Center for American Progress

The American Jobs Act

A Bill Worthy of Its Name

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Introduction

The jobs bill President Barack Obama delivered this week to Congress will create nearly 2 million new U.S. jobs by doing what presidents and legislatures across the political spectrum have routinely done in times of labor market weakness: Enact short-term, temporary spending programs that have bipartisan support and are proven to work.[1]

Roosevelt did it. Eisenhower did it. So did Kennedy, Johnson, and George W. Bush. And each time, these short-term fiscal expansions worked as intended, generating more economic activity than they cost, putting people to work, and making the country stronger.

That's why a sweeping consensus of economists and forecasters across the political divide now call for the government to forcefully intervene in precisely this way, to create demand for goods and services, which will in turn boost hiring and business growth. And that's exactly what the American Jobs Act will do, experts say:

- The bill will add 1.9 million jobs next year, shaving a full percentage point from the unemployment rate, according to Mark Zandi, chief economist at Moody's Analytics.[2]
- It will boost U.S. gross domestic product by 1.3 percent in 2012, giving "a significant boost to GDP and employment over the near term," according to Macroeconomic Advisers, LLC, among the most closely followed forecasters in the country.[3]
- Goldman Sachs said the positive effect would be even higher than that, increasing GDP by 1.5 percent in 2012.[4]

The American Jobs Act, a $447 billion job-creation plan, attacks unemployment in three primary ways. It prevents layoffs and puts people to work building roads, bridges, and schools. It cuts taxes to spur consumer spending and small business hiring. And it maintains a safety net for Americans most hurt by the economic downturn.

Let's take these three strategies in turn and examine the evidence that each will work to create jobs and grow the economy.

Preventing layoffs and putting people to work repairing bridges, roads, and schools

What the bill does

The American Jobs Act will invest $140 billion in infrastructure and layoff-prevention, which should raise U.S. economic output by $220 billion, according to Zandi.[5] Among these investments are $50 billion in immediate spending for highway, highway safety, transit, passenger rail, and aviation activities. The bill would also invest $30 billion in modernizing and upgrading school and community college infrastructure.[6] And $35 billion would go to prevent up to 280,000 layoffs of teachers, who are—along with cops and firefighters—particularly vulnerable to local government budget shortfalls.

Evidence it will create jobs

We know from experience that infrastructure investments create private-sector jobs. The Recovery and Reinvestment Act of 2009, for example, saved or created 1.1 million construction jobs and 400,000 manufacturing jobs by March 2011—almost all of them in the private sector.[7] And more than 400,000 teachers got to keep their jobs thanks to a direct state aid infusion in the Recovery Act known as the State Fiscal Stabilization Fund, according to the Education Department.[8]

Academic, private-sector, and nonpartisan government studies alike confirm the positive effects of infrastructure and transportation investments on private-sector employment. With $21.5 billion in highway funding alone, the Recovery Act put Americans to work on our nation's roadways for 51 million hours—time they may have otherwise spent idle and unpaid.

Why is infrastructure investment such an effective job creator? Because upgrading roads, bridges, and other basic infrastructure lowers the cost of doing business—such as transporting goods. That makes U.S. companies more competitive. And these investments put people to work earning good, middle-class incomes, which expands the consumer base for businesses.

Evidence of bipartisan support

Infrastructure investments have historically had bipartisan support because they boost productivity for all American businesses, while creating jobs. That's why both AFL-CIO President Richard Trumka and U.S. Chamber of Commerce President Thomas Donohue this year joined hands to say: "[W]e hope that Democrats and Republicans in Congress will also join together to build America's infrastructure."[9]

Cutting payroll taxes to stimulate hiring and consumer spending

What the bill does

The American Jobs Act halves payroll taxes that businesses pay on their first $5 million in wages, and entirely eliminates payroll taxes on new workers or raised salaries. This tax cut helps every business, but targets the 98 percent of American firms with payrolls of less than $5 million. The bill also puts more money into the pockets of every one of the 160 million American workers by cutting their own payroll taxes by half—providing an extra $1,500 to the typical American household.

Evidence it will create jobs

Well-designed tax cuts can boost the economy when demand is low.[10] The $175 billion tax break going to American workers under the bill would generate about $222 billion in economic activity, according to Zandi, the Moody's chief economist.[11] And the employer-side payroll tax holiday will also have a strong stimulative effect. Based on recent experience, a $50 billion in payroll tax holidays for employers would generate $52.5 billion in additional economic activity.[12]

Evidence of bipartisan support

In 2010, fifty House Republicans—including Michelle Bachmann (R-MN) and Select Committee on Deficit Reduction member Jeb Hensarling (R-TX)—co-sponsored legislation to halve employer and employee-side payroll tax rates, along the lines of the president's plan.[13] Sen. Orrin Hatch (R-UT), the top Republican on the Senate Finance Committee, said he would "probably be for" an employer-side payroll tax cut.[14] And the right-leaning National Federation of Independent Businesses has voiced support for payroll tax holidays.[15]

Maintaining a safety net for Americans most hurt by the economic downturn

What the bill does

The American Jobs Act extends unemployment insurance to the long-term unemployed and helps out-of-work people find jobs through training, provides subsidies for older workers who take pay cuts, summer jobs for low-income youths, and prohibitions on discriminating against the unemployed. The bill also targets employment and job-training programs to returning veterans, minorities, and economically disadvantaged people who have been disproportionately hurt by the recession.

Evidence it will create jobs

Unemployment benefits keep people out of poverty and they stabilize the economy by increasing the demand for goods and services. These benefits kept 3.2 million people, including 900,000 children, out of poverty in 2010, according to the Census Bureau. Unemployment benefits have kept an average of 1.6 million American workers in jobs every quarter during the last recession, according to Urban Institute economist Wayne Vroman.[16]

Evidence of bipartisan support

Republican- and Democratic-led Congresses have both provided emergency unemployment benefits when unemployment was high, and extending them has not historically been a partisan issue. Congress has not once in the last 40 years allowed benefits for long-term unemployed to expire when the unemployment rate was above 7.2 percent.

"You've got to create a demand for labor"

The bottom line: The American Jobs Act is a thoughtful jobs-creation package that assembles tried-and-true strategies to immediately create jobs at a time of persistently high unemployment. It's been vetted and approved by independent economic forecasters, and it's made up of policies that have been endorsed by both political parties. And it will be popular with the public.

It's time for Washington lawmakers to come together and take the steps only they can to put the economy on sounder footing—and put millions of Americans back to work. As

Bill Gross, founder of the world's largest bond fund, recently admonished the government in the New York Times: "You've got to create a demand for labor. The private sector is not going to do it."

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Endnotes

1 In 2001 during the recession, President Bush sent rebate checks of $300 to individuals and $600 to married couples to boost the economy. See also: Michael Linden, John Griffith, and Jordan Eizenga, "Republicans Loved Stimulus When Bush Was in the White House" (Washington: Center for American Progress, 2011), available at http://www.americanprogressaction.org/issues/2011/08/republicans_stimulus.html.

2 Mark Zandi, "An Analysis of the Obama Jobs Plan," Moody's Analytics, September 9, 2011, available at http://www.economy.com/dismal/article_free.asp?cid=224641.

3 Macroeconomic Advisors, "American Jobs Act: A Significant Boost to GDP and Employment" (2011), available at http://macroadvisers.blogspot.com/2011/09/american-jobs-act-significant-boost-to.html.

4 Roger and Julianna Goldman Runningen, "Obama Says Congress Should Act on $447 Billion Jobs Plan With 'No Delays','"Bloomberg, September 12, 2011, available at http://www.bloomberg.com/news/2011-09-12/obama-says-congress-should-act-on-447-billion-jobs-plan-with-no-delays-.html.

5 Estimates based on Mark Zandi, "Global Policy Prescriptions: How Another Recession Can Be Avoided" (New York: Moody's Analytics, 2011), available at http://www.economy.com/mark-zandi/documents/Policy-Prescriptions-20110826.pdf.

6 Mary Filardo, Jared Bernstein, and Ross Eisenbrey, "Creating Jobs Through FAST!, a Proposed New Infrastructure Program to Repair America's Public Schools" (Washington: Economic Policy Institute, 2011), available at http://web.epi-data.org/temp727/Fix%20America%27s%20Schools_Today_FINAL.pdf.

7 Danial J. Wilson, "Fiscal Spending Jobs Multipliers: Evidence from the 2009 American Recovery and Reinvestment Act" (San Francisco: Federal Reserve Bank of San Francisco, 2010), available at http://www.frbsf.org/publications/economics/papers/2010/wp10-17bk.pdf.

8 U.S. Department of Education, "U.S. Department of Education American Recovery and Reinvestment Act Report: Summary of Programs and State-by-State Data" (2009), available at http://www2.ed.gov/policy/gen/leg/recovery/spending/arra-program-summary.pdf.

9 Michael D. Shear, "Chamber of Commerce and A.F.L.-C.I.O. Praise Obama," The Caucus Blog, January 26, 2011, available at http://thecaucus.blogs.nytimes.com/2011/01/26/chamber-and-union-leaders-praise-obama/.

10 Douglas Elmendorf and Jason Furman, "If, When, How: A Primer on Fiscal Stimulus" (Washington: The Hamilton Project, 2008).

11 Estimates based on Zandi, "Global Policy Prescriptions: How Another Recession Can Be Avoided."

12 Ibid.

13 "H.R.5029 - Economic Freedom Act of 2010," Open Congress, available at http://www.opencongress.org/bill/111-h5029/show.

14 Mike Dorning and Hans Nichols, "Payroll-Tax Break Said to Be Discussed by Obama Aides Amid Slowing Economy" Bloomberg, June 9, 2011, available at http://www.bloomberg.com/news/2011-06-08/payroll-tax-break-said-to-be-discussed-by-obama-aides-amid-slowing-economy.html.

15 National Federation of Independent Business, "Payroll Tax Holiday," (2011), available at http://www.nfib.com/issues-elections/issues-elections-item?cmsid=49039.

16 Wayne Vroman, "The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession" (Washington: The Urban Institute, 2010), footnote 32.