



Less Bang for More Bucks

McCain's "Jobs for America" Plan Creates Few Jobs

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October 2008

Introduction and summary

Our economy is reeling. A crisis in confidence is rocking Wall Street and Main Street. “Black September” is crushing the Dow Jones Industrial Average and sparking historic jumps in the interest rates that banks charge each other—rates which in turn determine the cost of credit for U.S. businesses and consumers. For years, American families have increasingly turned to debt to make ends meet as incomes remained flat while the cost of health care, energy, and food rose. The risk of a recession is very real.

The job market is among the economic challenges crying out for urgent action. The economy has lost jobs for nine consecutive months—760,000 so far this year—and the unemployment rate is at its highest level in five years.¹ The next president must be prepared to implement an ambitious plan to create jobs quickly.

Sen. John McCain’s economic agenda is founded on huge tax cuts for corporations. In January, McCain unveiled his “economic stimulus” plan, which consists of a cut in the corporate tax rate, a permanent research and development tax credit, and a provision allowing full expensing of business equipment.² All of these proposals are important parts of his “Jobs for America” plan, which he unveiled in July.³ Our analysis of these plans,⁴ based on data from Moody’s Economy.com and the Tax Policy Center, concludes that:

- The three proposals in Sen. McCain’s economic stimulus plan would create only about 450,000 jobs in 2009, at a cost of \$280 billion.
- In contrast, a well-designed economic stimulus plan, costing the same amount, would create 2 million jobs—more than four times as many jobs for the same amount of resources.
- The United States needs to generate 1.5 million jobs a year just to keep up with the new workers entering the labor force.⁵

McCain campaign advisor Meg Whitman calls creating jobs “the number one priority” of McCain’s tax policy.⁶ But McCain’s tax cuts for corporations and wealthy individuals will not stimulate job creation in the short term and will weaken our economy in the long term by massively increasing the federal budget deficit, which in turn will prevent needed

investments in infrastructure, health care, energy, and education. The rest of McCain's "Jobs for America" plan is not much more compelling. The McCain plan is not the solution to our employment crisis.

McCain's economic stimulus package

Economists typically distinguish between policies intended to boost the economy and create jobs in the short run and policies intended to increase economic growth in the long run. Effective fiscal stimulus quickly enhances economic activity by increasing aggregate demand so that more of the economy's existing productive capacity is engaged. In contrast, policies aimed at promoting long-term growth are designed to increase the economy's productive capacity.

Consequently, short-term stimulus must be guided by a different set of principles than policies designed to encourage long-term growth. Fiscal stimulus must be timely, targeted to households and entities that will spend their new resources quickly, and temporary to avoid fueling large long-run budget deficits. Sen. John McCain's economic policies are almost exclusively intended to increase the long-run productive capacity of the economy. We question whether those policies will result in long-term job creation, but there is no question that they will do very little to create jobs now.

Sen. McCain says he will cut the corporate tax rate from 35 percent to 25 percent.⁷ He frequently bemoans U.S. corporate tax rates, which he says are the "second-highest in the world."⁸ According to McCain: "It's any wonder that jobs are moving overseas. We're taxing them out of the country."⁹ This claim is misleading: McCain is referring to America's statutory corporate tax rate, which is second-highest among the 30 industrialized member countries of the Organization for Economic Cooperation and Development. But businesses are eligible for so many deductions that the percentage of GDP actually paid in corporate taxes is a much more useful indicator of corporations' tax burden. The United States collects the fourth-lowest amount of corporate taxes as a percentage of GDP among OECD nations.¹⁰

What's more, there is very little evidence that a corporate tax cut is the path to create new jobs during an economic downturn. In January 2008, the Congressional Budget Office evaluated several different approaches to short-term fiscal stimulus. According to CBO, a general reduction in corporate tax rates is "not a particularly cost-effective method of stimulating business spending: Increasing the after-tax income of businesses typically does not create an incentive for them to spend more or to produce more, because production depends on the ability to sell output."¹¹ Moody's Economy.com estimates that for each dollar lost to the Treasury as a result of a cut in the corporate tax rate, only 30 cents are added to GDP in the year after the change takes effect.¹²

Sen. McCain also proposes to allow full expensing of equipment and technology investments.¹³ The short-term benefits of this policy are questionable because it is difficult for many companies to adjust capital budgets that have been years in the making and because the majority of business investments are made by firms that have no tax liability to begin with.¹⁴ In the early part of this decade, the depreciation rules were changed to allow par-

tial, temporary expensing of a number of capital assets. Even though a temporary proposal would be expected to give a larger boost to the economy than a permanent change—since companies would have to accelerate their investments to qualify—several studies demonstrated only a modest impact.¹⁵

One study found that the level of investment in long-lived capital did not increase more than investment in short-lived capital even though it was subject to a bigger tax break.¹⁶ Moreover, several surveys found that only around 10 percent of businesses reported bonus depreciation as an important factor driving the timing or level of their investments.¹⁷ According to the CBO analysis, “the experience has made many analysts less sanguine about the efficacy of such business tax incentives.”¹⁸

The 2009 cost of McCain’s “expensing” proposal is \$175.9 billion.¹⁹ The number of jobs created would be decidedly unimpressive relative to the size of the tax break given to corporations, as our calculations in the table below demonstrate. On the stump and in his “Jobs for America” plan, McCain promises to allow full expensing of all equipment and technology investments. According to the Tax Policy Center, this would cost more than \$700 billion over a decade.²⁰ McCain’s advisers told the Center that the proposal is actually limited to certain classes of investments and would expire in 2013. This variation of the proposal is more fiscally responsible, but also much less likely to have a dramatic impact on the labor market.

Finally, McCain has proposed a permanent tax credit equal to 10 percent of wages spent on research and development.²¹ The 2009 cost of this proposal is \$7.1 billion.²² According to a comprehensive CBO review of federal support for research and development, a number of economists who have evaluated the Research and Experimentation tax credit in the United States and similar incentives abroad “generally conclude that each dollar of forgone revenue attributable to the R&D promoting tax credit causes companies to spend another dollar on R&D projects.”²³

These figures may be inflated by a “relabeling” effect as the tax credit gives companies an incentive to classify a variety of expenses as R&D-related. And dollars spent on research and development may simply be diverted from other uses. Thus, it would be generous to assume that McCain’s \$7.1 billion proposal could generate an additional \$7.1 billion in private investment. It is an idea worth consideration, but more of a footnote than a centerpiece in the context of a plan that purportedly will create millions of jobs.

According to the Tax Policy Center, these three proposals in McCain’s stimulus plan, which he presumably believes are better suited to promote short-term growth than the remainder of his agenda—would cost \$279.6 billion in 2009.²⁴ Using this cost estimate and Moody’s Economy.com estimates of the amount added to real GDP by each dollar committed to various stimulus options, we calculated that McCain’s proposals would only create roughly 450,000 jobs in the first year after they take effect.²⁵ This is only enough to replace 60 percent of the jobs lost just this year, or to keep up with new workers entering the labor force for three and a half months.

By contrast, we calculated, using the same Moody's Economy.com estimates, that spending \$279.6 billion on a well-designed stimulus plan consisting of a refundable tax rebate, state government aid, and increased spending on food stamps and unemployment insurance benefits, could potentially create 2 million jobs in the year after the spending occurs.²⁶ The McCain plan produces less than a quarter of the jobs for the exact same price.

MCCAIN'S ECONOMIC STIMULUS PLAN				
<i>His proposal is geared to long-term growth, not short-term needs amid a recession</i>				
	PROPOSAL	COST	TOTAL COST	JOBS
McCain Stimulus Plan	Reducing Corporate Tax Rate from 35-25%	\$ 96.6 billion		
	Full Expensing of All Business Equipment	\$ 175.9 billion	\$ 279.6 billion	450,000
	Permanent R&D Tax Credit	\$ 7.1 billion		
More Effective Plan	Refundable Tax Rebate	\$ 185 billion		
	State Government Aid	\$ 47.3 billion	\$ 279.6 billion	2 million
	Increased Spending on UI Benefits and Food Stamps	\$ 47.3 billion		

Source: Tax Policy Center, Moody's Economy.com, Congressional Budget Office.

Other proposals in McCain's "Jobs for America" plan

McCain's "Jobs for America" plan includes other proposals that will not promote job growth in the near term. Extending the Bush tax cuts when they expire in 2010 will not put any money into the pockets of American consumers until 2011, and even then the beneficiaries will be our nation's wealthiest citizens. If McCain's energy, health care, and trade proposals have any positive impact on the labor market, it won't be felt for years. And McCain's fiscal discipline plan is actually the opposite of a short-term stimulus strategy—even when the particulars of the plan are dubious at best.

Individual tax rates

Former Hewlett Packard Co. chief executive Carly Fiorina, one of Sen. McCain's top economic advisors, was recently asked what her candidate would bring to the economy that President George W. Bush has not. She replied: "A focus on job creation."²⁷ That's a worthy goal given that President Bush has the worst job creation record of any president since Herbert Hoover.²⁸ Yet Sen. McCain has made the continuation of Bush's core economic policies a cornerstone of his "Jobs for America" plan. McCain promises to make the current top tax rate of 35 percent permanent as well as the 15 percent rate on dividends and capital gains.²⁹

Making the Bush tax cuts permanent is fiscally irresponsible in the long term and unlikely to stimulate any economic growth in the short term. Extending the tax cuts is not timely since they do not expire until the end of 2010. A reduction in taxes starting in 2011 will not significantly boost consumer spending in 2009. Making the tax cuts permanent is not temporary, nor is it well targeted, as the benefits flow disproportionately to the wealthy.

Finally, McCain's proposal to repeal the Alternative Minimum Tax is also unlikely to stimulate significant short-term growth. The beneficiaries will primarily be higher-income taxpayers and the impact on consumer behavior is limited by the fact that many people are unaware that they are affected by the AMT.³⁰

Energy

Sen. McCain's energy plan includes allowing domestic oil drilling and investing in nuclear power, coal, wind, solar, and new automotive technologies. Aggressive investments in new energy technologies could potentially create jobs in the near term, but it is impossible to determine the exact nature and extent of McCain's investments in renewable energy sources and energy efficiency. His plan is very light on details in those areas. And there is reason to doubt his commitment. After all, McCain has missed eight votes on renewing renewable energy production tax credits over the past year.³¹ Besides, McCain's tax cuts are so expensive that it is unlikely he will be willing or able to invest enough in renewable energy alternatives and energy efficiency efforts to create a significant amount of jobs.

The McCain campaign only gets specific on job creation in the energy sector on nuclear and coal. McCain claims that constructing 45 new nuclear power plants by 2030 will eventually create roughly 700,000 jobs, and that investment in clean coal will create over 30,000 jobs.³² The nuclear estimate is highly questionable. According to a *New York Times* fact-check of the first presidential debate, "scientists, industry analysts and other experts, including advocates of nuclear power, offer much more modest figures, noting that a good deal of the heavy foundry work, for instance, would have to be done overseas."³³ Even if McCain's estimates are accurate, the jobs will not be created quickly enough to combat our current economic crisis. Construction on new nuclear power plants won't begin overnight. There will be long start-up lags as new plants are planned, sited, and approved.

Health care

McCain says he will create jobs by reducing health care costs. Containing health care costs is not a fiscal stimulus strategy, and McCain's plan will not reduce costs or create jobs. McCain has proposed several cost-containment measures, but under his health care plan these measures will not reach millions of Americans who are chronically uninsured or cycling off-and-on insurance. As Brookings Institution economist Henry Aaron recently wrote, "covering nearly all Americans is a precondition for effective measures to limit overall health care spending."³⁴ Even if McCain did have the right strategy, it could take years for savings to develop and his plan may actually take money out of the economy.

Trade policy

Sen. McCain says export growth "is the strongest part of our sluggish economy, and we should be encouraging the growth of even more jobs in this sector through more free trade agreements which give American firms more access to sell our goods and services abroad."³⁵

Alas, this part of McCain's plan offers little hope of significant job creation in the short term as any benefits would come gradually as agreements are implemented. And the only pending free trade agreements today are with Colombia, South Korea, and Panama.

The United States International Trade Commission has conducted detailed analyses of each proposed agreement. The commission concluded that the impact of the Panama agreement "on the U.S. economy as a whole and on virtually all U.S. industry sectors would likely be small."³⁶ The South Korean agreement would ultimately increase U.S. exports by about \$10 billion, but the commission concluded that, "aggregate U.S. output and employment changes would likely be negligible."³⁷ Finally, the commission found that while exports might increase by about \$1 billion as a result of the Colombian agreement, there "is likely to be minimal to no effect on output or employment for most sectors in the U.S. economy."³⁸

Fiscal discipline

On the stump, Sen. McCain says a "government that spends wisely and balances the budget is a catalyst for economic growth and the creation of good and secure jobs."³⁹ Focusing on fiscal discipline is actually the opposite of a short-term stimulus policy. But McCain's plan to balance the budget by 2013 is pure fantasy. In fact, his fiscal irresponsibility threatens the long-term growth of our economy.

The Washington Post calls McCain's claim to balance the budget by 2013 "not credible," while noting that McCain's budget relies on low-ball cost estimates of his tax cuts and \$470 billion in unrealistic and largely unspecified spending cuts.⁴⁰ According to the Tax Policy Center, McCain's tax cuts will cost \$3.4 trillion over the next 10 years.⁴¹ McCain's budget also excludes the new spending associated with his health care and energy plans as well as fully funding No Child Left Behind.⁴²

Excessively large budget deficits are bad for the economy in the long run. They can reduce national saving, which can decrease the capital stock owned by Americans and reduce national income in the future.⁴³

Endnotes

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