Job plan 'insignificant' – Stimulus doesn't work: Expert

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A Canadian economist has found that federal stimulus packages actually create fewer jobs in comparison to the natural job creation in the private sector.

Furthermore, the supposed benefits of these stimulus policies tend to come too late in the economic cycle, said Marcel Boyer, Senior Economist at the Montreal Economic Institute.

Boyer, who is also a professor at the University of Montreal, said the urgent, improvised nature of the stimulus plans risks generating waste and harmful incentives that can weigh down real economic growth and job creation.

Boyer's findings come on the same day U. S. President Barack Obama said staggering job losses mean the country must continue to "spend out its way out of this recession."

In a speech to Washington-based think tank the Brookings Institution, Obama proposed several new measures to lower the 10% unemployment rate including money for infrastructure projects, tax breaks and access to credit for small businesses as well as rebates for consumers making their homes more energy efficient.

But Boyer's study, which focused mainly on U. S. labour market data, concluded as the economy shed jobs during the recession, millions more were being created in the U. S. private sector.

"The jobs created and saved by the government plan is relatively insignificant compared to what the private sector has been doing," Boyer said.

White House data suggests it created or saved about 650,000 jobs in the four quarters studied through 2007 and 2008 but at the same time the private sector created somewhere between 13 and 14 million jobs, Boyer said. Although the private sector shed more jobs than it created, it's still important to look at growth figures rather than just net data, Boyer said, referring to the natural job process called "creative destruction."

The Obama administration could pay for the newly announced jobs initiative by dipping into $200 billion in left-over funds from the bank bailout called the Troubled Asset Relief Program.

Instead, Boyer said, the government should concentrate on creating better conditions for the private sector and pay down the national debt, which stands at an estimated $12 trillion US.

Large deficits are going to be financed by program cuts or tax increases – or both – Boyer said, pointing to Canada's experience in the mid-1990s as an example of how paying down debt can lift a country to the top of the G7.

In reaction to recession, governments have inflated their deficits in an attempt to stimulate the economy.

U. S. President Barack Obama's February 2009 stimulus plan cost an estimated $787 billion US. Canada's federal package to boost the economy cost an estimated $62 billion.