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Special Series: **Economic Recovery Watch**

Revised May 20, 2010

BUDGETARY CONCERNS SHOULD NOT BE AN OBSTACLE TO PASSING THE NEW JOBS BILL

Near-Term Boost to the Economy Trumps Very Small Long-Term Budget Impact

By Paul N. Van de Water and Chad Stone

Congress is about to take up a jobs bill that will provide a needed boost to the economic recovery and help people still struggling to find work in a difficult labor market. Senate Finance Committee Chairman Max Baucus and House Ways and Means Committee Chairman Sander Levin today released a summary of the bill, the American Jobs and Closing Tax Loopholes Act of 2010. Concerns that the package is too large or that it should not be enacted unless it is fully paid for are misplaced. The bill includes three important but strictly temporary measures that will stimulate additional demand for goods and services and create jobs while the recovery is still struggling to gain traction; they are not permanent measures that add to the long-term budget deficit.

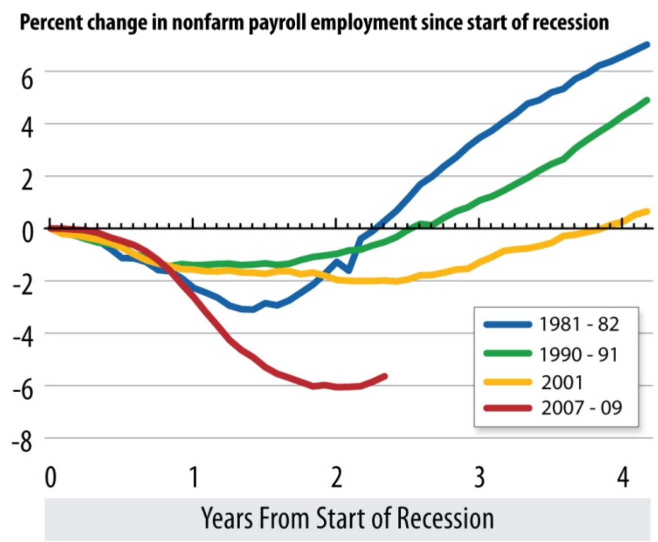
The bill also contains a three- to four-year fix to Medicare's flawed sustainable growth rate (SGR) formula for physicians. Although offsetting the budgetary cost of fixing the SGR would be desirable once the economic recovery gains steam, Congress has repeatedly signaled that it is unlikely to do so, and the recently enacted pay-as-you-go (PAYGO) legislation provides an exemption for the cost of continuing certain current policies, including physician payment rates. Now that the PAYGO law has been enacted, it is essential that Congress abide by it for permanent changes in mandatory spending or taxes. The jobs bill does not violate the new PAYGO law. And if Congress is not going to pay for the SGR fix in any event — a decision that the PAYGO law recognizes (and essentially enshrines in statute) — a longer solution is preferable to a series of one- or two-year extensions.

Bill Would Provide Needed Economic Boost

The good news about the economy is that the worst seems to be over. Economic activity has been expanding since last summer, and job losses have bottomed out. The bad news is that the economy is still in a deep hole and the turnaround in the labor market in the past few months has barely made a dent in a jobs deficit that is vastly larger than in previous recessions (see Figure 1). Demand for goods and services remains far below what the economy is capable of producing, and forecasters anticipate that economic growth will *slow* later this year as the stimulus from the Recovery Act begins to wane. The turmoil in European economies adds some further concern.

Under these circumstances, the key to boosting economic activity and strengthening the recovery is to create additional demand. The jobs bill contains several measures that will do this. Three of the most important are extensions of existing Recovery Act measures: renewing the provisions that provide extra weeks of unemployment insurance (UI) and subsidized COBRA health insurance coverage for unemployed workers to the end of the year and providing additional fiscal assistance to states struggling to balance their budgets.

FIGURE 1:
Job Losses Far Exceed Those in Other Recent Recessions



Source: CBPP calculations from Bureau of Labor Statistics Data

These measures are widely recognized as highly effective ways to boost economic activity and create jobs. Providing financial relief to unemployed workers who will be forced to cut consumption sharply if they no longer have UI benefits to replace part of their lost income does this directly. Similarly, providing fiscal relief for cash-strapped states reduces the amount of demand-reducing, job-killing budget cuts and tax increases the states otherwise will have to enact to meet their balanced-budget requirements.[1]

The bill also contains a smaller but very effective measure to extend the TANF Emergency Fund, which has enabled states to efficiently create subsidized jobs for TANF recipients and other low-income unemployed individuals at a low cost per job and to bolster overall consumer demand by helping states meet the growing need for basic assistance among very poor families with children. Extending the TANF Emergency Fund enjoys wide support and is highly cost-effective at creating employment.[2] Unlike the other three stimulus measures, this provision is not designated as an emergency in the bill, and its cost is fully offset over 10 years.

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[1] Aid to the unemployed ranks at or near the top of most analysts' estimates of the demand- and job-creating "bang for the buck" that various options to strengthen the weak economy would have. See, for example, Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in 2010 and 2011," January 2010. With respect to state fiscal relief, CBO says "federal aid that was provided promptly would probably have a significant effect on output and employment in 2010 and 2011." Other analysts, including Goldman Sachs and Mark Zandi, concur. See Goldman Sachs US Economic Analyst, "The State and Local Sector: What a (Fiscal) Drag!," July 10, 2009; and testimony of Mark Zandi before the Joint Economic Committee, "The Impact of the Recovery Act on Economic Growth," October 29, 2009, pp.10-12.

[2] Liz Schott, "TANF Emergency Fund Extension Has Wide Support," Center on Budget and Policy Priorities, May 3, 2010. See Testimony of Mark Zandi, Chief Economist, Moody's Analytics, Before the Senate Finance Committee, "Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges," April 14, 2010, http://finance.senate.gov/imo/media/doc/041410mztest.pdf.

Budgetary Objections Are Misguided

In opposing a temporary extension of the UI/COBRA provisions last month, Senator Tom Coburn (R-OK) expressed a widely held but misguided concern that "the problems are so severe in our country, our debt is so severe and the impact is so great in the near and long term" that at this point all government spending must be paid for.[3] Basic economics indicates, however, that this argument is not applicable to the measures in the new jobs bill.

- ***The impact of this jobs bill on the economy is strongly positive in the near term, while the impact on our long-term fiscal problem is insignificant.***

  Extension of UI and COBRA to the end of the year and continuing fiscal assistance to the states are widely recognized as effective measures to boost economic activity and create jobs in an economy with substantial excess unemployment and productive capacity. These measures are strictly temporary, and the history of past recessions and recoveries shows that they have always been allowed to expire once a strong and sustainable economic recovery is underway. Because these measures are temporary, they do not add significantly to the long-term budget deficit. In total, the parts of the bill whose costs are not offset — including the SGR fix — would increase the projected long-term budget gap (through 2050) by well under 1 percent.[4]

- ***Contemporaneous efforts to reduce the deficit defeat the purpose of efforts to stimulate a weak economy.***

  For Congress to require contemporaneous cuts in federal spending or tax increases so that measures to boost the economy do not increase short-term deficits would be unwise and counter-productive — it would reduce the overall demand for goods and services and thereby partially or fully cancel out the very economic boost that the recovery measures are designed to provide. Legislation that includes offsets that take effect only *after* the economy is fully back on track would not cause this problem to occur. But, requiring their inclusion could make it impossible for Congress to pass the legislation in the first place, particularly given the need for 60 votes in the Senate to pass virtually any measure.[5] And if the choice is between instituting temporary measures to shore up the economy even if the measures are not paid for and taking *no* action because the cost of the measures is not offset, the answer should be clear cut. Since the economic benefit of temporary measures such as extending UI benefits and state fiscal

[3] "Coburn threatens to block all spending bills in Senate that aren't 'paid for,'" *The Hill,* April 6, 2010.

[4] This estimate reflects the cost of the UI, COBRA, fiscal relief, and SGR provisions — the only measures in the bill whose cost is not offset. That cost is under $150 billion, with nearly half coming from the SGR provision that complies with the PAYGO law. Not counting the SGR provision, the unoffset costs of the bill are below $80 billion. See Kris Cox and Paul Van de Water, "Economic Recovery Bill Would Add Little to Long-Run Fiscal Problem," Center on Budget and Policy Priorities, January 16, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=2266.

[5] See James R. Horney and Chad Stone, "Don't Let the Ideal Prevent the Necessary: Why Offsets Are Not Needed for Temporary Economic Recovery Legislation," Center on Budget and Policy Priorities, March 3, 2010, http://www.cbpp.org/cms/index.cfm?fa=view&id=3101.

relief would be substantial while the impact on the long-term deficit would be tiny, Congress should not hesitate to enact such measures.

- ***Restricting the search for offsets to spending cuts does not make sense economically.***

  To be sure, in the best case scenario, policymakers would include provisions in the jobs bill that offset the short-run increases in the deficit with savings that would take effect after the economy is fully back on track (perhaps in 2015), so that the legislation would not have even a small impact on long-term deficits. And if including such offsets were politically feasible, it would be unwise to limit the search for offsets to spending measures; budget savings achieved through eliminating tax loopholes and inefficient tax expenditures are every bit as valuable as those achieved by cutting wasteful spending. Serious analysts recognize that solving the long-term deficit problem will require measures on both the spending and revenue sides of the budget; the same principle applies to finding offsets in the intermediate term.

  Nevertheless, many of the lawmakers who insist that extensions of UI benefits or state fiscal relief must be paid for also say that only spending reductions constitute acceptable offsets. These lawmakers often also assert that while *temporary* spending on unemployment benefits for jobless workers or state fiscal relief must be offset, *permanent* tax cuts need not be. Such a stance gets basic fiscal and economic policy backwards.

- ***Not paying for measures like extending UI/COBRA or state fiscal relief does not violate PAYGO.***

  Some opponents of the legislation argue that lawmakers who support extending UI, COBRA, and state fiscal relief without offsets are guilty of hypocrisy and of shamelessly maneuvering to circumvent the very pay-as-you-go law they voted for only a few months ago.

  Such charges are without foundation. Most PAYGO proponents have always said that the PAYGO rules can be waived in situations like those when temporary measures are needed to respond to a major economic downturn. The new PAYGO statute specifically exempts emergency measures from the PAYGO strictures, and the temporary measures needed during economic downturns have long been understood to be precisely the type of measures that should qualify. To ignore this component of the PAYGO law, and to try to use the law to block counter-cyclical measures to help a weak economy recover from a major downturn with near double-digit unemployment, would be to use the law in a way that would weaken the economy rather than strengthen it.

Fixing Medicare's Sustainable Growth Rate Formula

The proposed legislation would also provide a three- to four-year fix for Medicare's flawed sustainable growth rate (SGR) payment formula for physicians.[6]

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[6] For more information on the SGR, see Paul N. Van de Water, *The Sustainable Growth Rate Formula and Health Reform*, Center on Budget and Policy Priorities, April 21, 2010.

When the SGR was originally enacted in 1997, it was expected to lower physician payment rates only modestly below the levels that would have prevailed under prior Medicare law. The Congressional Budget Office estimated it would save only $12 billion over ten years. However, the SGR's designers greatly underestimated the increase in the volume and complexity of doctors' services, and the formula has required much deeper cuts in physician payments than originally anticipated. Since 2003, Congress has regularly prevented the full cuts required by the SGR from going into effect, without changing the underlying SGR formula or the cumulative spending targets, which are still in law. The most recent fix was enacted in April (Public Law 111-157) and extends through May 31. If the law is not changed again in the next two weeks, the SGR formula will trigger a massive 21.3-percent reduction in physician payment rates on June 1, 2010.

Everyone agrees that such a large reduction in physician payment rates would threaten Medicare beneficiaries' access to physician services, and Congress is therefore certain to prevent the full SGR cuts from taking effect. Although offsetting the cost of the SGR fix through tax increases or reductions in other spending would be desirable once the economic recovery is well underway, Congress has repeatedly signaled that it will not do so, and the recently enacted pay-as-you-go legislation (Public Law 111-139) — in a bow to political reality — provides an exemption for the cost of continuing several current policies, including a five-year freeze of Medicare's physician payment rates. If Congress is not going to offset the cost of the SGR fix in any event, it is more sensible — and no more costly — to enact a multi-year solution rather than a series of short-term extensions, which create needless uncertainty for both Medicare beneficiaries and their doctors.