Recovery For All, Not Just For Some

An Agenda to Create Jobs and Lift the Economy

January 6, 2003

TWENTY-TWO MONTHS AFTER THE official start of the 2001-2002 recession, working families are being walloped by the still-hemorrhaging economy. Desperately needed jobs are nowhere in sight, and CEOs predict more cuts in 2003. Good health care is under siege. Crippled state budgets are forcing cuts in already-struggling schools, public health and crime prevention—and more layoffs that the economy, under threat of a relapse, cannot afford. When it comes to what matters most to average Americans, things are worse now than they were in the spring of 2002.

The American economy and America's working families urgently need a boost targeted to the low and middle income people who are bearing the brunt of the crisis—**an economic recovery plan for all, not just for some.**

But unfortunately, the most important plank of a fast recovery plan—emergency unemployment benefits needed to save families from ruin and stimulate spending quickly—was heartlessly blocked by the Republican leadership in the U.S. House of Representatives before Christmas, with the President as a bystander. Key Republican members continue to talk about an inadequate and stingy UI extension. Meanwhile, the White House uses the crisis as yet another platform for its preferred solution to every situation—more tax breaks that have little or nothing to do with stimulating the economy, cuts that primarily benefit the well-to-do and that will break the bank when it comes to meeting the broadly shared needs of the nation's families.

None of this is comforting to anxious Americans. In a recent Fox News/Opinion Dynamics survey, nine out of 10 (86 percent) say they are worried about the economy, two-thirds (65 percent) say the recession is not over and fewer than half (only 47 percent) approve of the President's economic leadership.

The first order of business for the new Congress must be a plan to help hard-pressed families and lift the economy fast without weakening it in the years ahead.

We **cannot afford** the approach advocated by the President and Republican leaders in Congress who are pushing for more hefty tax giveaways instead of a program that benefits all Americans. This high-cost and risky approach—giving new tax breaks to investors and businesses and making the 2001 tax cut permanent, steps that primarily benefit the highest income people—will not help struggling families, create jobs today, or strengthen the economy tomorrow. It will choke off resources needed to meet the needs of American families, saddle our children with crippling debt in the future and worsen income inequalities between the very rich and the rest of us.

Before we give away more tax dollars to corporations and the well-to-do, we must invest in creating jobs and improving the living standards, health care and retirement security of America's working families. Doing so requires a focused recovery program that includes:

1. A 26-week extension of emergency unemployment benefits, retroactively, to all unemployed workers who exhaust their regular state benefits and still cannot find jobs, along with the provision of health coverage for unemployed workers;
2. Rebates for all workers, thus concentrating benefits to low and moderate income Americans;
3. Financial help to the states to avert major and irreversible damage;
4. Accelerating investments in schools, transportation and transit systems, clean water and our industrial base to create jobs and spur growth;
5. An increase in the minimum wage to correct the gross underpayment of low-wage workers, many of whom work full-time but remain poor.

Congress and the President will be called on to make many crucial decisions in the coming months, but few will be more consequential or defining for American families than the choices that are made in determining how to revive and strengthen the economy. After the horrific 9/11 attacks, Washington moved quickly to provide a $15 billion bail-out for the airline industry, but the airline and aircraft industry workers laid off thereafter were left out; many are among those who have now lost all unemployment benefits. Later, Congress passed a more substantial economic stimulus bill that, though not as top heavy with tax breaks for the wealthy as the President and House Republicans originally sought, nevertheless skewed a larger share of benefits to business tax breaks than to benefits for workers.

Yet even after these interventions, the economy continues to flounder. This time, the President and Congress should do the right thing and put workers and their families first. In doing so, Congress will be employing the most effective tool available to rebuild the economy. Putting money in the hands and pockets of families who will spend it now, along with aid to the states and needed investments that benefit all Americans, will spur demand and job creation and propel economic growth.

Failed Economic Policies Hammer American Families

When it comes to what matters most—good jobs that pay well and provide decent benefits—things are worse now than they were in the spring of 2002, and the economy shows no consistent signs of sustained recovery:

- Unemployment has climbed to six (6) percent, an eight-year high. Ten million unemployed workers want jobs but cannot find them.
- Almost 2 million workers had been unemployed for six months or more in November 2002, a 54 percent jump over the previous year.

- Instead of adding thousands of jobs in November as predicted, the economy shed 40,000 jobs. Manufacturing lost 45,000 jobs, the 28th straight month of decline.
- Even before emergency unemployment benefits were cut off for the families of nearly 800,000 jobless workers over the holidays, one million unemployed workers had already exhausted emergency benefits; an additional 95,000 are now running out of regular benefits each week.
- According to the Business Roundtable, 60 percent of CEOs expect to cut payrolls in 2003 compared with only 11 percent who plan to add jobs.
- More Americans were poor and fewer had health insurance in 2001 than in 1999 and 2000. With employers continuing to jack up workers' health costs, even more families will lose coverage next year.
- States are struggling to fill huge budget gaps. Public employees are losing their jobs and services are being cut, hurting families most in need.

The AFL-CIO Agenda For Jobs and Economic Growth

To meet short-term needs without doing long-term damage, Congress must pass a recovery plan that:

- Kicks in immediately, not years from now;
- Is temporary rather than permanent;
- Reliably promotes consumer spending, hence job creation; and
- Meets the needs and serves the interests of all Americans, rather than promoting the narrow special interests of a relative few.

A plan that combines renewal and extension of emergency unemployment insurance benefits, tax relief for low and moderate income individuals, targeted spending and a higher minimum wage will boost the economy and have enormous pay-offs for all of us. According to the Economic Policy Institute, a $175 billion stimulus package, with $110 billion in spending and $65 billion in tax rebates targeted to low and moderate payroll taxpayers, will increase gross domestic product by two percentage points and create 1.5 million new jobs in 2003, essentially restoring the economy to pre-recession employment levels. A similar overall package that includes flat rebates of $1000 for the same workers would cost around $260 billion but also boost GDP and jobs more. Either approach will give immediate lift to the economy and more assistance to all families—tests that the President's plan fails—and their costs pale compared to the President's plan, which is reported to have a price tag as high as $600 billion.

The AFL-CIO calls on Congress to pass and the President to sign an economic recovery package that consists of the following:

1. Emergency unemployment benefits. Extending the Temporary Emergency Unemployment Compensation (TEUC) program is essential to boost the economy and to help unemployed workers who have run out of benefits and who cannot find jobs in an economy that is not creating them. **Congress must pass the TEUC extension and make it retroactive as its very first act of business in 2003.**

In addition, since unemployed workers are typically unable to maintain health insurance with their meager benefits, Congress should extend health coverage to them. One way to do this is through subsidies for maintaining insurance that builds and improves upon the bipartisan efforts to include such coverage in the Trade Adjustment Assistance Act enacted by Congress last year.

Extending emergency unemployment benefits has long been recognized as an effective way to stabilize the economy and boost growth during downturns, while protecting hard hit families. Experts credit unemployment compensation with saving an average of 131,000 jobs during each of the last five recessions and reducing the drop in production by 15 percent. Every dollar in benefits results in an estimated $2.15 in economic growth. Since March, the TEUC program has added $10.7 billion to local economies, including $3.7 billion for the 10 states with the highest unemployment rates.

Today, 1.7 million workers have been unemployed for six months or longer, 400,000 more than when TEUC took effect last March.

Congress should renew the TEUC program retroactive to December 28th. Any unemployed worker who exhausts regular state unemployment insurance benefits or exhausts an initial round of emergency federal benefits without finding a new job, including those who exhausted emergency benefits before December 28th, should be eligible for benefits under the extended program. The total duration of benefits for unemployed workers should be expanded from the current level of 13 weeks to 26 weeks, with additional weeks available for workers in high unemployment states. Benefits should also be available for unemployed workers who are ineligible for regular state benefits because they do not meet state requirements, i.e., minimum earnings or hours of work thresholds.

2. Rebates benefiting low income and moderate income Americans.

Putting more money into the hands of consumers likely to spend it boosts demand that in turn spurs job growth. One way to do this is through rebates that benefit low and moderate income families, which would be best accomplished with a program of rebates for all individuals who make payroll tax payments.

According to the Economic Policy Institute, a program that provides a 3.5 percent rebate on the first $15,000 each worker had earned in 2002 would pump $65 billion into the economy. The program would benefit 149 million workers, each of whom would get as much as $525, and a two-worker household would get as much as $1050. Another approach that builds on the EPI model but substitutes flat $1000 rebates for the same workers would raise the overall cost to around $150 billion, boosting GDP more and creating even more new jobs. Unlike the President's program of permanent tax breaks for the wealthy, the rebates we propose are for one year only and are broadly shared by all workers.

Rebates for all workers will do more to boost the economy than the 2001 income tax rebates. Three-quarters of all taxpayers pay more in payroll taxes than income taxes, yet the 2001 rebates were determined solely based on individuals' income tax obligations. An estimated 51 million payroll taxpayers with little or no income tax liability received reduced rebates or none at all. Only three percent of taxpayers with incomes below $15,000 and only 41 percent of those with earnings below $27,000 received full rebates in 2001. The families most likely to need and to spend rebates were thus also least likely to get them.

Several members of Congress and others have advocated a payroll tax holiday as an alternative to across-the-board rebates. In the view of the AFL-CIO, rebates are preferable to a payroll tax holiday. The latter is more administratively complex, requiring adjustment of payroll systems and sorting out of complicated questions such as how to handle the holiday for workers with two or more jobs. The economy would also get a quicker and more effective boost from early spending of rebates by low and moderate-income families than from more modest spending over a longer period. Lastly, a payroll tax holiday has potentially negative implications for the Social Security and Medicare Trust Funds.

3. Financial help for the states.
According to the National Governors' Association, states are in their worst shape since World War II—a breathtaking crash in just the two years since 2000, when states were in their best financial shape in decades. The states' dire budget situation, which has been largely caused by the national economic downturn, poses an imminent threat to worsen the economy unless relief comes.

Job loss has reduced state revenues while increasing the demand for services, especially for publicly funded health care. State Medicaid costs grew more than 13 percent in FY 2002, the biggest jump in years. Federal estate tax and bonus depreciation cuts reduced state revenues, as most states link their rules to the federal rules. And states are shouldering new costs for homeland security and federal education mandates, without adequate federal resources.

States are making painful choices to close their budget gaps. FY 2003 has seen cuts in spending for higher education (16 states), K-12 education (11), corrections systems (14) and Medicaid (12). Sixteen states raised taxes in 2002, and more may follow suit. Despite these responses, troubles continue to mount. State budget shortfalls of roughly $40 billion in FY 2002 exceeded $50 billion for FY 2003 and are forecast to range between $60 and $85 billion in FY 2004.

With federal assistance, states can maintain critical services for families that rely on them and make critical public investments. Among other things:

- States need more federal assistance to cover exploding Medicaid costs to meet the health care needs of poor families.
- With more federal support, states could at least maintain and possibly expand SCHIP health coverage for children and adults in working poor families.
- Boosting aid to states for public health and emergency preparedness programs as well as to meet training and other needs of front line police officers, fire fighters and emergency personnel would improve the nation's ability to prevent terrorism and respond more effectively to future attacks.
- Increases in the Social Services Block Grant would stave off additional cuts in critical programs that serve children and the elderly and allow states to reverse some cuts they have been forced to make.
- Greater federal support would make it possible for states to meet federal education mandates; hire more teachers and reduce class sizes instead of laying off teachers and enlarging classes to close budget gaps; and equalize educational opportunities between rich and poor children.

The states have pleaded for help but Congress adjourned without acting on their pleas. Continued refusal to provide more federal aid to the states will only spur more cuts in services and lay-offs of public employees—steps that will weaken the economy further and prolong the economic downturn.

4. Accelerated investments in schools, roads, bridges, water, our industrial base and other infrastructure needs.
Accelerated investments to produce jobs and spur economic growth will also address broadly shared needs:

- **Investments to build, modernize and repair public schools** are essential to mend the nation's crumbling public education infrastructure. Repairing and upgrading schools to meet federal standards and wiring them for computers and Internet access requires at least $185 billion.

- **Investments in rebuilding the nation's industrial core** will help strengthen and preserve American-based production and jobs. Since 1998, the manufacturing sector has lost more than two million jobs and more than 1.5 million since the recession began.
- **Investments in our transportation and transit systems and infrastructure** will create jobs, meet critical needs and improve our long-term national security. Every billion dollars invested in road, rail, air and water transport and infrastructure is estimated to create 40,000 jobs.
- **Investments in building and refurbishing our drinking water and wastewater infrastructure** would reverse 20 years of neglect and decline and better position us to guard against bioterrorism.

5. Minimum wage increase.
Raising the minimum wage, which has been frozen at $5.15 since 1997, would benefit working families, help offset the decline in family incomes arising from the downturn and encourage job growth. The benefits of minimum wage increases flow primarily to low and moderate income families: 60 percent of the benefit from the last increase went to families in the bottom 40 percent of the income ladder. These families are most likely to spend what they earn, spurring job growth. While 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 increases far outweigh any incidental negative effects.

The Cost of Recovery: What We Can—And Cannot—Afford

Boosting the economy will carry upfront costs, but American families are already paying dearly for this period of sustained economic decline. We can readily afford responsible economic recovery by modifying the 2001 tax cut. Saving some of the resources currently slated to be spent in the future on tax cuts for the wealthy and investing them now in ways that help all Americans is the most responsible and affordable way to spur economic growth. And doing so will enable us to meet the needs of all Americans for quality health care and education, good jobs, enhanced national security, and secure retirements.

We cannot afford costly, irresponsible and ineffective responses to the lingering downturn that has left millions without jobs, health care or means of support. It is wrong for the President and the majority in Congress to push anew for more permanent tax breaks for the wealthy and corporations as the supposed solution to economic problems. These cuts will provide no boost for the economy or assistance to ordinary Americans in the short run, and they will do monumental long-term damage. We cannot afford to squander another opportunity to restore economic growth and put America back to work—and we cannot afford to make things worse in the long run. But some of the proposals the Administration will push—tax cuts on dividends, making the 2001 tax cuts permanent and new business tax breaks—will have these effects.

Cutting taxes on dividends is wrong.
Excluding dividend income from taxation as the President proposes is another permanent tax break for the wealthy that does not help ordinary Americans or create jobs today and that costs too much in the long run.

The benefits from the President's dividends tax cut would flow to the very same individuals who already won big under the Administration's 2001 tax plan. If dividend income is excluded from taxation (as the Administration is reportedly considering), three quarters of the benefit will go to tax filers with incomes exceeding $100,000. Taxpayers with incomes of more than $1,000,000 will get average tax breaks of as much as $45,098 and reap nearly 25 percent of the total benefit. The top one percent—whose incomes exceed $333,023—would receive more than 42 percent of the benefit from the cut, with an average break of as much as $13,243.

In contrast, tax payers with incomes below $50,000—who file almost 70 percent of all income tax returns—would get less than 10 percent of the total benefit from the dividend cut. For them, the average tax break is $135 or less.

Tax breaks on dividends give no immediate lift to the economy and will do long-term damage. Unlike average American families that would benefit from and spend across-the-board rebates, investors receiving dividends tax cuts are unlikely to pump that money back into the economy in a way that spurs job growth. And the price tag for this new tax cut—between $300 and $500 billion over 10 years—will only add to the budget deficits that have resurfaced under the President's stewardship of the economy.

Making the 2001 tax cut permanent is wrong. The 2001 tax cut is currently scheduled to sunset in 2010, an accounting gimmick that was used to bring the cost of the tax plan within budget limits. The President and his allies have always intended to make the cut permanent and now are attempting to use the sustained economic decline as a rationale for doing so.

Making the tax cut permanent is not a prescription for economic recovery today. There is no reason to believe that an action that takes effect eight years from now would spur demand and create jobs now. To the contrary, the substantial revenue losses associated with such a move—an additional $397 billion between 2003 and 2012 and $4 trillion over the following decade—may dampen economic activity. At a minimum, making these cuts permanent would enshrine deficits, hobbling future generations with debt and making it impossible to address urgent problems in health care, education and elsewhere. When the 2001 tax cut was passed, the nation still anticipated a $5.6 trillion ten-year surplus, which has now evaporated, and few anticipated the sustained and severe economic downturn we have experienced. Now is not the time to compound the damage by making the 2001 cuts permanent.

To the contrary, we should modify some of the 2001 tax cuts that affect only the wealthiest Americans. According to one analysis, the nation would save $2 trillion over 20 years by freezing not-yet-implemented rate reductions for families with annual incomes above $200,000 and by retaining the estate tax (currently slated for repeal) with an exemption of $5 million. These measures would affect only the wealthiest while allowing us to offset the temporary costs of recovery and invest in programs that put families first.

Adding new tax breaks for business is wrong. New business tax breaks advocated by the Administration and some in Congress are also unlikely to spur job creation. Business tax breaks that in theory aim to boost investment in production capacity miss the mark, as the economy's problem is not too little capacity. Businesses are operating at only 75 percent of capacity, a figure barely unchanged since Congress provided for accelerated bonus depreciation last March. Another round of corporate tax breaks that addresses the wrong problem is a bonus for corporations, but it will not create jobs and help working families.

The solution, instead, is to create more demand. As the chief economist for the U.S. Chamber of Commerce said before the Christmas holiday, "two-thirds of the economy is consumption, and that's what we're betting on to improve growth next year. That's what businesses want for Christmas—for someone to put a consumer in their pocket." The best way to give businesses the consumers they want is to put money in the pockets of families who need it and will spend it.

CONCLUSION

The fairest and most effective way to reverse 22 months of lay-offs and decline and to restore vitality to the American economy is with an economic recovery program designed to help those hardest hit by the downturn, create good jobs and improve wages and benefits for all working families. Congress and the President owe it to working families to act quickly and decisively in adopting a program that will put the nation on track towards genuine economic recovery in a way that works for all of us.

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