



Roll Back the Bush Tax Cuts: Generate Revenue to Create Jobs

The problem: a crisis of unemployment

Approximately 25 million Americans are un- or underemployed or have dropped out of the workforce altogether.¹ Though President Obama's stimulus package helped stop the economic freefall, and though by some accounts the economic situation is beginning to improve,² it is nearly certain that working and low-income people will continue to suffer in 2011 and beyond from joblessness and public infrastructure disinvestment.

A solution: implement mass-scale jobs programs

The federal government should implement the sort of far-reaching programs that are being advocated by accomplished policymakers and Nobel prize-winning economists.³ The programs include:

1. Creation of a clean energy corps and support for mass-scale building retrofits
2. Funding for desperately-needed repair of our nation's school buildings
3. Mass scale infrastructure repair and public transit system expansion, including bridge upgrades, road repair, and rail construction
4. Support for creation of domestic manufacturing jobs, including technical assistance and loans for small firms to retool and retrain
5. Direct aid to states
6. Work share programs

Economists almost universally agree that deficit spending to stimulate the economy will lead to a stronger recovery and a more fiscally sound future. But funding for these jobs

¹ Economic Policy Institute, *American Jobs Plan*, December 2009. Available at: http://www.epi.org/index.php/american_jobs/understanding_the_jobs_crisis

² McGeehan, Patrick, "Unemployment Rate Dips Again," *New York Times*, 19 July 2010. Available at: <http://cityroom.blogs.nytimes.com/2010/08/19/unemployment-rate-dips-again/?scp=1&sq=mcgeehan%20jobs&st=cse>. However, note the concluding sentence of the article: "In reality, the number of jobs declined last month, but the drop was only about one-tenth as big as it usually is in July. With the adjustments, that negative turned to a positive."

³ Paul Krugman and John Irons, the research and policy director for EPI, are two examples. See Krugman, Paul, "Now That's Rich," *New York Times*, 22 August 2010. Available at: <http://www.nytimes.com/2010/08/23/opinion/23krugman.html>.

programs could also come from tax revenue. According to an estimate by the Pew Economic Policy Group, allowing the Bush tax cuts⁴ to expire would generate \$2.6 trillion over the next 10 years, more than enough to implement a massive jobs program.⁵

Center for Budget and Policy Priorities and other leading policy organizations are calling for elimination of tax cuts to the highest earners – not full repeal of the tax cuts, which they consider either politically infeasible or unfair or both -- and redirection of that money towards human needs, particularly aid to states and job creation programs.⁶

The first five job creation items listed above were discussed in a recent memo, “Top Federal Jobs Policies to Put America Back to Work.” This memo describes work share and goes on to discuss the quantity of revenue that could be generated by allowing some or all of the Bush tax cuts to expire.

Work share: a part of the solution

How it works

Work share programs allow firms to reduce employee hours to avert layoffs in economically difficult times. For example, rather than laying off one full time worker, a participating employer could decrease five employees’ hours by 20 percent. Those employees then collect a corresponding portion of their unemployment insurance for those 8 hours (since $.2 \times 40 = 8$).

Currently existing work share programs

Work share programs are now in use in 20 states but workers rights advocates and policy experts from institutions such as National Employment Law Project and the Center on Economic and Policy Research suggest that they are poorly publicized and inadequately supported by the federal government.⁷ Legislation to provide temporary federal financing for state work share programs (S3753) was introduced by Sen. Jack Reed (RI) on August 5, 2010.⁸

⁴ “Bush tax cuts” refers to the packages of tax cuts enacted by the Economic Growth and Tax Relief Reconciliation Act of 2001” and the Job and Growth Tax Relief Reconciliation Act of 2003.

⁵ Pew Economic Policy Group, *Decision Time: Fiscal Effects of Extending the 2001 and 2003 Tax Cuts*,” May 2010. The Tax Policy Center, however, estimates that rolling back the cuts would save \$3.7 Trillion. See Looney, Adam, *The Debate Over Expiring Tax Cuts: What About the Deficit?* Available at: <http://taxpolicycenter.org/UploadedPDF/1001438-tax-cuts-debate.pdf>.

⁶ Marr, Chuck, *Letting High Income Tax Cuts Expire is the Proper Response to Nation’s Long and Short Term Challenges*, Center for Budget and Policy Priorities, 26 July 2010. Available at: <http://www.cbpp.org/files/7-26-10tax.pdf>.

⁷ Personal communication with Dean Baker of the Center on Economic and Policy Research, 19 August 2010 and personal communication with George Wentworth of NELP, 19 August 2010. There has, however, been an uptick in their use since the beginning of this recession.

⁸ Last year, in 2009, Sen. Reed had introduced similar legislation expanding federal support for states wishing to implement work share programs, but it did not gain traction.

Much attention has been paid to the German work share system, Kurzarbeit, which has been credited with insulating Germany from large scale job losses.⁹ Unlike US states' systems Kurzarbeit is very strongly and visibly supported by the German government.

Benefits and costs

Work share has potential to save large numbers of jobs with relatively small amounts of state funding. In Germany, approximately 1.5 million workers are on Kurzarbeit, which cost the state only \$2.85 billion for the first 10 months of 2009.¹⁰ Unemployment there has stayed at pre-recession levels.

Estimates for implementing a Kurzarbeit system in the US vary. Kevin Hassett of the American Enterprise Institute concludes that since Germany spent \$2.85 billion on its program for the first 10 months of 2009, the US would need to spend \$10.6 billion to do the same, adjusting for population size.¹¹

Another proposal from the Center for Economic and Policy Research suggests that providing tax credits of up to \$3,000 a year for employers would cost between \$42.9 and \$87.0 billion –depending on take up rate– and save between 1.3 and 2.7 million jobs.¹²

In addition to staving off mass scale unemployment, work share can benefit individual firms by saving them the expense of retraining and rehiring when the economy rebounds and allowing them to retain skilled workers. And of course employees benefit by staying in the workforce, preserving a large portion of their incomes and avoiding resume–damaging lapses in employment and atrophy of skills.

What could be gained from rolling back the Bush tax cuts?

What could be gained by a complete roll back?

According to a recent report by the Pew Economic Policy Group, rolling back the Bush cuts completely would save the US \$2.6 trillion over the next 10 years and \$115 billion in 2011, not counting interest.¹³

⁹ Brzeski, Carsten., “What is Kurzarbeit,” ING, 24 November 2009. Available at: http://www.ing.com/economics/showdoc.jsp?docid=422436_EN.

¹⁰ Hassett, Kevin, “US Should Try Germany’s Unemployment Medicine,” Bloomberg, 8 November 2009. Available at: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ax3kyE3bILDY>

¹¹ Hassett, Kevin, “US Should Try Germany’s Unemployment Medicine,” Bloomberg, 8 November 2009. Available at: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ax3kyE3bILDY>

¹² Baker, Dean, “Job Sharing: Tax Credits to Avoid Layoffs and Stimulate Employment,” CEPR, October 2009. Available at: <http://www.cepr.net/documents/publications/job-sharing-tax-credit-2009-10.pdf>. Also note that workers rights advocacy groups such as NELP are not necessarily in support of this proposal. Without proper controls the tax breaks might incentivize employers to cut hours even when they’re not considering layoffs.

¹³ Pew Economic Policy Group, *Decision Time: Fiscal Effects of Extending the 2001 and 2003 Tax Cuts*, May 2010. Available at: http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/PEW-Tax%20cut%20v15.pdf.

What could be gained by implementing Obama's proposal?

Implementing President Obama's proposal, which includes eliminating cuts for single filers earning over \$200,000 and married filers over \$250,000, would save about \$708 billion over 10 years. However, the US would still be spending \$2.3 trillion to fund tax cuts. And although it is being touted as a proposal for "middle class tax cuts," the president's plan would in actuality provide some breaks to all income levels.¹⁴

What is the likely outcome of this debate?

The debate in Washington is between those who want to extend the tax breaks in their entirety (Republicans and conservative Democrats), and those who want to extend them to the vast majority of joint filers earning less than \$250,000 and single filers earning less than \$200,000. Proponents of the latter option include President Obama and "left" Democrats. As a new report by Brookings points out, the debate is really over whether to "extend an extra \$310,000 in tax relief to [each of] the wealthiest 120,000 taxpayers," which would be the impact of rolling back all the cuts.¹⁵

Direct aid to states, unemployment benefits and food stamps are far better job creators than tax cuts, even tax cuts for the middle class. But a program of complete tax cut rollbacks and massive deficit spending to create jobs is not currently in the mix in this debate.

What do progressives want?

The Center for Budget and Policy Priorities advocates extending the cuts on all joint filers making less than \$250,000 and individual filers making less than \$200,000. Many esteemed economists, including Paul Krugman, advocate this as the best option, or at least as the best politically feasible option.¹⁶

What could be gained by rolling back the cuts on the top 2 percent of earners?

Rolling back cuts on single filers with incomes over \$200,000 would save between \$32 billion and \$40 billion in 2011 – enough to support a serious work share program, or implementation of Home, Building and Industrial Star and repairs for the nation's most dilapidated school buildings.¹⁷ It would save about \$708 billion over 10 years, enough to enact a massive program to create several million jobs.

¹⁴ Pew Economic Policy Group, *Decision Time: Fiscal Effects of Extending the 2001 and 2003 Tax Cuts*, May 2010. The Tax Policy Center estimates that rolling back the cuts would save \$3.7 trillion. See Looney, Adam, *The Debate Over Expiring Tax Cuts: What About the Deficit?* Available at: <http://taxpolicycenter.org/UploadedPDF/1001438-tax-cuts-debate.pdf>. In particular, see the chart on page 2, average tax cut by income group.

¹⁵ Looney, Adam, *The Debate Over Expiring Tax Cuts: What About the Deficit?* Available at: <http://taxpolicycenter.org/UploadedPDF/1001438-tax-cuts-debate.pdf>. Also, there are some who advocate a short term extension of the Bush cuts in their entirety; but progressive institutions like CBPP say this would not positively impact the economy or create jobs.

¹⁶ Personal communications with Dean Baker of CEPR and Kai Fillion of EPI, 23 August 2010.

¹⁷ Marr, Chuck, *Letting High Income Tax Cuts Expire is the Proper Response to Nation's Long and Short Term Challenges*, Center for Budget and Policy Priorities, 26 July 2010. Available at: <http://www.cbpp.org/files/7-26-10tax.pdf>.