

INTERESTED PARTIES MEMO ON THE IMPACT OF THE TAX AGREEMENT ON ECONOMIC EXPANSION AND JOB GROWTH

Earlier this week President Obama announced a framework agreement on tax cuts that, in the words of one leading economist, “ensures the economic recovery evolves into a self-sustaining economic expansion.”

The framework will avert what could have been a major shock to the U.S. economy had the tax cuts for the middle class been allowed to expire. Without an agreement, a typical middle class family would have faced a tax increase of \$3,000 beginning on January 1, 2010. The Congressional Budget Office estimated that had this happened, it could have reduced economic growth by as much as 1.7 percentage points next year, threatening to throw our economy into a double dip recession. Even if we had eventually extended the tax cuts sometime next year, the uncertainty in the interim period would have posed a major risk with for the economy.

The framework agreement will avoid this hit to the American economy. Yet even more significantly, because of the measures the President fought to include, the framework will make a significant positive contribution to economic expansion and job growth.

That is why **yesterday we saw a wide range of independent analysts significantly improve their forecasts for the American economy over the next two years.** In summary, these analysts found:

- **The President’s priority measures in the framework agreement will substantially increase economic growth next year – with forecasters estimates ranging from a 0.5% to 1.25% increase in GDP growth in 2011.** Mark Zandi from Moodys/Economy.com projected that the new provisions supported by the President will increase growth in 2011 by 1.25 percentage points next year. Other estimates from Macroeconomic Advisors, Deutsche Bank and Goldman Sachs all project increases on the growth rate of at least 0.5 percentage point next year.
- **The President’s priority measures will help create jobs – with outside forecasters projecting they will add more than 1.5 million jobs.** Mark Zandi’s analysis estimates that the package will create 1.6 million jobs; the Center for American Progress estimates job growth at over 2 million. Several other analysts’ estimates are consistent with that level of job growth.

Selected analyses of the economic impact of the framework agreement:

- **Moody’s:** package will provide “a substantial boost to growth in 2011.” [\[LINK\]](#)
- **Bank of America/Merrill Lynch Research:** “[W]hen the deal does get signed into law, it will force us to boost our GDP estimates for 2011.” [Bank of America/Merrill Lynch, “A Daily Memo from US Economics,” 12/07/2010]
- **Center for American Progress:** “The deal as announced would *save or create 2.2 million jobs, excluding jobs saved by extending the broad based Bush tax cuts, on which everyone agreed.*” [\[LINK\]](#)
- **Lawrence Mishel, Economic Policy Institute:** “President Obama won policies that will put or keep money in the pockets of the unemployed and middle and low-income families, which will increase spending and create jobs.” [\[LINK\]](#)
- **Goldman Sachs Research:** “The ‘framework’ that President Obama and congressional Republican leaders have agreed to, if enacted, could boost growth above our recently revised forecast for 2011.” [“GS Skinny: Broad Bipartisan Fiscal Deal = Upside to 2011 Growth,” 12/7/10]

ECONOMIC REACTION/COMMENTARY ON FRAMEWORK TAX AGREEMENT

Economists and Economic Research

Mark Zandi, Moody's Analytics

"[The proposed package] will ensure the economic recovery evolves into a self-sustaining economic expansion. Prior to this, I was less sure of that." [Mark Zandi quoted in the *Washington Times*, 12/7/10] [[LINK](#)]

"The proposed temporary tax cuts and spending increases will provide a substantial boost to growth in 2011. Instead of another year expanding at no more than the U.S. economy's potential growth rate — with job gains of 1.2 million and unemployment hovering near 10% — real GDP growth will accelerate to 4%, job gains will pick up to 2.8 million, and the unemployment rate will decline to around 8.5% by year's end. In all likelihood, the recovery would have made it through next year without backtracking into recession, but this deal improves those odds significantly." [Mark Zandi quoted in *Wall Street Journal* "Real Time Economics" Blog, 12/7/10] [[LINK](#)]

Wells Fargo Research

"Net, the result of this proposal on our U.S. outlook is that we are now expecting slightly higher GDP growth over the next year, led by gains in consumer spending and business investment. Both the unemployment benefits extension and tax cuts should provide a much-needed boost to personal incomes and real wages. Most importantly, the reduction in uncertainty should allow both investors and consumers to plan for the year ahead. These actions, once implemented, may provide firms with the consumer demand and capital needed to start expanding payrolls." [Wells Fargo Economic Research, "Tax Cut Deal Reduces Uncertainty," 12/07/2010]

"[This deal], once passed, will support greater income and spending on the part of consumers and provide investors with a much clearer picture of short-term fiscal policy. The continued reduced tax rate on both firms and consumers should provide a stronger incentive to hire through increased demand." [Wells Fargo chief economist John Silvia, quoted in *Wall Street Journal* "Real Time Economics" Blog, 12/7/10] [[LINK](#)]

Bank of America/Merrill Lynch Research

"Remember, what is critical for the economic outlook is whether the two parties can work together and our sense is that the President has too much invested in this deal to let it be scrapped. And, when the deal does get signed into law, it will force us to boost our GDP estimates for 2011. Our current forecast assumes that unemployment benefits do not get extended and that the 'Making Work Pay' credit ends. So, we are talking about a \$130 billion hit to disposable household income that does not materialize." [Bank of America/Merrill Lynch, "A Daily Memo from US Economics," 12/07/2010]

Goldman Sachs Research

"The 'framework' that President Obama and congressional Republican leaders have agreed to, if enacted, could boost growth above our recently revised forecast for 2011. While the details of the agreement are not yet entirely clear and some political uncertainty remains, our rough estimate is that this package could add 0.5 to 1.0 percentage points to growth in 2011. We will await details on the specifics of the fiscal

package, as well as additional clarity on the likely legislative outcome before deciding on any changes to our forecast.” [“GS Skinny: Broad Bipartisan Fiscal Deal = Upside to 2011 Growth,” 12/7/10]

Avalon Partners

"From a psychological standpoint, this probably will continue to boost the markets in the sense that this most likely will lead to an expansion in economic activity. People are going to be feeling a little bit better, and that means they'll be maybe even spending a little bit more." [Avalon Partners chief market economist Peter Cardillo, quoted in *Reuters*] [\[LINK\]](#)

Deutsche Bank Research

“The proposed payroll tax holiday is potentially a meaningful positive development for the US economy next year... According to our calculations, the Social Security tax reduction could add 0.7% to output next year, thereby taking Q4 over Q4 real GDP up to 4.1% versus our current 3.3% projection.” [Deutsche Bank US Daily Economic Notes, 12/07/2010]

Macroeconomic Advisers

“[T]here are three major components that we had not assumed, and that would, in fact, together significantly impact the economic outlook over the next few years ... Based upon what is currently known of these three key proposals, our preliminary analysis suggests that GDP growth in 2011 would be boosted by roughly ½ to ¾ percentage point. This is on top of the 3.7% growth of GDP anticipated for 2011 in our recently published forecast.” [Macroeconomic Advisers’ Macro Musing, “A December to Remember Compromise Boosts Growth,” 12/7/10]

J.P. Morgan Research

“Against the backdrop of positive momentum in recent US economic data, this policy shift has convinced us to raise our 2011 growth forecast, from 3.0% (4Q/4Q) to 3.5%. This upward revision is focused in 1H GDP growth, which now is expected to average 3.75% saar, versus 2.5% before.” [J.P. Morgan Daily Economic Briefing, 12/7/10]

BNP Paribas

“The package should provide a noticeable boost to GDP in 2011.” [BNP Paribas economist Bricklin Dwyer, quoted in *Wall Street Journal* “Real Time Economics” Blog, 12/7/10] [\[LINK\]](#)

Greg Mankiw, Professor of Economics at Harvard University

“I am generally pleased with the compromise over taxes the President and Republicans struck yesterday... As the policy was described yesterday, this payroll tax cut goes entirely to the worker. This increases work incentives, but the main motivation is probably to increase take-home pay, consumer spending, and aggregate demand. ... I should note that, as part of the deal, the President also got his proposal to allow businesses to expense investment spending. As I have said previously, this is a good idea, but the impact is likely to be modest.” [“The Tax Deal,” 12/07/10] [\[LINK\]](#)

Decision Economics

“This is a big deal for the stock market.” [Decision Economics chief global economist Allen Sinai, quoted in *Bloomberg*, 12/8/10] [[LINK](#)]

Other Economic Commentators

Michael Linden and Michael Ettlinger, Center for American Progress

“The deal as announced would save or create 2.2 million jobs [through 2012], excluding jobs saved by extending the broad based Bush tax cuts, on which everyone agreed.” [“The Jobs Impact of the Recently Announced Tax Framework”, 12/07/10] [[LINK](#)]

Lawrence Mishel, President of the Economic Policy Institute

“Who got what out of the deal is clear. The Republicans got tax cuts for the best-off two percent and lower estate taxes for the very wealthiest families, neither of which will do much if anything to create jobs. President Obama won policies that will put or keep money in the pockets of the families of the unemployed and middle and low-income families, which will increase spending and create jobs. That’s what a payroll tax holiday for workers, unemployment benefits and the various tax credits will do: create customers for business and create jobs, which is our biggest need right now. In two years, the American people will have a clear choice about who the tax code will favor. That debate will, I hope, highlight the hypocrisy of those wanting to deepen the deficit by extending tax cuts for the rich while simultaneously cutting health care, Social Security and domestic public investments.” [EPI.org, 12/06/2010] [[LINK](#)]

Bob Greenstein, Executive Director of the Center on Budget and Policy Priorities

“These provisions would protect low- and middle-income workers and their families and, by boosting their incomes, also preserve or create substantial numbers of jobs. ... In [securing the payroll tax reduction and extensions of unemployment benefits, the Earned Income Tax Credit, American Opportunity Tax Credit], the White House achieved everything it sought for low- and middle-income families. It evidently did not compromise at all on these issues.” [“Statement: Robert Greenstein, Executive Director, on the Tax Cut-Unemployment Insurance Deal,” 12/7/10] [[LINK](#)]

“It’s a bigger deal than anyone expected... Both sides gave more expected and both sides got more than expected.” [[Washington Post](#), 12/07/2010]

Bruce Josten, Executive Vice President for Government Affairs, Chamber of Commerce

“Enacting this bipartisan framework forged by the President and Congress is one of the best steps Washington can take to eliminate the uncertainty that is preventing our employers from hiring, investing, and growing their businesses. Although the greatest way to ease uncertainty is to permanently extend all of the current tax rates, we are very pleased that lawmakers of both parties were able to work together to provide a bipartisan path to prevent one of the largest tax increases in American history. An extension of all the marginal rates along with the extension of the expired business tax extenders, such as the R&D and active finance, and a sensible estate tax agreement will go a long way toward helping our economy break out of this slump and begin creating American jobs. While the devil is in the details, we are hopeful that Congress will swiftly pass this bipartisan framework to prevent a massive tax increase and help our economy move forward.” [[Chamber of Commerce](#), 12/07/2010]

Larry Burton, Executive Director, Business Roundtable

“We are pleased that congressional leadership and the President have made considerable progress toward a comprehensive bipartisan agreement. It reflects a compromise by all sides to extend tax relief and help provide certainty for American workers and businesses. This tax relief – including the extension of the dividends and capital gains rate – will provide a needed boost to job creation and investment. We applaud the inclusion of the R&D credit and other important business tax provisions that expired at the end of 2009. These provisions include long-standing features of the tax code that businesses rely on when they undertake hiring and investment decisions. Restoration of these provisions lifts an uncertainty for businesses that will improve their ability to employ more workers and grow the economy. Additionally, an employee payroll tax reduction and an increased incentive to undertake investment in machinery and equipment in 2011 should help to assist in the recovery.” [[Business Roundtable](#), 12/07/2010]

Susan Eckerly, National Federation of Independent Businesses (NFIB)

“The bipartisan tax framework will help small businesses as they work to strengthen our economy during these challenging times....Bottom line, the tax framework announced yesterday is encouraging, and NFIB strongly urges members of Congress to work in a bipartisan manner to quickly pass a tax compromise that will help small businesses.” [[NFIB](#), 12/7/2010]

Jonathan Bernstein, The New Republic

“Oh, it’s clear that Barack Obama and the Democrats are making a trade they didn’t want, and in that sense are losing. But they’re winning something, too. Actually, the best way to think of this is in the context of a post that Klein wrote (if I recall correctly) last spring, in which he noted that Republicans could have had whatever they wanted on health care in exchange for their votes. What I think happened here is that instead of the rejectionist strategy Republicans have used on most issues, on taxes Republicans and Democrats both wanted substantive results -- and that, given the party breakdown in the Senate, made a trade-off close to inevitable.” [[The New Republic](#), 12/07/2010]

“Understanding the tax cut debate just requires seeing that this is another of the Democrats’ big agenda items -- only this time, Republicans are playing for the substance, not the issue. And with both sides having substantive goals that they really care about, and neither having the votes to get there on their own, a deal makes lots of sense. Indeed, seen from this perspective, the eventual deal isn’t bad at all for the Democrats; they’ll be getting the middle class cuts plus whatever other stimulus and safety net they can bargain for, while the GOP gets, well, the only thing they seem to care about in domestic policy.” [[TNR](#), 12/06/2010]

Ezra Klein, Washington Post

“So is this a good deal? It's a lot better than I would've told you the White House was going to get if you'd asked me a week ago. There's some new stimulus in the form of the payroll-tax cut and the expensing proposals. The older stimulus programs that are getting extended -- notably the unemployment insurance and the tax credits -- probably would've expired outside of this deal... And finally, it's something of a hopeful sign: The White House sat in a room with Republicans and Democrats and managed to negotiate an actual compromise. The final deal includes some things that Democrats will like and some things they won't like, and it includes some things Republicans will like and some things they won't like. But it's a deal, and a better one than many -- myself included -- thought they'd reach. These tax cuts were a bit of a special legislative case, as their scheduled expiration forced action, but if you want to be optimistic, this

process suggests that the next two years might be a bit more productive than some of us have been predicting.” [[Washington Post](#), 12/06/2010]

Derek Thompson, The Atlantic

“Let's think about what this means from both a short-term stimulus perspective and a long-term deficit perspective. In the near future, this means significant help for American families and businesses that seemed out of reach just a few days ago. Unemployment benefits are considered the most effective form of stimulus. The payroll tax holiday will double the relief from the Making Work Pay tax credit, giving average worker thousands -- yes, thousands -- of dollars in additional after-tax income. The extensions to the refundable portions of the Child Tax Credit and EITC will also target low income families hit hardest in the downturn. In short, a \$60 billion tax cut for the richest will be unsavory to some people, but it's become a vehicle for historic tax relief for average Americans. Of the six stimulus ideas analyzed by the CBO in the summer, this deal has four, including the two most stimulative: jobless benefits and a payroll tax cut, both of which target the middle- and low-income Americans.” [[The Atlantic](#), 12/07/2010]

David Leonhardt, New York Times

“What actually seems to be happening: Democrats and Republicans agree to extend all the tax cuts and also agree to an extension of unemployment benefits, a cut in the payroll tax and, according to my colleagues, ‘continuation of a college-tuition tax credit for some families, an expansion of the earned income tax credit and a provision to allow businesses to write off the cost of certain equipment purchases.’ The amount of money pumped into the ailing economy: about \$900 billion over years. Subtract the \$400 billion cost of the Bush tax cuts. Subtract another \$140 billion or so, which is the cost of extending the Alternative Minimum Tax patch (and almost certainly would have happened regardless). You’re then left with more than \$300 billion in net stimulus over two years. And while that sum will not be enough to fix the economy all by itself, it is serious money... the outcome is not all bad, especially for the short-term sake of the economy.” [[New York Times](#), 12/07/2010]

The Economist

“On Monday Barack Obama and Republican and Democratic leaders in Congress struck a deal on a massive new package of stimulus and tax cut extensions, worth some \$800 billion (around 5% of GDP). Though it must still pass the parties’ respective caucuses, this is good news for the economy: the prospect of inadvertent fiscal tightening was the biggest cloud hanging over the 2011 outlook... Economists had generally projected growth next year at only 2.5%, and the biggest risk to that already tepid outlook had been the prospect that some or all of Mr Bush’s tax cuts would expire at the same time as much of Mr Obama’s temporary stimulus. Tonight’s deal is likely to lead to a round of upward revisions.” [[The Economist](#), 12/07/2010]

Steve Kornacki, Salon

“Is extending tax cuts for the richest Americans (and blowing another hole in the deficit in the process) a steep price to pay for all of this? Absolutely. But that's politics: Obama took the best deal he could possibly get... There's also a longer term calculation at work. Note that the deal also includes a reduction in the Social Security payroll tax and an expansion of the earned income tax credit and the college tuition tax credit. This is on top of the extension in unemployment benefits. These measures have one thing in common: They are stimulative in nature. (So, for that matter, is the fact that middle class Americans won't face a tax hike -- something that would have happened had Obama balked at the deal and played a long-term game of chicken with the GOP). Granted, this isn't the type of stimulus that, by itself, will restore the economy to good health, but it will help -- and it's more than Obama was on course to get from the GOP.

The compromise, in other words, gives Obama a chance to take further action to boost the economy and bring unemployment down..." [[Salon](#), 12/07/2010]

Steve Goldstein, MarketWatch

“Wall Street economists were tapping into their spreadsheets Tuesday, ready to ratchet up their economic growth forecasts for next year in light of the tax deal struck by President Barack Obama and congressional Republicans, particularly the surprise one-year reduction in payroll taxes. The proposal... would extend all Bush-era income-tax cuts as well as federal unemployment insurance and lower the payroll tax by \$120 billion with a 2-percentage-point reduction. The plan would also extend the 15% capital-gains rate and proposes a 35% estate-tax rate with a \$5 million exemption. Emergency unemployment-insurance benefits would be extended through the end of 2011.” [[MarketWatch](#), 12/07/2010]

Christopher Beam, Slate Magazine

“That said, the Obama tax cuts may have a better chance of stimulating the economy than Bush's did... Democrats have tried to cut taxes in the most stimulative way possible—that is, in a way that benefits the lower and middle classes. Hence the provisions in Monday's compromise to bump the child tax credit and earned income tax credit, plus a reduction of payroll taxes for employees from 6.2 percent to 4.2 percent. The new plan will also extend unemployment insurance. An analysis by Mark Zandi of Moody's Analytics finds that extending unemployment insurance (which Congress let expire last week) would generate more economic activity than cutting taxes for people with incomes above \$250,000. The logic is simple: Poor people are more likely to spend their extra money than rich people, giving more bang for each federal buck. If Republicans were serious about helping the economy—and not just their constituents—they would have been *pushing* to extend unemployment insurance, not just granting it as a concession. [[Slate](#), 12/06/2010]