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NAVIGATING THE FISCAL OBSTACLE COURSE

Supporting job creation with savings from ending the upper-income Bush-era tax cuts

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Our recent issue brief, *A Fiscal Obstacle Course, Not a Cliff* (Bivens and Fieldhouse 2012a), provided policymakers and other interested parties with information on the budgetary and economic impact of each major component of the so-called fiscal cliff. Because the fiscal cliff is actually composed of a number of completely separable policy changes, we also suggested a better metaphor: the "fiscal obstacle course," with the obstacles in question impeding, to varying degrees, faster economic recovery and lower unemployment. Our paper presented an "à la carte menu" of major provisions and their impacts, which demonstrated that some policies looming large in budgetary terms would actually exert a minimal drag on economic growth if allowed to expire (e.g., the Bush-era tax cuts for upper-income households). Conversely, some policies that are relatively inexpensive in budgetary terms would provide a substantial drag on growth and jobs in the coming year if allowed to expire (e.g., the Emergency Unemployment Compensation program).

This issue brief builds on the previous paper by providing a specific, realistic roadmap for how policymakers can navigate the fiscal obstacle course in a way consistent with the broader goal of restoring full employment. This roadmap accounts for the constraints regrettably imposed

by the current political climate. Its recommendations are focused on moderating the pace of deficit reduction relative to current policy to cost-effectively mitigate economic drags stemming from the fiscal obstacle course. Specifically, it explains the net benefit of ending the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts and devoting half the savings to job-creation policies.

Of all the major provisions within the fiscal obstacle course, the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts[1] are the least supportive of jobs. Ending these tax cuts would reduce real gross domestic product (GDP) growth by a negligible 0.1 percentage point and employment by only 102,000 jobs in 2013, relative to current policy (Bivens and Fieldhouse 2012a). Their opportunity cost for extension is a hefty $1.2 trillion in revenue loss over the next decade. Therefore, policymakers should allow these provisions to expire on schedule at the end of 2012 and dedicate much of their savings to policies supporting greater economic growth and job creation over the near term.

Relative to current policy, fiscal policy could be reoriented to be much more economically supportive by dedicating half the ten-year revenue savings from ending these tax cuts ($606 billion) to specific cost-effective stimulus measures (detailed below), while allocating the other $606 billion to longer-term deficit reduction. (This split is meant to conform to the political constraint that any stimulus be more than fully paid for. Dedicating a greater share of savings to stimulus would do even more to create jobs, which should be the top policy priority.) On net, the policies we propose within this approach would boost real GDP by 1.7 percentage points and generate more than 2.0 million jobs in 2013 (relative to current policy) without creating a new fiscal obstacle course for 2014. At the same time, this approach would reduce the ten-year budget deficit by $651 billion (all economic and budgetary effects are scored relative to our current policy baseline, which is detailed later in this paper and in the appendix).

The policies we propose to stimulate the economy and create jobs, and their economic impacts relative to current policy, are as follows:

- Continue and expand the Emergency Unemployment Compensation (EUC) program. The program is slated to terminate at the end of 2012, thus making it a component of the fiscal obstacle course. Continuing the program over 2013–2015 and allowing beneficiaries to claim up to 99 weeks of unemployment benefits in high-unemployment states (up from the 73 weeks the program currently supports in most high-unemployment states) would boost real GDP growth by 0.4 percentage points and increase employment by 539,000 jobs in 2013.
- Provide $120 billion in direct fiscal relief to distressed state governments over 2013–2015 through a combination of increased federal Medicaid funds (via the Federal Medical Assistance Percentages, or FMAP) and block grants. This would boost real GDP growth by 0.4 percentage points and increase employment by 495,000 jobs in 2013.
- Invest $234 billion over the next decade in surface transportation infrastructure and in establishing an infrastructure bank. This would boost real GDP growth by 0.2 percentage points and increase employment by 237,000 jobs in 2013, with even bigger gains in subsequent years as obligations and outlays ramp up.
- Invest $55 billion in education by funding school modernizations and rehiring laid-off teachers over 2013–2015. This would boost real GDP growth by 0.3 percentage points and increase employment by 354,000 jobs in 2013.
- Enact a targeted refundable tax rebate for 2013 to mitigate the impact of the Dec. 31, 2012, expiration of the payroll tax cut on lower- and middle-income

households' disposable income. This would boost real GDP growth by 0.4 percentage points and increase employment by 502,000 jobs in 2013.

Consistent with our conclusions in *A Fiscal Obstacle Course, Not a Cliff,* we additionally recommend that Congress remove the pending automatic "sequestration" cuts (scheduled for 2013 and beyond) contained in the Budget Control Act (BCA), i.e., the budgetary compromise resolving the 2011 debt ceiling crisis. We also recommend continuation beyond 2012 of the American Recovery and Reinvestment Act's (ARRA) expansion of refundable tax credits. Circumventing these two components of the fiscal obstacle course would be highly supportive of growth. The current policy baseline from which this paper analyzes all policies' economic and budgetary impacts, however, assumes (based on existing political precedent and perceived preferences of policymakers) that the sequester will not materialize and that the refundable tax credits are continued. Thus, no budgetary or economic impact is given for those proposals.

Beyond these economically motivated recommendations that would support employment, our current policy baseline assumes that Congress will maintain all other current policy adjustments analyzed in our previous paper—extending all the Bush-era tax cuts, patching the alternative minimum tax (AMT) parameters for inflation, preventing scheduled reductions in Medicare physician reimbursements (i.e., continuing the "doc fix"), and renewing various business tax provisions. This assumption is based on the seeming likelihood that prior precedent with regard to these policies will continue to hold and does not represent an endorsement of these policies based on their economic merits.

Even with these policies, under the current policy baseline budget deficits will shrink markedly and fiscal policy will be highly contractionary in 2013. This is because the payroll tax cut and EUC program are assumed to expire at the end of 2012 and the BCA phase-one discretionary spending caps are assumed to be further ratcheted down. The recommendations of this paper are focused on moderating the pace of deficit reduction relative to current policy to cost-effectively mitigate these economic drags. Our proposals are particularly focused on helping to close the United States' demand shortfall and accelerate the return to full employment.

Economic background and the case for job-creation policies

This section takes stock of the country's economic conditions and presents the case for Keynesian remedies to stimulate demand, which would help close the United States' demand shortfall and create jobs. The section that follows it presents a realistic roadmap for how policymakers can navigate the fiscal obstacle course in a way consistent with these goals. Specifically, it explains the net benefit of ending the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts and devoting half the savings to job-creation policies.

Economic context for fiscal policy

Before detailing how policymakers should navigate the fiscal obstacle course, it is important to note that by far the most pressing goal of fiscal policy in coming years should be a full and rapid recovery from the economic downturn and unemployment crisis that began with the onset of the Great Recession in December 2007. Today, roughly 9 million additional jobs are needed to restore prerecession unemployment and labor force participation rates. However, even at the recently accelerated rate of job growth from August through October 2012, this gap would not be filled until mid-2020.[2]

Furthermore, the economy is growing too slowly to close the "output gap"—the difference between what the economy could produce with higher (but noninflationary) levels of employment and industrial capacity utilization, and what it is actually producing—in an acceptably short period. The U.S. economy has operated at 5 percent or more below potential output since the fourth quarter of

2008, and today's output gap remains at 5.8 percent of potential GDP, or just under $1 trillion (CBO 2012a; BEA 2012). These output gaps imply that the United States has cumulatively forgone more than $3 trillion of national income, and the economic "scarring" caused by these long spells of idling and depreciating labor and industrial capacity has real long-run costs (Irons 2009; CBO 2012b; Fieldhouse 2012). Failure to adequately address the fallout from the Great Recession is obstructing a return to full employment and damaging the economy's future productive potential.

Diagnosis of the output gap, and policy remedies

This paper proceeds on the correct assumption that this gap between potential and actual GDP reflects a shortfall of effective demand for goods and services. In other words, households, businesses, and governments are not spending enough to keep all resources (capital and labor) fully employed. This shortfall primarily stems from the huge decline in both household wealth and residential construction investment caused by the burst of the housing bubble. In the jargon of economists, today's high unemployment is driven by "Keynesian" causes; the corresponding Keynesian cure is to enact policies to spur more spending.

One such policy was ARRA, passed in February 2009. ARRA reached peak effectiveness in late 2009 and early 2010; during this time, federal spending provided an effective counterweight to the reduced spending by households and businesses, albeit insufficient to spur full recovery (Bivens 2011a). Since the fade-out of ARRA's economic boost, the public sector (particularly state and local governments) has been a key source of demand weakness, with state and local government budget cuts exerting downward pressure on growth for the last 12 consecutive quarters. This pullback in fiscal support has not only coincided with falling public-sector employment, but also with a marked slowdown in the pace of overall recovery. Annualized growth in real GDP decelerated to 1.7 percent for the first three quarters of 2012, down from 2.0 percent in 2011, 2.4 percent in 2010, and 2.7 percent in the last six months of 2009 (the first half-year of official recovery).[3]

And in order to close the nearly $1 trillion output gap—that is, to move the U.S. economy fully out of depression—actual economic growth must outpace growth in the economy's potential output (i.e., growth in potential productive capacity from rising productivity and labor force growth). Overall, real GDP growth has averaged 2.1 percent since recovery began in mid-2009, whereas the Congressional Budget Office (CBO) projects that growth in the economy's real potential output will average 2.2 percent over 2012–2022 (BEA 2012; CBO 2012a). Markedly faster growth is needed to restore full employment and have actual GDP revert to potential output, rather than potential output reverting to depressed actual output through economic scarring.

Importantly, the recent slowdown in the pace of recovery has occurred even as the Federal Reserve has kept short-term interest rates at extremely low levels.[4] With the economy having shown little sign of responding to Federal Reserve policy actions in recent years, and with prospects for a depreciation of the dollar and a subsequent boost to net exports seemingly remote, the pace of U.S. economic recovery—or decline—will be largely dictated by fiscal policy (Bivens and Fieldhouse 2012a; 2012b).

Under current law, fiscal policy will be strongly contractionary in 2013—hence widespread concern over the fiscal obstacle course. The CBO projects that under current law (i.e., if the fiscal obstacle course is not addressed) the U.S. economy would reenter recession in the first half of 2013—contracting 2.9 percent in the first two quarters—and unemployment would again rise above 9 percent (CBO 2012b). And in *A Fiscal Obstacle Course, Not a Cliff,* we projected that if they remain unaddressed for a full year, major fiscal headwinds would shave up to 3.7 percentage points from real GDP growth over the year (Bivens and Fieldhouse 2012a).

Professed fiscal cliff concerns reaffirm this Keynesian diagnosis

The Keynesian diagnosis and cure—particularly the emphasis on *fiscal* expansion as the key to reducing unemployment—is rhetorically contested by many of today's policymakers. But ultimately, almost all of the current critics of Keynesianism adopt its broad diagnosis, as epitomized by the ecumenical alarm over the fiscal cliff (i.e., the fiscal obstacle course). Calls to avoid the fiscal cliff have become increasingly urgent from representatives of both parties, who warn that going over the fiscal cliff would harm job growth (Bivens and Fieldhouse 2012b).[5]

But "going over the fiscal cliff" just means "reducing budget deficits quickly," and calls to "avoid the fiscal cliff" really mean "keep deficits from closing so quickly." For casual observers of economic debates, this may be surprising to hear—especially given the (extremely misguided) inside-the-Beltway obsession in recent years with *reducing* budget deficits and decrying the accumulation of public debt.

This fear that today's deficits are too large and are growing too fast is a clear inversion of what textbook macroeconomics tells us we should be concerned about. Large budget deficits—increased in part by automatic stabilizers and deliberately enacted fiscal stimulus—began providing crucial support for economic growth in 2008. And rapid fiscal contraction—that is, rapid reductions in budget deficits—in depressed economies is a real danger to continued recovery (as demonstrated by the European experience with recent austerity-induced recessions). In short, today's budget deficits are not an economic threat (Bivens 2011a; DeLong and Summers 2012). To the degree that concern over the fiscal obstacle course has led policymakers to pivot back toward promoting job creation and away from the misguided drive to rapidly reduce deficits, it has put policymakers on a more productive course.

Navigating the fiscal obstacle course is a notably unambitious goal

A full recovery will only occur in the near term if fiscal policy becomes *much* more supportive of growth in the coming years (i.e., if budget deficits rise substantially). But a full recovery would require ambitions well beyond reshuffling the various elements of the fiscal obstacle course. It would also require ambitions unconstrained by the misguided political demand that any near-term fiscal support be paired with longer-run deficit reduction. Actually closing the $1 trillion output gap (the barometer for restoring full employment) projected for 2013 under current policy would take roughly $700 billion in cost-effective, deficit-financed fiscal stimulus in 2013 alone, which seems politically unachievable.[6]

It is important to note that ample evidence indicates efficient, deficit-financed fiscal support is largely self-financing under current economic conditions (through improvements in the cyclical budget deficit, i.e., the portion of the deficit stemming from economic conditions, notably the output gap) and would actually reduce the economy's debt-to-GDP ratio in the near term (Bivens 2012a). Furthermore, both Bivens (2011a) and DeLong and Summers (2012) have argued that cost-effective deficit-financed stimulus is more than self-financing over the long run when taking into account "hysteresis" scarring effects and low borrowing costs. Assuming long-run trend economic growth of around 2.5 percent, slight long-run scarring effects, and a multiplier of 1.0—i.e., each $1 of stimulus results in $1 of economic activity—DeLong and Summers (2012) estimate the "break-even" point at which deficit-financed stimulus is self-financing is a nominal 10-year Treasury rate of 9.5 percent. This is well above the current 1.6 percent yield on 10-year Treasury notes. Thus, there is no sound *economic* case against a large-scale fiscal expansion geared toward restoring full employment.

A roadmap for navigating the fiscal obstacle course

After having established the case for large-scale fiscal stimulus to close the U.S. economy's output gap and reduce joblessness, this paper presents an approach to the fiscal obstacle course that would help achieve these goals. Despite clear economic arguments in favor of undertaking as much fiscal stimulus as is necessary to restore full employment, there persist ubiquitous *political* constraints in the fiscal obstacle course debate. For now, we will take them as given to demonstrate how much job creation could be accomplished *even within their strictures.* Specifically, this paper presents one approach to the jobs crisis that could be undertaken within the box imposed by the fiscal obstacle course, and given the demand that near-term stimulus be more than "paid for" over the ten-year budget window.

The biggest threats to growth: The Budget Control Act and expiration of ad hoc stimulus

In *A Fiscal Obstacle Course, Not a Cliff* (Bivens and Fieldhouse 2012a), we analyzed in detail the major components of the fiscal obstacle course as separable policies within four broad categories:

- ***ad hoc* stimulus following the wind-down of ARRA**: the payroll tax cut, the Emergency Unemployment Compensation program, and ARRA expansions of refundable tax credits
- **Budget Control Act**: the looming automatic sequestration spending cuts scheduled for 2013 and beyond, as well as the discretionary spending caps that began in fiscal 2012 and will be ratcheted down over the course of the next decade
- **Bush-era tax cuts**: the upper-income, middle-income, and lower-income Bush-era individual income tax cuts and recently modified estate and gift tax cuts
- **other expiring, routinely extended provisions**: the AMT patch, which upwardly adjusts the tax's exemptions and brackets for inflation; various business tax provisions typically renewed on an annual basis; and the Medicare "doc fix" that prevents scheduled cuts to Medicare physician reimbursement rates

In Table 1 of *A Fiscal Obstacle Course, Not a Cliff* (replicated in this paper as **Appendix Table A1**), we show that the biggest risk to economic growth is the expiration of the remaining *ad hoc* stimulus that has supported growth after the wind-down of ARRA. The second-biggest fiscal headwind is the Budget Control Act. Collectively, these provisions account for more than two-thirds of the major headwinds we analyzed. Either removing or mitigating these headwinds is the most fundamental criteria for adeptly navigating the fiscal obstacle course.

Underlying assumptions

This paper's analysis and policy recommendations are all based on and scored from our current policy baseline (explained in more detail in the appendix). This baseline represents the outcome we consider most likely to occur given existing political precedent, constraints, and perceived preferences of policymakers, and is broadly consistent with current policy baselines used by federal budget analysts.

Current policy baselines used by the Economic Policy Institute and CBO, among others, assume that the BCA sequester will not materialize—and for good reason.[7] The entire BCA was meant to be so politically unpalatable and economically damaging that the Joint Select Committee on Deficit Reduction (JSC)—another byproduct of the BCA—would be forced to compromise on more sensible deficit reduction. The JSC failed to negotiate an alternative, leaving intentionally undesirable economic policy in place. Our analysis assumes that Congress will prudently deactivate the sequester, as reflected in our current policy baseline and our policy recommendations in *A Fiscal Obstacle Course, Not a Cliff*.

However, we have not called for repeal of the phase-one discretionary spending caps. This is because renegotiating higher appropriations levels seems a regrettably remote possibility, and in conjunction with our targeted job-creation proposals, repealing the caps would violate the requirement in the current political climate that any stimulus be more than fully paid for. If Congress were more concerned with restoring full employment than long-term deficit reduction, supplementing these policy recommendations with repeal of the discretionary spending caps would be a welcome, prudent move to accelerate recovery and preserve public investments in the federal budget (Fieldhouse and Pollack 2011).

The current policy baseline also assumes that, with the exception of the payroll tax cut, all temporary tax cuts will be continued. As such, our analysis assumes that Congress will maintain the ARRA expansion of refundable tax credits, in line with our recommendations. Circumventing both the sequester and the expiration of the ARRA expansion of refundable tax credits would be highly supportive of growth and sound policy (Bivens and Fieldhouse 2012a); they partially remove the headwinds that result from the Budget Control Act and the expiration of *ad hoc* stimulus measures.

Also entailed in the assumption that all temporary tax cuts will be continued (excluding the payroll tax cut) is that Congress will maintain the Bush-era individual income tax cuts for taxpayers at all income levels, as well as the recently modified estate and gift tax cuts. The current policy baseline additionally assumes that Congress will fully maintain the fourth broad category of policies analyzed in *A Fiscal Obstacle Course, Not a Cliff*—the AMT patch, the business tax extenders, and the Medicare "doc fix"—because these policies are typically renewed on an annual basis. These assumptions regarding the Bush-era tax cuts, AMT patch, business tax extenders, and "doc fix" do not constitute an endorsement of continuing these policies based on their economic merits. Rather, these assumptions are a nod to current political realities.

Besides the phase-one discretionary spending caps from the BCA remaining in place and the expiration of the payroll tax cut, another element of our current policy baseline is contractionary: It assumes the EUC program expires on schedule. Collectively, these three outcomes are projected to reduce real GDP growth by 1.7 percentage points relative to their respective continuation and repeal; these headwinds account for 47 percent of the fiscal restraint in the major components of the fiscal obstacle course (as detailed in Appendix Table A1). Cost-effectively mitigating these risks to employment contained in the broad categories of provisions identified earlier as posing the biggest threats to growth—the expiration of *ad hoc* stimulus and the Budget Control Act—is the focus of the remainder of this paper's analysis and policy recommendations.

Ineffectiveness of the upper-income Bush-era tax cuts and effectiveness of other fiscal supports

The upper-income Bush-era individual income tax cuts and recently modified estate and gift tax cuts are ineffective at boosting the economy. Devoting much of the savings from ending these provisions to cost-effective fiscal supports would mitigate the economic harm resulting from contractionary elements of the fiscal obstacle course, namely the scheduled expiration of the EUC program, expiration of the payroll tax cut, and the phase-one BCA discretionary spending caps.

In *A Fiscal Obstacle Course, Not a Cliff,* we imputed that the fiscal multiplier—the amount of economic activity spurred by each dollar spent—of permanently extending the Bush-era tax cuts for the highest-income households is roughly 0.25 (Bivens and Fieldhouse 2012a).[8] In other words, a dollar spent on the upper-income Bush-era tax cuts boosts GDP by 25 cents. This low multiplier ranks them among the least-effective components of the fiscal obstacle course. In a similar vein, the recently modified estate and gift tax cuts were assumed to have zero impact on near-term aggregate demand. Relative to 2009 para-

meters, the 2011–2012 estate tax cut benefits only 0.1 percent of households (TPC 2011); these households are among those with the absolute lowest marginal propensity to consume (the major factor in determining the magnitude of multipliers).[9] Collectively, ending the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts would reduce real GDP growth by only 0.1 percentage point and slightly lower employment by 102,000 jobs in 2013, relative to current policy (Bivens and Fieldhouse 2012a).

Given this, we propose allowing these provisions to expire on schedule at the end of 2012 and dedicating $606 billion—half of the corresponding $1.2 trillion revenue increase relative to current policy over the next decade (CBO 2012d)—to cost-effective near-term job-creation policies (which are detailed below). These policies would be heavily front-loaded to provide much-needed support to the economy over the next two years, when the economy is all-but-guaranteed to need this support.

It is important to stress that this is not our ideal policy for addressing joblessness; rather, it is designed to fully account for the constraints imposed by both the fiscal obstacle course and the current political debate. Nevertheless, it demonstrates how much valuable fiscal support for job creation could be financed just by eliminating the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts (which would have exceedingly minor economic consequences), dedicating half of the savings toward near-term job-creation policies, and earmarking the other half for deficit reduction over the ten-year budget window. Again, the nod to long-term deficit reduction reflects the strictures of the political debate, not the top economic priority of restoring full employment.

Specifically, we propose funding Emergency Unemployment Compensation program benefits (which are currently slated to terminate at the end of 2012), aid to state governments, investments in surface transportation infrastructure, rehiring teachers and modernizing schools, as well as a temporary targeted tax rebate—all of which are exceedingly cost-effective stimulus. Variations of these programs were previously proposed in *Putting America Back to Work: Policies for Job Creation and Stronger Economic Growth* (Eisenbrey et al. 2011). Here we briefly describe these five policies and their projected impacts for 2013, the focus of the fiscal obstacle course debate (a more detailed description of each policy and its respective economic rationale, budgetary impact, and projected economic impact can be found in the appendix):

- **Emergency Unemployment Compensation:** Continuing the program over 2013–2015 and allowing beneficiaries to claim up to 99 weeks of unemployment benefits in high-unemployment states (up from the 73 weeks the program currently supports in most high-unemployment states) would boost real GDP growth by 0.4 percentage points and increase employment by 539,000 jobs in 2013.
- **Aid to state governments:** Providing $120 billion in direct fiscal relief to distressed state governments over 2013–2015 through a combination of increased federal Medicaid funds (via the Federal Medical Assistance Percentages, or FMAP) and block grants would boost real GDP growth by 0.4 percentage points and increase employment by 495,000 jobs in 2013.
- **Investments in surface transportation infrastructure:** Investing $234 billion over the next decade in surface transportation infrastructure and in establishing an infrastructure bank would boost real GDP growth by 0.2 percentage points and increase employment by 237,000 jobs in 2013. There would be even bigger gains in subsequent years as obligations and outlays ramp up.
- **Rehiring teachers and modernizing schools:** Investing $55 billion in education by funding school modernizations and rehiring laid-off teachers over 2013–2015 would boost real GDP growth by 0.3 percentage points and increase employment by 354,000 jobs in 2013.

TABLE 1

Near-term macroeconomic effects of successfully navigating the fiscal obstacle course

	Budgetary cost (+) or savings (-) (billions)		GDP impact (% GDP)		Employment impact (thousands of jobs)	
	2013	**2014**	**2013**	**2014**	**2013**	**2014**
Job-creation provisions						
Emergency Unemployment Compensation	$47	$48	0.4%	0.4%	539	524
Aid to state governments	50	40	0.4	0.3	495	378
Infrastructure investment	22	38	0.2	0.3	237	400
Investment in teachers and schools	34	14	0.3	0.1	354	135
Targeted tax rebate	53	0	0.4	0.0	502	0
Total, job-creation provisions	$206	$140	1.8	1.2	2,126	1,437
Savings						
Upper-income Bush-era tax cuts and estate and gift tax cuts expire	-$63	-$74	-0.1%	-0.1%	-102	-70
Total	**$142**	**$66**	**1.7%**	**1.1%**	**2,024**	**1,367**

Notes: All policies are scored relative to EPI's current policy baseline (detailed in the appendix). This table presents the impact in calendar years 2013 and 2014.

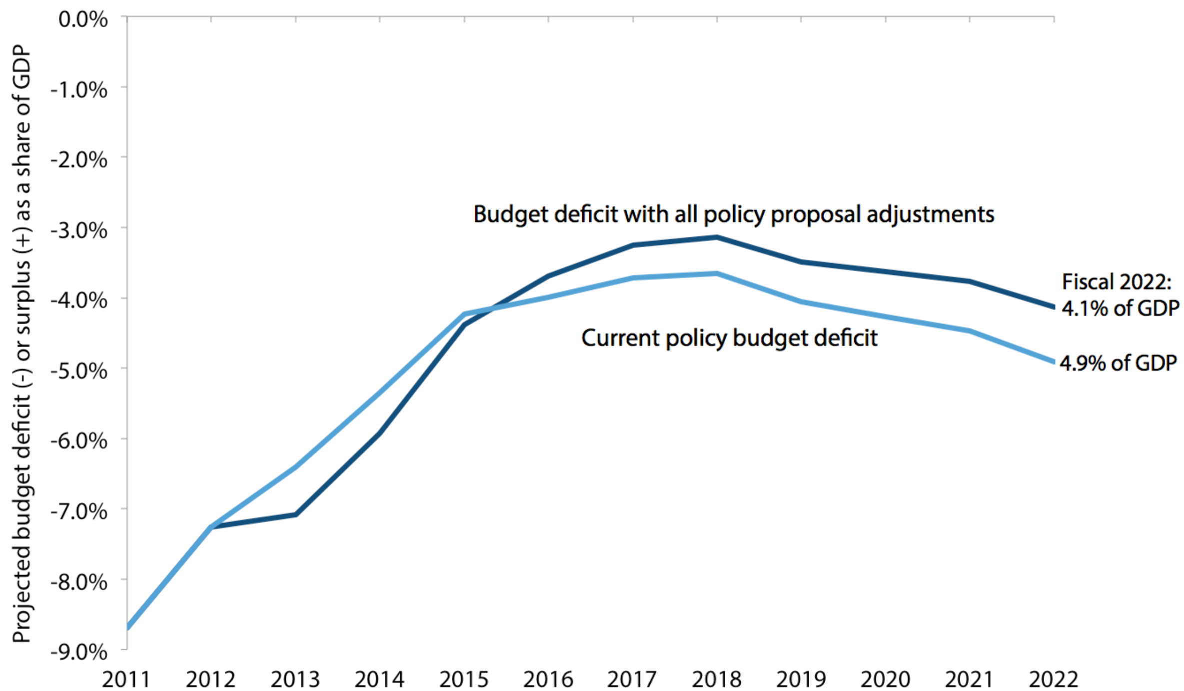
Source: Authors' analysis of Congressional Budget Office (2012b; 2012d), Department of Labor (2012), Joint Committee on Taxation (2010), Office of Management and Budget (2012), Moody's Analytics (Zandi 2011a), and Bivens and Fieldhouse (2012a)

- **Temporary targeted tax rebate:** Enacting a targeted refundable tax rebate for 2013 to mitigate the impact of the payroll tax cut's Dec. 31, 2012, expiration on lower- and middle-income households' disposable income would boost real GDP growth by 0.4 percentage points and increase employment by 502,000 jobs in 2013.

Net impact of policy proposals for navigating the fiscal obstacle course

Collectively, the job-creation measures we have proposed would accelerate real GDP growth by 1.8 percentage points in 2013 and 1.2 percentage points in 2014, boosting employment by more than 2.1 million jobs and 1.4 million jobs, respectively, relative to current policy (see **Table 1**). Net of the small economic drag from allowing the upper-income Bush-era tax cuts to expire, this package would increase real GDP growth by 1.7 percentage points in 2013 and 1.1 percentage points in 2014, boosting employment by more than 2.0 million jobs and nearly 1.4 million jobs, respectively, relative to current policy. This would offset the effects of fiscal restraint in 2013 built into the current policy baseline, notably expiration of both EUC and the payroll tax cut, and the contractionary BCA discretionary spending caps. And rather than building into current law a new, abrupt fiscal tightening in the coming years, this policy package would continue EUC for three years, gradually reduce aid to state gov-

FIGURE A



Source: Authors' analysis of Congressional Budget Office (CBO 2012b; 2012d), Department of Labor (2012), Joint Committee on Taxation (2010), and Office of Management and Budget (2012)

ernments, and ramp up and sustain infrastructure investments as other fiscal support more weighted toward 2013 wound down.

On net, this policy package would increase budget deficits over fiscal 2013–2015, relative to current policy (see **Figure A**), thereby moderating the pace of fiscal contraction—as successfully navigating the fiscal obstacle course requires. And by replacing relatively economically unsupportive policies with cost-effective job-creation measures, the economic boost is larger than is implied strictly by the increase in near-term budget deficits. On a static basis, the package would also lower cumulative budget deficits by $651 billion (0.3 percent of GDP) over the next decade (see **Table 2**).

The bigger near-term budget deficits shown in Figure A under our proposal, however, likely overstate the effective cost of these job-creation measures, as they do not account for the greater economic activity spurred through this stimulus. This greater economic activity would in turn increase tax revenues and slightly decrease safety-net spending, providing a substantial offset to the "sticker price" of this stimulus. The precise degree of self-financing depends on the policies' associated fiscal multipliers, as well as the responsiveness of budget deficits to economic growth. For example, coupling a dollar in revenue from upper-income households with a dollar of infrastructure spending would at present both reduce the deficit and have a net positive effect on the economy (boosting GDP by $1.19). This boost to GDP would produce net deficit reduction of roughly 44 cents, as every dollar closed from the output gap reduces the cyclical budget deficit by roughly 37 cents (Bivens and Edwards 2010).[10] The job-creation measures we propose are all highly stimulative, so a significant share of their initial price would be mitigated by improvements in the cyclical budget deficit.

TABLE 2

Budgetary effects of successfully navigating the fiscal obstacle course, 2013–2022 (deficit increases (+) or decreases (-), in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–2022
Current policy budget deficit	-1,015	-877	-737	-742	-731	-758	-881	-972	-1,061	-1,214	-8,987
As a percent of GDP	-6.4%	-5.4%	-4.2%	-4.0%	-3.7%	-3.6%	-4.0%	-4.3%	-4.5%	-4.9%	-4.5%
Job-creation provisions											
Emergency Unemployment Compensation	35	48	49	12	0	0	0	0	0	0	144
Aid to state governments	38	43	33	8	0	0	0	0	0	0	120
Infrastructure investment	12	40	33	25	27	29	27	18	13	10	234
Investment in teachers and schools	30	16	6	3	0	0	0	0	0	0	55
Targeted tax rebate	40	13	0	0	0	0	0	0	0	0	53
Net	*154*	*160*	*120*	*48*	*27*	*29*	*27*	*18*	*13*	*10*	*606*
Offsets											
Upper-income Bush-era tax cuts and estate and gift tax cuts expire	-47	-67	-97	-108	-121	-133	-144	-154	-165	-176	-1,212
Impact on primary budget deficit	**108**	**93**	**24**	**-61**	**-94**	**-105**	**-117**	**-136**	**-152**	**-166**	**-606**
Debt service	1	2	3	4	2	-1	-5	-10	-17	-24	-45
Net impact on budget deficit	**108**	**95**	**27**	**-57**	**-92**	**-105**	**-122**	**-146**	**-168**	**-191**	**-651**
Resulting budget deficit	-1,123	-972	-764	-685	-640	-652	-759	-825	-892	-1,023	-8,336
As a percent of GDP	-7.1%	-5.9%	-4.4%	-3.7%	-3.2%	-3.1%	-3.5%	-3.6%	-3.8%	-4.1%	-4.1%

Note: All policies are scored relative to EPI's current policy baseline (as detailed in the appendix). This table presents the impacts in fiscal years 2013–2022.

Source: Authors' analysis of Congressional Budget Office (2012b; 2012d), Department of Labor (2012), Joint Committee on Taxation (2010), and Office of Management and Budget (2012)

In all, the net $268 billion (1.7 percent) boost to GDP in 2013 would likely produce a $99 billion decrease in the 2013 budget deficit, with somewhat smaller cyclical feedbacks to subsequent years' budget deficits. These effects are ignored in Table 2.

Conclusion

Successfully navigating the fiscal obstacle course requires assessing and weighing each component's near-term impacts on growth and long-term budgetary costs, and then mitigating the gravest risks to employment while allowing policies with little economic impact to expire. In a perfect world, fiscal policy would simply inject as much money into the economy via efficient investments and transfer payments as is needed to restore full employment quickly (Bivens 2011a). However, the last few years have shown this ideal approach to be politically infeasible.

This paper is intended to work within the political strictures of the debate surrounding the fiscal obstacle course. As such, its policy recommendations are considerably less ambitious than is required to restore full employment; our recommended policies would moderate the pace of deficit reduction to sustain growth and boost employment, but would not spur full recovery. But, even operating within the constraints imposed by the fiscal obstacle course, and even assuming that for political reasons any resolution must result in ten-year deficit reduction, the opportunity still exists to make fiscal policy much more supportive of jobs and growth in the near term.

This paper proposes allowing the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts to expire; of the various fiscal obstacle course components, they most starkly fail reasonable cost-benefit analysis. To maximally accommodate economic recovery, we propose using half of the resulting savings to modify and expand the *ad hoc* fiscal stimulus—the expiration of which poses the biggest threat to growth—via continuing and expanding the Emergency Unemployment Compensation program, providing aid to state governments, investing in surface transportation infrastructure, rehiring teachers and modernizing schools, and creating a temporary targeted tax rebate.

Our policy proposals are intended to be straightforward and designed for quick implementation, and in no way represent a ceiling to the amount of fiscal support from which the economy would benefit. As noted previously, the U.S. economy is stuck operating roughly $1 trillion below potential output, and until this "output gap" is closed, fiscal stimulus will only negligibly accelerate inflation or push up interest rates (CBO 2012c; BEA 2012). While the upper-income Bush-era tax cuts and the recently modified estate and gift tax cuts offer an ideal offset because of their slight impact on growth, it is worth noting that cutting government spending to finance job-creation measures is counterproductive, as the multipliers are roughly the same. Unless stimulus can be financed by cutting low "bang-per-buck" policies, fiscal stimulus should be fully deficit-financed. And as noted previously, there is strong evidence that deficit-financed fiscal stimulus—provided it is of the cost-effective variety, such as that proposed in this paper—is somewhere between largely self-financing in the short run and fully self-financing over the long run. Further well-targeted, deficit-financed fiscal stimulus remains the most effective policy lever for restoring full employment; more of these investments would be a welcome addition to any job-creation legislation.

Policymakers have finally acknowledged and demonstrated concern that the budget deficit closing too quickly jeopardizes recovery; accordingly, they should slow the pace of deficit reduction while prioritizing efficient policies for boosting economic growth and employment. This paper's policy recommendations offer a template for doing just that.

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*—The **Economic Policy Institute** is a nonprofit, nonpartisan think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy. EPI stresses real-world analysis and a concern for the living standards of working people, and it makes its findings accessible to the general public, the media, and policymakers through books, studies, and popular education materials. **The Century Foundation** conducts public policy research and analyses of economic, social, and foreign policy issues, including inequality, retirement security, election reform, media studies, homeland security, and international affairs. With offices in New York City and Washington, D.C., The Century Foundation is nonprofit and nonpartisan and was founded in 1919 by Edward A. Filene.*

Appendix

This appendix details the specific job-creation measures advocated in this paper, estimates their effects on growth and employment, and specifies the current policy baseline against which they are scored.

Emergency Unemployment Compensation

Emergency unemployment insurance benefits are one of the most efficient forms of economic support, generating $1.52 in GDP for every dollar in benefits (Zandi 2011a). They also help address the pressing long-term unemployment crisis. As of October 2012, 5.0 million Americans had been out of work for longer than half a year, accounting for 40.6 percent of all unemployed workers. In spite of this labor market distress, Congress recently reduced the maximum duration of extended unemployment compensation from 99 weeks to 73 weeks in most high-unemployment states. Additionally, these extended benefits are slated to terminate at the end of 2012. Extended unemployment benefits should be available until the jobs crisis has abated, which will be years from now even with more deficit-financed fiscal stimulus. We propose restoring the EUC program to again support up to 99 weeks of unemployment benefits and continuing the program over 2013–2015. This would boost real GDP growth by 0.4 percentage points and employment by 539,000 jobs in 2013.

The cost estimate for reinstating EUC to support up to 99 weeks of unemployment compensation is modeled by indexing the 2011 cost for inflation (JCT 2010). However, the inflation-adjusted cost has been scaled downward in proportion to the reduction in the number of EUC beneficiaries between 2011 (when the number of EUC recipients averaged 3.3 million) and the second quarter of 2012, the last full quarter before the maximum duration was lowered (when the number of recipients stood at 2.6 million) (Department of Labor 2012).

Aid to state governments

The Center on Budget and Policy Priorities estimates that states have experienced cumulative budget shortfalls of $540 billion over fiscal 2009–2012, with another $55 billion shortfall projected for fiscal 2013 (Oliff, Mai, and Palacios 2012).[11] ARRA provided some state fiscal relief,

largely through increased federal Medicaid funds via the Federal Medical Assistance Percentages (FMAP), but federal assistance has long been depleted, and state and local government spending cuts have pushed GDP growth downward since the fourth quarter of 2009.

As of October 2012, state and local government employment has fallen by 605,000 jobs from its peak, and another 2.3 million jobs would exist today but for state and local government austerity, with roughly half these jobs in the private sector (Shierholz and Bivens 2012). State fiscal relief can be easily and quickly implemented through block grants and the Medicaid FMAP formula. Aid to state governments demonstrates a high "bang per buck" of $1.31 (Zandi 2011a), and analysis of the success of ARRA suggests that increasing FMAP rates yields even higher multipliers (Chodorow-Reich et al. 2012). We propose providing $50 billion in direct fiscal relief to distressed state governments in 2013, $40 billion in 2014, and $30 billion in 2015, for a total of $120 billion over 2013–2015. This would boost real GDP growth by 0.4 percentage points and increase employment by 495,000 jobs in 2013.

Infrastructure investment

Infrastructure spending is particularly cost-effective in boosting demand in a depressed economy; Moody's Analytics estimates a dollar of infrastructure spending currently generates $1.44 in demand (Zandi 2011a). Increasing investments now would reduce long-run economic scarring ("hysteresis" effects) by employing a higher level of resource utilization today. It would also increase the country's productive capital stock, thereby laying the foundation for long-run growth; public investment is a key driver of productivity growth (Bivens 2012b). Further strengthening the case for infrastructure spending is the country's abundant need for such investments: The American Society of Civil Engineers estimates that $2.2 trillion of investment is needed over five years just to improve the condition of the United States' infrastructure from "poor" to "good," but only half of this need is expected to be met (ASCE 2009). As indicated previously, states' budgets are in no position to pick up this slack. The federal cost of financing investments is also near record lows: The Treasury Department's 10-year borrowing cost is near 1.6 percent and is in the negatives for real interest rates (i.e., Treasury Inflation-Protected Securities). In addition, further deferring maintenance increases net-present-value costs to taxpayers because upkeep and rehabilitation is less expensive than replacing dilapidated infrastructure.

We propose investing in the immediate surface transportation priorities, infrastructure bank, and expanded surface transportation reauthorization bill proposed in the president's fiscal 2013 budget. We would also finance twice as much in immediate surface transportation priorities, doubling near-term investments from $50 billion to $100 billion. Altogether, these policies would result in a net spending increase of $234 billion over the next decade (OMB 2012).[12] Based on the pace of outlays, this would boost real GDP growth by 0.2 percentage points and increase employment by 237,000 jobs in 2013.

It is likely, however, that these economic impact projections and those in Table 2 understate the amount of near-term job creation because they are modeled from federal outlays, whereas real economic activity from infrastructure investment is often driven by awarded contracts that predate payments (federal outlays) to contractors. Note also that concerns about "shovel readiness" of infrastructure projects funded by ARRA were grossly misplaced; even if new projects' implementation were delayed for three years, their positive impact on economic activity would occur in the context of unacceptably high unemployment and underemployment rates. A persistent jobs crisis remains the economic outlook for the next three or more years, and having one stimulus policy "ramp up" as other short-term supports draw to an end makes for a smoother trajectory for fiscal policy.

Investments in teachers and schools

The American Jobs Act (AJA) proposed investing $30 billion in modernizing schools and providing state and local governments with $25 billion to rehire laid-off teachers. Funds to bring schools up to fire code, replace leaking roofs, improve HVAC systems, repair structural damage, and make energy-conserving improvements could easily be distributed to school districts through the existing federal elementary and secondary education grant program. The backlog of deferred maintenance and repairs to our schools totals more than $270 billion (Filardo, Bernstein, and Eisenbrey 2011), and the Great Recession's damage to local budgets means the problems are likely to worsen. One program that would help solve these problems is Fix America's Schools Today! (FAST), which would put 600,000 people to work (mostly in construction) to help repair many of our 100,000 public schools, half of which are more than 40 years old (Filardo, Bernstein, and Eisenbrey 2011).

The strain on local budgets has also resulted in the loss of 253,000 public education workers over the last four years, leaving a "teacher gap" of 315,000 jobs after accounting for the increase in teachers needed to keep up with population growth (Shierholz 2012b). And as already noted, both the fiscal multipliers for infrastructure investment and state budget fiscal relief are quite high.

Following the model established in the AJA, we propose investing $55 billion in education through funding school modernizations and rehiring teachers over 2013–2015.[13] This would boost real GDP growth by 0.3 percentage points and increase employment by 354,000 jobs in 2013.

Targeted tax rebate

Tax cuts' impact on near-term aggregate demand depends entirely on how well they are targeted toward households with a relatively high marginal propensity to consume a marginal dollar of disposable income (i.e., lower-income households). It follows that the payroll tax cut yields a higher "bang per buck" than marginal income tax rate reductions. This is because all working households pay the payroll tax and because the flat payroll tax is much more regressive than the progressive individual income tax. The payroll tax cut, however, is less targeted than the Making Work Pay tax credit it replaced—and actually *increased* taxes on single filers earning under $20,000 ($40,000 for joint filers) because it has a lower phase-in rate (2 percent instead of 6.2 percent on earned income) and is not phased-out for upper-income households (Fieldhouse 2011). We propose enacting a one-year, $53 billion targeted refundable tax rebate, scaled from the proposal in Fieldhouse (2011), to cushion the expiration of the payroll tax cut for lower- and middle-income households. Doing so would boost real GDP growth by 0.4 percentage points and increase employment by 502,000 jobs in 2013.

Baseline and methodology

All budget policy changes are scored relative to EPI's current policy baseline, which assumes extension of the 2001, 2003, and 2009 tax cuts, the 2010 estate and gift tax cuts, the AMT patch, and business tax extenders (roughly 80 expiring tax provisions routinely extended on an annual basis). The only temporary tax policy assumed to expire on schedule is the 2 percentage-point employee-side payroll tax cut enacted for 2011 and extended for 2012. EPI's current policy baseline also assumes that scheduled reductions to Medicare physician reimbursement rates are prevented (i.e., the "doc fix" is continued), the automatic sequester from the Budget Control Act of 2011 does not take effect, and force deployment and supplemental appropriations for overseas contingency operations gradually decrease instead of growing with inflation. Note that in addition to assuming the payroll tax cut expires on schedule, the current policy baseline assumes that the EUC program expires as scheduled at the end of 2012 and the phase-one discretionary spending caps from the BCA remain in place, thereby dragging on growth (see Bivens and Fieldhouse 2012a).

All the budgetary costs of the spending proposals reflect outlays rather than budget authority, and all provisions' costs exclude associated debt service (which has a negligible macroeconomic impact and small budgetary effects in the short run). Fiscal year budgetary impacts are adjusted to calendar years using a 75-25 split (i.e., calendar year 2014 reflects 75 percent of fiscal 2014 and 25 percent of fiscal 2015 impacts), except in the case of new tax policies being implemented at the start of a calendar year, in which case the weight for that fiscal year is increased to 100 percent. The budgetary cost of each policy is multiplied by its related fiscal multiplier for the projected dollar impact on GDP by the end of calendar years 2013 and 2014. The change in nonfarm payroll employment is calculated based on the percent change in nominal GDP that would be associated with each policy provision; see Bivens (2011b) for detailed methodology. The baseline for translating fiscal impulses to changes in nonfarm payroll employment is projected nominal GDP for calendar years 2013 and 2014 from CBO's August 2012 baseline economic forecast (CBO 2012c).

All fiscal multipliers are adopted or modeled from fiscal multipliers published by Moody's Analytics Chief Economist Mark Zandi, as detailed in **Appendix Table A2** (Zandi 2011a; Zandi 2011b; Bivens and Fieldhouse 2012a). While even the multipliers for specific provisions used in the various reports by Zandi change trivially over time, it is useful to note that these fiscal multipliers are comparable in scale and (even more importantly) relative ranking to the midpoint estimates of the multipliers used by CBO in evaluating the efficacy of ARRA, as well as those used by the Council of Economic Advisors in its quarterly reports on ARRA (CBO 2012e; CEA 2011). In short, the relative ranking and the scale of impact of fiscal impulses are robust to a range of estimates of the multipliers.

Endnotes

1. The Bush-era tax cuts generally refer to the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 and the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, although there were a number of tax changes over 2001–2008. Subsequent tax changes primarily accelerated the implementation of provisions in the 2001 and 2003 tax cuts. The upper-income Bush-era tax cuts follow the definition in the Obama administration's budget request for fiscal 2013, that is, households with adjusted gross income of more than $200,000 for single filers ($250,000 for joint filers). The Bush tax cuts increased the estate tax exemption from $1 million in 2001 to $3.5 million in 2009 and reduced the top tax rate from 50 percent to 45 percent before fully repealing the estate tax in 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reinstated the estate tax at a $5 million exemption and 35 percent top rate for 2011–2012. Under current law, the estate tax exemption is scheduled to revert to $1 million and the top rate will increase to 55 percent in 2013 and beyond.

2. Sustaining trend growth of roughly 170,000 jobs added to nonfarm payrolls over August through October 2012, the economy would not return to full employment until mid-2020 (Shierholz 2012a). The return to full employment would be even longer at the average pace of job growth earlier in 2012.

3. Annual real GDP growth is measured from the fourth quarter of the year relative to the fourth quarter of the previous year (or annualized from the preceding quarter to final quarter when measuring growth for the second half of 2009 and first three quarters of 2012).

4. The Federal Reserve's primary policy rate has been near zero since December 2008, and the Federal Open Market Committee has issued guidance that the rate will remain near zero at least through mid-2015.

5. For instance, Mitt Romney stated with regard to federal spending cuts that "if you take a trillion dollars, for instance, out of the first year of the federal budget, that would shrink GDP over 5 percent. That is by definition throwing us into recession or depression." He also stated, "If you just cut, if all you're thinking about doing is cutting spending, as you cut spending you'll slow down the economy" (MacGuillis 2012). Similarly, President Obama advocates for greater government spending and tax cuts to increase employment, recently saying on the campaign trail that "we could create a million

additional new jobs if this Congress would pass the jobs bill I sent them a year ago—jobs for teachers and construction workers and folks who have been out there looking for work for a long time" (White House 2012).

6. The current law output gap is projected at $1.3 trillion for 2013 (CBO 2012c), implying roughly a $1 trillion output gap with current policy adjustments (see Appendix Table A-1), comparable to the output gap in the third quarter of 2012. Cost-effective fiscal stimulus is assumed to yield a multiplier of 1.4, Moody's Analytics' estimate for the government spending multiplier (Zandi 2011a). This is consistent with estimates from the Congressional Budget Office and Council of Economic Advisers, among other professional forecasters (see Appendix Table A2). It is also worth noting that even years beyond 2013 would likely need larger budget deficits in such a scenario to keep future fiscal obstacle courses from subjecting the economy to large contractionary shocks.

7. CBO's Alternative Fiscal Scenario—its version of a current policy baseline, as opposed to its current law baseline—assumes the sequester will not take effect (CBO 2012a).

8. The multiplier changes slightly from year to year depending on the ratio of capital gains and dividends tax cuts (Zandi identifies a 0.39 multiplier) versus the top two marginal-rate reductions, elimination of the personal exemption phase-out, and repeal of the limitation on itemized deductions (we impute a 0.17 multiplier for these other provisions). Based on the 10-year weighted average, we impute a net 0.25 multiplier for the entirety of the upper-income Bush-era tax cuts (Bivens and Fieldhouse 2012a).

9. In 2012, only 0.13 percent of deaths will trigger any estate tax liability, versus 0.23 percent under an extension of 2009 parameters indexed for inflation (TPC 2011).

10. $1 x 1.44 (the infrastructure multiplier) – $1 x 0.25 (the upper-income tax cut multiplier) = $1.19. By moving GDP $1.19 closer to potential output, the cyclical deficit falls by $1.19 x $0.37 (the historical relationship between the output gap and the cyclical deficit) = $0.44 (Bivens and Edwards 2010).

11. These refer to state fiscal years, which typically start July 1, whereas the federal fiscal year starts Oct. 1.

12. Outlays from provisions originally proposed as part of the American Jobs Act have been delayed one year for feasible implementation, as the 2012 fiscal year has ended.

13. Ibid.

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APPENDIX TABLE A1

Economic impact of the fiscal obstacle course relative to current law, 2013

Fiscal obstacles	Budgetary cost (billions)	Multiplier	Economic impact (billions)	Economic impact (% GDP)	Employment impact (thousands)
***Ad hoc* fiscal support following ARRA**					
Continue the payroll tax cut	$115	1.25	$144	0.9%	1,090
Continue Emergency Unemployment Compensation program	39	1.52	59	0.4	448
Continue ARRA expansion of refundable credits	10	1.19	12	0.1	92
Subtotal	165	1.31	216	1.4	1,631
Budget Control Act					
Deactivate sequestration	$78	1.40	$110	0.7%	829
Undo phase-one discretionary spending caps	50	1.40	70	0.4	529
Subtotal	128	1.40	180	1.1	1,357
Bush-era tax cuts					
Continue upper-income Bush-era tax cuts	$52	0.26	$14	0.1%	102
Continue middle-income Bush-era tax cuts	84	0.35	29	0.2	223
Continue lower-income Bush-era tax cuts and credits*	55	0.69	38	0.2	288
Continue estate and gift tax cuts**	12	0.00	0	0.0	0
Subtotal	202	0.40	81	0.5	613
Other expiring (current policy) provisions					
Continue the AMT patch	$114	0.53	$60	0.4%	455
Continue the business tax extenders	109	0.27	29	0.2	222
Continue the Medicare “doc fix”	14	1.01	14	0.1	106
Subtotal	237	0.44	104	0.7	784
Fiscal obstacle course total	$732	0.79	$581	3.7%	4,385

* Includes the 10% tax bracket and modifications to the Earned Income Tax Credit and Child Tax Credit

** Estate tax cuts as modified by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

Source: Bivens and Fieldhouse (2012a)

APPENDIX TABLE A2

Fiscal multipliers of various spending and tax provisions

Spending increases	
Temporary increase in food stamps	1.70
Temporary financing of work-share programs	1.64
Emergency unemployment insurance benefits	1.52
Increased infrastructure spending	1.44
General government spending	1.40
General aid to state governments	1.31
Low-income home energy assistance	1.13
Refundable tax credits (mix of spending and tax cuts)	
Child Tax Credit, Recovery Act expansion	1.38
Earned Income Tax Credit, Recovery Act expansion	1.23
Refundable lump-sum tax rebates	1.22
Making Work Pay tax credit	1.19
*American Opportunity Tax Credit, Recovery Act expansion**	1.09
Temporary tax cuts	
Payroll tax cut for employees	1.25
Hiring tax credit	1.20
Payroll tax cut for employers	1.04
Nonrefundable lump-sum tax rebate	1.01
Across-the-board tax cut	0.98
Housing tax credit	0.82
Accelerated depreciation (bonus depreciation)	0.29
Loss carryback	0.25
Permanent tax cuts	
Extend alternative minimum tax patch	0.53
Make capital gains and dividend tax cuts permanent	0.39
Make Bush tax cuts permanent	0.35
Make corporate income tax cut permanent	0.32
*Make upper-income Bush tax cuts permanent**	0.25

* Imputed from Zandi multipliers as detailed in Bivens and Fieldhouse (2012a)

Sources: Zandi (2011a), Zandi (2011b), and Bivens and Fieldhouse (2012a)