

Economic Stimulus that Puts Families First: A BLUEPRINT FOR ECONOMIC RECOVERY

IN THE AFTERMATH OF LAST MONTH'S TERRORIST ATTACKS, hundreds of thousands of workers have been laid off or permanently lost their jobs, and millions are at risk as companies scale back or fold completely. Sharp declines in travel and tourism have translated into sudden and staggering job loss for workers in the airline, aerospace, hospitality and tourism industries, paralleling the long-term and continuing decline in manufacturing.

Nothing can compare with the incalculable loss suffered by the September 11th victims and their families; we are powerless to ease or erase their pain. But we are not powerless to respond to and reverse some of the other disastrous consequences of that day. Just as the nation is preparing for a military campaign against terrorism, we must also move forward in a campaign for economic recovery that will put America back to work.

We believe that the first step in this campaign must be increased federal support for working families that have been and will be hurt the most during this time of crisis. Such a program would include better unemployment benefits covering more unemployed workers, federal financial assistance to maintain health care coverage, and access to job training and retraining. Complemented by an increase in the minimum wage and tax rebates for low income working families, this program would put money into the hands of those who need it most and who are most likely to spend it, thereby meeting immediate needs and providing a jolt for the economy.

Beyond these direct supports for working families, Congress should provide aid to struggling state and local governments. Additional interventions, such as key infrastructure investments, may also be in order both to stimulate the economy and to address critical infrastructure deficiencies, including basic domestic security needs. Finally, to help both American businesses and workers, Congress and the President should

require that all companies receiving federal monies during this period of economic crisis—whether as contracts, grants or loans—adhere to “buy American” or “buy New York” policies.

The Administration and some members of Congress as well as some business leaders are advocating economic recovery approaches that rely heavily on corporate and individual tax cuts as the answer for an ailing economy. Now is not the moment for such “trickle down” strategies. Speeding up this year's tax cuts and new tax breaks for corporations will neither provide reliable economic stimulus nor deliver resources to working families most in need of help. To the contrary, the most likely effect of such an approach would be simply to further diminish our capacity to respond to economic crises now and in the future. Instead of cutting taxes further, we should revisit the tax cuts enacted earlier this year, and repeal or postpone implementation of top rate cuts and the estate tax phase-out.

BACKGROUND ON THE ECONOMIC SITUATION

The September 11th attacks greatly accelerated and exacerbated an economic downturn that was already underway. In August, the unemployment rate was 4.9 percent, the highest level in four years. Job creation

was negative for the third month in five. Manufacturing lost 141,000 jobs, for a total of more than one million since July 2000. Industrial production fell for the eleventh straight month, making for the longest continuous decline since 1960, and capacity utilization was at its lowest level in 18 years. Consumer confidence dropped sharply. And in housing, which had been the strongest sector of the economy for the past two years, construction fell 6.9 percent. Even July's narrowing of the trade deficit was bad news, reflecting growing weakness in both the domestic and international economies.

Since September 11th, the situation has worsened dramatically. Firms have announced more than 450,000 layoffs since then. First in line were airline employees, tens of thousands of whom were laid off as travel declined sharply. And since airline travel is part of the nation's economic spine, the effects of the decline in air travel spread quickly to every sector of the economy and every region of the economy. At the front end of the ripple were airline, travel and tourism employees, soon to be followed by aircraft manufacturing workers. At stake are both well-paying and low wage jobs alike.

Compounding the gloomy job cuts picture is the extreme volatility of the stock market. The loss of consumer and investor confidence attendant on market uncertainties could deepen and worsen the current economic crisis.

STAGE ONE ECONOMIC STIMULUS: Federal investments to meet the immediate needs of working families

The economic news is disconcerting but we are not without the means to respond. Already, Congress has appropriated \$40 billion in disaster funding to upgrade national security and to provide resources for rescue and recovery activities related specifically to the terrorists' attacks. Another \$15 billion has been allocated for the airline industry. These are important down payments on stabilizing and stimulating the economy, but they are not enough. An investment of one to two percent of GDP (i.e., between \$100 billion and \$200 billion) is essential to getting America back to work.

A stage one economic stimulus package designed to meet working families' immediate needs and help stabilize and boost the economy should include:

- Enhanced federal support for basic safety net programs, such as unemployment insurance and health care coverage, to prevent wholesale unraveling of economic security for millions;
- Labor market interventions that will provide further support for those working families struggling hardest to get by in a faltering economy;
- Tax relief that puts money in the pockets and hands of those who most need it and who are most likely to spend it, low and moderate income working families; and
- A substantial infusion of federal aid to state and local governments.

A. Enhanced federal support for basic safety net programs, such as unemployment insurance and health care coverage, to prevent wholesale unraveling of economic security for millions.

Unemployment, which rose to almost five percent in August, has jumped sharply and will likely continue to rise. As unemployment rises, more and more workers and their families will lose health insurance coverage, reversing recent declines in the numbers of uninsured individuals. With quick recovery unlikely, federal investments in basic safety net programs—unemployment insurance, health care, job training and retraining, and a basket of additional benefits such as food stamps and housing assistance—are essential to prevent wholesale unraveling of families' economic security and a rout of already strapped state treasuries.

1. Unemployment Insurance reform. Congress should implement proposals to broaden unemployment insurance compensation eligibility, to enrich benefits, to extend the duration of coverage, and to ensure prompt and equitable processing of unemployment claims and effective reemployment services. Even before the latest

sharp downturn, the unemployment system was widely recognized as a crisis waiting to happen. The following systemic reforms in the UI system should be made on a permanent basis: application of the “alternate base period” for determining eligibility and computing benefit amount; provision of benefits for workers who are seeking part-time work; lowering of the extended benefits trigger; and establishment of a formula-based mandatory funding mechanism to guarantee adequate resources for state operations. For a period of one-year, Congress should provide federal funding to pay for increased benefits costs associated with these reforms. In addition, Congress should provide federal funding to raise benefits levels, which currently range from a low maximum weekly benefit of \$190 in Alabama to \$477 in Massachusetts. States should receive federal funds to increase each individual’s benefit by 15% or \$70, whichever is greater. Finally, extended benefits should be triggered now, to enable unemployed workers to collect additional benefits after exhausting their regular benefits.

2. Health care coverage. The federal government should invest the resources necessary to secure and maintain health insurance coverage for unemployed workers and their families and for other workers at risk of losing coverage because of the economic downturn (e.g., workers likely to lose coverage because of reduced work hours). For unemployed and other workers who have continued access to plan coverage under COBRA, the federal government should absorb the costs of COBRA premiums. A public benefit, funded under Medicaid and administered at the state level, should be available for uninsured workers and their families who are not eligible for COBRA or who are unable to pay even a reduced share of the COBRA premium.

3. Worker displacement and training and retraining programs. Responding to the new economic challenges facing millions of unemployed workers, and the need to retain and create decent jobs calls for significant investment in re-employment and re-training programs for workers. The need is great, especially for workers in low-wage labor markets who are most vulnerable in our weakened economy. The federal government must fully fund job training and retraining programs for all affected workers. In light of unions’ proven track record in working with management to develop the

nation’s best job training and job placement programs, the federal government must also fully engage with unions, employers and community organizations to develop and carry out programs that will help put Americans back to work.

4. Additional benefits and protections for unemployed or underemployed workers and their families.

A number of federal benefit and entitlement programs are or could be available to unemployed workers and their families to offset the costs of lost wages and help sustain workers’ spending power. Included among these are programs such as food stamps, federal housing assistance and FHA and VA guaranteed mortgages, low income home energy assistance, and child care subsidies under the Child Care and Development Block Grant. A number of these and related programs have been cut in the recent past, thus undermining their capacity to provide critical safety net protections to unemployed workers and their families during periods of economic downturn. Congress and the agencies administering these programs should quickly assess their existing capacity (in terms of coverage and funding) to provide supplemental supports to working families, and appropriate funding necessary to help ensure these programs’ adequacy to serve unemployed workers during the downturn. In addition, federal agencies and program administrators should waive or relax requirements, such as waiting periods or non-statutory eligibility criteria, which delay or deny benefits to unemployed or underemployed workers and their families, and encourage state agencies and administrators to do the same.

B. Labor market interventions that will provide further support for those families struggling hardest to get by in a faltering economy.

Raising wages at the bottom will also serve to boost the economy and provide protections for workers whose already tenuous bargaining power is even more attenuated during periods of high unemployment and economic downturn. Thus, Congress should:

1. Raise the minimum wage. Increasing the minimum wage would benefit low to moderate income working

families and stimulate demand since low income households have a high propensity to spend. Many of these households received nothing under the Administration's first tax package. Moreover, the minimum wage has been unchanged since September 1997. Although opponents will argue that raising the minimum wage will cause job loss, the evidence is to the contrary: even in times of recession, minimum wage increases are not associated with any significant job loss; and the benefits of an increase far outweigh any incidental negative impacts.

2. Condition the award of federal monies on recipients' payment of living wages. In the last two Congresses, legislation has been introduced requiring that federal contractors pay at least a living wage (i.e., an above-poverty wage) to workers performing the contracted services. Congress should adopt legislation requiring living wages (or prevailing wages, whichever is greater) not only for employees of government service contractors but also for individuals working for companies that receive federal grants or loans. Congress should also provide for "clawbacks" of grants and contracts if recipients unjustifiably fail to adhere to their commitments and expectations regarding job creation, the wages and benefits for those jobs, and the basic labor rights of the workers employed under such federally funded initiatives.

C. Tax relief that puts money in the pockets and hands of those who most need it and who are most likely to spend it, low and moderate income working families.

Tax relief aimed at low to moderate income working families is an additional important component of economic stimulus, since it puts money in the hands of those who need it most and who are most likely to spend, rather than save, it. Congress should:

1. Provide additional tax rebates. Congress could provide additional tax rebates beyond those distributed earlier this year. At a minimum, these rebates should be available for payroll tax payers who received no rebates earlier this year because they had no income tax liability, or who received only partial rebates because their income tax liability was so low.

2. Temporarily cut the payroll tax for employees.

In the alternative, Congress could temporarily cut the payroll tax for employees. This cut should be designed so as to leave future benefits unchanged (i.e. individual workers will be credited as if they had paid the tax), and equivalent funds should also be credited to the Trust Fund to ensure the fund's continuing solvency. In effect, payroll tax relief would therefore be provided through general revenues. A temporary reduction of the payroll tax would put money into consumers' pockets every pay period.

3. End taxation of unemployment benefits. UI benefits have been subject to partial federal taxation since 1979 and full taxation since 1987. Many states base their income tax systems on the federal government's, and hence, UI benefits are often also subject to state tax. Taxing UI benefits reduces an already inadequate benefit: on average, UI benefits replace only about 40% of a worker's wages. Repealing the tax on UI benefits will boost families' incomes during periods of unemployment, serving the dual purposes of helping maintain living standards and pumping more money into the economy.

D. A substantial infusion of federal aid to state and local governments.

For over a year now, state and local governments have been experiencing a serious slowdown in their economies. Many states are being forced to cut spending and raise taxes. Seventeen states have experienced mid-year budget shortfalls, and eleven are already in a recession with 15 more states close behind. At least nine states have implemented across-the-board spending cuts and another eight states are raising taxes. Still other states have cancelled or delayed capital building improvements or projects.

The events of September 11th have only made things worse. States are seeing a surge in demand for services and benefits. To offset these declines and to minimize fiscal pressure on states, any economic stimulus Congress considers should include a plan calling for a substantial infusion of federal aid to state and local governments. Such aid would have an immediate anti-recessionary impact on state and local economies. Aid could be quickly distributed through existing

grant-in-aid programs to meet certain defined needs such as public safety, health, education, social services and environmental services, or it could be in the form of very targeted assistance to a single program such as Medicaid. An enhanced federal match to the states for Medicaid costs would, in turn, free up resources for other needs. Immediate action is needed to stem the tide of fiscal distress at the state and local level and to prevent further economic dislocation.

STAGE TWO ECONOMIC STIMULUS: Federal investments in rebuilding the nation's infrastructure

The attacks on the World Trade Center and the Pentagon and reports of other possible or planned attacks serve to underscore our vulnerability and the urgency of addressing long ignored critical infrastructure needs. Investing in infrastructure—improving road, rail, and maritime transport as well as public schools, restoring our manufacturing base, and boosting our public health system, among others—will serve not only to shore up national security and improve our capacity to respond to national emergencies, but also to create jobs and improve the overall quality of American life.

In the months ahead, Congress, the Administration, and the American public are likely to re-examine many of our national priorities and needs. A continued threat of terrorism coupled with possible continued economic decline is likely to make additional stimulus necessary and desirable. Such stimulus should take the form of infrastructure investments that combine direct spending and effective tax incentives and trade policies to enhance rather than undercut our core industries. Strengthening and reinvigorating key components of the nation's infrastructure is essential to boosting our capacity to prevent and defend against attacks and to ward off an even deeper recession.

The following list exemplifies some of the types of investments and policies we should pursue to promote national security and get America working again.

1. Manufacturing: Restoring our industrial base is essential to current and future economic and national security. We are ill equipped to fight a war against

terrorism or to avoid wholesale financial crisis unless we invest significantly in our manufacturing infrastructure and reverse the trade deficits that continue to pummel our industrial sector. The announcement just this week of Bethlehem Steel's bankruptcy—the 26th American steel company to declare bankruptcy since 1998—underscores the urgency of direct and effective federal intervention to save and restore steel and other manufacturing sector industries.

To arrest and reverse the deterioration in manufacturing, we must enforce and strengthen existing trade laws and decline to enter into new trade agreements that disadvantage manufacturing in favor of finance. We must lower the dollar's value by at least 25% and include exchange rate policy in any trade and investment negotiations. We should also end tax policies that favor outsourcing to foreign companies. To relieve financial pressures on manufacturers, the federal government should make capital available to small and mid-sized manufacturers. In addition, federal policies (whether through spending or tax credits) should recognize and compensate for the competitive disadvantage American manufacturers experience because of the benefits many provide their employees. This is in contrast to manufacturers in other countries, which either provide no benefits or do so through a nationalized system. Finally, the government must invest in technical training for workers and expand manufacturing extension services.

2. Public health system: The condition of the nation's public health system is critical; we are unprepared to respond to the crisis that would arise in the wake of a bio-terrorist attack. Coordination among state and local public health programs and between the federal government and state and local programs is haphazard at best. According to Department of Health and Human Services, only 37 states are connected electronically; the rest receive information via phone, fax, or otherwise. The federal government must increase spending to modernize the public health system and improve its coordination and communication capacity. In addition, increased funding should be available for public and practitioner education about chemical and biological warfare and the prevention and treatment of diseases arising from such attacks.

3. Transportation: Investing in our transportation systems and infrastructure is essential to the growth and revitalization of our national economy and is vital to ensuring our long term prosperity and national security. A recent Wall Street Journal column estimated that the nation should invest more than \$500 billion in transportation infrastructure to handle increased demand and to significantly upgrade systems, including improving security. We need investments in mass transit, highways, bridges, airports and air traffic control system, Amtrak and commuter rail operations, and our ports and navigation channels. These investments would meet critical needs and stimulate the economy by creating 40,000 jobs for every billion dollars spent. In the rail sector, we should upgrade tracks and trains and invest in the expansion of the high speed Amtrak system and light rail. Investments in highways and bridges will improve the mobility of people and commerce and will enhance the truck and bus industry's capacity to move freight and passengers cross country quickly, safely and efficiently. Investments in transit and subway systems will alleviate congestion and air pollution and improve access to work, especially for low income workers. Increased investments in aviation will enhance the capacity, safety and security of the nation's airports and air transportation network and ensure that our air traffic control system is able to meet projected growth in this industry. Investments in ports and navigation channel dredging will help virtually every sector of the economy and will also bolster our nation's ability to respond forcefully during times of war and international crises.

4. Energy Production and Electric Supply: Fuel diversity is the cornerstone of the nation's energy security, which in turn is central to our national security. To reduce our dependence on foreign energy sources, we should maximize production of a variety of domestic energy sources, in ways that are compatible with our environmental goals. That means, for example, we should make investments that promote reliance on cleaner electric power sources. We should also invest in developing and implementing improved security systems to safeguard domestic energy production and transmission. The nation's electricity grid

needs more transmission capacity and should be modernized to enable the bulk electric power markets to deliver energy more efficiently through more seamless interconnections.

5. Water system: The water system infrastructure has suffered from 20 years of neglect and hence is in need of investment independent of the terrorist attacks. Threats of bio-terrorism, including the possibility of deliberate contamination of the water supply, only increase this need. Congress should invest in building and refurbishing our drinking water and wastewater infrastructure.

6. Public Schools: Our nation's public schools are often overcrowded and in poor condition. According to the U.S. Department of Education, states and local school districts will need to build 6,000 new schools by 2006 to accommodate rising enrollments and relieve overcrowding. The General Accounting Office reports that major building repairs and replacements are needed in 38% of urban schools, 29% of suburban schools, and 30% of rural schools. We can and should invest in the nation's public school infrastructure with federal tax credits to help state and local school districts build, modernize and repair their public school facilities.

In addition to these and other critical security-related infrastructure investments, federal investments in a range of other national priorities would provide stimulus for the economy and better position us to meet the challenges of our changed environment and an uncertain future. High on any such list would be a universal, comprehensive and affordable prescription drug program for the nation's seniors.

Finally, consistent with the spirit of national unity we all share and the compelling need and desire to revive and rebuild our economy, investments of public dollars must be coupled with a commitment to **"Buy American"** or **"Buy New York."** Only such policies enable us to ensure that the taxpayers' dollars of hard working American families are invested in building a vibrant economy that produces good jobs and promotes our national interests and security.