Center for American Progress

Tax Extenders 101

A Primer on Job Creation and Relief for American Families

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What are tax extenders?

The phrase "tax extenders" refers to a bundle of provisions in H.R. 4213, a bill that the House is expected to vote on this Thursday. Among other provisions, the bill includes the extension of unemployment and COBRA health insurance benefits for those Americans hit hardest by the Great Recession, and fiscal relief to states to preserve critical health services and save the jobs of teachers, firefighters, and police officers. It also includes an extension of the current rate of Medicare payments to doctors through the end of the year.

The tax extenders bill will also likely postpone expiration of the Temporary Assistance for Needy Families emergency fund, which has allowed states to expand work-focused programs and create subsidized jobs for families struggling during this recession. And it may include funding for a youth summer jobs program.

Why do we need to extend unemployment insurance and TANF emergency funds again?

The economic recovery that has been under way since the middle of 2009 is gaining momentum and the labor market is finally starting to add jobs, but this growth is far from stable. The unemployment rate was 9.9 percent in April 2010, and much higher among particularly vulnerable groups such as African Americans (16.5 percent), Hispanics (12.5 percent), youth (25.4 percent), and those without a high school diploma (14.7 percent).

Long-term unemployment has been a particular problem in this recession. Last month, 6.7 million Americans reported that they had been looking for a job for 27 weeks or more, and the average length of unemployment was 33 weeks. This is the longest length of average unemployment since 1967. We cannot cut these families off from needed unemployment insurance benefits while they are still struggling.

Channeling funds to the unemployed through unemployment insurance and the TANF emergency fund directly aids communities as unemployed workers immediately spend this money on necessities. In fact, every dollar spent on unemployment insurance puts at least $1.63 back into the economy, according to Mark Zandi, chief economist for Moody's Economy.com. And TANF emergency funds are expected to save or create 185,000 temporary jobs by the end of September. This helps the unemployed and their families, and it also helps the overall economy since without aid, unemployed workers who are rendered destitute without an income or assistance from the government are not active consumers contributing to economic recovery.

Why should the bill include fiscal relief for states?

Provisions in the extenders bill that would provide aid to states are critical for saving jobs for teachers, firefighters, police officers, and other civil servants, and preserving health programs. States are facing severe fiscal crises due to the perfect storm of lower tax revenues and rising need from chronic unemployment. States are facing budget gaps totaling $140 billion as they prepare their fiscal year 2011 budgets. If left unaddressed, these budget gaps could cost the economy up to 900,000 jobs next year. These are jobs that we all rely on in our communities: the teachers who instruct our children, the police officers and firefighters who protect our communities, and the social service workers who administer our programs.

Temporary state fiscal relief in the form of Medicaid assistance—known as FMAP—is, along with unemployment insurance, one of the most effective measures to save jobs and spur economic growth.

Why should the bill include a youth summer jobs program?

Youth are experiencing the greatest challenges finding work in the current job market. Rates of unemployment are directly related to age—the younger you are, the less likely you are to have a job. This may seem less important than adult unemployment, but the long-term consequences can be dire.

Young people who initially cannot find a job often suffer consequences that follow them long after a recession ends. The reason: Time spent not developing work experience makes young workers less competitive for future job opportunities. Indeed, lifetime earnings are diminished with each missed year of work equating to 2 percent to 3 percent less earnings each year thereafter. A study of college students who graduated during the 1982 recession found that they were still earning less 8 to 10 years later than students who had graduated into a strong economy.

A summer jobs program is as much about unlocking potential as it is about meeting needs. It is a strategy for creating short-term jobs, but it is also a proven pathway to creating long-term employment opportunities for youth who might otherwise remain jobless or employed in dead-end, low-skill jobs.

Should we be worried about these measures increasing the deficit?

The tax extenders bill is estimated to cost about $140 billion, and $80 billion of that will go toward extending unemployment benefits. This is emergency funding, which means that it is not offset by new revenues and will increase the deficit in the short term. But if the tax extenders are effective, then the economic growth they generate will make it affordable to deal with the budget problem in the future. And doing nothing will be even more costly.

State budget shortfalls and high unemployment are not going to go away on their own. It's true that the economy is starting to grow, but the economy is still in a deep hole and employment gains are so far barely making a dent in a jobs deficit. There are indications that even if the economy continues to grow it will not do so at a pace fast enough to quickly absorb the millions of people searching for jobs. In fact, there are currently more than five job seekers for every available opening. And slow job creation in and of itself could stall the nascent recovery.

The deficit is a serious problem in need of real thought and solutions. But now, when many families are still struggling under the effects of the recession, is not the time to cut off families' lifelines or to fail to act to prevent a wave of job losses.

Economists across the ideological spectrum agree that it is long-term deficits that are the real problem, not targeted measures that add to short-term deficits but are critical to spur economic growth and help those hit hardest in the recession.

The measures in the extenders bill are temporary, targeted, and necessary. They will create economic growth and help families, and they will do so without adding significantly to the long-term budget deficit. In fact, the bill is expected to increase the projected long-term budget gap (through 2050) by less than 1 percent.