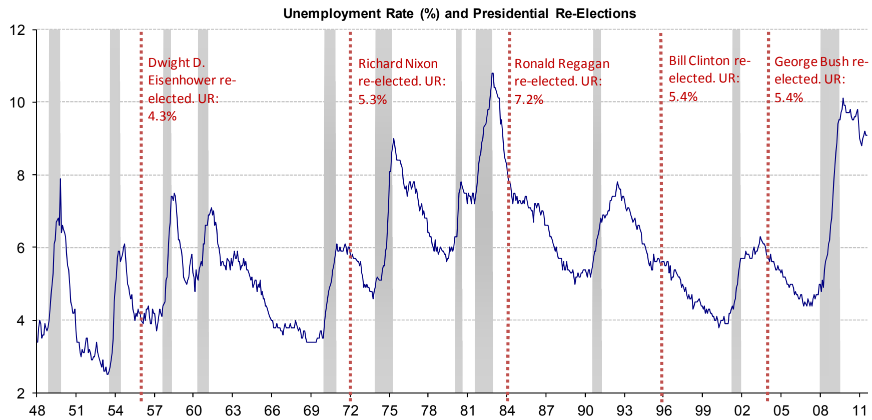
U.S.: Obama announces American Jobs Act, urges Congress to pass immediately

- The American Jobs Act will encourage companies to hire more employees via tax breaks and credits
- The plan also extends unemployment benefits and attempts to address infrastructure development
- Obama will announce another deficit reduction plan to for the $400 billion+ proposal

Last night Obama announced the American Jobs Act, a proposal to put people back to work while simultaneously addressing structural issues across the country. If passed, the act will provide tax breaks for corporations that hire new employees or raise wages, and it will cut payroll taxes in half for working Americans and small businesses. The temporary reduced tax rate of 4.2% is scheduled to expire at the end of the year, however the plan would bring the rate down from the normal 6.2% to 3.1%. Tax cuts for businesses will be limited to the first $5 million for existing payrolls, suggesting that small and medium sized companies will see most of the benefits. Businesses will also get extra tax credit if they hire veterans or anyone who has spent more than 6 months looking for a job. Furthermore, the plan extends unemployment insurance for another year, while providing a $1,500 tax credit to typical working families in 2012. In addition, the act intends to put construction workers back on the job fixing the country's deteriorating infrastructure, including at least 35,000 schools that need repair and modernization.

Most importantly, Obama stressed that this act will be paid for and will not counteract the deficit reduction plan agreed upon following the debt ceiling negotiations. The proposal adds up to about $400 billion in tax reform and extended unemployment benefits, with another $100 billion allotted for infrastructure development. A week from Monday, Obama plans to release another deficit reduction bill to reduce short-term debt (i.e. pay for the American Jobs Act) and stabilize the budget in the long run. Specifically, he mentioned adjustments to Medicare and Medicaid as well as tax reform, and he emphasized the importance of delaying spending cuts so as not to abruptly drag on the slowly recovering economy. Ultimately, Obama intends to pay for the plan via tax reform, closing corporate loopholes while lowering overall tax rates.

Throughout the speech, Obama emphasized several times to Congress the importance of passing the proposal immediately. The act comes at a critical time, not only due to the threat of a double-dip recession but also as Obama prepares himself for re-election in 2012. Although he acknowledged the fact that the "political circus" must end, it is clear that Obama needs to fight to save his faltering reputation. Since World War II, no president has won re-election with an unemployment rate above 6% except for Ronald Reagan, when the rate dropped more than 3 percentage points in two years. Obama is desperately trying to avoid another recession under his name, appealing to middle-class voters who are focused on creating jobs and rebuilding infrastructure. After last month's fiscal negotiations, we expect Republicans to oppose significant increases in government spending. Tax cuts, however, likely have the best chance of passing.



Shaded areas=recession

Source: BBVA Research

Best Regards,

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