January 6, 2003

House Democratic Economic Stimulus Plan

Creates Jobs Immediately

Fiscally Responsible

Fair to All Americans

Office of the Democratic Leader, H-204, The Capitol, 202-225-0100

Democrats Propose Fast-Acting, Fair, Fiscally Sound Economic Stimulus Plan

Democrats propose an eight-point plan to get our economy moving and put Americans to work. Our plan is fair, fast-acting, and fiscally sound — supplying stimulus in the near term and a responsible budget in the long term. Our plan will cause about one million new jobs to be created, sustain unemployment benefits for Americans who are out of work and looking for a job, lower the risks of a double-dip recession, and lead to a more robust recovery.

Our proposals have been chosen with an eye toward common ground and early enactment. We reach out to the President and Republicans in Congress to help the American people in the belief that all of us should be able to agree on some tried and proven principles. Any stimulus plan should:

- Be front-loaded and fast-acting, so that virtually all costs fall in 2003, allowing the budget to recover as the economy recovers.

- Boost consumer demand and investment, to stimulate hiring and help workers struggling to find jobs.

- Get the most "bang for the buck," by being targeted at consumers likely to spend and businesses likely to invest and hire new workers.

- Help the states through their fiscal straits, addressing shared needs like homeland security and vital needs like medical care.

- Devote every penny to short-term stimulus, not long-term tax breaks disguised as stimulus.

Democratic Plan to Get Economy Moving and Put People to Work

The Democratic plan includes eight proposals, each consistent with the principles stated above and each easy to enact. The plan packs enough stimulus — $136 billion, or slightly more than one percent of GDP in 2003 — to step up the pace of a stagnant economy. Its impact on the budget declines to $100 billion over ten years. Beyond 2003, the plan entails virtually no spending increases or revenue reduction, which allows the budget deficit to diminish as the economy recovers.

Help for the Unemployed

- ***Immediate extension of unemployment insurance benefits for working Americans who have lost their jobs and are looking for new ones* —** On December 20, Democrats called on the President to reconvene the House to pass a compromise unemployment insurance extension bill, which the Senate had passed unanimously. Because the President rejected our request and House Republicans earlier had killed an even weaker unemployment bill, benefits expired on December 28 for over 800,000 working Americans who have lost their jobs and are looking for new work. Each week 95,000 more workers will lose their unemployment benefits.

  When the House convenes on January 7, Democrats call on the President and the Republican Congressional leaders — as the ***first*** order of business — to pass the Rangel unemployment insurance bill, which will extend unemployment benefits retroactively for 26 weeks, and provide temporary aid to the states to broaden coverage to low-wage earners and part-time workers. We demand that Congress not recess until we have passed a 26-week extension bill and the President has signed it into law.

  Cost = $18 billion in 2003, $10 billion over 2003-2013.

Tax Cuts for America

- ***Immediate tax relief for working families* —** Democrats propose that all workers receive a ***refundable*** income tax rebate of up to $300 per person or $600 per working couple, paid out of the General Fund of the Treasury and ***not*** payroll taxes or the Social Security Trust Fund. Unlike last year's tax rebate, our proposal would provide tax relief to ***every*** American who works — not just those with higher incomes. Within months, our proposal will put spending money in the pockets of average Americans — boosting consumer demand ***and*** the business investment to meet it. In addition to helping hard-pressed Americans, this policy will deliver far more stimulus, far more quickly, than tax breaks for taxable dividends.

  Cost = $55 billion in 2003, $58 billion over 2003-2013.

- ***Immediate tax relief for small businesses to generate investment and jobs in 2003*** — Small businesses can expense up to $25,000 of the cost of new investments. Democrats propose that small businesses be allowed to expense up to $50,000 of the cost of new investments made in 2003, to boost cash flow and investment now.

- ***Immediate tax relief for all businesses to invest in new plant and equipment in 2003*** — We further propose that last year's bonus depreciation provisions be restructured so that firms can write off a 50 percent bonus in 2003, declining to 10 percent in 2004. Last year's stimulus bill allowed equal bonuses in 2002 through 2004 — encouraging firms to delay new investment until 2004, rather than to invest now when the economy needs it.

Cost = $32 billion in 2003, $1 billion over 2003-2013.

Targeted Aid, Including Assistance for States and Localities

- ***Homeland Security*** — To spare states the expense, Democrats propose one-time federal grants totaling $10 billion for urgent, unmet needs in homeland defense. These grants would equip first responders and strengthen security at airports, sea ports, rail tunnels, terminals, transportation facilities, and other targets vulnerable to terrorists.

Cost = $10 billion in 2003 and over 2003-2013.

- ***Highways and Transportation*** — Democrats propose to add $5 billion to highway funding, and to allow states to postpone their matching share of project costs (including homeland-security transportation projects) for up to two years.

Cost = $5 billion in 2003 and over 2003-2013.

- ***Medicaid Cost-Sharing*** — Democrats propose a one-year, one-time increase in the federal share of Medicaid payments, as provided in the Dingell-Brown bill, H.R. 3414.

Cost = $10 billion in 2003 and over 2003-2013.

- ***Special Support for Critical Needs*** — Democrats propose one-time assistance to help those hurt most by unemployment and a stagnant economy.

Cost = $6 billion in 2003 and over 2003-2013.

Democrats will offer a broader, longer-term agenda, but righting the economy comes first. We will present shortly plans that advance our longer-term priorities: Social Security, homeland security, Medicare prescription drug coverage, health care for all Americans, and education. But for now, we offer this eight-point plan to lift our economy out of stagnation and put Americans back to work.

Direct Budgetary Impact of the Democratic Stimulus Plan
Billions of Dollars

	FY 2003	FY 2003-13
Extension of Unemployment Insurance Benefits*	18	10
Working Families Tax Relief	55	58
Business Tax Relief to Promote Investment and Job Growth	32	1
Targeted Assistance, Including Aid to States and Localities:	31	31
Homeland Security – $10 billion		
Infrastructure – $5 billion		
Medicaid – $10 billion		
Special support for critical needs – $6 billion		
Total	136	100

* includes $1 billion of grants to states

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

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Key Elements of Democratic Stimulus Plan

- ***Overview*** — The Democratic stimulus plan will get our economy moving and put Americans to work. Our plan will provide a $136 billion stimulus in 2003 (about one percent of GDP), enough to create at least one million new jobs, lower the risks of a double-dip recession, and produce a more robust recovery. At the same time, it avoids the long-term costs of some proposals and therefore allows deficits to shrink once robust growth resumes.

- ***An Effective Stimulus*** — The Democratic plan is front-loaded and fast-acting, providing an immediate jump start to the economy. It boosts both consumer demand and business investment in 2003, to stimulate hiring and help workers struggling to find jobs. It maximizes the bang for the buck by helping consumers who are most likely to spend and businesses that are most likely to invest and hire new workers.

- ***A Fiscally Responsible Stimulus*** — Our plan supplies an effective stimulus of $136 billion this year, but its ten-year impact on the budget is less ($100 billion), allowing the budget to recover as the economy recovers.

- ***Targeted Assistance to Those Looking for Jobs*** — Our plan (based on the Rangel bill) extends unemployment benefits retroactively for 26 weeks, and provides temporary aid to states to broaden coverage to low-wage earners and part-time workers. This assistance for those looking for work will stimulate consumer demand by putting money in the pockets of those most likely to spend it. Cost = $18 billion in 2003, $10 billion over 2003-2013.

- ***Tax Relief for Working Families*** — Our plan provides a refundable tax rebate of up to $300 per person or $600 per working couple. Within months, this provision will put money in the pockets of average Americans—boosting consumer demand and the business investment needed to meet it. This tax rebate will deliver far more immediate stimulus to the economy than the Republican proposal of providing long-term tax breaks for recipients of taxable dividends. Cost = $55 billion in 2003, $58 billion over 2003-2013.

(OVER)

- ***Tax Relief for Businesses* —** The Democratic plan provides tax relief to businesses to generate investment and jobs in 2003. Our plan allows small businesses to expense up to $50,000 of the cost of new investments made in 2003, double the current limit. For all businesses, our plan restructures last year's bonus depreciation provisions so that firms can write off a 50 percent bonus in 2003 and only a 10 percent bonus in 2004. Both business tax components encourage investment now, when the economy needs a boost. Cost = $32 billion in 2003, $1 billion over 2003-2013.

- ***Targeted Assistance, Including Help for States and Localities* —** Fiscal crises in the states are forcing tax increases and cuts in critical programs, undermining the economy's recovery. Our plan provides states with funds to avoid these cuts and to address critical needs in areas including Medicaid ($10 billion in 2003 and over 2003-2013), homeland security ($10 billion in 2003 and over 2003-2013), and transportation infrastructure ($5 billion in 2003 and over 2003-2013). The package provides an additional $6 billion in one-time assistance to help those hurt most by unemployment and a stagnant economy. Total cost = $31 billion in 2003 and over 2003-2013.

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Help for the Unemployed in the House Democratic Economic Stimulus Proposal

Democrats call on the President and Republicans in Congress to pass this week Rep. Rangel's bill to extend federal unemployment insurance benefits for Americans who have lost their jobs and are looking for new ones. The Temporary Extended Unemployment Compensation (TEUC) program ended on December 28 because the President and House Republicans rejected Democratic pleas to extend the TEUC program with a compromise bill that the Senate had passed unanimously. By refusing to act, House Republicans terminated federal benefits for more than 800,000 jobless Americans. Each week, an additional 95,000 workers exhaust their regular unemployment benefits and get no additional federal help.

The Democratic proposal would reestablish and expand the federal TEUC program. It would guarantee all jobless workers at least 26 weeks of extended benefits and would expand access to unemployment benefits for workers who are low-wage earners or work part time. This would cost $18 billion in 2003, and $10 billion over 2003-2013.

For the nearly 3.5 million workers running out of regular benefits in the first half of 2003, the Democratic proposal would:

- ***Extend TEUC*** — Extend TEUC, which expired on December 28, until June 30, 2003.
- ***Provide Assistance Longer*** — Allow workers to receive 26 weeks of extended unemployment benefits (up from 13 weeks in last year's TEUC program) after they exhaust their regular unemployment compensation.
- ***Aid High-Unemployment States*** — Provide seven additional weeks of benefits in states with especially high unemployment.
- ***Expand Access*** — Extend unemployment benefits to low-wage earners and part-time workers.

(OVER)

For the more than 800,000 workers who were cut off on December 28 and the over one million jobless workers who exhausted their extended benefits in 2002 (so-called "exhaustees"), the Democratic proposal would provide additional extended benefits. These benefits include:

- ***13 More Weeks for 2002 "Exhaustees"*** — Workers who exhausted their 13 weeks of TEUC in 2002 would receive 13 more weeks.

- ***Complete Aid for People Cut Off on December 28*** — Workers cut off when TEUC terminated on December 28 would receive the remainder of their original 13 weeks, plus the additional 13 weeks referred to above.

- ***Extra Aid in High-Unemployment States*** — Workers who exhausted 26 weeks of TEUC in 2002 (which they received because their state hit the requisite unemployment trigger) would receive an additional seven weeks if their state remains designated as "high-unemployment" according to the bill's new triggers.

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Tax Relief and Investment Incentives

Immediate Tax Relief for All Working Families

- ***Overview*** — All workers should receive an immediate refundable rebate from the Treasury, offsetting some of their tax liability (including taxes other than income taxes). The rebate that Democrats initiated two years ago proved to be the most effective recession-fighting tool in the 2001 tax cut, while this new rebate will help all working Americans including those who got nothing in 2001. Consumer spending from the rebate would stimulate the economy by providing incomes for businesses and encouraging them to hire and invest to meet the increased demand.

- ***Last Year's Rebate Left Out Some Families*** — The major complaint about last year's rebate was that it applied only to positive income tax liability. Therefore, lower-wage workers who owed no income tax received no benefit, even though they did pay other taxes. For 2001, a family of four could earn $19,200 and receive no rebate whatever; that income level would equal the earnings of a full-time, full-year worker at $9.60 per hour, or almost twice the minimum wage of $5.15 per hour. Such a family pays a significant share of its income in several kinds of taxes, even though it owed no federal income tax.

- ***A Rebate for <u>All</u> Working Families*** — Accordingly, Democrats propose a refundable income tax rebate equal to 10 percent of earned income (wages and income from self employment) up to $6,000 of earnings for a couple, and $3,000 for a single person. Thus, the maximum rebate will be $600 for a couple, and $300 for a single person. The rebate will be delivered in the same fashion as the rebate of 2001 — that is, based on tax returns already filed, and sent by the Treasury without any action by the taxpayer. The rebate would be paid from the general fund of the Treasury and ***not*** from payroll taxes or the Social Security Trust Fund.

(OVER)

Stimulus for Investment

- ***Stimulus for Investment: Small Businesses* —** The current law allows smaller businesses (those with investment less than $200,000 per year) to expense (that is, to deduct immediately) the cost of their first $25,000 of investment. Democrats propose to increase the amount of small-business investment eligible for expensing in 2003 to $50,000. This provision will increase the cash flow of small businesses, increasing their ability to invest and create jobs. It will also encourage them to act now to increase their investment, because the higher limit for expensing is available in 2003 only.

- ***Stimulus for Investment: Larger Businesses* —** If a stimulus package is to encourage investment now, it must make the treatment of investment in 2003 superior to that in 2004 and later years. However, the 30 percent bonus depreciation incentive for investment in the last stimulus package extended over three years (from mid-2001 through most of 2004), allowing businesses to defer investments until 2004 and still reap extra tax benefits. Democrats want tax incentives to encourage business investment now, in 2003. Accordingly, Democrats propose to increase the bonus depreciation percentage from 30 percent to 50 percent in 2003, but to decrease it from 30 percent to 10 percent in 2004. This will encourage firms to increase investment now, when the economy is weak, building momentum for a self-sustaining recovery in later years.

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Job Creation in the Democratic Stimulus Plan

The Democratic economic stimulus plan will create more than a million jobs and build the momentum for a self-sustaining recovery.

- ***Unemployment Insurance*** — In November more than 8.5 million Americans were unemployed; more than 3.4 million were collecting unemployment insurance. The vast majority of those seeking work and collecting unemployment insurance are struggling to get by. The unemployment insurance dollars they would collect from an extension of unemployment benefits were dollars paid on their behalf in payroll taxes, dollars they could draw if they became unemployed, so long as they were looking for work. From 1995 through 2000, the federal unemployment insurance trust funds built up surpluses for one main purpose: to fund unemployment benefits when the economy turned down. The federal unemployment insurance trust fund had an available balance of $26 billion at the end of FY 2002. Extension of unemployment insurance would draw $18 billion from the federal trust fund between now and June 30, 2003. Almost all of the $18 billion in extended benefits would be spent to meet basic needs. This spending would boost the incomes of those who sell and produce goods and services, and encourage them in turn to invest and hire. Unemployment benefits are a proven counter-cyclical tool. Experience has shown that they help a weak economy rebound and generate jobs.

- ***Income Tax Relief*** — An individual income tax rebate will stimulate the economy in the same way, increasing disposable incomes by nearly $60 billion and boosting consumer spending, encouraging sellers and producers of goods and services to invest and hire to meet increased demand.

- ***Investment Incentives*** — Doubling the amount of small-business investment that can be expensed will lower the taxes of small businesses, increase their cash flow, and bolster their ability to invest and create jobs. This proposal will also encourage small businesses to invest now because the higher limit for expensing is available in 2003 only. Similarly, the Democratic proposal to increase the bonus depreciation percentage for larger businesses in 2003 will encourage those firms to increase investment now, when the economy is weak, by an estimated $30 billion.

(OVER)

- ***Special Aid, Including the States* —** Fiscal assistance will enable states and localities to make investments in homeland security, highways, and transportation, with the secondary benefit of meeting national needs. Fiscal assistance will also help the states maintain vital services like Medicaid in which state and federal government have a shared interest. Not only will fiscal assistance to the states have a stimulative effect, but it also will mitigate state tax hikes and spending cuts that could impede recovery.

- ***Jobs Created*** — The first-year stimulus of the Democratic proposal, $136 billion, is slightly more than one percent of the GDP. If employment increases by the same percentage, that will yield 1.7 million new jobs. A simulation of the Democratic stimulus package on a recognized and reputable economic model, developed by Yale economics professor Ray C. Fair, yields estimates of from 800,000 to 1.7 million jobs. A calculation based on the estimated relationship between changes in the GDP and changes in employment, "Okun's Law" (propounded by Arthur Okun, the late Chairman of the Council of Economic Advisers under President Johnson) produces an estimate of 1.6 million new jobs.

  The Bush Administration estimated the number of jobs created by 2002 because of the 2001 tax cuts ("President Bush's 2001 Tax Relief Softens the Recession," Council of Economic Advisers, February 14, 2002). Using their methodology, the Democratic stimulus plan would create almost 850,000 new jobs.

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$31 Billion in Assistance for States in the House Democratic Stimulus Plan

The House Democratic economic stimulus plan includes four major components to help states deal with the severe fiscal crises they are currently confronting:

- ***Medicaid Cost-Sharing*** — In the past two years, many states have instituted Medicaid budget cuts, and because of continuing state budget shortfalls, more drastic cuts are sure to follow. House Democrats propose a one-year, one-time increase in the federal share of Medicaid payments, as provided in the Dingell-Brown bill, H.R. 3414. Cost = $10 billion in 2003 and over 2003-2013.

Assistance for States in the House Democratic Stimulus Proposal

	Cost
Medicaid Cost-Sharing	$10 billion
Homeland Security Grants	$10 billion
Federal Aid for Highways	$5 billion
Special Support for Critical State Needs	$6 billion
Total:	**$31 billion**

- ***Homeland Security*** — To help states with urgent, unmet needs in homeland defense, Democrats propose one-time federal grants totaling $10 billion. These grants would strengthen security at transportation facilities, would equip first responders, and would help states with other needs such as public health preparedness. Within this total, $3 billion is slated for securing transit facilities and $2 billion for airport security improvements. Cost = $10 billion in 2003 and over 2003-2013.

(OVER)

- ***Federal Aid for Highways —*** Investment in infrastructure is a proven way to create jobs and stimulate the economy, while at the same time addressing the states' backlog of needed infrastructure improvements. Democrats propose an additional $5 billion in federal-aid highway funding for 2003, with cost-sharing requirements deferred for up to two years to ensure that states can utilize this additional federal assistance. Cost = $5 billion in 2003 and over 2003-2013.

- ***Special Support for Critical Needs —*** Democrats propose one-time assistance to help those hurt most by unemployment and the stagnant economy. Cost = $6 billion over 2003-2013.

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Federal Medical Assistance Percentage (FMAP) for Medicaid

- ***Background*** — The federal government's share of state expenditures for Medicaid is called the federal medical assistance percentage, or "FMAP." Each state's FMAP is set annually on the basis of a statutory formula. The lower the state's per capita income relative to national income, the higher the FMAP, and conversely. Medicaid costs have been rising faster than inflation for several years and always rise sharply in a recession. The states on average bear slightly less than half the cost of the program, and escalating cost has been a constant issue among them, particularly as more and more states have encountered fiscal problems.

- ***Democratic Proposal*** — Democrats propose to bring Medicaid cost relief to the states by altering the FMAP temporarily, on a one-time, one-year basis. The Democratic stimulus proposal calls for immediate enactment of legislation along the lines of the Dingell-Brown bill, H. R. 3414, introduced in December 2001. The Dingell-Brown approach would:

  - "Hold harmless" states that would otherwise have a reduction in their FMAP relative to the previous year.
  - Increase the FMAP for every state by 2 percentage points across-the-board.
  - Increase the FMAP for every state with high unemployment by an additional 2.5 percentage points.

  The cost of the proposal would be approximately $10 billion in 2003 and over 2003-13.

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House Democratic Stimulus Plan is Fiscally Responsible

The House Democratic economic stimulus plan provides short-term stimulus and long-term balance.

- ***True Stimulus*** — The Democratic plan represents true stimulus: up-front help for the sagging economy now, not long-term costly tax breaks that do little to stimulate the economy but do lasting damage to the deficit.

- ***2003 Cost: $136 Billion*** — For 2003, the Democratic stimulus plan costs $136 billion: slightly more than one percent of GDP.

- ***Cost Falls Over Time*** — The cost of the Democratic plan declines over time. The cost from 2003 to 2013 is $100 billion, lower than the cost in 2003 alone, which allows the bottom line of the budget to get better as the economy recovers.

- ***Republicans' Dismal Record*** — Under Republican leadership, the long-term budget picture has plummeted from record surpluses to soaring deficits.

  - In less than two years, Republican budget policies have wiped out virtually the entire $5.6 trillion surplus – the biggest fiscal reversal in American history.

  - Because the budget remains in deficit for as far as the eye can see, the nation's debt vastly increases. By the end of 2012, the national debt approaches $4.8 trillion, and is $7.0 trillion worse at the end of 2011 than the Administration projected in May 2001.

Democratic Economic Stimulus Plan

Fair

Fast-Acting

Fiscally Sound

Democratic Economic Stimulus Plan

Principles

Any stimulus plan should:

- Be front-loaded and fast-acting
- Avoid mushrooming deficit in long-term
- Boost consumer demand and investment
- Help states through their fiscal straits
- Spur economy by funding homeland defense
- Devote every penny to short-term stimulus

Democratic Economic Stimulus Plan

Proposals

	FY 2003
Help for the Unemployed Looking for Jobs	$18 Billion
Tax Cuts for America	$87 Billion
Targeted Assistance Including Relief for States and Localities	$31 Billion

Democratic Economic Stimulus Plan

Billions of Dollars	2003	2003-13
Extension of Unemployment Benefits	**18**	**10**
Tax Relief for Working Families	**55**	**58**
Tax Relief for Investment & Job Growth	**32**	**1**
Targeted Assistance, Including Aid to States and Localities	**31**	**31**
Homeland Security - $10 Billion		
Infrastructure - $5 Billion		
Medicaid - $10 Billion		
Special Support for Critical Needs - $6 Billion		
Total	**$136**	**$100**

Prepared by the Democratic Staff of the House Budget Committee

01/06/03

Democratic Economic Stimulus Plan

Individual Tax Proposal:

- Get back 10% of what you earned in 2001, up to $6,000 of wages (couple)

- Rebate paid from Treasury, not Social Security Trust Fund

Democratic Economic Stimulus Plan

Creates New Jobs

Number	Methodology
1.7 million	Percentage of GDP
800,000 to 1.7 million	Model by Yale Economics Professor Ray C. Fair
1.6 million	Okun's Law
850,000	Bush Administration Council of Economic Advisers' Methodology