

# THE MASTERS

## WEALTH MANAGEMENT GROUP ASSESSING THE AMERICAN JOBS ACT

*Will Congress pass it? What difference could it potentially make?*

Presented by Gary Mastrodonato, CEA

On September 8, President Obama announced a new plan to improve the economy - the \$447 billion American Jobs Act, a sequel of sorts to his past economic stimulus proposals. His announced goal: job creation without new taxation.

While the President took some sharp jabs at Republicans in his speech to Congress (“I know that some of you have sworn oaths to never raise any taxes on anyone for as long as you live”), early indications are that the bill will have noticeable bipartisan support.<sup>1</sup>

**What’s in this bill?** The AJA would try to boost the economy through seven different tactics - extensions and expansions of tax breaks, and infusions of federal dollars.

1. The current payroll tax holiday would be extended through the end of 2012.
2. The payroll tax would fall to 3.1% - not only for workers, but also for businesses with payrolls of \$5 million or less.
3. Companies could get a tax credit as large as \$4,000 for hiring the long-term unemployed (people who have been out of work for at least 6 months).
4. Long-term jobless benefits would again be extended.
5. \$80 billion of federal money would be assigned to new infrastructure projects (highways, bridges and schools).
6. Businesses could expense 100% of their investments in 2012, just as they have been able to do in 2011.
7. Additional federal money would be given to struggling state and local governments to help them avoid layoffs of first responders and teachers.<sup>2,3</sup>

**How could this all be funded without new taxes?** President Obama claims the effort can be paid for as a byproduct of his plan to reduce the federal deficit (a plan he will discuss in greater detail in a September 19 speech).<sup>1,4</sup>

**The bill isn’t set in stone yet.** The AJA goes to the House for a vote this week, and though the House Republican leadership likes the essence of the plan, it may seek major alterations.

In a jointly authored statement issued on September 9, House Speaker John Boehner (R-OH), House Majority Leader Eric Cantor (R-VA), Majority Whip Kevin McCarthy (R-CA) and Conference Chairman Jeb Hensarling (R-TX) said the plan “merits consideration”, but they also hoped that the President’s ideas were not offered “as an all-or-nothing proposition, but rather in anticipation that the Congress may also have equally as effective proposals to offer for consideration.”<sup>4</sup>

Indeed, Republicans have had an alternative plan in the works for a while - the so-called Plan for America's Job Creators - which centers on tax reduction, decreased non-defense discretionary spending and less costly industry regulations to stimulate private-sector job growth. There isn't much support for it among Democrats.

**What do economists think the AJA could accomplish?** Some think the economy would get some short-term relief if it became law. Others see an upcoming object lesson in failed Keynesian economics.

- Moody's Analytics chief economist Mark Zandi is big on the bill - he believes it could add 2% to GDP, cut 1% off the jobless rate, and create 1.9 million jobs in an economy "on the edge of recession".
- University of Pennsylvania Wharton School of Business professor Susan Wachter thinks the payroll tax reductions alone could generate 1 million jobs and expand the economy by 1%.
- At Pimco, Mohamed El-Erian calls it a "credible program that is focused on the right structural areas."
- Unicredit's Harm Bandholz thinks the AJA could "add up to 2 percentage points to growth in the coming year."
- "Bottom line: not a lot of bang for the buck here," states Tom Porcelli of RBC Capital Markets, who feels that the economic impact of the infrastructure investments will likely be "fairly modest ... the red tape and politics involved in allocating these funds makes the implementation a long and drawn-out process."
- The Heritage Foundation's J.D. Foster sees "a bunch of retread policy ideas that two years after they were first tried managed to create an arithmetic novelty - exactly zero job growth in August. In total, the President is calling for more new spending on proven policies that are proven failures."<sup>5,6</sup>

As the economy is in such a low gear, you may see Democrats and Republicans support the bill with newfound unity or at least tolerance. While America can't reach across the Atlantic and fix the Eurozone crisis hampering world stocks, this envisioned stimulus could help our economy make some small strides.



**Gary C. Mastrodonato, CEA**  
**The Masters, LLC**  
**Wealth Management Group**  
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Gary C. Mastrodonato is a Representative with Capital Investment Companies and may be reached at:  
807 Broad Street Suite C PO Box 306, Oriental, North Carolina 28571  
Phone: (252)249-0100 Fax: (252)249-0105

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### **Citations.**

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