

American Recovery and Reinvestment Act: Questions and Answers, Rebutting Critics – Part I

Q: Is this economic package too big/too small?

A: Economists from across the political spectrum have said that the total amount of stimulus that is needed falls in the \$800 billion to \$1 trillion range. [CBPP, 2/5/09] A number of economists, such as Nobel-Prize winner Paul Krugman, have called for a significantly larger package -- ranging from \$1.3 trillion up to \$5 trillion.

This legislation is projected to create or save 3.5 million jobs – the number of jobs already lost during this recession.

The issue is not just how much the package costs but how wisely the package is constructed and what results economists predict it will yield. With a mix of tax cuts for middle income families and American businesses, combined with targeted investments in energy independence, infrastructure, health care, and education, the package has been carefully targeted to have the most “bang for the buck” in creating jobs and spurring economic long-term growth.

Two of the biggest amendments put forward in the Senate to increase the level of that spending were by Republicans. Last fall, Republicans voted for the \$700 financial rescue bill for Wall Street, while rejecting help for Main Street. Those who presided over the last eight years of trillions of dollars in deficits, and an economy that's collapsing more rapidly than in any time in the last 50 years, don't seem to be in a strong position to lecture on economics.

This is only the first step. In addition to this economic recovery package, President Obama is releasing a Financial Stability plan for the second \$350 billion from the TARP in a more effective and accountable way. That will also help get our economy back on track by making credit more available – particularly to small businesses and consumers. In addition, the President will be proposing a housing package to address the foreclosure crisis.

Q. Isn't the bill full of pork? Does it include funding for items like weatherization or cars for federal employees that have nothing to do with creating jobs?

A: There are no earmarks in the bill. Partisan critics have focused on less than 1 percent of the bill's provisions, most of which would create jobs, save taxpayers' money or both..

As TIME magazine wrote: “the austerity scolds have found surprisingly few specific outrages.” [TIME, 2/16/09]

- Weatherizing low-income homes--which would create jobs in a hurry, save homeowners money on their energy bills, and reduce the carbon emissions that keep us dependent on foreign oil. “What's the argument in favor of heating and air-conditioning the outdoors?” [TIME, 2/16/09]

- Investments in ‘smoking-cessation activities’ and other preventative health measures are an effective way to hold down the long-term health costs that threaten the Treasury's long-term solvency.
- Turning federal buildings into “green” buildings, which will create short-term jobs for retrofitters while reducing long-term federal energy costs and emissions. [TIME, 2/16/09]
- Replace the federal fleet with fuel efficient cars, which will create jobs for people who make those cars, while saving the federal government energy and saving taxpayers money.

“House Republicans this week released a list of \$19 billion in provisions they called "wasteful" (i.e., 2% of the total package). But the list includes numerous projects that many Americans would support and that would plainly stimulate our limping construction and manufacturing sectors. For example, the purchase of new computers and vehicles for federal agencies, the building of fire stations and other public facilities, and the upgrade of rail lines.” [Los Angeles Times, 2/5/09]

The investments in the bill were carefully selected because they will do one of two things: Create or save jobs immediately or create jobs for the long-term and put us on the road to long-term economic recovery.

Q: Won't this lead to massive debt for future generations?

A. Economic growth is the key to begin to dig out of the \$11 trillion debt left by the Bush Administration. Investment that expands the economy can eventually pay for itself, as less government spending is needed and growing income spur greater tax receipts. Forecasting firm Macroeconomic Advisers projects that a similar economic recovery plan could pay for up to 40 percent of itself via higher tax revenue over the next five years. [Wall Street Journal Blog, Real Time Economics, 1/15/09] If we do not act quickly and wisely, our national debt will explode even larger and faster, as the recession stretches on and deepens. In that scenario, we will not be able to dig ourselves out.

Q: Will the jobs and economic recovery plan being debated work quickly enough to fix the economy?

A: The jobs and economic package is well-timed with nearly 75 percent of its investments and tax cuts pumped into the economy in the next 18 months, according to the non-partisan Congressional Budget Office. The White House has committed that 75 percent of the funds will be spent in the first 18 months.

“Let's review some of the more silly arguments about the stimulus bill, starting with the notion that "only" 75 percent of the money can be spent in the next two years, and the rest is therefore "wasted." As any economist will tell you, the economy tends to be forward-looking and emotional. So if businesses and households can see immediate benefits from a program while knowing that a bit more stimulus is on the way, they are likely to feel more confident that the recovery will be sustained. That confidence, in turn, will make them more likely to take the risk of buying big-ticket items now and investing in stocks or future ventures.” [Steven Pearlstein, Washington Post, 2/6/09]

Q. Won't some appropriations not be spent until after 2010?

A. While most of the funding will be spent before 2011, many economists believe that the economy still will be weak at that point. Those investments that will continue to spend out after 2010 can be helpful in smoothing the course of the recovery, while providing longer term benefits to the economy. CBO Director Elmendorf stated that "CBO projects that economic output will remain significantly below its potential for several more years, so policies that provide stimulus for an extended period of time may be appropriate." [Testimony, 1/27/09]

On top of jumpstarting the economy and creating jobs immediately, this package contains investments in the long-term future of America, to lessen our dependence on foreign oil, to ensure our children are educated for the jobs of this new century, to strengthen our competitiveness, and to reduce health care costs.

Q: What will the economic impact of the job and recovery package be?

A: *Macroeconomic Advisers* estimates that a similar recovery plan would: “add 3.2% to the level of U.S. gross domestic product by the end of 2010 and add 3.3 million jobs, cutting the unemployment rate by 1.7 percentage points by the end of next year.” [Wall Street Journal Blog, Realtime Economics 1/15/09]

Congressional Budget Office says: Both the House and Senate bills will "have a noticeable impact on economic growth and employment in the next few years." Elmendorf further stated: "In CBO's judgment, H.R. 1 would provide a **substantial boost to economic activity** over the next several years relative to what would occur without any legislation." [Testimony, 1/27/09]

Q: What were the consequences of delay or inaction?

A: Economists from across the spectrum have warned that if we don't act immediately, millions more jobs will be lost, and national unemployment rates will approach double digits. More people will lose their homes and their health care. And our nation will sink into a crisis that, at some point, we may be unable to reverse. The impact on our long-term deficit would be catastrophic. Failure to act would likely have caused 5 million more jobs lost than without a stimulus; the economy would have been likely to see, in each of the next three years, \$3 trillion in total -- a trillion dollars each year -- shortfall in what this economy is producing and what it could produce.

Mark Zandi, chief economist with Moody's Economy.com said: “The stimulus plan as laid out will provide a vital boost to the flagging economy. Without it, the jobless rate is headed well into the double digits, a depression in my nomenclature. Stimulus is more than dollars and cents, however. It has to be passed quickly and sold well to shore up crumbling confidence.” [Seattle Times, 1/16/09]

Q: Why isn't there more in the bill to combat the housing crisis?

A: This Congress has worked to develop solutions to the housing crisis, most recently calling for a substantial portion of the financial rescue to be allocated to reduce foreclosures. This bill takes some steps forward on housing, strengthening the tax credit for first-time homebuyers, and supporting the redevelopment of foreclosed homes, to help prevent neighborhood blight and the associated decline in housing values. The Obama Administration's Financial Stability plan will include substantial proposals to address the housing crisis. The House plans to act soon to reduce home foreclosures by allowing bankruptcy judges to modify home loans for families in bankruptcy and reforming the Hope for Homeowners program (PL 110-289) enacted last year to help borrowers in danger of losing their homes refinance into new government-backed loans. Most House Republicans opposed efforts last year to reduce home foreclosures.

Q: Isn't it true that input from Republicans has been ignored?

A: The bill got to the floor after fair and extensive deliberations in the Ways and Means, Energy and Commerce and Appropriations committees. A number of Republican ideas and amendments were incorporated into the bill, ranging from business tax cuts, such as net operating losses and bonus depreciation, to expanding the homebuyers tax credit, and staving off a tax increase under the Alternative Minimum Tax and this week, some Senate Republicans worked on an agreement to amend the package. Ideas were not adopted that repeated mistakes of the past.

Q: Partisan critics charge that under the bill it will cost \$275,000 per job. Is that correct?

A: Nobel prize winning economist Paul Krugman called that a bogus charge: “Why is it bogus? Because it involves taking the cost of a plan that will extend over several years, creating millions of jobs each year, and dividing it by the jobs created in just one of those years. It’s as if an opponent of the school lunch program were to take an estimate of the cost of that program over the next five years, then divide it by the number of lunches provided in just one of those years, and assert that the program was hugely wasteful, because it cost \$13 per lunch. (The actual cost of a free school lunch, by the way, is \$2.57.) The true cost per job of the Obama plan will probably be closer to \$100,000 than \$275,000 — and the net cost will be as little as \$60,000 once you take into account the fact that a stronger economy means higher tax receipts.”

Q: Won’t the bill permanently increase the size of government?

A: Most of the investments are temporary in nature. Very little of the spending authority in the bill extends beyond 2011, and the evidence from past economic recovery legislation is that Congress allows these temporary measures such as state fiscal relief to expire once the economy recovers.

Q: Won’t the bill just create government jobs?

A: Some 90 percent of the 3-4 million jobs created or saved under the plan are estimated to be in the private sector according to a report by the Council of Economic Advisers. And the 10 percent of jobs in state and local governments are critical to our nation’s competitiveness and security, such as teachers, firefighters, and police.

Q: How did we get in this mess to begin with?

A: We face an economic recession unrivaled since the Great Depression, as a result of years of failure to invest in our own global competitiveness, failures to bring common sense rules to Wall Street and our housing market, and tax policies that favored massive corporations and most affluent individuals, instead of strengthening the middle class. Under recent Republican economic policies:

- The national debt has almost doubled in the last 8 years, with debt borrowed from foreign countries tripling.
- President Bush turned record surpluses into the worst deficit in American history.
- American income disparity is at its worst level since The Gilded Age of the 19th century. The rich are richer and everyone else has seen their pocketbook strained by stagnant paychecks and rising prices.

Q: Is this is another New Deal?

A: This is not your grandfather’s public works bill. This is a smart, 21st century plan that will create new jobs by investing in a cleaner energy future strengthening high-tech infrastructure to bring the power of renewable energy and broadband to communities across America; and rebuilding our bridges, and modernizing our schools, and health information technology. Roosevelt’s New Deal policies were effective with unemployment falling every year from 1933 until 1938. Nobel laureate and New York Times columnist Paul Krugman has written that the New Deal produced "long-run achievements" that "remain the bedrock of our nation's economic stability" and that Roosevelt's short-term successes were constrained because "he was eager to return to conservative budget principles."

Taxes

Q: Some say that tax cuts are the most effective way to stimulate the economy and complain that this bill does not have enough tax cuts. Is that true?

A: This legislation provides one of the largest tax cuts in American history. Tax cuts, largely for the middle class, make up more than one-third of the bill--including to 95 percent of working Americans. While these tax cuts can help increase economic activity, most economists agree that we get the most 'bang for the buck' through investments that directly create jobs and put money into the hands of Americans who will spend it quickly. For eight years, we tried an all-tax-cut approach under President Bush and it didn't work.

Q: Wouldn't a cut in the corporate tax and capital gains and dividend tax better grow the economy?

A: Numerous non-partisan government and independent studies agree that corporate tax rate cuts have relatively little 'bang-for-the-buck' as stimulus. The Congressional Budget Office say that a reduction in the corporate tax rate is "not a particularly cost-effective method of stimulating business spending" because "[i]ncreasing the after-tax income of businesses typically does not create an incentive for them to spend more on labor or to produce more, because production depends on the ability to sell output." [1/08] Mark Zandi, chief economist and co-founder of Moody's Economy.com who was a McCain campaign economic adviser, estimates that every dollar spent through a cut in the corporate tax rate produces only \$0.30 of economic activity-- one of the three least-efficient stimulus provisions.

Regarding the capital gains tax rate, according to a 2003 Congressional Research Service (CRS) report: "A capital gains tax cut appears the least likely of any permanent tax cut to stimulate the economy in the short run; a temporary capital gains tax cut is unlikely to provide any stimulus"... "[t]here are reasons to expect that capital gains tax cuts would have the smallest stimulative effect on the economy of virtually any fiscal stimulus option." The Urban Institute-Brookings Tax Policy Center has estimated that 75 percent of the benefit of temporarily cutting the capital gains rate in half would flow to the top 1 percent of households, making it very poor stimulus as high-income households are much more likely to save rather than spend.

Q: Will undocumented immigrants get the Making Work Pay tax cut?

A: The measure explicitly provides tax cuts to workers who are here legally and pay taxes. The measure prevents anyone without a Social Security number from claiming the credit and it expressly disqualifies nonresident aliens. The requirements in this bill are the same that were used for the 2008 rebate checks that passed with Republican support and signed by President Bush.

Q: Doesn't the plan give tax refunds to people who do not pay taxes?

A: The Making Work Pay Tax Cut provides immediate and sustained tax relief to 95 percent of American workers through a refundable tax credit of up to \$400 per worker (\$800 per couple filing jointly). **All workers pay Social Security and Medicare taxes.**

Question: Does the bill do enough to spur small business?

A: It takes critical steps to strengthen the 24 million small businesses that are the engine of this economy. To help smaller firms access to the capital they need to stay afloat, create jobs and help drive an economic recovery during this credit crunch, the plan:

- spurs more than \$13 billion in small business loans, with Small Business Administration guarantees.
- guarantees up to \$2 billion in loans for rural businesses.

- strengthens small manufacturers' productivity and competitiveness by providing them with access to technology. (\$30 million for Manufacturing Extension Partnership)

It includes more than \$20 billion worth of business tax cuts:

- bonus depreciation to spur business investment by businesses, large and small, all across America;
- a Net Operating Losses provision allowing businesses to write off current losses against a longer period of past profits, to get cash flowing immediately to businesses during this credit crunch;
- extending small business expensing, which doubles of the amount that small businesses can immediately write off on their taxes for capital investments and for purchase of new equipment in 2009.
- repealing the mandate that governments withhold 3 percent of payments to businesses for goods and services, which is strongly supported by the National Small Business Association.

Help for Workers Hurt by the Recession

Q: Does social service spending create jobs?

A: Economists say investments in food stamps and unemployment benefits are some of the best tools to generate immediate, targeted economic growth that will result in job creation throughout our economy. Every dollar invested in SNAP/food stamps creates [\\$1.73](#) in economic activity, and every dollar invested in unemployment insurance creates [\\$1.64](#) in additional economic activity. Both put money in the hands of families who will spend it immediately

Infrastructure

Q: Won't much of the investment in highways, bridges and other infrastructure take too long to help revive the economy?

A: The bill includes strict accountability measures to ensure that highways and transit funds get out the door quickly to create jobs -- requiring states to obligate 50 percent of the highway and transit funding within 90 days. There are more than 5,000 ready-to-go transportation infrastructure projects totaling over \$64 billion. Getting funds to those projects will create more than 800,000 jobs and help turn this economy around.

State health care, education and public safety services

Q: Why is state aid vital to immediate job creation and long-term economic recovery?

A: State deficits are expected to total \$350 billion through state fiscal year 2011. Without aid, states will have to cut jobs that provide vital services like education, health care and public safety or raise taxes. At least 33 states have already made or proposed budget cuts in areas such as health care and education, and at least 14 states have raised revenues. [CBPP, 1/16/09] And states could be forced to cut as many as 425,000 jobs in FY2009 and almost 900,000 jobs in FY2010 for police, teachers and firefighters for example. [CEPR, 12/30/08] These state budget cuts and tax increases will further weaken the economy, by shrinking overall demand.

Every dollar in aid to state government generates \$1.38 in economic activity, as states have the mechanisms in place to spend their federal dollars immediately on critical needs.

Q: Will money for health Comparative Effectiveness Research lead to government rationing of health care?

A: There is no “new” National Coordinator of Health Information Technology (NCHIT) – the position already exists, and it was created by George W. Bush. There is no “secret government database.” The new legislation does not grant the federal government access to the confidential documents, nor does it require physicians to follow treatment guidelines. In order to become “meaningful users” of health IT, doctors have to implement an electronic system by 2015, but they are not required to change their treatment practices

Q: Haven’t the governors mismanaged their money and federal taxpayers have to bail them out?

A: States entered the recession with the largest reserves in their history — but those reserves are now mostly gone because of the sharp downturn in the economy. At the end of fiscal year 2006, state reserves — in the form of general fund balances and “rainy day” funds — totaled 11.5 percent of annual state spending, the highest level on record. The fact that 46 states face budget deficits in 2009 or 2010 -- under both Democratic and Republican leadership -- shows that the recession, not mismanagement, is the cause of the state budget shortfalls.

Q: Why does the bill contain investments in preventive health care like vaccines for children and screening for HIV/AIDS?

A. Preventive health care is a proven money saver and investments in these efforts create and save health care jobs. Preventing diseases, rather than waiting and caring for those after they have become sick, is estimated in numerous studies to be one of the most effective ways to reduce health care spending.