

CENTER FOR BUSINESS AND ECONOMIC RESEARCH MILLER COLLEGE OF BUSINESS

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## An Analysis of the Short Run Effects of the American Jobs Act

On September 8, 2011, President Obama released details of the American Jobs Act before a joint session of Congress. This proposal contains five primary elements designed to boost short-term economic activity and enhance long-term productivity in the U.S. economy. The elements are:

- Increase and extension of the current \$0.02 suspension of Social Security payroll taxes through 2012, and includes a business contribution reduction on the first \$5 million of payroll.
- Authorizes \$60 billion for state K-12 costs (both operations and capital investment)
- Authorizes \$75 billion for transportation, water, sewer and broadband, which includes an infrastructure investment bank proposal.
- o Increases unemployment compensation support by \$54 billion, and creates a tax incentive for hiring long-term unemployed.

As with most similar proposals, the full details have not been crafted into legislation, so such issues as the mechanism for expanding broadband telecommunications is not yet clear. However, the remaining elements can be analyzed for their expected impacts on employment and output over the shortterm.

To analyze these impacts, we use a well-known national economic model developed by REMI, Inc. However, the more difficult analytical challenge lies in evaluating the timing of impacts. Experience with the American Recovery and Reinvestment Act provides some insight. The impact of the FICA suspension will be nearly immediate (begin as soon as the authorizing legislation allows) and will thus have an effect in calendar year 2012. Also, the operating costs for schools (roughly \$35 billion) will have the effect of offsetting local expenditures in the current year. The infrastructure spending will not have an effect in 2012, since the lead time on infrastructure projects is currently longer than 12 months. The increase in unemployment compensation will have an effect in 2012 and will be included in the model.

Table 1 outlines the analysis of these impacts:



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Table 1, Estimated Short Run Impacts of the American Jobs Act

	<b>2012 Impact</b>
Gross Domestic Product	\$72.76 billion
Gross Domestic Product (percent)	0.52%
Real Disposable Personal Income	\$78.57 billion
Real Disposable Personal Income (percent)	0.73%
Total Employment	928,000
Total Employment (percent)	0.51%

Importantly, the payments to states, Social Security payroll tax suspension and unemployment compensation suspension all have tax impacts at a future date which do affect business hiring decisions and so may mute the overall impact of these policies.

In total, these impacts suggest a more modest impact in 2012 than other estimates. Mark Zandi, Chief Economist at Moody's predicted the plan would result in a 1.9 million job boost, along with a 2 percent increase in Gross Domestic Product. Also, Dr. Susan Wachter at University of Pennsylvania has estimated impacts that are roughly equivalent to this analysis (1 million jobs, 1% of GDP).

These impacts should be viewed as a modest short run stimulus of the U.S. economy.

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