

## **Economic Recovery Talking Points: Why Senators Should Vote for the American Recovery and Reinvestment Act**

- **The obvious: the economy is very bad and the downward spiral is accelerating.** 1.9 million jobs were lost in the last four months alone. Nationwide, unemployment rose from 4.9 percent in December 2007 to 7.2 percent a year later, for a total 11.1 million unemployed (up 3.7 million in a year). There were 2.6 million workers jobless for more than six months in December – the number doubled in a year.
- **The Senate bill contains an array of needed federal actions, some which will save or create jobs almost immediately and others which will kick in over 18 months to two years.** Because the recession is expected to be deep and long, we need a balance of short- and middle-term jobs measures. Spending on food stamps (now called Supplemental Nutrition Assistance Program, or SNAP), Unemployment Insurance, and one-time Supplemental Security Income (SSI), Social Security, and other retirement payments will be received as early as April. Aid to states to help with Medicaid, education, and other costs can also be distributed quickly. Some infrastructure projects can be started within six months; others will take longer. It is helpful for the plan to have this kind of mix, so that funds continue to flow while the economy remains weak. According to the Congressional Budget Office, 64 percent of the bill's spending will take place by the end of FY 2010. The President had hoped for three-quarters in that time period; this is reasonably close. About 85 percent of the bill's spending will take place by the end of FY 2011. Again, the expected severity of the recession makes continued spending over this period desirable and necessary.
- **The bill emphasizes aid to people with low-incomes, which economists say is the most effective boost to the economy.** Because SNAP and unemployment benefits can be delivered quickly and are spent in the month they are received, economists estimate they provide the biggest bang for the economic recovery buck. For every dollar spent in SNAP benefits, \$1.73-\$1.84 is generated in economic growth. That means more sales in grocery stores, so fewer lay-offs or more hiring in those stores, more purchases from wholesale food distributors, etc. Similarly, \$1.64 is generated for every dollar of UI spending. This economic activity translates into jobs. ***An analysis by the Economic Policy Institute shows that the House version of SNAP funding would save or create 185,000 jobs*** (the Senate version would do somewhat less because funding is lower); ***both House and Senate would save or create 340,000 jobs through their unemployment insurance provisions.*** The bill includes many other examples of assistance targeted to help people with low incomes, including low-income tax credits, restoring funds to collect child support, and funding to enable states to increase their Temporary Assistance for Needy Families (TANF) caseloads.
- **Aid to states will prevent a deepening of the recession.** Budget gaps across all states are expected to top \$350 billion over the next 30 months, affecting 46 states,

including Maine. If states are forced to cut Medicaid, education, or other important services, there will be more lay-offs and fewer purchases of goods and services, making the recession worse. If states increase taxes on low- to middle-income people to prevent cuts, they will have less money to spend when the economy needs them to spend more. Mark Zandi of Moody's Economy.com estimates that a dollar of spending on state aid will generate \$1.38 in economic activity.

- **Much in the legislation will alleviate severe hardship.** It is true that spending on low-income people is far more effective than business tax breaks at boosting the economy and saving and creating jobs. But it is also true, and extremely important, that the bill addresses critically important needs for food, health care, housing, and income. In addition to SNAP and UI, the Senate bill adds funds for WIC and emergency food, helps prevent foreclosures and/or helps people to move to new housing, and provides help to people who lose health insurance when they lose their job. ***Allowing millions to go without health care, to lose their homes, or to go without adequate food would have damaging consequences that will persist well beyond this recession.*** Young children without proper nutrition may suffer developmental delays and fall behind in school. Loss of a home will create credit barriers hard to overcome even years later. Lack of health care can lead to permanent health problems that will shorten lives and limit families' economic future. All of this is preventable.
- **The bill includes short-term infusions of cash into the economy and also makes important investments that will help us to rebuild.** The economic recovery plan has been criticized both for being too short-term and for investing in projects with long-term pay-off. In many instances, there is an attempt to spend and hire ***now*** on projects that will provide long-term benefits. Making public housing more energy efficient and rehabbing now-vacant rental units creates jobs now but also saves money and increases the low-cost housing supply for years to come. Renovating schools and repairing roads has a similar impact. Similarly, increasing Pell grants for low-income college students will lead to immediate spending on books and supplies, while also investing in a better-educated labor force.
- **Social service expenditures are investments too.** The \$2 billion for child care and \$2.1 billion for Head Start help with young children's development, increasing their chances for school success. At the same time, jobs will be created now (50,000 in Head Start alone). Funding in the Social Services Block Grant, Community Services Block Grant, and Neighborhood Stabilization Program will provide funds for nonprofits to provide important services and to upgrade or construct facilities.
- **The bill does not solve every problem. But delay will make things much worse.** Critics who want to do more to solve the housing and banking crises are right; but delaying this bill to come to agreement about the right policies to prevent foreclosures, ease the credit crunch, and provide adequate oversight to lenders will make the economy weaken further. Housing must be addressed, and separate legislation should proceed swiftly.

- **More tax cuts are not the answer.** While direct spending on low-income assistance and state aid provide an effective economic boost, corporate tax breaks such as a reduction in the capital gains tax provides only 30 cents of economic growth for every dollar spent – that is, such a business tax cut brings in much less than it costs. Some have proposed a \$16 billion tax holiday for corporate dividends generated overseas. In 2004 such a holiday was enacted, and, according to analysts including the investment firm Goldman Sachs, it did not lead to increased investments or hiring in the U.S.; instead, corporations bought back shares and concentrated wealth further. Tax cuts targeted at low-income people, such as the Child Tax Credit, the Earned Income Tax Credit, and the new Making Work Pay credit, are effective ways of moving funds into the economy, because low-income people will need to spend a greater share of their tax refund check. In contrast, a general payroll tax holiday would cost a great deal and most of the benefit would go middle- and upper-middle income taxpayers as well as to employers. More of their benefit would be saved, making it ineffective as a means of spurring the economy.