National Priorities Project
Data for Democracy Series

Jobs, Deficit and Taxes

Slide #1 – Jobs, Deficits & Taxes: Demystifying three of the most pressing issues of our time

Slide #2 – About NPP

Introduction

During a recession business slows down and people lose their jobs. The amount that corporations and individuals pay in taxes goes down, so government has less money. Meanwhile, demand for programs intended to ease the effects of the recession – unemployment compensation, food assistance, or any sort of economic stimulus plan – goes up. Less tax money coming in coupled with more spending to meet higher demand for federal assistance programs means deficits, which means borrowing, which means debt.

Most Americans are concerned about the current economic situation and nervous about their family's futures.

Slide #3 – What are the issues and why are they important to me?

These issues have dominated the daily news and the 2010 Congressional elections.

- Government has a role in providing assistance to unemployed workers and promoting economic recovery.
- What will that role be?
- Who will decide?

COVER SLIDE #4 – JOBS

Fifteen months after the recession's official end in June 2009, the economy is short 11.5 million jobs – that's the number of jobs lost during the recession, plus the number of new jobs needed to keep pace with new workers entering the work force over that period of time. The labor market remains an estimated 8.1 million payroll jobs below where it was at the start of the recession in December 2007.

SOURCES:
Economic Policy Institute, October 8, 2010, Heidi Shierholz,
http://www.epi.org/publications/entry/september_jobs_picture/

Slide #5 – Unemployment in America

Americans are worried about more than losing their job or finding a new one – the alternatives they see before them are not employment or unemployment; they are stability or instability, security or insecurity.

Unemployment in September 2010 was 9.6 percent, unchanged from the previous month. And while this is down from its recession highpoint of 10.1% (Oct. 2009), this is still higher than any point prior to the recession dating back to 1983 – also 9.6%. 14.8 million people were unemployed in September, 2010.

SOURCES:
"Employment Situation Summary, September 2010," U.S. Department of Labor, Bureau of Labor Statistics, October 8, 2010,
http://www.bls.gov/news.release/empsit.nr0.htm

NPP Database for historical unemployment figures

The National Bureau of Economic Research, which tracks these trends, issued a statement Sept. 20 saying the recession officially lasted 18 months – starting in December 2007 and ending in June 2009

SOURCE:
Business Cycle Dating Committee, National Bureau of Economic Research, September 20, 2010,
http://www.nber.org/cycles/sept2010.html

"In terms of fiscal policy, Congress and the Bush Administration enacted the Economic Stimulus Act of 2008 (P.L. 110-185). This act was a $120 billion package that provided tax rebates to households and accelerated depreciation rules for business. Congress and the Obama Administration passed the American Recovery and Reinvestment Act of 2009 (P.L. 111-5). This was a $787 billion package with $286 billion of tax cuts and $501 billion of spending increases that is projected to add fiscal stimulus equivalent to about 2% of GDP in 2009 and 2.5% of GDP in 2010."

SOURCE:
"Economic Recovery: Sustaining U.S. Economic, Growth in a Post-Crisis Economy," Congressional Research Service, Report R41332, July 22, 2010, Craig K. Elwell
www.fas.org/sgp/crs/misc/R41332.pdf

SLIDE #6 – Recovery For Cities: A Long Road For U.S. Cities

CHART SOURCE:
"Pace of Economic Recovery: GMP and Jobs," U.S. Conference of Mayors, January 2010, Table 11: Return to Peak Employment,
http://www.usmayors.org/78thWinterMeeting/metroeconomiesreport.asp

Additional Resources

LONG-TERM UNEMPLOYED NUMBER JUMPS - Pew's Fiscal Analysis Initiative released statistics showing that as of August 2010, 4.4 million people (30 percent of all unemployed) -- roughly the population of Louisiana -- had been out of work for a year or more, an increase of nearly 30 percent since December 2009.

SOURCE:
"A Year or More: The High Cost of Long-Term Unemployment," October 7, 2010,
http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/LTU%20Addendum%20Final%2010_05_10.pdf

"Outlays for unemployment compensation – which soared in 2009 because of the recession and legislation that enhanced benefits for jobless people – have continued to grow significantly this year, albeit at a slower pace than last year. CBO now projects that outlays will rise by 33 percent (or $39 billion) in 2010 – to a total of $160 billion – entirely as a result of higher spending for emergency unemployment benefits. (Currently, jobless people in states with high unemployment rates may qualify for up to 99 weeks of benefits.) This year's $160 billion figure represents a substantial increase from just three years ago, when outlays for unemployment benefits totaled $33 billion." (Pg. 10)

SOURCE:
"The Budget and Economic Outlook: An Update," Congressional Budget Office, August 2010,
http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf

SLIDE #7 – Creating Jobs

CHART SOURCE:
"The U.S. Employment Effects of Military and Domestic Spending Priorities: An Updated Analysis," Robert Pollin and Heidi Garrett-Peltier, October 2009, http://www.peri.umass.edu/fileadmin/pdf/published_study/spending_priorities_PERI.pdf

The Political Economy Research Institute (PERI) at the University of Massachusetts has looked at how many jobs are created per billion dollars spent on the military, or on education, clean energy, health care or if we gave the money back in tax cuts.

You can see that compared to these other sectors military spending does not create as many jobs. Why? According to PERI:

Spending in these other sectors is more labor intensive than spending on weaponry. More of the money goes to hiring people, as opposed to spending on machinery, buildings, energy, etc.

When a dollar is spent on these other sectors, more of the money would stay in the U.S. than if the money were spent on the military. For example, PERI estimates that military personnel spend only 43% of their income on domestic goods and services, while the U.S. civilian population spends, on average, 78% on domestic products.

Total jobs created in military spending pay more in benefits (not salaries) than jobs in the other three sectors. By total jobs, the study means direct jobs (e.g. building jets or schools) plus indirect jobs (in industries that supply the building of jets or schools) and the induced jobs, jobs created in other sectors of the economy where those making the jets or schools or teaching spend their money.

American Recovery and Reinvestment Act (ARRA) – In February 2009, Congress enacted ARRA in response to significant weakness in the economy. ARRA's numerous spending and revenue provisions can be grouped into several categories according to their focus:

- Funds to states and localities
- Support people in need
- Purchase goods and services
- Provide temporary tax relief

According to the Congressional Budget Office (CBO) impact of ARRA on employment in 2010 is:

- 2010 unemployment rate reduced between 0.7%-1.3%

- Increased employment between 1.3-3.3 million people

It is important to note, however, that ARRA's impact will dry up in 2012.

According to CBO "When ARRA was being considered, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation estimated that it would increase budget deficits by $787 billion between fiscal years 2009 and 2019. CBO now estimates that the total impact over the 2009–2019 period will amount to $814 billion. Close to half of that impact is estimated to occur in fiscal year 2010, and about 70 percent of ARRA's budgetary impact will have been realized by the close of that fiscal year." (pg. 1)

SOURCE:
"Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From April 2010 Through June 2010," Congressional Budget Office, August 2010, Benjamin Page,
http://www.cbo.gov/ftpdocs/117xx/doc11706/08-24-ARRA.pdf

Additional Resources

Examines policies enacted in response to the financial crisis, cases both for and against more fiscal stimulus, and signs of sustained economic recovery. CRS is the non-partisan research branch of the Library of Congress, providing research and reports for members of Congress.

SOURCE:
"Economic Recovery: Sustaining U.S. Economic Growth in a Post-Crisis Economy," Congressional Research Service, Report R41332, July 22, 2010, Craig K. Elwell
www.fas.org/sgp/crs/misc/R41332.pdf

Analyzes the reports submitted by recipients of ARRA funding, detailing the number of jobs funded through their activities. It also gives CBO's estimate of ARRA's overall impact on employment and economic output in the second quarter of calendar year of 2010.

SOURCE:
"Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From April 2010 Through June 2010," Congressional Budget Office, August 2010
Benjamin Page
http://www.cbo.gov/ftpdocs/117xx/doc11706/08-24-ARRA.pdf

More places to look

"The U.S. Employment Effects of Military and Domestic Spending Priorities: An Updated Analysis, October 2009,"
Robert Pollin and Heidi Garrett-Peltier
http://www.peri.umass.edu/fileadmin/pdf/published_study/spending_priorities_PERI.pdf

"Pace of Economic Recovery: GMP and Jobs," Table 11: Return to Peak Employment
U.S. Conference of Mayors, January 2010
http://www.usmayors.org/78thWinterMeeting/metroeconomiesreport.asp

"U.S. Jobs and Budget Crises: Local Impacts and Federal Initiatives"
NPP Factsheet, April 30, 2010
http://www.nationalpriorities.org/jobs-and-state-budget-crises

COVER SLIDE #8 – DEFICITS

Slide # 9 – What is a deficit?

Each year, money comes into the Treasury as revenues from such things as individual and corporate income taxes, payroll taxes for Social Security and Medicare, estate taxes, gift taxes, customs tariffs on imported goods, and excise taxes. The government then spends money on a vast array of federal programs — education, housing assistance, job training, the military, healthcare, and entitlement programs like Social Security and unemployment benefits. When revenues (money coming in) are higher than expenditures (money going out), you have a surplus. Much more frequently, when expenditures exceed revenues, you have a deficit.

"Debt" vs. "Deficit"

- "Annual Deficit" is when the government spends more than it brings in as revenues (vs. "Surplus").
- "National Debt" is the accumulated total of annual deficits and surpluses.

Kinds of Debt

- Debt Held by the Public – Treasury bills sold to individuals, corporations or foreign governments.
- Debt Held by the U.S. Government – Debt purchased by other government accounts (SS, Medicare, Transportation trust funds) using their surpluses.

To finance its deficit the government has to borrow funds, similar to when individuals use a credit card to finance purchases that exceed their budget.

The federal government borrows money mainly from two sources. First, money can be borrowed from existing federal trust funds. For example, the government can borrow from the Social Security surplus to pay for other programs. Second, money can be borrowed from outside sources. To do this, the government issues bonds and federal securities which are purchased by individual and corporate investors, and frequently, by foreign governments.

There is increasing public debate about the drawbacks of both types of debt. For example, there are concerns about borrowing too heavily from the Social Security trust fund as "baby boomers" begin to retire, placing greater demands on the program. Meanwhile, there is growing concern about debt that is held by foreign countries and what impact it might have on the U.S. economy, and even on U.S. foreign policy.

Slide #10 – Are Deficits Bad or Good?

According to the Treasury Department, the deficit for FY 2010 was $1.294 trillion, $122 billion or 9 percent less than in FY 2009. As a percentage of GDP, the deficit fell to 8.9 percent, down from 10.0 percent of GDP in FY 2009.

> SOURCE:
> "Joint Statement of Timothy Geithner, Secretary of the Treasury, and Jeffrey Zients, Acting Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2010, " October 15, 2010,
> http://www.ustreas.gov/press/releases/tg911.htm

Examples of Deficits

- Good – borrowing to support critical federal goals – economic stimulus (Roosevelt, ARRA)
- Bad – add to long-term debt, impact of interest payments

The President's National Commission on Fiscal Responsibility and Reform is scheduled to release its recommendations on ways to address the national debt on December 1, 2010. This is causing a lot of discussion about deficits and debt in Washington, D.C. and in communities around the country, where they have become election issues.

Are federal deficits always a bad thing? It depends on who you ask. Deficits add to the debt, and like you, the government pays interest on money it borrows. Generally speaking, the higher the national debt, the higher the government's annual interest payments. For example, the White House's Office of Management and Budget (OMB) estimates that the government will pay $250 billion in interest payments in FY 2011. As the chart on this slide shows, this amount is projected to grow to over $900 billion by FY 2020. Over that time, the government will make $3.5 trillion in additional interest payments above what they would be if interest on the debt stayed at FY 2011 levels. Dollars spent on interest payments are dollars that are not available for other federal priorities.

Yet, borrowing money allows you to continue to fund critical federal programs during times when revenues are down, rather than eliminate essential services or shut down in the short-term popular programs which would be costly to re-start during better economic times. Likewise, borrowing can also be used to fund programs intended to aid economic recovery, as during the FDR administration or the recent American Recovery and Reinvestment Act. Borrowing is also frequently used to fund federal relief programs after a natural disaster, or in times of war.

So, at the same time that many people believe that more government spending is essential — to pay unemployment benefits, continue essential services, and promote economic recovery — others are concerned about high deficits and the long-term impact of the national debt.

A (Brief) History of Budget Surpluses and Deficits (1945-2010)

During the post-World War II period from 1945 up until the end of 1960s, the country experienced unprecedented economic prosperity. Spending by the federal government fluctuated, with the budget in surplus during good years and deficit in bad years.

The last surplus of the post-World War II era occurred during President Lyndon Johnson’s last term in office. During his presidency, President Johnson greatly increased federal spending by enacting “Great Society” social welfare programs like Medicaid, Medicare, and federal aid to education. In 1969, President Johnson delivered a final budget with a $3.2 billion dollar surplus.

During the 1970s the United States experienced gradually growing federal deficits caused by the cost of the Vietnam War and increasing economic troubles. In 1973 the OPEC oil embargo made oil prices shoot up, creating a global recession. U.S. economic growth slowed, and productivity decreased.

Under the Jimmy Carter administration, the country went through a period of “stagflation” – slower than expected growth -- because of surging oil prices. But the overall growth rate during the Carter administration was a steady 3.4% per year.

President Ronald Reagan's economic and foreign policies — tax cuts combined with substantial increases in Cold War–era defense spending — led to a string of deficits that averaged $206 billion a year between 1983 and 1992. President George H.W. Bush did little to reverse these trends, and annual growth during this period of “supply-side” economics shrank to 2.8 percent.

The enactment by Congress of the balanced-budget acts of 1990 and 1997 helped reverse this unprecedented level of peacetime spending, and in 1998 the U.S. recorded its first budget surplus in nearly 20 years.

President Bill Clinton took office in 1992 at a time of comparatively large deficits and high unemployment, which hovered at roughly 7.5 percent. He adopted economic policies that focused on reducing the budget deficit, halting the widening gap between rich and poor, and spurring innovation and investment. By the end of his term, these policies had yielded a period of sustained economic growth which averaged 4 percent, and during which time unemployment dropped to 4 percent, the lowest levels in three decades.

When he entered office in 2001 President George W. Bush returned to economic policies focused on tax cuts for the wealthy under the theory that it would stimulate more investment that would “trickle down” to everyone else. The September 11 attacks and the revelation of the Enron scandal in October 2001 (which ultimately led to the largest bankruptcy in history until that time and the collapse of Arthur-Anderson, one of the nation's "big five" accounting firms) put additional pressure on the economy. Likewise the enactment of the 2003 Medicare Part D prescription drug program, which projections stated would add an estimated $1 trillion to the federal deficit over the following decade, all contributed to creating a tough economic climate.

By the early 21st Century the economy had begin to recover. Then, during 2005-06 the U.S. housing "bubble" burst, helping to trigger a crisis in the U.S. banking system. This has caused the global collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets world-wide.

Additional Resources

Topos looks at the arguments/narratives that can successfully build popular support for continued federal efforts to stimulate the economy and to "shore up" state budgets in order to promote economic recovery, despite concerns about the deficit.

> SOURCE:
> "Beyond 'Living Within Our Means"
> Produced by the Topos Partnership for the Ford Foundation, October 2010
> .pdf found on with other Jobs, Deficits and Taxes materials

The growing panic over government debt is misguided, given the current economic climate. The best chance we have is more government spending to nurse the economy back to health.

> SOURCE:
> "Deficits of Mass Destruction"
> The Nation, July 15, 2010
> Christopher Hayes, Washington, D.C.
> http://www.thenation.com/article/37534/deficits-mass-destruction

More places to look

> "The Debt Limit: History and Recent Increases"
> Congressional Research Service, Report RL31967, September 8, 2010
> http://www.fas.org/sgp/crs/misc/RL31967.pdf

> "The Impact of Major Legislation on Budget Deficits: 2001 to 2009"
> Congressional Research Service, Report R41134, March 23, 2010
> Marc Labonte and Andrew Hanna
> www.fas.org/sgp/crs/misc/R41134.pdf

COVER SLIDE #11 – TAXES

"'In this world nothing can be said to be certain, except death and taxes."
~ Benjamin Franklin

SLIDE #12 – Current and Possible Revenue Sources

As the slide shows, in Fiscal Year 2009 34 cents out of every federal dollar in the government's "General Funds" fund came from individual income taxes. Five cents came from corporate taxes, 4 cents came from a combination of estate, gift, customs and excise taxes, while 57 cents was borrowed.

As background, the federal budget consists of two major pots of money: trust funds and federal funds. "Trust funds" are designated as such by law. All other funds that are not trust funds are "federal funds."

Trust funds earmark revenues for particular purposes. The larger trust funds finance payments for Social Security, Medicare and unemployment compensation. So, for example, money flows into the Social Security Trust Fund through the Social Security deduction from employers and employees (known as the "Federal Insurance Contributions Act," or "FICA"). Money is then deducted from the trust fund to pay benefits to Social Security recipients.

Options for increasing revenues include raising individual or corporate income taxes, increasing existing excise taxes or fees, or imposing new fees or taxes such as a "Value Added Tax."

What is a Value-Added Tax (VAT)

The Value Added Tax is an indirect tax imposed on goods and services at each stage of production, starting from raw materials to final product. VAT is levied on the value additions at the different stages of production. VATs are common in European countries, with a growing number of countries across the globe adopting this tax system.

> SOURCE:
> http://www.economywatch.com/business-and-economy/definition.html

Increasing the Gasoline Excise Tax

Some experts have proposed a significant increase in the federal excise tax on gasoline. They say it would boost federal revenues, while reducing demand for gasoline at the pump and encouraging the development of more fuel-efficient vehicles and energy-saving technologies. Opponents say it could have a chilling effect on the economy and a negative impact on industries reliant on surface transportation for the distribution of goods and materials.

Slide #13 – Individual v. Corporate Taxes (1934-2011 est.)

As we showed in Slide #12, the ratio of federal revenues from individual income taxes to corporate income taxes is 34 cents to 5 cents, or roughly seven to one. Yet as slide #13 shows, this hasn't always been the case. During the period around World War II (the end of the Great Depression through the beginning of the post-war economic "boom") corporate and individual taxes provided roughly the same percentage of total federal revenue.

Slide #14 – The “Bush Tax Cuts” – Set to Expire December 31, 2010

One of the major topics of conversation in Washington in relation to economic stimulation and deficit/debt reduction is the fate of the “Bush Tax Cuts,” which are set to expire at the end of this year.

Technically, what have come to be known as the “Bush Tax Cuts” are two pieces of legislation – the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Basically, the Bush tax cuts made the following changes in the tax code:

- Lowered tax rates across the board on income, dividends & capital gains
- Eliminated estate tax
- Reduced burdens on married couples, parents & the working poor
- Increased tax credits for education & retirement savings.

There are several related questions. First, what’s more important – deficit reduction or stimulating economic growth through lower taxes? Second, which of these plans are most likely to work?

So, should the tax cuts be allowed to expire, as many Democrats prefer, should they be extended, as many Republicans wish, or should it be some mix of the two? President Obama, for example, has proposed the extension of certain tax credits targeting the working class, and an extension of lower income tax rates for individuals making less than $200,000 a year or households making less than $250,000.

Yet given growing concerns about the deficit, there is support for simply letting the Bush cuts expire. This would have no cost to the government, and would actually contribute to reducing the deficit. Meanwhile, according to the Congressional Research Service (CRS), extending the cuts would cost $2.8 trillion over ten years, while the Obama plan would cost $2.1 trillion over 10 years.

A NOTE ON COSTS – There have been many assessments done of the fiscal implications of the various plans to treat the Bush tax cuts, and the dollar figures range considerably. CRS figures are used here, and they tend to be towards the low end of the various cost estimates.

SOURCE:
The Impact of Major Legislation on Budget Deficits: 2001 to 2009
Congressional Research Service, Report R41134, March 23, 2010
www.fas.org/sgp/crs/misc/R41134.pdf

Additional Resources

William Gale, a senior fellow at the Brookings Institution and co-director of the Urban-Brookings Tax Policy Center, clarifies some of the myths surrounding the debate over whether or not to extend the Bush tax cuts.

SOURCE:
"Five Myths About the Bush Tax Cuts"
Washington Post, August 1, 2010
William G. Gale
http://www.washingtonpost.com/wp-dyn/content/article/2010/07/30/AR2010073002671.html

59% of the population favors either letting the portion of the Bush tax cuts on income over $250,000 expire or letting all of them expire.

SOURCE:
Gallup Poll, Sept 10, 2010
<http://www.gallup.com/poll/142940/Americans-Allowing-Tax-Cuts-Wealthy-Expire.aspx>

Impacts on People in Your State and Congressional District, State Fact Sheets and Analyses from Citizens for Tax Justice.

SOURCE:
"President Obama's Plan vs. Senate Republicans' Plan"
Citizens for Tax Justice, September 17, 2010
http://www.ctj.org/bushtaxcuts2010.php

An interactive Website by the *Washington Post*.

SOURCE:
"Comparing Tax Plans"
How the fight over tax breaks affects your bottom line
http://www.washingtonpost.com/wp-srv/special/business/comparing-the-tax-plans/

More places to look

"The Bush Tax Cuts and the Economy,"
Congressional Research Service, R41393, September 3, 2010
http://www.fas.org/sgp/crs/misc/R41393.pdf

"CTJ's Suggested Principles for Tax Reform"
Citizens for Tax Justice, October 16, 2009
http://ctj.org/ctjreports/2009/10/ctjs_suggested_principles_for_tax_reform.php