

June 26, 2010

Gary Zuckett and Ted Boettner: Budget and jobs deficits are linked

By , Gary Zuckett and Ted Boettner: Budget and jobs deficits are linked

CHARLESTON, W.Va. -- On Saturday, citizens in major cities across our country gathered to discuss the choices we face regarding the federal budget and our economic recovery.

Dozens of forums sponsored by America Speaks will offer participants an opportunity to discuss our nation's needs and priorities. Many will use these forums to express their concern about the federal deficit, but that is not the entire conversation we should be having.

In the long run, large deficits are unsustainable and must be addressed, but we must also acknowledge the jobs deficit. The two are intrinsically linked.

The cause of our 2010 fiscal year deficit, which the Office of Management and Budget estimates to be \$1.1 trillion, is not, as many would have us believe, due to domestic discretionary spending. Such spending is more or less stagnant. Rather, the federal deficit finds its roots in four areas:

First, the 2001 and 2003 tax cuts, targeted primarily toward the wealthiest Americans, added about \$1.7 trillion to deficits leading up to 2008.

Second, the combined cost of the wars in Afghanistan and Iraq are a huge piece of the puzzle. Since our country invaded Afghanistan in late 2001 the total cost is just over \$1 trillion. These wars, like the tax cuts, were not paid for by new taxes or revenue enhancements, but by deficit spending.

Third, rising health-care costs in both the private and public sectors, including programs such as Medicare and Medicaid, have added trillions of dollars to our deficits over a long period of time. Health-care reform will begin to rein these costs in, but an aging population will guarantee that providing good, affordable health care for all will remain an ongoing challenge.

Fourth, the current economic crisis has deprived governments at all levels of needed revenues. When people work, they pay taxes. Remove 8 million people from the work force and you haven't just lost billions in tax revenue, you have also gained the cost of unemployment benefits, COBRA and other forms of public assistance.

That's the bad news.

The good news is that we have the ability to both address the deficit and take on what should be our nation's most compelling and urgent priority: putting people back to work. If we do this, it will lower our country's debt over the long term.

Nationally, there are roughly five unemployed workers for every job opening, totaling about 8 million unemployed. Here in West Virginia, there are more than 63,000 jobless workers and an additional 30,000 who have dropped out of the work force -- they've given up looking for work. If no further fiscal measures are taken, the Congressional Budget Office predicts that the United States won't reach full employment (about 5 percent unemployment rate) until at least 2015.

This is caused primarily by the lack of private-sector investment and consumer demand. The only way to get the economy back to full capacity is for the government to "prime the pump" and put workers back to work. This will help us get the economy moving again, and it will address the deficit.

As Paul Krugman recently noted, "both textbook economics and experience say that slashing spending when you're still suffering from high unemployment is a really bad idea -- not only does it deepen the slump, but it does little to improve the budget outlook, because much of what

6/27/2010

Gary Zuckett and Ted Boettner: Budget ...

governments save by spending less they lose as a weaker economy depresses tax receipts." This advice is what happened in the recovery after World War II in the 1950s. We never paid down the debt; GDP just grew faster, making the debt smaller.

To boost job creation now, the U.S. Senate needs to pass the tax extenders bill that passed the House earlier in the year. This would, among other things, give states \$24 billion in aid to avoid budget shortfalls that result in drastic service cuts and thousands of layoffs. According to the Center on Budget and Policy Priorities, absent these funds in 2011, there will be 900,000 workers in both public and private sectors out of work. The bill would also reauthorize extended COBRA and unemployment benefits for people out of work for six months or longer.

Another federal solution would be to pass the Local American Jobs Act that would create, save or restore 1 million public and private-sector jobs. These two actions alone would create over 2 million jobs.

While this would be a good start, America needs a Next New Deal with bold programs that fully reflect the scale of our problems. A major job-creation initiative such as this would ensure that we have a growing economy with enough jobs and taxpayers to ensure that the nation can address its long-term budget challenges.

On the tax revenue side, we can allow the 2001 and 2003 tax cuts for the wealthiest Americans to expire. We can cut corporate tax loopholes enjoyed by companies such as BP and Wall Street bankers. We can restore the estate tax on multimillion-dollar estates. We can continue plans to withdraw from Iraq and Afghanistan and, while we're at it, cut Pentagon waste. Pentagon cost overruns alone are taxing Americans to the tune of \$300 billion to \$400 billion a year.

As Americans gather across the country to discuss spending and the deficit, it's important that we not lose sight of how we got here and what our needs, hopes and dreams are for our country's future. That's the conversation we should be having.

Zuckett is executive director of West Virginia Citizen Action Group. Boettner is executive director of the West Virginia Center on Budget & Policy.