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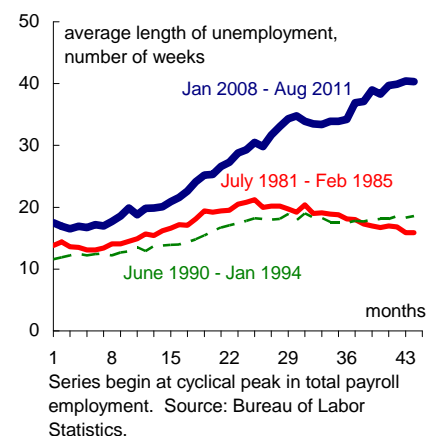
Fiscal Pulse

The President's Proposed American Jobs Act — Re-igniting Debate

The potential result — a mix of Administration and Congressional measures — will steepen the bipartisan Congressional Committee's challenge this Fall of developing an enlarged deficit-reduction package.

The President last night revealed further details of his sweeping *American Jobs Act*, with recent indications of softening U.S. economic growth supporting his strategy of introducing further near-term stimulus within a longer-term deficit reduction plan. While several measures have the advantage of some bipartisan support, inevitably contentious is the *Act's* steep price tag — US\$447 billion¹, 2.9% of U.S. GDP in 2012 (see *Fiscal Pulse report for details of the proposed measures*). Moreover, the Administration has still to unveil its housing market and mortgage initiatives this Fall. The White House acknowledges that all of its proposed measures may not be incorporated, and the eventual compromise will likely reflect Republican input. In response to the Republicans' strong advocacy of scaling back the corporate regulatory burden, the President already has requested that the Environmental Protection Agency withdraw the contentious tightening of the standard governing future ground-level ozone emissions given industries' cost objections.

U.S. Long-Term Unemployment



Concerns over the fragile U.S. recovery, such as the elevated share of long-term unemployed (see chart), are warranted, underlining the difficulties in sustaining the U.S. economy's momentum with global growth moderating and fiscal repair proceeding. Yet it is not clear that all of the Administration's suggested stimulus will pay off in terms of bolstering near-term growth and laying a stronger economic foundation to support the retiring baby boom generation and the necessary longer-term fiscal repair. The deeper payroll tax cut extended through 2012 for employees represents almost 40% of the package's total cost, but recent experience indicates that temporary tax relief may be largely saved by consumers, a positive development for households' balance sheet repair but disappointing as an immediate boost to consumption. For businesses, given current economic uncertainty, a one-time tax credit may be insufficient to spur sizeable, permanent workforce expansions. With the objective of more jobs, the focus on small business may be less effective in raising U.S. exports. The financing injection for State and local governments to limit and perhaps reverse layoffs of teachers and emergency personnel, such as police and firefighters, likely will not fully offset over the next year or so Washington's decreased funding for the State Fiscal Stabilization Fund and other federal programs that impact State finances. Conversely, a number of the President's targeted proposals, notably the Unemployment Insurance program enhancements such as expanded work-sharing, should be positive for the economy in the short-term. As well, extending current machinery & equipment investment incentives will bolster productivity, as will high-priority infrastructure projects. Implementation delays in the infrastructure proposals will possibly be shortened, not eliminated, this time around, but the eventual boost to flagging growth over the next few years will be important.

¹ Dollar amounts in U.S. dollars.

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It is true that the current outlook for extended low interest rates will at least partially mitigate the consequences of the additional near-term borrowing required by a substantive new stimulus package. Nevertheless, the Administration has upped the ante for the bipartisan Congressional Committee this Fall, raising the target for the late November deficit-reduction package from \$1.5 trillion to at least \$1.8 trillion. A week Monday, the Administration will present its longer-term deficit-reduction plan, broader than the recently passed *Budget Control Act*, that will include selected tax increases and entitlement reforms, escalating the deficit reduction debate and private-sector uncertainty on future policy directions. An alternative to the President's proposals is a downsized stimulus package, accompanied by actions focused on rebuilding business and household confidence, such as a substantive start on comprehensive tax reform. Such an option would be less risky — the optics of a possible failure of Congress to pass an enlarged deficit reduction package of at least \$1½ trillion by mid-January 2012 could well add to markets' and rating agencies' concerns.

A Summary of the Measures in the Proposed American Jobs Act

(estimated cost in brackets following specific measures)

Employees' payroll tax relief – the current rate cut from 6.2% to 4.2% is just for calendar 2011 – would be extended and deepened with the 6.2% rate halved to 3.1% for 2012 (*US\$175 billion*). For the Social Security Trust Fund, the resulting reduction in receipts would be made up from general revenues.

Mortgage refinancing at today's historically low rates would be stepped up by working with Fannie Mae and Freddie Mac, the Federal Housing Finance Agency, and major lenders to remove the barriers in the current *Home Affordable Refinance Program* (HARP).

Measures for Unemployed Workers

- ❑ Firms hiring individuals unemployed for six months or longer would receive a \$4,000 tax credit (*US\$8 billion*).
- ❑ Discrimination against the unemployed when hiring would be prohibited.
- ❑ **Unemployment Insurance (UI) benefits**, presently due to expire early in 2012, would be extended for another year. With some federal funding assistance, State governments would be required to step-up their re-employment services and strategies for the longer-term unemployed, alongside Washington's proposed program enhancements to better connect job seekers with new work opportunities. All new claimants in the federal Emergency Unemployment Compensation program would be required to work with their local One-Stop Career Centers. The practice of prorating UI Benefits for work sharing, which currently exists in about 20 States, would be expanded. Washington would support States in offering a new "Bridge-to-Work" feature that provides UI benefits to workers taking temporary or voluntary positions, or on-the-job training, building on the programs already in place in States such as Georgia. Wage insurance would compensate older workers who take a new job for lower pay rather than claiming UI benefits. States also would be able to access federal UI funds to assist dislocated workers to start up their own small businesses, tapping into existing mentoring and financing programs, as well (*US\$49 billion*).
- ❑ **For low-income youth and adults**, a *Pathways Back to Work Fund* would finance innovative training and continue the 2009-10 efforts of subsidized employment (building on the *TANF Emergency Fund* wage subsidy program) and summer or year-round jobs for youth (*US\$5 billion*).
- ❑ **For firms hiring a veteran** unemployed for six months or longer, a *Returning Heroes Tax Credit* of up to \$5,600 would be offered. For hiring longer-term unemployed veterans disabled from service, a *Wounded Warriors Tax Credit* of up to \$9,600 would be available. A new task force, led by the Department of Defence, is proposed to raise veterans' career readiness and the job search services available to them.

A Summary of the Measures in the Proposed American Jobs Act — continued*(estimated cost in brackets following specific measures)***Measures for Business**

- ❑ **For equipment purchases**, the 100% expensing of investments from September 8, 2010, to December 31, 2011 (December 2010 tax legislation) will be extended to equipment purchases through 2012 (*US\$5 billion*).
- ❑ **For a business's first \$5 million in payroll**, the employer's payroll tax will be halved to 3.1%. For the first \$50 million increase in payroll from the previous year, either from hiring or wage hikes, a 100% tax holiday on the 6.2% payroll tax will be offered (*US\$65 billion for both measures*).
- ❑ **To assist small business and entrepreneurs**, proposed changes include adjusting the way Washington does business with these firms such as faster payment. Subject to investor protection, current regulations for small businesses obtaining financing will be streamlined. The Administration supports raising the cap on "mini-offerings" from US\$5 million to US\$50 million. To help small businesses compete for government infrastructure projects, the limit on SBA-guaranteed surety bonds will be temporarily raised from US\$2 million to US\$5 million.

Infrastructure

- ❑ Advancing previous bipartisan suggestions, a **National Infrastructure Bank (NIB)** is proposed, with capitalization of US\$10 billion to leverage private-public partnerships and maximize private-sector funding for water, transportation and energy infrastructure projects. The Bank would be government-owned, but operated at arm's length. The NIB would offer loan guarantees or loans. Interest rates on the loans would be aligned with U.S. Treasury rates for a term of up to 35 years, with NIB financing limited to no more than 50% of project costs. Projects would have a minimum US\$100 million size, offering clear national or regional benefits.
- ❑ **For transportation**, the proposed new funding of US\$50 billion would include: US\$27 billion for highways; US\$9 billion for transit; US\$2 billion for airports plus US\$1 billion for NextGen Air Traffic Modernization; US\$4 billion for high speed rail corridors; and US\$5 billion for multi-modal transportation programs.
- ❑ **To modernize more than 35,000 schools**, new funding of US\$25 billion is suggested, and US\$5 billion is proposed for community college upgrades. Of the school funds, 40% would be allocated to the 100 largest high-need public school districts and the remaining 60% would be given to State governments to allocate. For community colleges, deferred maintenance is currently estimated at US\$100 billion.
- ❑ **Wireless initiatives** would include deploying high-speed services to 98% of Americans, freeing up spectrum through incentive auctions and creating a nationwide, interoperable wireless network for public safety. The gross costs of these projects would be US\$10 billion, but spectrum auction proceeds would result in a net deficit reduction impact of US\$18 billion.
- ❑ **Project Rebuild**, drawing on private-sector capital and expertise, would focus on rehabilitating distressed vacant or foreclosed residential and commercial properties and expand upon innovative property solutions such as land banks (*US\$15 billion*).

For States and local governments, federal funding would be made available to reverse or at least limit lay-offs this year of teachers (*US\$30 billion*) and emergency personnel such as policemen (*US\$5 billion*).

Costing of the Proposed American Jobs Act

	Cost US\$ billion
Employees' payroll tax relief	175
Measures for the Unemployed	62
Employer tax credit for hiring longer-term unemployed	8
Unemployment Insurance reform & benefit extension	49
<i>Pathways Back to Work Fund</i>	5
Measures for Business	70
For equipment investment, 100% expensing through 2012	5
Payroll tax cut and, for new jobs/wages, tax holiday	65
Infrastructure	105
National Infrastructure Bank	10
Transportation	50
School & community college upgrade	30
Wireless initiatives	*
Project Rebuild	15
State & Local government rehiring	35
Total	447

* Net US\$18 billion deficit reduction benefit after spectrum auction.

Source: The White House.