous amount of interpersonal skill, because being married is difficult enough; being married to somebody in the same department is very difficult as well, I'd imagine. But also, writing articles with somebody who's your spouse and still raising three children together – very, very difficult. And she pulled it off with aplomb. She and her husband have three children – none of whom, I think, is likely to be an economist, she's told me. But there's still hope that her 8th grader may turn out to go into economics; the others are in natural sciences.

In the position that she has now as the Chair of the Council of Economic Advisers, Dr. Romer actually has a unique role in this respect. Historically, people who have been Chair of the Council of Economic Advisers have often fought for time with the President of the United States, because there are many other people who want to see the President. And so the Chair of the Council often doesn't get to see the President quite as much as the Chair would like or as other economists think should be the case.

But in this case, I think Dr. Romer has actually had more time with the President – more face time with the President – than any of her predecessors over the many years. And that's in part because she participates in the daily briefing of the President on economic matters and, as a result, she sees the President almost every day, if not several times a day. She's also a member of the National Economic Council and, in that role, she plays a leading policy role in helping to formulate economic policies of this Administration.

This morning, what she'd like to do is talk a little bit about the fiscal stimulus program that we've had in the country so far and the consequences of it. I think after she's completed her remarks, we will have time for questions from the audience. So thank you very much. Now, it's my honor to introduce the Council of Economic Advisers Chair, Dr. Christina Romer. [Applause.]

CHRISTINA ROMER: Thank you. It's lovely to be here. It's an honor to speak in front of such a distinguished group. Well, a couple of weeks ago, we hit the 5-month anniversary of the

American Recovery and Reinvestment Act. The Recovery Act provided $787 billion of tax cuts and government spending or roughly 5% of GDP, making it the boldest counter-cyclical fiscal stimulus in American history. It was a central piece of the Administration's wide-ranging program to rescue the economy from the worst recession since the Great Depression and to build the foundation for a stronger, more durable prosperity.

Well, over the spring and the summer, there's been a lot of chatter about what the Recovery Act was doing and how well it was working. I'd like to spend a little time this morning presenting a clear-eyed assessment of what it's accomplished, and what we can expect going forward. This week is a natural time for such an assessment, coming on the heels of last Friday's GDP report. This report gave us our first look at overall economic performance in the second quarter of this year and a clearer sense of the depth of the recession over the past five quarters.

Now, in a somewhat unusually whimsical moment, I sent in as the title for my talk "So Is It Working?" And though it may destroy some of the suspense, I thought, given the provocative title, I should probably get straight to the answer. Absolutely. The Recovery Act, together with the actions taken by the Treasury and the Federal Reserve to stabilize financial markets and the housing sector, is helping to slow the decline and change the trajectory of the economy. It's providing a crucial lift to aggregate demand at a time when the economy needs it most. And we anticipate that the effects will build through the end of this year and the beginning of the next.

Let me begin by discussing the motivations of the fiscal stimulus and the logic behind its design. The U.S. economy slipped into a recession in December of 2007. The initial downturn was relatively mild. Real GDP declined at an annual rate of just 0.7% in the first quarter of 2008, and job loss was about 100,000 per month. Indeed, a well-timed, temporary tax rebate that began going out in late April 2008 contributed to positive GDP growth in the second quarter of last year.

Unfortunately, worsening declines in house and stock prices late last summer led to a fall in consumer spending and sent shockwaves through our financial system. The collapse of Lehman Brothers last September set off a genuine financial panic and led to a devastating freezing up of our financial systems and a collapse of lending. By the time President Obama announced his economic team just before Thanksgiving, it was clear that the economy was deteriorating rapidly.

Now, just how sick the economy would prove to be and how fast it would fall were still unclear. New data on the U.S. and world economic conditions were coming in each day. But there was no question in our minds that the economy was in its most precarious position since the Great Depression. At a meeting in Chicago in mid-December, we urged the President-elect to hit the financial crisis and the burgeoning recession with as much force as possible.

Now, at the cornerstone of our suggested response was a bold fiscal stimulus. Our reasoning was simple: The Federal Reserve had done a great deal to stimulate demand and to help ease the credit crisis following Lehman's collapse, but by mid-December, the Fed was running low on ammunition. The federal funds rate was near zero, and the Fed had created a multitude of special lending facilities.

With a dramatic fall in household wealth and the rapid spread of the downturn to our key trading partners, there was no realistic prospect that the private sector would generate a turnaround in demand any time soon. Thus, although stabilizing the financial system and helping distressed homeowners were essential, they would not be enough. We needed to bring in the other main tool that a government has to counteract the cataclysmic decline in aggregate demand: fiscal stimulus.

Now, in the past few months, some have tried to portray fiscal stimulus as an exotic tool with a questionable pedigree. It is, in fact, a tried-and-true remedy supported by economists across the political spectrum. To use a medical analogy, fiscal stimulus is a well-tested antibiotic, not some newfangled gene therapy. The economic theory of how tax cuts and increases in government spending can help to counteract a recession is almost as widely accepted as any in economics, practically up there with supply and demand and the quantity theory of money.

Fiscal stimulus has been used to help weak economies by Presidents of both parties. Franklin Roosevelt increased public works spending greatly as part of the New Deal. Dwight Eisenhower expanded the interstate highway program and accelerated other types of spending to try to counteract the 1958 recession. And both Gerald Ford in 1975 and George W. Bush in 2001 used tax cuts to help end recessions.

There's also ample evidence that fiscal stimulus works. Many studies have been done over the years to try to measure the effects of stimulus. These studies show strong impacts of both tax cuts and changes in government spending. Now, this sense that fiscal stimulus is the obvious step to take when the economy is in decline and conventional monetary policy has been exhausted is borne out by the actions of other countries. [A figure is projected on screens.] This figure shows the size of fiscal expansion in a number of countries in 2009. What you see from this is that virtually every country has enacted fiscal expansion during the current crisis. They've done so because it works.

Well, the fiscal stimulus that the Administration worked with Congress to create was not only bold but well-conceived. The President aimed for a package that was large and got good employment bang for the fiscal buck. It was designed to provide this for at least 2 years because we knew the economy was likely to face an extended period of weakness. And the President insisted that the spending be genuinely useful. At a time when the budget deficit was already large, we could not afford to create jobs by digging ditches and filling them in. Government spending had to satisfy genuine needs and leave us with useful public investment.

Now, the final legislation was very well-diversified. Some of our critics seem to have missed the fact that roughly a third of the $787 billion took the form of tax cuts for American families and businesses. Another third was aid to state governments to help them keep workers employed, to not raise taxes, and to aid people directly hurt by the recession through programs such as extended unemployment insurance. As state budgets have swung into extreme deficit, and unemployment rates have risen sharply, both of these types of spending look even more crucial than they did back in December and January.

Finally, roughly one-third of the stimulus package was for public investment. Now, much of this spending was for conventional infrastructure – roads, bridges, water projects. But some was more uniquely 21st century – investments in R&D, health information technology, and a smarter electrical grid. Well, so far I've reminded you of why we took the actions we did, why we worked so hard to pass the Recovery Act.

Let me turn to the question I started with: So is it working? Well, the first thing to say is that the money is absolutely going out the door quickly. As of the end of June, more than $100 billion has been spent. Those numbers are arriving each week, and we are on track to have spent 70% of the total by the end of next fiscal year.

I know that some believe that the government can never do things well. But the program really is a model of efficiency and transparency. The recovery.gov Web site provides an honest and thorough accounting of what's getting done. The biggest problem so far occurred when a blogger misinterpreted an entry and reported that we'd spent $1 million for two pounds of ham. It turns out that it was for 760,000 pounds of ham in two-pound packages that went to food banks and soup kitchens, we think at a value of $1.50 a pound.

I can tell you that the Vice President is a man on a mission and is determined that every dollar will go out quickly to the high-value projects that it was designed for. And the program is working. Millions of unemployed workers will have seen an extra $25 a week in their unemployment insurance checks, and 95% of American households saw a tax cut in their paychecks starting on April 1st. My father and all the other Social Security recipients and veterans got their $250 stimulus check in May.

State and local government employees like teachers, firefighters, and police officers who were scheduled to be laid off are still working because of the increase in federal spending to the states. Twenty-five hundred boat construction projects are under way. I believe that soon, the Recovery Act signs that we see popping up everywhere will be as ubiquitous as the NRA blue eagles once were back in the 1930s.

Well, even if the Recovery Act is working in the concrete, on-the-ground sense, there's still the question of whether we can see it in the overall performance of the economy. And here, I can't resist pointing out a fallacy in a common critique. Throughout this spring, I frequently heard people say, the unemployment rate is even higher than you all predicted without stimulus. That means the policy isn't working and may actually be making things worse.

Well, that argument is, to quote a recent *New York Times* editorial, "just plain silly." To understand why, let me give you an analogy. Suppose you go to your doctor for strep throat, and he or she prescribes an antibiotic. Some time after you get the prescription and maybe even after you've taken the first pill, your fever spikes. Do you decide that the medicine was useless? You conclude that the antibiotic caused your infection to get worse? Surely not. You probably conclude that the illness was more serious than you or your doctor thought and are very glad you saw the doctor and started taking the medicine when you did.

Well, that was exactly the situation with the economy. It is true that the U.S. and world economies went down much faster last fall and winter than we and almost all forecasters expected. The revised GDP statistics show that the actual decline in GDP growth in the third and fourth quarters of last year was about twice as large as the preliminary estimate we had at the time indicated. And the rise in the unemployment rate has been exceptionally large, even given the large fall in GDP that we now know occurred. The fact that the economy deteriorated between January, when we were doing our forecast, and the end of March simply reinforces how crucial it was that we took action when we did.

Well, now, having gotten that off my chest, let me return to the question. A little more than 5 months after the Recovery Act was passed, can we see the effects on the macro-economy? Again, the answer's almost surely yes. Now, the reason I say almost surely is because the Recovery Act has only been in effect for about 5 months. That means we really only have one quarter of data on economic outcomes. And if there is one thing I have learned in the past 6 months, it's not to read too much into any one number.

But with that disclaimer in mind, let me show you a graph of the growth rate of real GDP. And what you see is, after falling considerably and indeed progressively more deeply in each of the three quarters before the most recent one, the falling GDP moderated substantially. After declining at an annual rate of 6.4% the first quarter of 2009, it fell at a rate of 1% in the second quarter.

Now, to be sure, the economy is far from healthy. And we obviously have a tremendous distance to go. Real GDP, after all, is still declining. But economies don't switch from rapid decline to robust growth all at once. Given what we now know about the frightening momentum of economic decline in the first quarter, it would've been hard for the economy to stabilize much faster than it has.

Now, this graph shows you the change in the growth rate of real GDP for the past 25 years. The rise in GDP growth from the first quarter to the second was the largest in almost a decade and the second largest in the past quarter-century. All right? Now, this picture shows the change in payroll employment over the recession. A key indicator of just how brutal this recession has been is the fact that in the first quarter of this year, we lost nearly 700,000 jobs per month. In the second quarter, we lost on average 436,000 jobs per month. This rate of job loss is horrendous. But the change does suggest that we are on the right trajectory.

This figure, again, shows the change in employment. And the movement in job loss from the first quarter to the second was the largest in almost 30 years. In other words, after we administered the medicine, the economy that was in free fall stabilized. It stabilized substantially and now looks as though it could begin to recover in the second half of the year. Of course, identifying the effects of the Recovery Act from the behavior of just a few data points is inherently difficult. We don't observe what would've happened in the absence of fiscal stimulus.

One way to try to add rigor to the analysis of the behavior of key indicators is to do a more formal econometric forecasting exercise. And there are, of course, various ways to do such an exercise. But let me discuss the results of a typical one. We forecast the usual behavior of GDP and employment jointly using data from 1990 through 2007. Remember, what we're going to do is forecast GDP growth and average job loss in the second quarter of 2009, using actual data up through the first quarter of the year.

All right, what this picture shows is the forecast of employment change. But what the baseline forecast implies is further substantial job loss in the second quarter. Indeed, based on just the past two quarters, the implied average monthly decline that we would have predicted for the second quarter was about 600,000 jobs. But you see what actual job loss was in the second quarter; it came in substantially lower than the forecast.

These calculations imply that employment is now about 485,000 jobs above what it otherwise would have been in the second quarter of 2009. This number is very similar to Mark Zandi's estimate that stimulus added roughly half a million jobs in the second quarter relative to what otherwise would have occurred. I do, however, want to be very cautious. The approach we used is just one of a number of sensible ways of predicting what would've happened in the absence of stimulus. Other methods could lead to somewhat different estimates of the jobs impact of the program in its first full quarter of operation, but the clear implication is that the program is working.

Now, the results for this forecasting exercise for real GDP are shown here. All right? Based on a usual behavior of employment and GDP, past history predicts that real GDP would continue to decline at a substantial rate in the second quarter. The projected decline is 3.3% – again, substantially worse than the actual decline, which was 1%.

This way of specifying the baseline confirms that something unusual happened in the second quarter. GDP growth was 2.3 percentage points higher than the usual time series behavior of GDP would lead one to expect. Private forecasters across the political and methodological spectrum attribute much of the unusual behavior of GDP to the Recovery Act. As this table shows, analysts estimate that the fiscal stimulus added somewhere between 2 and 3 percentage points to real GDP growth in the second quarter.

Now, if you look at the different pieces of GDP, you can see telltale signs of the Recovery Act's role in stabilizing the economy. This figure shows the contribution of each of the main components of GDP to overall growth in the first and second quarter of this year. I think the role of the Recovery Act is clearest in state and local spending. Sharp falls in revenues and balanced budget requirements have been forcing state and local governments to tighten their belts significantly. But state and local government spending actually rose at a healthy 2.4% annual rate in the second quarter of 2009. No one can doubt that the $33 billion of state fiscal relief that's already gone out thanks to the Recovery Act is a key source of this increase.

Another area where the role of the Recovery Act seems clear is in business fixed investment – firms' purchases of everything from machines to software to structures. A key source of the more modest decline in GDP in the second quarter is that this type of investment, which had fallen a mind-boggling 39% annual rate in the first quarter, fell at a much more moderate 9% rate in the second quarter. One important component of the Recovery Act was investment incentives such as bonus depreciation. Businesses received about $14 billion of tax relief in the second quarter, and this may have contributed to the slower investment decline.

For the personal consumption component of GDP, the picture is more nuanced. Consumption fell sharply in the second half of last year, but has largely stabilized despite rising unemployment and falling GDP. The Making Work Pay tax cuts and improvements in confidence as a result of the Recovery Act and the Administration's other actions almost surely contributed to the stabilization.

At the same time, the fact that consumption fell slightly in the second quarter after rising slightly in the first quarter could be a sign that households are initially using the tax cut mainly to increase their saving and pay off debt. We'll obviously be monitoring the behavior of consumers closely as we move forward. All right. Well, because the evidence from the path of the economy over time can't settle the issue of what the effects of the Recovery Act have been, it's helpful to also look at other types of data.

In particular, I want to mention two kinds of comparative elements. The first involves comparisons across countries. Countries' responses to the crisis have varied substantially. One can therefore ask the question whether countries that have responded more aggressively seem to be recovering more quickly. To get evidence of this, we started with a set of forecasts of growth in the second quarter of this year that were made way back last November after the crisis had hit, but before countries had formulated their policy response. We then collected analysts' research and guesses for what second quarter growth would be in those same countries.

What this figure shows is the relationship between how a country's second quarter growth prospects have changed from what was expected back in last November, and the country's discretionary fiscal stimulus in 2009. Well, the fact that those points lie along an upward sloping line shows that on average, things have improved more in countries that adopted bigger stimulus packages. The relationship is sizeable. On average, a country with a stimulus that's larger by 1% of GDP has expected real GDP growth in the second quarter that's about 2 percentage points higher relative to the November forecast.

A second comparison that we examined involved individual states in the U.S. The largest portion of aid to the states under the Recovery Act so far has taken the form of additional matching funds for state Medicaid spending. So what this figure shows you is the correlation between employment growth from February to June in a state and the size of those extra matching funds per capita. What you're supposed to see there is that, on average, states that received more funds lost fewer jobs.

Now, there's an obvious element of reverse causation that's pushing the relationship in the other way. States with economies that are weaker tend to get more of these funds. But preliminary analysis by several members of my staff addressed this issue by focusing on a subset of the spending that isn't a response to states' economic conditions. They find that the results hold up well. More spending is associated with less jobless.

Well, obviously this is a very preliminary analysis of the data across countries and states and it doesn't account for all the factors that may be at work. But our first look at these numbers provides further evidence that stimulus spurs recovery. All right. Well, so much of what I've discussed so far is focused on the role of the Recovery Act in moderating the GDP decline and in saving jobs in the second quarter of 2009. The obvious next question is: What can we expect going forward?

Well, first, the impacts of the Recovery Act will almost surely increase over the next several quarters. We expect the fiscal stimulus to be roughly $100 billion in each of the next five quarters. The impact of this steady stimulus, however, will increase over time, because the multiplier effect tends to rise for a substantial period before it begins to wane. Also, the composition of the stimulus will be changing towards components of larger short-run effects. The early stimulus was weighted more heavily towards tax changes and state fiscal relief, whereas going forward there will be more direct government investment. This direct investment will have a short-run effect roughly 60% larger than the tax cut.

Second thing we can expect going forward: Because of the Recovery Act, other rescue measures that we've taken, and the economy's natural resilience, most forecasters are now predicting that GDP growth is likely to turn positive by the end of the year. Federal Reserve Chairman Ben Bernanke seconded this opinion in recent Congressional testimony. However, as is always the case and especially around a turning point, there is substantial uncertainty to this forecast and there is even greater uncertainty about how strong the recovery is likely to be.

Third, it's important to realize that job growth will almost surely lag the turnaround in real GDP growth. The consensus forecast is for the employment and unemployment statistics that we get tomorrow to show that the U.S. economy continued to lose hundreds of thousands of jobs in July. Given that GDP growth was still negative in the second quarter, this is all but inevitable and it's unacceptable. Unfortunately, even once GDP begins to grow, it will likely take still longer for unemployment to stop rising, or for employment to stop falling and begin to rise.

Fourth and crucially, given how far the economy has declined, the recovery will be a long, hard process. Even if GDP growth is relatively robust going forward, it will take a substantial time to restore employment to normal and to bring the unemployment rate back down to usual levels. But the President is committed to job creation, and this is and has been the focal part of our effort. The bottom line is, we are no doubt in for more turbulent times. The actions we've taken, particularly the American Recovery and Reinvestment Act, have clearly changed the trajectory that we are on.

They are doing what the President always said needed to be our top priority – rescuing an economy on the edge of the second Great Depression. And I firmly believe that when the history of this period is written, the Recovery Act will be seen as the beginning of the end of this terrible economic crisis. The focus of my talk this morning has been on the Recovery Act as a lifesaver. It is a central part of our strategy to rescue the economy, complementing our efforts to stabilize the financial system, restart lending, and help homeowners in distress.

The President has always made clear that rescue is not enough. The U.S. had problems even before the current crisis. For this reason, the Administration is working with Congress to help rebuild the economy better. It's as if, when you went to the doctor for that strep throat, you discovered you had high blood pressure as well. The antibiotic was great for the infection, but he prescribed other medicine, a better diet, and a healthy dose of exercise for the blood pressure.

Well, that's what the President is trying to do for the economy. He is urging healthcare reform to slow the growth rate of spending and provide all Americans with secure health insurance coverage. We're working with Congress to pass financial regulatory reform to make sure that we never again walk as close to the edge of a cliff as we did last September.

And we're committed to comprehensive energy and climate legislation to stimulate the move to renewable energy and combat climate change. In short, we are urging serious medicine for serious economic problems. If we can accomplish these important changes, we will not only come through the current crisis, we will emerge even stronger and healthier than before. Thank you. [Applause.]

QUESTIONS AND ANSWERS

MR. RUBENSTEIN: First question we have is, "In light of your comments on the economic stimulus bill, is there anything that the Administration would have done differently if it had recognized how big the economy's problems were going to be in changing the way the legislation was drafted? Is there anything that you would have changed in light of hindsight on how that bill was actually formulated?"

DR. ROMER: I think one of the things I tried to describe and we tried to hit this thing with as much force as we could – we did know it was a very serious economic downturn. We also very much were aiming at what could we get out the door very quickly, and that's why things like the tax cut, the state fiscal relief we so terrific, precisely because they did get out the door quickly.

The other thing that I'd want to say in answer to that is – I very much want to give the sense that the Recovery Act is a piece of a much bigger plan. So all of the work that Secretary Geithner and the rest of the Administration did to help rescue the financial system, the housing program – all of those were things that we did precisely because as we saw the economy getting thicker we knew that it needed everything we could give it.

MR. RUBENSTEIN: Next question is, "You didn't exactly predict your own or give your own views on when you thought we would begin positive GDP territory. Would you be willing to say we will be in positive GDP territory in the fourth quarter or the first quarter or the second quarter, or you're not going to say?"

DR. ROMER: [Chuckles.] I will tell you that I think the consensus forecast has been very well. I bet they're predicting that we will see it before the end of this year, and I think that is a reasonable prediction.

MR. RUBENSTEIN: The next question is, "Was the Administration blindsided by CBO's analysis of the cost of the healthcare legislation, and what is an acceptable 10-year cost for the healthcare legislation?"

DR. ROMER: All right, again, this is a wide-ranging question. You know the CBO is doing its job, which is trying to give Congress estimates of what they think bills will do. I think it is important to realize that CBO's job is really to think about the 10-year budget window. And here we are in complete agreement with them, that we have said from the beginning that anything we do on healthcare, any investments we make, an expansion of coverage absolutely has to be paid for in that 10-year budget window with hard, scoreable savings that CBO says are there with revenue changes that are there.

So that is completely a place where we're in complete agreement, and I think their numbers on things like the kind of reforms we've been talking about for Medicare absolutely line up with ours. I think where we might have a difference is much more on the longer run, because if you look at the long-run budget projections, what you know is that the number one problem we have is skyrocketing healthcare costs.

That's why so much of what the President has been trying to do with the health reform, the legislation as it's going forward, is to make sure that there are all the things that health economists say need to be there to slow the growth rate of costs. That's why we proposed the independent Medicare advisory council – a structural change to really give a chance at slowing the growth rate of costs.

So we think those are important. I think CBO inherently doesn't tend to do long-run projections, so we're going to have to go with what the experts, what the health economists, tell us on things like investments in health information technology, these institutional changes that we've talked about, delivery reforms, all of those things – that they tell us absolutely will slow the growth rate of costs and we feel absolutely need to be in any legislation.

MR. RUBENSTEIN: "Can you give us a hint about whether the unemployment rate is likely to hit double digits when the numbers come out, and when do you think it will recede to the pre-recession level of 4.5%?"

DR. ROMER: [Chuckles.] The first thing to say is: I have not seen any numbers, though they do come out tomorrow, and I'm not going to make any predictions other than to tell you that certainly what the forecast, what market experts are telling us, is that we will lose hundreds of thousands of jobs. I know they are anticipating that the unemployment rate will go up. It does emphasize that the economy is still in a recession. We do think we are improving the trajectory, but there's just no denying the fact that we are still in tough times for the American people.

How quickly it comes back down, right? I mentioned in my talk, even once GDP starts to grow, there's usually a lag between when we see GDP growth and unemployment start to go in the better direction. It also depends just crucially on how fast you grow. It's not enough to just turn the corner; GDP needs to grow at about 2.5% just to keep the unemployment rate where it is. And so we have to get growth above 2.5% to finally make progress in the right direction. So obviously what we're going to be looking for, what we want to see, is not just GDP growth but strong GDP growth – that's the thing that would bring it back to normal quickly.

MR. RUBENSTEIN: "Are you more worried about inflation now or deflation?"

DR. ROMER: The truth is I am thrilled at the fact that inflation expectations seem to be pretty darned flat. And I actually think that that is attributed to the Federal Reserve. I think the fact that we've had 25 years of pretty steady inflation is the reason we haven't seen movements in either direction.

That said, given how bad the recession has been; given the fact that we have unemployment again at 9.5%, I think the greater risk is on the downside than on the upside. We know the Fed's balance sheet has gotten much bigger, but I think the evidence tells us that inflation doesn't just come out of nowhere. It doesn't just come from a lot of stuff on the Fed balance sheet. It comes from an economy overheating, and we are so far from overheating – I think we have a long time before we really have to worry about inflation.

MR. RUBENSTEIN: Okay. Next question is, "Do you have a view on the direction of the dollar? Is it going up or down or staying the same?"

DR. ROMER: I have only been in Washington for 6 months, but I know more than to speculate on what the dollar is going to do, especially in front of live TV cameras. [Laughter.]

MR. RUBENSTEIN: Well, I thought you would say that – [laughter] – but I had to ask it anyway. "Is there any wiggle room on the President's position that no one in the middle class will see any tax increase of any type during his presidency?"

DR. ROMER: Can I go now? [Laughter.] You know, the President has made it very clear through the campaign that middle-class families have really gotten a bum deal, not just in this recession but probably for a least the past 10 years, and that's why he does not want to do anything that burdens middle-class families. And obviously, no one is talking about raising taxes. I've been describing the worst recession since the Great Depression. In fact, that's why we gave tax cuts to 95% of American families. What is true is that we have a long-term budget problem.

And the President is committed to dealing with that and right now, the way we're focusing on that is on healthcare reform. As I mentioned, there is just simply nothing that is causing more trouble in those long-term budget projections than the predicted path of healthcare expenditures. So doing all the things we've been talking about, about slowing the growth rate of costs, is the number one thing you can do to help every American.

MR. RUBENSTEIN: "What is the biggest surprise you've seen in the way economic policy is made, compared with what you thought you would see before you came here?"

DR. ROMER: I'm surprised at what a role analysis and empirical evidence plays. I mean it's something I learned – I often say this as a tribute to Larry Summers, who as you mentioned is the head of the National Economic Council. Well, Larry is a fantastic economist, and one of the things is, he listens to good arguments.

So I learned very early on in the transition that the way to have an influence and to be useful is to do good analysis. Fortunately, many members of my staff wanted to come with me today, but I have the world's best staff. We have just a great group of incredibly talented economists, and I've been really pleased at the degree to which people will tell us what's true, not make up some numbers that support our position. They want to actually know what the effects of policies are going to be. And that's a really positive sign about the policy process.

MR. RUBENSTEIN: "Can you give us any insights about what the daily presidential briefings are like on economic policy, and what's the President's comprehension, understanding of economics, for somebody who wasn't trained in that area? "

DR. ROMER: I tell you, the scariest thing is to be in one of these briefings and for one of us to ask someone else a question and the President answers it. So I will tell you that he absolutely knows a lot of economics. One of the things that's been hard to get used to – there's often a scheduled topic. People will take turns – today, we'll brief the President on what can we expect about inflation or deflation or what can we expect about the jobs numbers.

One of the things you learn is, you've got to be ready to change on a dime, because you may have a beautiful slide deck ready to show the President, and he'll say, you know, I'm really worried about the auto companies. So you have to go, okay, switch gears. So you do have to be ready to do that. So they are freewheeling. I think the economics team in the White House is known for being sort of very free and open with our opinions, and so there are often good, lively discussions. But it's a great way to spend 40 minutes every day. [Laughter.]

MR. RUBENSTEIN: Okay, we're going to have some questions from the audience.

QUESTIONER: Thank you, David. This an economic club, so I want to ask a tougher question if I may. Rising deficits – the trend is clear, it's phenomenal and the ambitious goal is to halve this phenomenal record. Rising protectionism, proposed increases on taxes for those that create jobs – how is this justifiable in the long term economically for the overall health of the country? I feel like we're fiddling and Rome is burning. [Applause.]

DR. ROMER: All right, let me just be clear. First of all, you described cutting the budget deficit in half as an ambitious goal. Well, first of all, let's not lose sight of the fact we inherited a budget deficit that was $1.3 trillion. The President has said that he wants to cut it in half before the end of his first term, but about the very first thing he did was to call a fiscal summit to bring in people from Congress, experts, because he felt cutting it in half wasn't enough.

So I couldn't agree with you more; I think the President couldn't agree with you more – it is absolutely a problem, and something we absolutely have to deal with. I think if you're really concerned about the deficit, I'd bring it back to healthcare reform, because, again, you look at any study by the Congressional Budget Office, those long-term budget projections – the thing that will really wreak havoc on our budget deficits is if we don't get the growth rate of healthcare costs under control.

They are rising at just an astronomical rate. That is why, in the middle of a deep economic crisis, in the middle of the time when we need to reform our financial regulatory system, we need to deal with energy independence, the President said this can't wait – that the status quo is precisely what is going to cause real problems for the deficit and for the country. That's why we are working as hard as we can to make sure we don't only do healthcare reform; we do good healthcare reform that genuinely expands coverage, yes, but slows the growth rate of costs, which is absolutely crucial.

MR. RUBENSTEIN: Okay, one more question from the audience. While we're getting the mike, what is your biggest frustration in your current job? Is there anything you don't like about your job?

DR. ROMER: [Laughter.] It's very hard – [chuckles] – no. I will have to say I have my 19-year-old son home from college and I got home at 11:30 last night, I got home at 11 the night before – so I'm frustrated that I don't get to be at home nearly as much, that my husband had to learn how to do laundry, the grocery shopping, all the cooking. [Laughter.] So it's hard work.

MR. RUBENSTEIN: One last question.

QUESTIONER: There's been some recent news about changes in Administration policy regarding Fannie Mae and Freddie Mac. We all know the importance of those entities in creating a secondary market, stabilizing housing prices. I'd be interested in knowing what your thoughts are, what the direction of that change might be.

DR. ROMER: Obviously, it is an issue. We've just been through just a real crisis in our financial markets, and that's why, again, in the midst of all the other things we're doing, we're thinking about how you reform the system so that we don't ever face this again.

One piece of this has clearly been the Government-Sponsored Enterprises and their role in mortgages and all of that, and the extraordinary actions that we've had to take. So of course something that we're going to be thinking about is where do we go from here? As we move out of the immediate crisis, how do we think about reforming those, just as we're thinking about reforming the financial regulatory system?

I don't want to get ahead of the process because, obviously, we are at the very start of anything that we're doing on a whole range of these issues about our financial markets. But it is going to be something we'll be looking at.

MR. RUBENSTEIN: Thank you very much Dr. Romer. [Applause.] On behalf of The Economic Club of Washington, I want to give you this American Eagle from the Steuben Collection. Thank you very much. Thank you all very much for coming, and we hope you had an enjoyable time.

DR. ROMER: Well, thank you.

CHRISTINA ROMER

Christina Romer is Chair of the Council of Economic Advisers. She was the Class of 1957 Garff B. Wilson Professor of Economics at the University of California Berkeley. Before teaching at Berkeley, she taught economics and public affairs at Princeton University from 1985-1988. Until her nomination, she was co-director of the Program in Monetary Economics at the National Bureau of Economic Research and served as Vice President of the American Economic Association, where she was also a member of the executive committee. She is a Fellow of the American Academy of Arts and Sciences.

Dr. Romer is known for her research on the causes of and recovery from the Great Depression, and on the role that fiscal and monetary policy played in the country's economic recovery. Dr. Romer is the recipient of a John Simon Guggenheim Memorial Foundation Fellowship, an Alfred P. Sloan Research Fellowship, the National Science Foundation Presidential Young Investigator Award, and the Distinguished Teaching Award at Berkeley. Born on December 25, 1958, in Alton, Illinois, Dr. Romer received her Ph.D. from the Massachusetts Institute of Technology in 1985. She is married and has three children.