

Federal Economic Stimulus Bill Reaches More People, But Leaves Out Quickest-Acting Measures

Effective Stimulus Is Targeted, Timely and Temporary

Amid numerous signs that the U.S. economy was faltering, Congress quickly took up a federal economic stimulus package in January 2008. An economic stimulus plan is intended to provide a quick boost to the economy. Many experts suggest that successful stimulus packages are timely, targeted and temporary.

- **Timely:** Does it have a quick impact on the economy?
- **Targeted:** Does it reach those most likely to quickly spend that money and thereby stimulate economic activity? Low- and moderate-income households are the most likely to spend any additional resources. Higher-income households are more likely to save additional resources they receive, which does little to boost consumer spending.
- **Temporary:** Is it limited in duration? Economic stimulus provisions are meant to provide a short-term boost for the economy. If the measure is not temporary, it runs the risk of contributing to long-term deficits that can weaken the economy.

In February 2008, Congress passed and the President signed into law the \$168 billion Economic Stimulus Act of 2008 (H.R. 5140).¹ The centerpiece of the bill is \$117 billion in tax rebates to households this year. Other provisions include allowing businesses to deduct from their tax bill up to half the costs of new equipment purchases and a temporary bump in the size of mortgages insured by the government.

Tax Rebates for Most Americans

More than 130 million Americans will receive a tax rebate. To qualify, an individual or household must file a tax return for tax year 2007, have a valid social security number, and earn at least \$3,000 in “qualifying” income. Qualifying income includes earned income, social security benefits and veterans’ benefits. For most households, the rebate will be at least \$300 for individuals and \$600 for a married couple. The maximum rebate is \$600 for individuals and \$1,200 for married couples. Households with dependent children will also receive an additional \$300 per child.

Households earning more than \$75,000 for an individual or \$150,000 for married couples will receive smaller rebates. Households with incomes over \$87,000 for individuals and \$174,000 for married couples will not receive rebates.

Tax rebates targeted to low- to moderate-income individuals are more effective economic stimulus because these households are the most likely to spend the rebate. The final economic stimulus bill was an improvement on initial proposals, because it extended the tax rebates to millions of low-income seniors and others whose only source of income is Social Security or veterans’ disability and pension benefits.

The IRS expects to begin sending out tax rebate checks by late spring or early summer of 2008. Consequently, the tax rebates are expected to have a positive impact on the economy in the second half of the year.

Highly Effective Economic Stimulus Measures Were Missing from Final Law

There were more timely measures considered during negotiations regarding the stimulus plan that unfortunately were not part of the final package. These include:

- **A temporary increase in Food Stamps.** This is the most effective stimulus measure of those considered. It would generate an estimated \$1.73 in increased economic activity for each \$1 increase in Food Stamps.² Food Stamps help some 26 million low-income Americans — including over

¹ Data sources for this document include the Congressional bill summary; Washington Post, *Bush Signs Stimulus Bill and Cites Economic Resilience*, February 13, 2008; and Washington Post, *Rebate Checks in the Mail by Spring*, February 14, 2008.

² Moody’s Economy.com, *Washington Throws the Economy a Rope*, www.economy.com/dismal/article_free.asp?cid=102598.

234,000 low-income Minnesotans — put food on their tables each month.³ The administrative costs of increasing Food Stamps are negligible and can go into effect within 60 days — much more quickly than the tax rebates.⁴

- **Extended Unemployment Insurance benefits to laid-off workers.** In a recession, laid-off workers may use up all their Unemployment Insurance (UI) benefits before finding new jobs. Providing additional weeks of UI benefits has traditionally been a key component in previous economic stimulus bills. It is also a very effective measure to boost the economy, generating an estimated \$1.64 for every \$1 allocated, and can be quickly implemented with little administrative cost.⁵
- **Temporary federal fiscal relief to states.** Our state already faces a \$935 million budget deficit for the current budget biennium. As Governor Pawlenty noted in a letter to Congressional leadership from the National Governor's Association, states are being forced to cut spending as the economy weakens, which "will make the current downturn both longer and more severe."⁶ Federal aid to states could lessen spending cuts that would worsen the recession. In the last economic stimulus bill passed in 2004, Congress provided \$20 billion in fiscal relief to the states. Minnesota received \$356 million, which was used in part to avoid cuts to health care coverage for low-income Minnesotans.⁷

It is possible that Congress will adopt additional stimulus measures, especially if the economy worsens. If so, these three measures should be included.

³ See Minnesota Budget Project, *Fighting Hunger in Minnesota: The Critical Role of Food Stamps*, www.mncn.org/bp/foodstamps.pdf.

⁴ Center on Budget and Policy Priorities, *The Four Pieces of Effective Fiscal Stimulus*, www.cbpp.org/1-14-08bud.html.

⁵ Moody's Economy.com, *Washington Throws the Economy a Rope*, www.economy.com/dismal/article_free.asp?cid=102598.

⁶ National Governor's Association letter, January 23, 2008. For the National Governor's Association information paper on economic stimulus, see www.nga.org/Files/pdf/o8o1STIMULUSINFORMATION.PDF.

⁷ Minnesota Budget Project, *How Did Minnesota Use its Federal Fiscal Relief*, www.mncn.org/bp/fedfiscal.pdf.