



Regional Economic Models, Inc.

Estimated Economic Impacts of the “Small Business
Jobs and Tax Relief Act”
National Report

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The following is a summary of the Estimated Economic Impacts of S. 2237, the “Small Business Jobs and Tax Relief Act”. Total national employment results are broken out by the impact of each provision and by industrial sector. In addition, results based on employment, gross domestic product, and personal income are broken out by each provision at a state level. The study used preliminary estimates from the Joint Tax Committee in order to obtain model inputs, and used Small Business Administration information to spread the share of small business activity by state and industry. The methodology targeted employment, cost of capital, and income to the owners of small businesses. More detailed state-level results are available by request.

Overview of Model

PI* is a structural economic forecasting and policy analysis model. It integrates input-output, computable general equilibrium, econometric and economic geography methodologies. The model is dynamic, with forecasts and simulations generated on an annual basis and behavioral responses to compensation, price, and other economic factors.

The model consists of thousands of simultaneous equations with a structure that is relatively straightforward. The exact number of equations used varies depending on the extent of industry, demographic, demand, and other detail in the specific model being used. The overall structure of the model can be summarized in five major blocks: (1) Output and Demand, (2) Labor and Capital Demand, (3) Population and Labor Supply, (4) Compensation, Prices, and Costs, and (5) Market Shares. The blocks and their key interactions are shown in Figures 1 and 2.

Figure 1: REMI Model Linkages

REMI Model Linkages (Excluding Economic Geography Linkages)

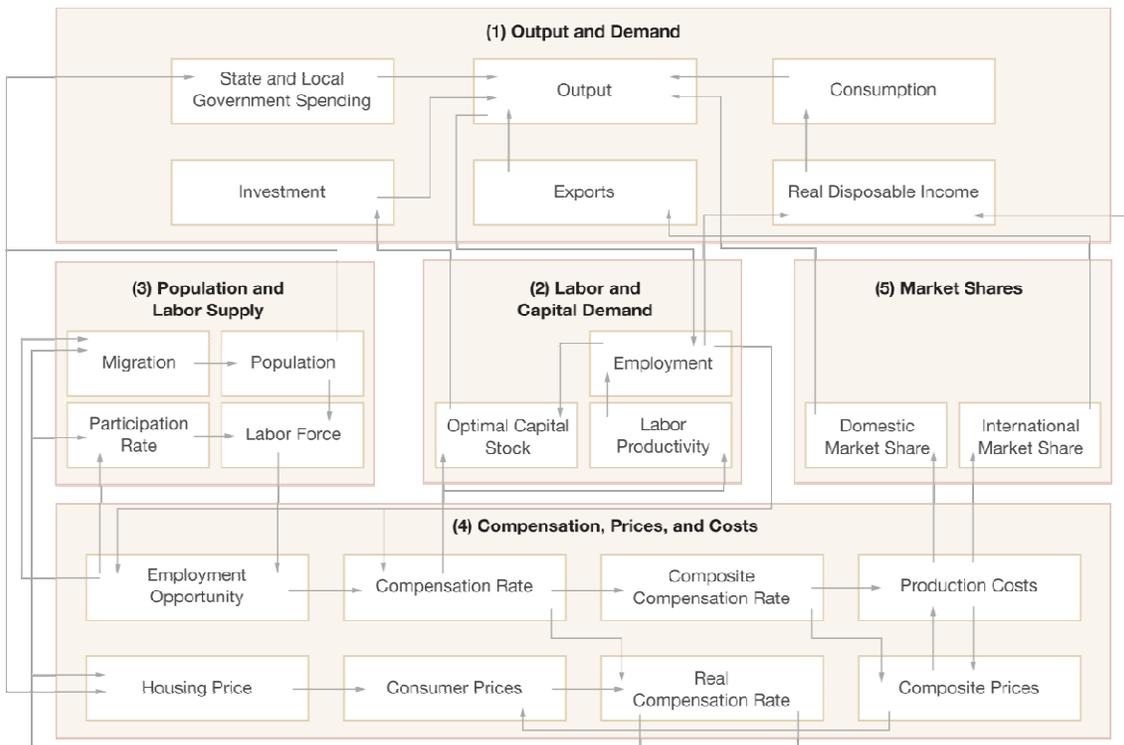
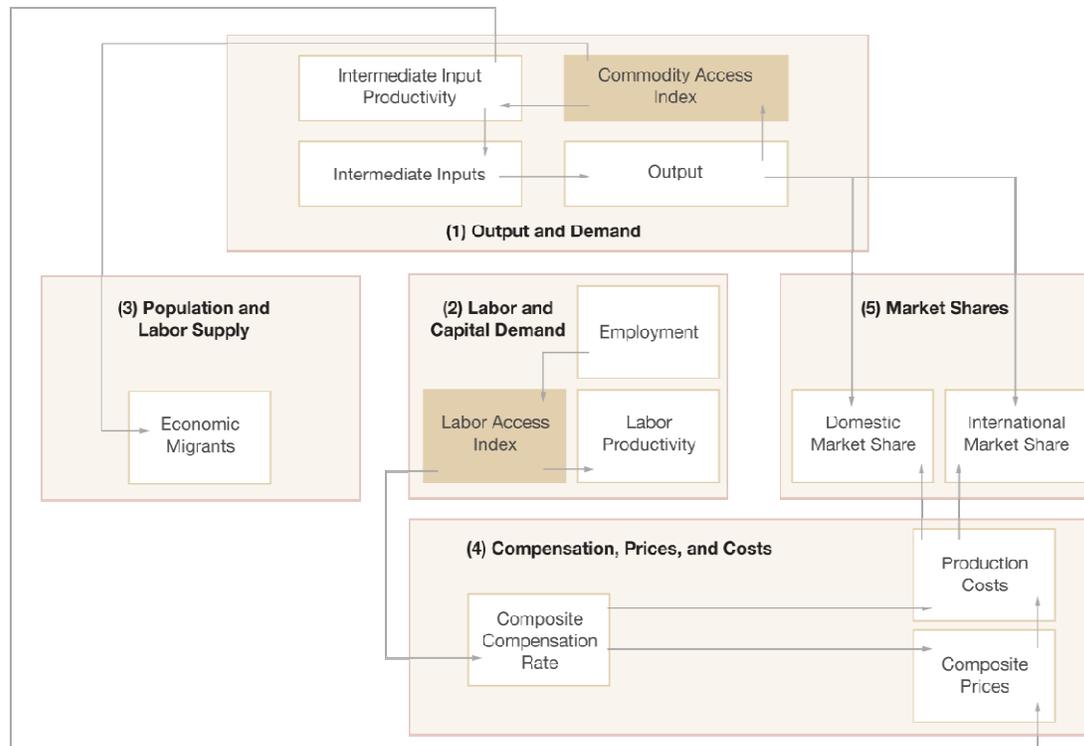


Figure 2: Economic Geography Linkages

Economic Geography Linkages



The Output and Demand block consists of output, demand, consumption, investment, government spending, exports, and imports, as well as feedback from output change due to the change in the productivity of intermediate inputs. The Labor and Capital Demand block includes labor intensity and productivity as well as demand for labor and capital. Labor force participation rate and migration equations are in the Population and Labor Supply block. The Compensation, Prices, and Costs block includes composite prices, determinants of production costs, the consumption price deflator, housing prices, and the compensation equations. The proportion of local, inter-regional, and export markets captured by each region is included in the Market Shares block.

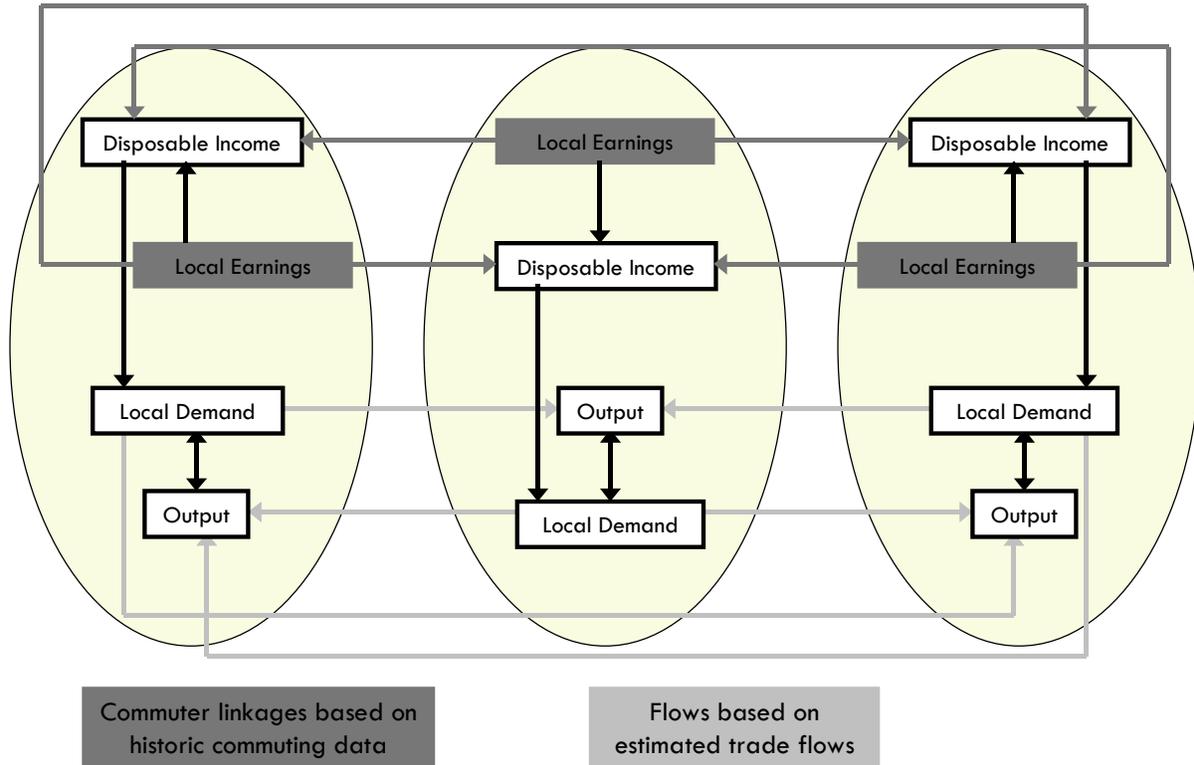
Models can be built as single region, multi-region, or multi-region national models. A region is defined broadly as a sub-national area, and could consist of a state, province, county, or city, or any combination of sub-national areas.

Single-region models consist of an individual region, called the home region. The rest of the nation is also represented in the model. However, since the home region is only a small part of the total nation, the changes in the region do not have an endogenous effect on the variables in the rest of the nation.

Multi-regional models have interactions among regions, such as trade and commuting flows. These interactions include trade flows from each region to each of the other regions. These flows are illustrated for a three-region model in Figure 3.

Figure 3: Trade and Commuter Flow Linkages

Trade and Commuter Flow Linkages



Multiregional national models also include a central bank monetary response that constrains labor markets. Models that only encompass a relatively small portion of a nation are not endogenously constrained by changes in exchange rates or monetary responses.

Block 1. Output and Demand

This block includes output, demand, consumption, investment, government spending, import, commodity access, and export concepts. Output for each industry in the home region is determined by industry demand in all regions in the nation, the home region's share of each market, and international exports from the region.

For each industry, demand is determined by the amount of output, consumption, investment, and capital demand on that industry. Consumption depends on real disposable income per capita, relative prices, differential income elasticities, and population. Input productivity depends on access to inputs because a larger choice set of inputs means it is more likely that the input with the specific

characteristics required for the job will be found. In the capital stock adjustment process, investment occurs to fill the difference between optimal and actual capital stock for residential, non-residential, and equipment investment. Government spending changes are determined by changes in the population.

Block 2. Labor and Capital Demand

The Labor and Capital Demand block includes the determination of labor productivity, labor intensity, and the optimal capital stocks. Industry-specific labor productivity depends on the availability of workers with differentiated skills for the occupations used in each industry. The occupational labor supply and commuting costs determine firms' access to a specialized labor force.

Labor intensity is determined by the cost of labor relative to the other factor inputs, capital and fuel. Demand for capital is driven by the optimal capital stock equation for both non-residential capital and equipment. Optimal capital stock for each industry depends on the relative cost of labor and capital, and the employment weighted by capital use for each industry. Employment in private industries is determined by the value added and employment per unit of value added in each industry.

Block 3. Population and Labor Supply

The Population and Labor Supply block includes detailed demographic information about the region. Population data is given for age, gender, and race, with birth and survival rates for each group. The size and labor force participation rate of each group determines the labor supply. These participation rates respond to changes in employment relative to the potential labor force and to changes in the real after-tax compensation rate. Migration includes retirement, military, international, and economic migration. Economic migration is determined by the relative real after-tax compensation rate, relative employment opportunity, and consumer access to variety.

Block 4. Compensation, Prices and Costs

This block includes delivered prices, production costs, equipment cost, the consumption deflator, consumer prices, the price of housing, and the compensation equation. Economic geography concepts account for the productivity and price effects of access to specialized labor, goods, and services.

These prices measure the price of the industry output, taking into account the access to production locations. This access is important due to the specialization of production that takes place within each industry, and because transportation and transaction costs of distance are significant. Composite prices for each industry are then calculated based on the production costs of supplying regions, the effective distance to these regions, and the index of access to the variety of outputs in the industry relative to the access by other uses of the product.

The cost of production for each industry is determined by the cost of labor, capital, fuel, and intermediate inputs. Labor costs reflect a productivity adjustment to account for access to specialized labor, as well as underlying compensation rates. Capital costs include costs of non-residential structures and equipment, while fuel costs incorporate electricity, natural gas, and residual fuels.

The consumption deflator converts industry prices to prices for consumption commodities. For potential migrants, the consumer price is additionally calculated to include housing prices. Housing prices change from their initial level depending on changes in income and population density.

Compensation changes are due to changes in labor demand and supply conditions and changes in the national compensation rate. Changes in employment opportunities relative to the labor force and occupational demand change determine compensation rates by industry.

Block 5. Market Shares

The market shares equations measure the proportion of local and export markets that are captured by each industry. These depend on relative production costs, the estimated price elasticity of demand, and the effective distance between the home region and each of the other regions. The change in share of a specific area in any region depends on changes in its delivered price and the quantity it produces compared with the same factors for competitors in that market. The share of local and external markets then drives the exports from and imports to the home economy.

United States Total

Estimated Economic Impacts of the "Small Business Jobs and Tax Relief Act"

Total Employment:	990,592
Small Business Employment:	631,132
Gross Domestic Product (Millions):	87,286
Personal Income (Millions):	73,044

Provision 1: Temporary Tax Credit for Increased Payroll

Employment:	483,786
Gross Domestic Product (Millions):	41,943
Personal Income (Millions):	32,391

Provision 2: Extension of Allowance for Bonus Depreciation for Certain Business Assets

Employment:	497,554
Gross Domestic Product (Millions):	44,564
Personal Income (Millions):	39,518

Provision 3: Expansion of Election to Accelerate AMT Credits

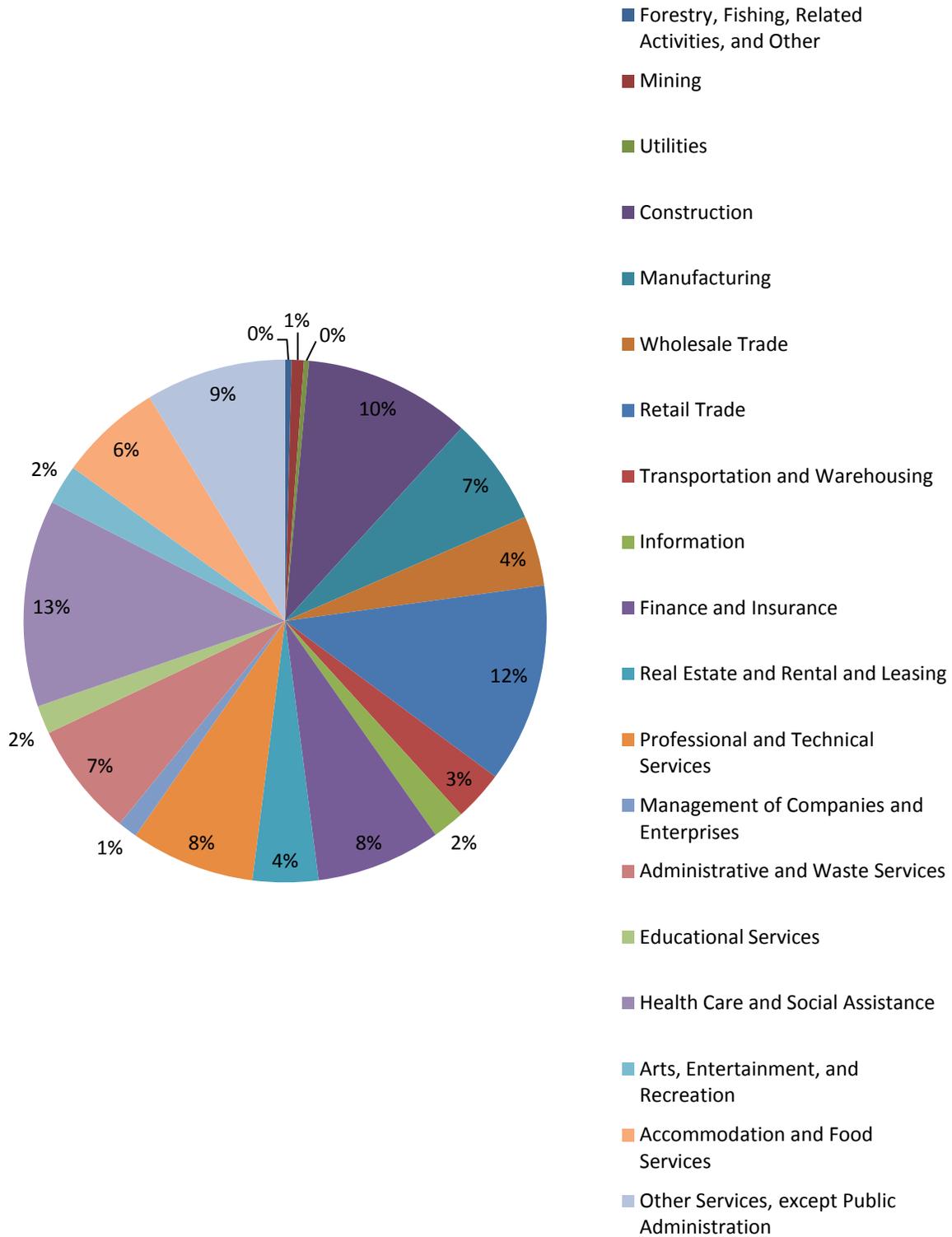
Employment:	9,252
Gross Domestic Product (Millions):	780
Personal Income (Millions):	1,135

Jobs Created* (Thousands)	Provision 1	Provision 2	Provision 3	Total
Forestry, Fishing, Related Activities, and Other	1,866	1,706	25	3,597
Mining	3,570	3,216	43	6,829
Utilities	1,528	1,248	23	2,799
Construction	41,940	50,540	751	93,231
Manufacturing	33,399	26,788	433	60,620
Wholesale Trade	20,991	17,832	328	39,151
Retail Trade	46,262	63,928	1,238	111,428
Transportation and Warehousing	14,358	13,400	239	27,997
Information	8,882	8,940	162	17,984
Finance and Insurance	30,139	38,832	714	69,685
Real Estate and Rental and Leasing	15,419	20,834	340	36,593
Professional and Technical Services	39,451	29,452	518	69,421
Management of Companies and Enterprises	6,070	4,837	82	10,989
Administrative and Waste Services	35,571	27,697	513	63,781
Educational Services	8,387	7,269	169	15,825
Health Care and Social Assistance	54,240	60,024	1,377	115,641
Arts, Entertainment, and Recreation	11,018	11,024	218	22,260
Accommodation and Food Services	33,139	23,861	489	57,489
Other Services, except Public Administration	35,821	41,732	810	78,363
Total	442,051	453,160	8,472	903,683

*Total of private sector employment only and excludes government and farm employment

Source: Regional Economic Models, Inc. (REMI)

United States Total



Source: Regional Economic Models, Inc. (REMI)

Estimated Economic Impacts of the "Small Business Jobs and Tax Relief Act"

State Employment Summary, 2012
(In Thousands)

	Temporary Tax Cut for Increased Payroll	Extension of Allowance For Bonus Depreciation	Expansion of Election to Accelerate AMT Credits	Total
Alabama	6.604	6.896	0.129	13.629
Alaska	1.015	1.073	0.02	2.108
Arizona	8.787	9.993	0.186	18.966
Arkansas	3.952	4.157	0.077	8.186
California	59.096	59.69	1.09	119.876
Colorado	9.152	10.054	0.185	19.391
Connecticut	6.599	6.596	0.119	13.314
Delaware	1.539	1.585	0.029	3.153
District of Columbia	1.473	1.227	0.023	2.723
Florida	24.639	27.593	0.494	52.726
Georgia	13.617	14.565	0.264	28.446
Hawaii	1.777	1.883	0.041	3.701
Idaho	2.442	2.727	0.055	5.224
Illinois	22.086	21.734	0.405	44.225
Indiana	10.046	10.149	0.197	20.392
Iowa	5.502	5.808	0.113	11.423
Kansas	4.915	5.013	0.096	10.024
Kentucky	5.865	6.067	0.113	12.045
Louisiana	7.169	7.275	0.134	14.578
Maine	2.32	2.44	0.05	4.81
Maryland	8.666	8.608	0.156	17.43
Massachusetts	12.525	12.268	0.229	25.022
Michigan	14.866	14.417	0.283	29.566
Minnesota	10.463	10.51	0.206	21.179
Mississippi	3.617	3.898	0.072	7.587
Missouri	9.638	10.021	0.19	19.849
Montana	1.797	1.955	0.043	3.795
Nebraska	3.332	3.562	0.069	6.963
Nevada	4.174	4.703	0.087	8.964
New Hampshire	2.608	2.718	0.053	5.379
New Jersey	15.22	14.416	0.269	29.905
New Mexico	2.785	2.931	0.057	5.773
New York	32.141	30.707	0.563	63.411
North Carolina	13.172	13.908	0.257	27.337
North Dakota	1.369	1.392	0.028	2.789
Ohio	18.351	18.374	0.353	37.078
Oklahoma	5.532	5.518	0.102	11.152
Oregon	6.37	6.699	0.136	13.205

Source: Regional Economic Models, Inc. (REMI)

Pennsylvania	20.247	20.175	0.381	40.803
Rhode Island	1.803	1.7	0.034	3.537
South Carolina	6.201	6.667	0.125	12.993
South Dakota	1.51	1.629	0.033	3.172
Tennessee	9.425	10.406	0.195	20.026
Texas	37.011	40.083	0.681	77.775
Utah	4.83	5.521	0.109	10.46
Vermont	1.251	1.264	0.026	2.541
Virginia	11.839	11.66	0.207	23.706
Washington	10.542	11.319	0.214	22.075
West Virginia	2.421	2.47	0.046	4.937
Wisconsin	10.372	10.384	0.207	20.963
Wyoming	1.113	1.146	0.021	2.28
US Total	483.786	497.554	9.252	990.592

Estimated Economic Impacts of the "Small Business Jobs and Tax Relief Act"

State GDP Summary, 2012

(in Millions of Current Dollars)

	Temporary Tax Cut for Increased Payroll	Extension of Allowance For Bonus Depreciation	Expansion of Election to Accelerate AMT Credits	Total
Alabama	507	536	9	1,052
Alaska	88	94	1	183
Arizona	756	908	16	1,680
Arkansas	298	317	6	621
California	5,552	5,787	100	11,439
Colorado	799	918	16	1,733
Connecticut	659	691	11	1,362
Delaware	138	150	2	290
District of Columbia	165	150	2	317
Florida	2,023	2,387	41	4,450
Georgia	1,160	1,292	23	2,474
Hawaii	126	141	3	271
Idaho	163	182	3	348
Illinois	2,080	2,123	38	4,240
Indiana	803	823	15	1,641
Iowa	423	453	8	883
Kansas	383	402	7	792
Kentucky	454	479	8	940
Louisiana	582	601	10	1,194
Maine	160	169	3	333
Maryland	757	802	14	1,572
Massachusetts	1,245	1,264	23	2,532
Michigan	1,207	1,179	22	2,408
Minnesota	940	969	18	1,927
Mississippi	249	273	5	526
Missouri	799	855	16	1,670
Montana	111	123	2	236
Nebraska	254	280	6	539
Nevada	341	398	7	746
New Hampshire	210	222	5	437
New Jersey	1,459	1,443	25	2,927
New Mexico	202	217	3	423
New York	3,301	3,379	58	6,738
North Carolina	1,036	1,134	19	2,189
North Dakota	102	105	2	209
Ohio	1,527	1,559	28	3,114
Oklahoma	421	432	8	861
Oregon	499	540	10	1,049

Source: Regional Economic Models, Inc. (REMI)

Pennsylvania	1,729	1,777	32	3,538
Rhode Island	151	144	2	298
South Carolina	457	508	9	974
South Dakota	101	111	2	215
Tennessee	720	814	15	1,549
Texas	3,265	3,652	59	6,977
Utah	367	429	8	804
Vermont	85	85	1	172
Virginia	1,039	1,071	18	2,128
Washington	954	1,076	19	2,049
West Virginia	179	186	3	368
Wisconsin	829	843	16	1,687
Wyoming	86	91	1	179
US Total	41,943	44,564	780	87,286

Estimated Economic Impacts of the "Small Business Jobs and Tax Relief Act"

State Personal Income Summary, 2012
(in Millions of Current Dollars)

	Temporary Tax Cut for Increased Payroll	Extension of Allowance For Bonus Depreciation	Expansion of Election to Accelerate AMT Credits	Total
Alabama	375	477	14	866
Alaska	75	97	3	175
Arizona	552	737	21	1,310
Arkansas	215	279	9	503
California	4,441	5,240	145	9,826
Colorado	615	783	22	1,420
Connecticut	545	638	17	1,200
Delaware	105	129	4	238
District of Columbia	163	164	5	332
Florida	1,461	1,951	56	3,468
Georgia	839	1,061	30	1,930
Hawaii	112	156	5	273
Idaho	128	176	6	310
Illinois	1,579	1,822	51	3,452
Indiana	593	729	22	1,344
Iowa	310	399	12	721
Kansas	287	360	11	658
Kentucky	333	423	13	769
Louisiana	438	540	16	994
Maine	128	169	5	302
Maryland	608	732	21	1,361
Massachusetts	1,005	1,154	32	2,191
Michigan	928	1,088	33	2,049
Minnesota	677	814	24	1,515
Mississippi	191	254	8	453
Missouri	584	728	21	1,333
Montana	93	131	5	229
Nebraska	190	247	7	444
Nevada	264	347	10	621
New Hampshire	168	209	6	383
New Jersey	1,207	1,350	38	2,595
New Mexico	161	208	6	375
New York	2,692	3,075	84	5,851
North Carolina	776	1,000	30	1,806
North Dakota	75	98	3	176
Ohio	1,104	1,332	40	2,476
Oklahoma	319	393	12	724
Oregon	388	503	16	907

Source: Regional Economic Models, Inc. (REMI)

Pennsylvania	1,366	1,636	48	3,050
Rhode Island	121	142	4	267
South Carolina	333	439	14	786
South Dakota	78	108	4	190
Tennessee	561	729	21	1,311
Texas	2,470	3,062	80	5,612
Utah	271	362	11	644
Vermont	69	88	3	160
Virginia	824	974	28	1,826
Washington	746	958	28	1,732
West Virginia	140	176	5	321
Wisconsin	619	763	23	1,405
Wyoming	69	88	3	160
US Total	32,391	39,518	1,135	73,044

Source: Regional Economic Models, Inc. (REMI)