ISSUE BRIEF

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THE EMPLOYMENT IMPACT OF COUPLING THE BUFFETT RULE WITH JOB CREATING INVESTMENTS

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The EPI issue brief *A perfect match: Coupling tax fairness with job creation for a stronger economy* calculated the national and state-by-state jobs impact of implementing a set of tax fairness proposals outlined in the Congressional Progressive Caucus's *Budget for All* and dedicating the revenue to increased national infrastructure investment. It found that the four tax fairness policies would together create roughly 1.3 million jobs in fiscal 2013 and over 1.8 million jobs each year between fiscal 2014 and 2017 (Pollack 2012).

Similarly, this issue brief analyzes the employment impact of coupling job creating infrastructure investments with the Buffett Rule. Implementing the most widely supported legislation to apply the Buffett Rule, the Paying a Fair Share Act of 2012, would raise about $60 billion over the next five years and nearly $163 billion over a decade (Barthold 2012). This issue brief finds that adopting this tax provision and using the revenue to invest in the nation's crumbling infrastructure would create about 43,000 jobs in 2013 and roughly 95,000 jobs per year from 2014 through 2017.

Background on the Buffett Rule

The current tax code favors many high-income taxpayers because, among other things, it taxes capital gains and dividends—income derived from existing wealth—at a lower rate than wages and salaries, which are derived from work. For this reason, average federal income tax rates actually peak at around $1 million in income, and then start falling as households collect a greater share of income from investments (Fieldhouse 2012). The preferential tax rate on capital gains and dividends is just 15 percent, well

TABLE 1

Revenue raised by implementing the Buffett Rule (S. 2059) and overall job impact* (2013−2017)

	2013	2014	2015	2016**	2017**	2013–2017	2013–2022
Revenue (billions of dollars)	5.4	11.5	12.8	14.4	16.0	60.1	162.6
Job impact	42,756	87,420	91,543	97,008	102,291		

* Assuming the revenue raised from the Buffett Rule is dedicated to infrastructure investments

** Assuming economy remains below full employment

Source: Author's analysis of Citizens for Tax Justice 2008, Fieldhouse and Thiess 2012, and Bureau of Labor Statistics 2012

below the top 35 percent income tax on wages and salaries—which explains the low average tax rates paid by Warren Buffett and other multi-millionaire financiers. Indeed, nearly a quarter of all millionaires actually pay a smaller share of their income in taxes than millions of middle-class households (National Economic Council 2012).

The Buffett Rule would help correct this regressive aspect of the tax code. The most widely supported legislation that would implement the Buffett Rule, the Paying a Fair Share Act of 2012 (S. 2059), would require taxpayers with incomes above $1 million to pay at least 30 percent of their adjusted gross income (less charitable contributions) in federal taxes.[1]

Job creation effects

Relative to current policy (which assumes that most tax policies scheduled to expire, such as the Bush-era tax cuts, are extended), this version of the Buffett Rule would raise about $60 billion over the next five years and around $163 billion over a decade (Barthold 2012). Implementing this tax provision and using the revenue to invest in the nation's infrastructure would create nearly 43,000 jobs in 2013 and an average of 95,000 jobs per year from 2014 through 2017 (**Table 1**). This analysis predicts that job creation would occur in every state, even those with a disproportionately large share of high-income taxpayers (**Table 2**). For example, in 2013 this policy would create about 2,600 jobs in New York state and over 900 jobs in New Jersey, and more in the ensuing years.

Deficit-reduction effects

In addition to creating jobs, this investment policy would also reduce the deficit. The increase in economic growth and employment from the revenue-financed job creation measures would diminish the budget deficit as more workers pay taxes and less is spent on automatic stabilizers (e.g., unemployment compensation and food assistance). A dollar of infrastructure investment is currently estimated to generate $1.44 in economic activity, and every dollar in increased economic activity is associated with roughly a $0.37 improvement in the budget deficit while the economy remains depressed (Bivens and Edwards 2010). This means more than 50 percent of the cost of deficit-financed infrastructure investment is effectively self-financing in the near term. In other words, fully funded investment will thus produce excess revenues that can then be used to reduce the deficit, or reinvested to boost potential economic output over the long run and lay the foundation for a competitive economy.

Appendix: Methodology

Like *A perfect match: Coupling tax fairness with job creation for a stronger economy*, this analysis was calculated by applying a multiplier to the fiscal impact in each year. For the Buffett Rule we used a 0.39 multiplier. This multi-

TABLE 2

Job impact by state of implementing the Buffett Rule (S. 2059) and dedicating the revenue to infrastructure investments, 2013–2017

	2013	2014	2015	2016*	2017*
Total	**42,756**	**87,420**	**91,543**	**97,008**	**102,291**
Alabama	700	1,430	1,498	1,587	1,674
Alaska	113	231	242	256	270
Arizona	752	1,537	1,609	1,705	1,798
Arkansas	434	888	929	985	1,039
California	3,569	7,296	7,640	8,097	8,538
Colorado	725	1,482	1,552	1,645	1,734
Connecticut	377	771	808	856	903
Delaware	143	293	307	325	343
District of Columbia	274	560	586	621	655
Florida	2,218	4,536	4,749	5,033	5,307
Georgia	1,313	2,685	2,812	2,980	3,142
Hawaii	204	416	436	462	487
Idaho	219	449	470	498	525
Illinois	1,797	3,674	3,847	4,077	4,299
Indiana	1,067	2,182	2,284	2,421	2,553
Iowa	577	1,180	1,236	1,309	1,381
Kansas	483	987	1,034	1,096	1,155
Kentucky	682	1,395	1,461	1,548	1,632
Louisiana	714	1,460	1,529	1,620	1,708
Maine	221	451	473	501	528
Maryland	707	1,445	1,514	1,604	1,691
Massachusetts	926	1,894	1,984	2,102	2,217
Michigan	1,369	2,799	2,931	3,106	3,275
Minnesota	887	1,813	1,898	2,012	2,121
Mississippi	410	838	877	930	981
Missouri	972	1,987	2,081	2,205	2,325
Montana	162	331	347	368	388
Nebraska	359	733	768	814	858
Nevada	359	733	768	814	858

TABLE 2 (CONTINUED)

	2013	2014	2015	2016*	2017*
New Hampshire	201	411	430	456	481
New Jersey	932	1,906	1,996	2,115	2,230
New Mexico	298	609	638	676	713
New York	2,615	5,346	5,598	5,932	6,255
North Carolina	1,388	2,838	2,972	3,149	3,321
North Dakota	162	330	346	367	387
Ohio	1,876	3,836	4,017	4,257	4,488
Oklahoma	587	1,201	1,258	1,333	1,405
Oregon	575	1,176	1,232	1,305	1,376
Pennsylvania	1,990	4,069	4,261	4,515	4,761
Rhode Island	155	317	331	351	370
South Carolina	681	1,393	1,459	1,546	1,630
South Dakota	160	326	342	362	382
Tennessee	973	1,990	2,084	2,209	2,329
Texas	3,474	7,103	7,438	7,882	8,311
Utah	443	905	948	1,004	1,059
Vermont	106	217	228	241	254
Virginia	1,099	2,246	2,352	2,493	2,629
Washington	899	1,838	1,925	2,040	2,151
West Virginia	298	609	638	676	713
Wisconsin	1,009	2,064	2,161	2,290	2,415
Wyoming	103	211	221	234	247

* Assuming economy remains below full employment

Source: Author's analysis of Citizens for Tax Justice 2008, Fieldhouse and Thiess 2012, and Bureau of Labor Statistics 2012

plier was an estimate of the economic output response to changing the tax rates on capital gains and dividends, but it is appropriate to use here because the Buffett Rule is mainly an increase in the effective capital gains tax rate (the capital gains preferential rate accounts for why many high-income taxpayers pay such a low overall rate in the first place). For infrastructure investments, we used a 1.44 multiplier. Both of these multipliers are published by Mark Zandi at Moody's Economy.com (Zandi 2011). These estimates assume that the economy has not returned to potential output by 2017, which is consistent with CBO projections (CBO 2012).

The state shares of the tax policy changes were calculated using state data on the distribution of taxpayers who make over $200,000, published by Citizens for Tax Justice (2008).[2] The state shares of the infrastructure investments were calculated using each state's share of national employment (Bureau of Labor Statistics 2012). We did not want to presume a certain state allocation of funds for three reasons: Different types of infrastructure would entail different allocations; certain allocations, such as the transportation allocations, are currently being debated and will likely change soon; and for some infrastructure areas, such as school construction, it is not clear which formula would be used.

Endnotes

1. Although this provision would apply to all taxpayers with income over $1 million, it would be phased in between $1 million and $2 million, so some taxpayers with income below $2 million would still pay slightly less than 30 percent.

2. While data on the distribution of taxpayers making more than $1 million are not available, we assume the distribution of taxpayers who make more than $200,000 is a reasonable substitution. In other words, if a state has a certain percentage of the nation's taxpayers making more than $200,000, it is likely to have a very similar percentage of the nation's taxpayers making more than $1 million.

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