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How Continuing the Payroll Tax Cut and Federal UI Benefits Will Help American Families and Support the Recovery

While it appears that the economic recovery accelerated in the final months of 2011, forecasters are still predicting only modest growth over the coming year. Consumer demand is the driver of economic growth in the U.S., and high unemployment and stagnant wage growth continue to hinder the recovery. Furthermore, spreading fears of weak global demand pose very real threats to the U.S. economy. Extending the payroll tax cut and continuing emergency federal unemployment insurance benefits through the end of 2012 will give a needed boost to consumer demand by putting additional money in the pockets of Americans who will spend it. Letting these provisions prematurely expire will only inflict more pain on struggling families and impede the nation's recovery from the recent recession.

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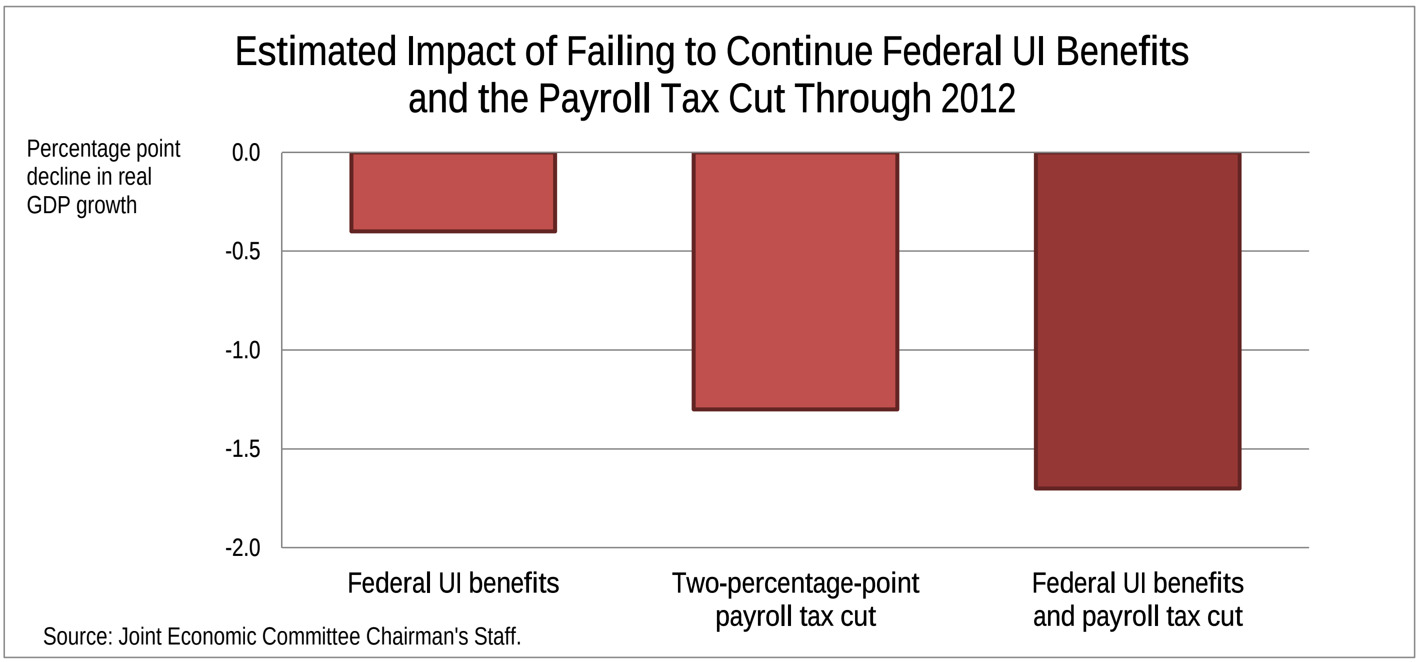
Despite a slowdown in the first half of 2011, economic growth picked up in the second half of the year. The unemployment rate fell to a 33-month month low of 8.5 percent at the close of 2011, with private-sector employers adding nearly 2 million jobs over the year.[1] Employment has increased by more than 100,000 jobs in each of the last 6 months, which has not happened since 2006.

At the end of 2011, Congress passed a two-month stop-gap reauthorization of federal unemployment insurance (UI) benefits and the two-percentage-point payroll tax cut in order to provide further support to the economic recovery and struggling families. Both provisions will expire at the end of February 2012 unless Congress takes additional action. At a time when 13 million Americans are unemployed, workers' real earnings have plateaued, and the overall economy is growing well below its potential, continuing these two provisions through the end of 2012 is critical for sustaining the economic recovery. The Chairman's staff of the JEC estimates that failure to reauthorize federal UI benefits and the payroll tax cut for the remaining 10 months of the year would have a significant impact on disposable personal income and could subtract 1.7 percentage points from inflation-adjusted GDP growth in the current calendar year (see Figure).[2]



Providing emergency UI benefits to unemployed individuals and reducing the payroll tax rate on workers' earnings both bolster consumer demand by putting money into the pockets of individuals who are likely to spend it. Consumer spending is a significant driver of economic growth, accounting for over two-thirds of economic activity in the U.S. Yet, since the end of the Great Recession, spending by consumers has been slow to rebound. Real personal consumption expenditures grew at a tepid 1.5 percent annual rate over the first three quarters of 2011.[3] Consequently, gross domestic product (GDP) growth has been subpar, most recently growing at a 1.8 percent annual rate in the third quarter of 2011. Letting these two provisions expire prematurely will remove a substantial amount of cash from the economy. The consequence of constraining consumer spending will, at best, hinder the economic

[1] "The Employment Situation – December 2011." Bureau of Labor Statistics, January 6, 2012. (http://www.bls.gov/news.release/empsit.nr0.htm).
[2] JEC Chairman's staff using the Fair multi-country model (MCG), CBO estimates for the budgetary impacts of the full-year and two-month extensions of the payroll tax cut and the two-month extension of federal UI benefits, and JEC Chairman's staff estimates of the budgetary impact of an additional 10-month extension of federal UI benefits.
[3] Bureau of Economic Analysis.

recovery, and could very well derail the recovery given the still-struggling housing market and threat of additional shocks from weak economies abroad.

The payroll tax cut, which was enacted at the end of 2010, lowered the rate at which employees' earnings are taxed to fund Social Security from 6.2 percent to 4.2 percent. Temporary reductions in payroll tax revenues have been and will be made up by reimbursements from the Treasury's General Fund and will have no impact on the balance sheet of the Social Security Administration.[4] The two-percentage-point reduction increased the take-home pay of 121 million families by an average of $934 last year, putting roughly $115 billion in the pockets of working Americans.[5] Over half of that money went to families making less than $100,000, and 86 percent went to families making less than $200,000.[6] The boost to workers' paychecks helped to offset weak wage growth. Since early 2010, growth of the typical weekly earnings of full-time wage and salary workers has been insufficient to keep up with changes in the cost of living.[7]

Federal emergency UI benefits have been central to helping millions of unemployed workers, who lost a job through no fault of their own, make ends meet while giving a significant boost to the economy. If these federal benefits are not reauthorized to run through the end of 2012, over 3.3 million Americans will lose benefits by the week ending June 2nd (see Table for a state-by-state breakdown). Heavily populated states with high unemployment and high long-term unemployment rates will face large numbers of unemployed workers losing benefits. For example, nearly 600,000 unemployed workers will lose benefits in California by June 2 if Congress fails to reauthorize federal UI benefits.

According to the non-partisan Congressional Budget Office (CBO), a reauthorization of emergency UI benefits provides the greatest "bang-for-the-buck" among a range of fiscal policies designed to increase GDP and create jobs. Benefits enable families to continue paying for their necessities, and that spending generates a cascade of spending by others. CBO found that each dollar spent on UI benefits can increase GDP by as much as $1.90.[8] In 2011, unemployed workers received $61.0 billion in federal emergency benefits,[9] which provided a boost to GDP well in excess of that amount.

Additional consumer demand resulting from the payroll tax cut and emergency federal UI benefits supported economic growth throughout 2011. Without those policies, in the wake of serious shocks from abroad, the U.S. economy could have easily fallen back into recession. Analysts are expecting acceleration in GDP growth during the final three months of 2011, followed by a slower growth in the first half of 2012 as stagnant incomes continue to constrain consumer spending.[10]

The International Monetary Fund warned advanced economies against pursuing fiscal consolidation, including letting the employee payroll tax cut lapse and ending federal UI programs, "at the expense of the disposable income of people with a high marginal propensity to consume."[11] Failing to both extend the payroll tax cut and maintain federal UI benefits through the end of 2012 will inflict more pain on families who are already struggling and slow the recovery.

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[4] 2011 OASDI Trustees Report, available on-line at http://www.ssa.gov/oact/tr/2011/trTOC.html.

[5] Estimate by Urban-Brookings Tax Policy Center.

[6] JEC Chairman's staff calculation based on TPC Table T10-0278, "Making Work Pay Credit vs. Social Security Tax Cut: Comparison of Benefits by Cash Income Level, 2011." December 14, 2010.

[7] See Joint Economic Committee Chairman's staff report: *Supporting the Engines of Economic Growth: Payroll Tax Relief for Working Americans and Small Businesses*. November 29, 2011.

[8] Elmendorf, Douglas. "Policies for Increasing Economic Growth and Employment in 2012 and 2013." Congressional Budget Office. November 15, 2011.

[9] JEC Chairman's staff calculations based on data form the Department of Labor Employment and Training Administration. Also see Joint Economic Committee Chairman's staff report: *The Case for Maintaining Unemployment Insurance: Supporting Workers and Strengthening the Economy*. December 2011.

[10] Blue Chip Economic Indicators, January 10, 2012. BEA's estimate of 4th Quarter GDP will be released on Friday, January 27, 2012.

[11] International Monetary Fund. "World Economic Outlook: Slowing Growth, Rising Risks." September 2011.

Impact of Extending Payroll Tax Cut and Continuing Federal UI Programs by State

	Payroll Tax Cut		Continuing Federal UI Benefits		
	Median Household Wage and Salary Income (2010 Inflation-Adjusted Dollars)	Additional Take-Home Pay from 2% Payroll Tax Cut for the Remainder of 2012	Average Unemployment Rate in 2011	Long-Term Unemployment Rate in 2011*	Number of Long-Term Unemployed Who Will Exhaust Benefits By June 2, 2012 if Federal UI Program Is Not Continued
United States	$50,381	$840	8.9%	3.9%	3,343,400
Alabama	$42,522	$709	9.3%	4.5%	38,800
Alaska	$60,457	$1,008	7.5%	1.5%	11,200
Arizona	$47,358	$789	9.2%	4.1%	44,500
Arkansas	$39,297	$655	8.0%	2.9%	16,200
California	$58,442	$974	11.8%	5.3%	596,600
Colorado	$53,404	$890	8.5%	3.5%	53,100
Connecticut	$65,496	$1,092	8.8%	4.2%	46,700
Delaware	$57,435	$957	8.0%	3.2%	8,800
District of Columbia	$68,518	$1,142	10.4%	4.9%	8,900
Florida	$45,343	$756	10.6%	5.3%	216,000
Georgia	$48,366	$806	10.0%	5.2%	130,700
Hawaii	$60,457	$1,008	6.3%	3.1%	7,500
Idaho	$42,018	$700	9.2%	3.1%	17,100
Illinois	$55,117	$919	9.4%	4.9%	166,700
Indiana	$45,343	$756	8.7%	4.2%	65,000
Iowa	$46,351	$773	6.0%	1.8%	15,100
Kansas	$48,265	$804	6.6%	2.5%	17,500
Kentucky	$42,320	$705	9.7%	3.5%	34,400
Louisiana	$45,343	$756	7.5%	2.5%	18,800
Maine	$47,358	$789	7.4%	2.8%	10,900
Maryland	$70,534	$1,176	7.0%	2.9%	66,100
Massachusetts	$65,496	$1,092	7.5%	3.3%	84,600
Michigan	$47,358	$789	10.4%	4.6%	84,600
Minnesota	$55,621	$927	6.6%	2.4%	36,100
Mississippi	$40,305	$672	10.4%	4.6%	18,500
Missouri	$45,343	$756	8.7%	3.5%	57,800
Montana	$41,514	$692	7.4%	2.1%	7,500
Nebraska	$45,343	$756	4.2%	1.3%	7,600
Nevada	$50,381	$840	13.0%	6.8%	40,700
New Hampshire	$60,760	$1,013	5.2%	1.8%	2,600
New Jersey	$70,534	$1,176	9.3%	4.7%	166,000
New Mexico	$41,716	$695	7.1%	3.1%	14,900
New York	$58,442	$974	8.0%	3.7%	237,400
North Carolina	$43,328	$722	10.0%	4.8%	113,600
North Dakota	$44,537	$742	3.4%	0.6%	2,500
Ohio	$47,358	$789	8.8%	3.9%	91,700
Oklahoma	$42,320	$705	5.9%	2.2%	12,600
Oregon	$45,343	$756	9.5%	3.9%	58,400
Pennsylvania	$51,389	$856	7.8%	3.1%	184,700
Rhode Island	$55,419	$924	10.8%	5.3%	16,800
South Carolina	$42,320	$705	10.2%	4.9%	60,900
South Dakota	$42,320	$705	4.6%	1.2%	1,200
Tennessee	$42,522	$709	9.5%	3.6%	58,200
Texas	$48,870	$815	8.1%	2.8%	192,800
Utah	$52,396	$873	7.1%	2.1%	12,500
Vermont	$48,064	$801	5.5%	1.5%	2,500
Virginia	$61,465	$1,024	6.2%	2.6%	33,600
Washington	$55,621	$927	9.1%	3.7%	76,600
West Virginia	$43,932	$732	8.4%	3.3%	10,000
Wisconsin	$49,474	$825	7.5%	3.0%	62,200
Wyoming	$52,900	$882	5.9%	1.5%	2,500

* = 12-month averages calculated over January 2011-December 2011 period using monthly public access Current Population Survey (CPS) files.

Sources: Joint Economic Committee (JEC) Chairman's staff calculations using data from the 2010 American Community Survey micro data files and monthly public access CPS files; Bureau of Labor Statistics' monthly state unemployment rates, not seasonally adjusted; and Department of Labor estimates of UI exhaustees provided to JEC Chairman's staff on January 23, 2012.