SEN. JACK REED (RI)
VICE CHAIRMAN

SEN. EDWARD M. KENNEDY (MA)
SEN. PAUL S. SARBANES (MD)
SEN. JEFF BINGAMAN (NM)
SEN. JON CORZINE (NJ)
SEN. ROBERT TORRICELLI (NJ)
REP. FORTNEY PETE STARK (CA)
REP. CAROLYN B. MALONEY (NY)
REP. MELVIN L. WATT (NC)

Congress of the United States
JOINT ECONOMIC COMMITTEE
Democratic Staff

107TH CONGRESS

804 HART SENATE OFFICE
BUILDING
WASHINGTON, DC 20510-6602
202-224-0372
FAX 202-224-5568
www.senate.gov/~jec/

PATRICIA RUGGLES
STAFF DIRECTOR

For Immediate Release
Tuesday, December 11, 2001

Contact: Nan Gibson
202-224-6771
202-320-4545

TAX REBATES FOR LOW-INCOME WORKERS, EXPANDED UI BENEFITS PROVIDE MOST COST-EFFECTIVE STIMULUS IN 2002

Washington, D.C. – Tax rebates for low-income working families and increased unemployment benefits are especially potent and cost-effective ways of boosting gross domestic product (GDP) in the short term, according to a new analysis by the Democratic staff of the **Joint Economic Committee**. The report also finds that other policies under consideration as part of a stimulus package have substantially higher 10-year costs for any given amount of stimulus.

To gauge the impact of various proposals for economic stimulus, the Joint Economic Committee Democratic staff simulated the macroeconomic effects of key provisions of leading congressional plans using the Washington University Macroeconomic Model. The key findings of the report include the following:

- Tax rebates for low-income working families and increased unemployment benefits would provide the most cost-effective boost to gross domestic product (GDP) in 2002.

- The low-income tax rebate would provide *thirteen times* the increase in GDP in the first year (per dollar of ten-year revenue cost) as accelerating all the individual income tax rate cuts scheduled for 2006 to 2002.

- Reducing corporate income taxes, such as through the retroactive repeal of the corporate alternative minimum tax, would provide virtually no stimulus.

- Allowing businesses and corporations an additional depreciation deduction for the cost of new investment would not have much impact in the first four calendar quarters if the provision was in effect for two or three years.

"The biggest bang for the stimulus buck will come from tax rebates for low-income families and expanding unemployment benefits," said Senator Jack Reed (D-RI), Vice Chairman of the Joint Economic Committee. "Getting money into the hands of people who have trouble making ends meet, such as low-income households and unemployed workers, will boost consumption. There must be demand for products and services before a firm will invest in new equipment or hire additional workers."

- more -

Of the four congressional proposals examined, the provisions in the Senate Finance plan adhere most closely to the principles for stimulus outlined by the House and Senate Budget Committees. It is the only package that focuses almost all its stimulus in 2002, when the economy will be weakest. Tax and spending provisions in 2002 account for more than 90 percent of the total cost. Provisions taking effect in 2002 account for about three-fourths of the total cost of the Senate 'Centrist Coalition' proposal.

In contrast, a significant portion of the tax cuts in both the House bill and the Senate Republican alternative, offered by Sen. Grassley, take effect after 2002. With this delayed impact, these proposals run the risk of creating stimulus when the economy is already well into a recovery, thus forcing the Federal Reserve to raise interest rates in the future as a hedge against inflation.

Most of the provisions in the Senate Finance bill provide assistance to the most vulnerable workers or spur new business investment. Additional unemployment benefits, assistance with health insurance, and rebates to lower-income households account for more than half the cost in 2002. Almost all the cost of business tax relief in the Senate Finance package is for new investment incentives.

Other leading proposals provide tax breaks for high-income individuals and tax relief for businesses and corporations that is not tied to new investment. The Senate Republican proposal would spend nine times as much on high-income tax breaks as it would on the rebate for low-income workers. The House bill includes proposals such as the retroactive repeal of the corporate alternative minimum tax that would do little to boost business investment in the near-term. The House bill provides limited assistance for unemployed workers, while the Senate Republican bill fails to even address the issue.

The report, *Effective Economic Stimulus: How Do Congressional Proposals Measure Up?*, is available online at <www.senate.gov/~jec>.

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to analyze the effectiveness of economic policy.

\# # #