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1660 L Street, NW • Suite 1200 • Washington, D.C. 20036 • 202/775-8810 • http://epinet.org

ADDRESSING THE NATION'S NEEDS
A Plan for Emergency Relief and Economic Stimulus

by Robert E. Scott and Christian E. Weller

Before the tragic events of September 11, 2001, the nation was already focused on the weakness in the U.S. economy and the means to stimulate it away from or perhaps out of a recession. The economic aftermath of the attack – a historic drop in stock values, massive layoffs by airlines, signs of an accelerating decline in consumer confidence – has erased most doubts among forecasters as to whether the U.S. economy is in recession. The question now is how to deal with it.

For the economy to get back on track, it needs a temporary stimulus that is large enough and timed well enough to work. An effective stimulus package must raise demand in the short run while improving the capacity of the economy to supply goods and services in the long run. A quick increase in government spending will have a larger impact on the economy, on a dollar-for-dollar basis, than will a tax cut of similar size. The program proposed here requires an increase in the government's budget deficit (or a reduction in the Social Security surplus), because any program of tax cuts and spending that balances the current budget will do little or nothing to speed recovery.

This package of proposals emphasizes programs already in place and directs a substantial share of their benefits to industries affected most directly by recent events and to the working people who will be hit hardest by layoffs. This package would bring at least $137.8 billion into the U.S. economy over the next year and $265.3 billion over the next two years. To have a significant impact on the nation's $10 trillion economy, an economic stimulus package must total at least $100 billion, or at least 1% of GDP, over 12 months, as Fed Chairman Alan Greenspan acknowledged on September 25.

The components of the economic stimulus program include the following. Costs for fiscal years 2002 and 2003 are summarized in **Table 1**.

- *Supplemental unemployment benefits for airline industry employees.* Patterned after the benefits provided in the auto industry, the airline worker assistance program, combined with unemployment benefits, would replace 95% of lost earnings for the 100,000 airline workers expected to be laid off.

- *Immediate investments in rail.* It is estimated that Amtrak needs at least $4 billion in critical capital investments in order to hold onto essential skilled staff and maintain and modernize its track system. Substantial public investments in high-speed rail will create many new jobs, add to the economy's productive capacity in the long run, and provide an alternative to air travel.

- *Public provision of airport security services.* Making airport security a public safety responsibility would serve both to stimulate the economy and reassure the traveling public that it will be safe to return to air travel. The airlines would also obtain further relief by the transfer of these responsibilities to the public sector.

- *Tax rebates.* Extending the rebate program to the 35 million U.S. workers who received no checks and to the many others who received only partial payments would increase the stimulative effect of the rebate, as would doubling the rebate for all families with incomes below the median level of $42,148 in 2000. Repeating the program next year could inject an additional $50 billion or more into the economy and aid the recovery.

- *Unemployment insurance (UI) benefit extension and reform.* Enhancements to the UI program should extend the maximum duration of benefits from the current 26 weeks to 39, and raise the average benefit from $230 per week to at least $300 per week.

- *Federal revenue sharing.* State tax hikes and spending cuts, inevitable during a recession, should be offset through a revitalized federal revenue sharing program.

- *Increased funding for existing domestic programs*. Existing, under-funded programs, particularly those that benefit poor and working class families, are excellent channels for a fiscal stimulus. These programs include Head Start, TANF (Temporary Assistance to Needy Families), CHIP (the Child Health Insurance Program), child care development block grants, and housing assistance**.**

- *School construction.* A tremendous need for adequate public school buildings could be satisfied in part by allocating $20 billion in 2002 for school construction and renovation.

- *Industrial rebuilding.* An "Industrial Rebuilding Fund" could provide $30 billion in loan guarantees over the next two years, offering badly needed capital to sectors ranging from aircraft and machine tools to automobiles and electrical machinery.

TABLE 1
Stimulus program budget ($ billions)

	FY 2002 (12 months)	FY 2003 (12 months)	FY 2002-03 (24 months)
Immediate relief efforts			
Airline supplemental employment benefits	$4.0	$4.6	$8.6
Amtrak investments and high-speed rail	4.2	3.2	7.4
Public airport security service*	2.6	2.6	5.2
Short-term programs			
Tax rebates			
Taxpayers not already receiving rebate in 2001	$10.0	0	$10.0
Additional tax rebates for all taxpayers (optional)	50.0	0	50.0
Unemployment ins. reform (base of 2.9 million receiving benefits)			
*Extend benefits from 26 to 39 weeks***	15.3	$15.3	30.6
Raise average benefit from $230 to $300/week	15.7	15.7	31.5
State revenue sharing	30.0	30.0	60.0
Increased funding for existing domestic programs			
TANF-related programs	6.0	6.0	$12.0
Other unmet needs (e.g. child care development block grants)	10.0	10.0	20.0
Section 8 housing vouchers	5.0	5.0	10.0
Medium-term programs			
Expanded school construction	$20.0	$20.0	$40.0
Long-term programs			
Industrial rebuilding programs	$15.0	$15.0	$30.0
Total (excluding optional tax rebates)	**$137.8**	**$127.4**	**$265.3**
Total with additional tax rebates for all taxpayers	187.8	127.4	315.3

* Plus costs of including Amtrak system in the coverage.
** Assumes federal government pays all costs of general supplemental benefits program.

Source: EPI calculations; see text for assumptions.

There is a unique opening today that is reflected in a common, bipartisan understanding that something must be done to stimulate the economy. The programs identified here are included for several reasons related to the current political environment. First, so that the legislative package can move as swiftly as possible through Congress, each element selected has a history of broad, bipartisan appeal. Second, the programs emphasize direct assistance to those who will be hardest hit by this particular downturn—airline employees, travel industry workers, and workers who have recently left welfare rolls and joined the workforce. Third, the overall program is large enough to increase growth by one to two percentage points.

To further sustain consumer income and spending, it is important to raise the minimum wage, as suggested in a proposal currently being prepared by Sen. Edward Kennedy (D-Mass.). The short- and medium-term proposals included here will also provide significant investments in productive capacity in the form of a better-skilled workforce and of improved public infrastructure.

Finally, it is important to note that the United States is part of a larger global economic community that finds itself in a slowdown. Consequently, an economic stimulus in the U.S. alone will most likely be insufficient to move the world economy out of its current slump. Instead, international coordination of spending efforts and monetary policy are required to put all economies on a sounder footing.

Immediate relief efforts

Immediate responses are needed to assist workers and industries in the transportation sector, which has been directly affected by the terrorist attacks.

Supplemental unemployment benefits (SUB) for airline industry employees

PROGRAM: Supplemental benefits

YEAR 1: $4.0B
YEAR 2: $4.6B

Congress has already agreed to $15 billion in emergency assistance for U.S. airlines to protect them from bankruptcy (Swoboda and Hamilton 2001), but the package provides no benefits to the 100,000 employees who are expected to be laid off. A parallel program to supplement the unemployment insurance benefits received by airline workers will provide direct relief to those hardest hit and inject substantial cash into the economy over the next few months.

The United Auto Workers has had a SUB program in place for decades. It is paid for by the major automakers, as agreed under industry-wide labor agreements; is administered by the union and the companies; and is open to all employees who meet eligibility requirements. The eligibility rules limit the program to workers with one year of tenure who were laid off due to a reduction in force, a temporary cutback, or insufficient work. The package guarantees that combined unemployment insurance (UI) and SUB payments replace approximately 95% of lost net earnings. After unemployment insurance has run out, employers are liable for the entire guaranteed portion of the income.

The cost of a SUB program for the airline industry would depend, in part, on the number of layoffs, thereby providing the airlines an incentive to reduce layoffs and expand flights as soon as possible. The total cost of the program, assuming that it provided 95% of lost net earnings and continuation of all health benefit payments, would be approximately $4.0 billion in year 1 and $4.6 billion in year 2.[1] The airlines should pay half the cost of the program – an appropriate responsibility that could attach to their receipt of government-guaranteed loans from the bailout fund.

The SUB proposal is conceptually different from other adjustment assistance programs that have already been proposed. First, the SUB will require the airlines to make payments in lieu of wages to all current, qualified employees. Since airlines would receive government subsidies to cover only part of these payments, they will have an incentive to rehire or maintain jobs for these particular workers.

Second, other adjustment assistance proposals, such as the separate bill introduced by Sen. Jean Carnahan (D-Mo.) to provide up to $3.75 billion in health insurance, unemployment benefits, and training for displaced airline workers (Swoboda and Hamilton 2001), assume that airline layoffs are permanent. If this is the case and workers need to find new jobs, these jobs will, in all likelihood, offer lower pay and benefits and could require relocation. The SUB program assumes that layoffs are temporary, and that most workers return to their old jobs. Thus, the SUB program outlined here would minimize adjustment costs and permanent losses for the covered airline industry employees.[2]

Immediate investments in rail and accelerated investment in high-speed rail

PROGRAM: Rail investment

YEAR 1: $4.2B
YEAR 2: $3.2B

One immediate consequence of the attacks in New York and Washington was a 60% jump in train ridership in the days immediately after the disaster. Some believe that this surge in intercity train travel could persist for years (Machalaba and Tejada 2001). Yet Amtrak is operating under a congressional mandate to achieve “operational self-sufficiency” by 2002, and regular federal operating subsidies are expected to end thereafter. However, Amtrak’s operating losses have increased recently; they reached about $900 million in 1999 (GAO 2000).

No other country requires passenger train operators to achieve self-sufficiency in operating revenues, and Amtrak’s self-sufficiency mandate should be repealed. At current rates of performance, Amtrak would thus need about $1 billion in subsidies in FY 2003.

In the long run, improving and expanding Amtrak’s train and track system can be justified, in part, as an investment in national security. According to the General Accounting Office, Amtrak needs at least $4 billion in critical capital investments by 2004 in order to maintain and modernize its track system. This amount includes an immediate need of $316 million for “life safety improvements,” such as the tunnels leading into New York City.[3] In addition, the Amtrak system should be included and protected under the umbrella of the Public Airport Security Services standards in each of its terminal locations.

In addition to these short-term needs, Amtrak has identified the need for $1.4 billion to restore the track bed and system in the Northeast rail corridor. It also needs to replace its power system, parts of which are 70 years old, in order to take full advantage of the Acela high-speed trains that are now in service in this corridor. The $4 billion in needed capital improvements identified in the GAO report could be accelerated.[4] These projects should be federally funded, in order to maximize the fiscal stimulus and minimize their negative impacts on Amtrak’s net earnings.

In order to increase the supply of alternatives to air travel, it is also important to make substantial public investments in high-speed rail development. Such a plan has been put forth in H.R. 2329, the High Speed Rail Investment Act. This measure would enable intercity rail operators to sell $12 billion in tax-credit bonds over 10 years ($1.2 billion per year) to finance “qualified projects,” as deemed by the secretary of transportation, such as acquisition, financing, or refinancing of equipment, rolling stock, or other capital improvements, including track or signal improvements or the elimination of grade crossings, development of intermodal facilities, station rehabilitation, or construction. In most cases, states must match 20% of the total cost of a project, but with some exemptions. The first two years of this program should be funded directly by the federal government as part of the economic stimulus and recovery plan.

Public provision of airport security services

Private provision of airport security services is now clearly perceived as a fatally flawed policy. Public provision and payment for these services can provide a significant boost to the economy in general and to the recovery of the airline and travel industries in particular.

The U.S. cannot afford to leave airport security in the hands of the private sector any longer. However, there may be no need to federalize airport security. Relatively simple programs involving increased standards for recruitment, training, compensation, and performance for all airport personnel involved in security, including baggage handlers, fuelers, and skycaps, can be effective. A recent evaluation of such a program at the San Francisco International airport found that overall job performance improved, as did turnover, absenteeism, and disciplinary problems (Reich et al. 2000). These results demonstrate that public agencies at local airports can provide much higher security levels than are presently provided by private security firms and airline subcontractors (Reich et al. 2001).

PROGRAM: Airport security

YEAR 1: $2.6B
YEAR 2: $2.6B

Airport security must become a public safety responsibility. Current and future security personnel must be given police powers and the training to safely and effectively use such powers. Public spending in this area would both stimulate the economy and reassure the public that air travel is safe. The airlines would also obtain further relief by transferring these responsibilities to the public sector. The costs would be minimal, and public airport security services could be set up quickly and efficiently. The federal government could train, equip, and pay the salaries of these workers for about $2.6 billion,[5] raising public safety to levels at least as high as those in most other developing and developed countries.

Short-term programs

Hotels, restaurants, and other travel-related industries also face cutbacks and layoffs in the aftermath of the September 11 attacks. When combined with the decline in consumer confidence, cuts in these industries will lead to a broader economic slowdown. Several measures can help those workers who will be most affected by the coming downturns.

Additional tax rebates

The 2001 tax relief and tax reform measures injected about $40 billion of immediate cash into consumers' pockets. Such tax rebates are an effective way to increase spending power at the widest level available, that is, individuals and households. These rebates are an appropriate response to a short-term reduction in economic activity. It is essential, though, to distinguish tax rebates from permanent tax cuts. The former can stimulate economic activity, but permanent tax cuts only serve to reduce the resources available to the government for investments in areas such as education, research, and infrastructure. Therefore, permanent tax cuts (offset by spending cuts) are likely to reduce income in the long term by reducing the country's stock of public and private capital. In the long run, economists agree that tax cuts cannot affect the level of economic activity or unemployment rates.

PROGRAM: Tax rebates

YEAR 1: $10-60B
YEAR 2: $0B

One obvious way to stimulate the economy is to provide a temporary tax cut and rebate to all taxpayers. Thirty-five million U.S. workers who pay Social Security taxes, but little or no income tax, received no checks at all during this year's round of rebates, while many others received partial payments (i.e., some amount less than the $300 payments now going to higher-income taxpayers). These low-income workers will need tax rebates much more than higher-income households, especially if they become unemployed. They are also much more likely to spend their tax rebates rather than save them.

One problem with the tax rebates passed by Congress last fall is that they were too small to have much impact on the economy. Giving only $300 per family to low-income workers will probably cost slightly less than $10 billion, an amount that won't provide much stimulus to the economy. If tax rebates were doubled for all families with incomes below the median level ($42,148 in 2000), the new rebates could pump almost $10 billion into the domestic economy (Census Bureau 2001).

If additional stimulus is needed or required early next year, then tax rebates for all taxpayers could be renewed and checks processed in early 2002. This program could inject an additional $50 billion or more into the economy.

Improved unemployment insurance

PROGRAM: Unemployment insurance

YEAR 1: $31.0B
YEAR 2: $31.0B

The unemployment insurance (UI) system has been the first line of defense for the unemployed since 1935. With improved funding and a few modest extensions, the UI system could be improved enough to take some of the sting out of this economic slowdown.

The first step would be to extend unemployment benefits from 26 weeks to 39 weeks. General supplemental benefits of this sort were approved by Congress in the last recession. A program of this sort today will cost about $15.3 billion per year.

Average UI maximum benefits, which vary greatly from state to state, should be increased from their current level of $230 per week to at least $300 per week, costing about $15.7 billion in FY2002. Any stimulus package should include a temporary $31.5 billion incentive fund to encourage states to increase unemployment benefits over the next 24 months.

There are currently a number of proposals for reform of the UI system that may also be considered as part of a stimulus package in either the House or Senate, including proposals developed by Senator Kennedy and others.[6] There are several elements that should be included in any reform package.

One such reform would require states to use a worker's most recent earnings to determine UI eligibility. This change will improve the likelihood that a worker is eligible and will also raise the benefit amount. States should also extend UI benefits to part-time workers and eliminate all waiting periods for UI benefit eligibility. Finally, the federal government should lower the trigger points that initiate extended benefits programs when the economy is weak or declining. Forty-one states failed to offer extended benefits during the last recession in 1990-91.

These UI benefit extensions should be partially funded by the federal government through grants or zero-interest loans to the states, which may help prevent the erosion of benefits. A more direct approach to the problem of benefit adequacy would require states to pay 50% of lost wages up to some maximum share of each state's median weekly wage.

Congress should take this opportunity to make major improvements in the UI system and not settle for tweaking the system around the edges. The temporary incentive fund discussed above should be used to provide incentives that encourage states to increase benefits to cover 50% of lost wages. An additional incentive should also be included, as part of this package, for states that increase payments above this threshold. After states, firms, and workers experience the economic benefits of higher thresholds, it is unlikely that benefits will be reduced when the temporary fund expires.

These changes will expand the social safety net that cushions workers hit hardest by a decline in the U.S. economy. This is especially important today, as we develop new measures to respond to the damage done by the terrorist attacks.

UI reforms and improvements will also increase the supply of *automatic stabilizers* in the economic system, one of the most effective means of reducing the impacts of business cycles on workers and the economy. Automatic stabilizers are rules or programs that automatically increase outlays whenever the economy slows or unemployment increases. Such programs, which include many government entitlement payments, provide a counter-cyclical injection of spending into the economy that helps offset recessionary forces. Many recent reforms (e.g., welfare reform) have unintentionally reduced the number and size of such built-in stabilizers in the U.S. economy. Naturally, automatic stabilizer payments decline as the economy recovers, a mechanism that again helps to dampen wide swings in growth rates from year to year.

State revenue sharing

PROGRAM: Revenue sharing

YEAR 1: $30.0B
YEAR 2: $30.0B

Many states either have balanced-budget requirements written explicitly into their constitutions or try to adhere to such rules in practice. So as revenues decline, most states tend to raise taxes and reduce spending. In the 1991 Gulf War recession, many states added or increased a number of taxes, including sales and personal income taxes. These taxes generated revenues of $16.5 billion, which reduced spendable incomes by a similar amount (Pinkston 2001), since most were used to maintain existing services. But such tax increases serve only to make a downturn worse. While increasing taxes may improve state finances, they are clearly pro-cyclical policies that exacerbate the ups and downs of business cycles.

State-level tax hikes and spending cuts should be offset by increased federal spending. The best way to do this is through state revenue sharing. The federal government established a federal revenue sharing program under President Nixon, but it was later allowed to expire under President Reagan. This program needs to be revitalized and funded. Resources should be allocated on the basis of a state's fiscal capacity, such as per capita gross state product or state income.

Another advantage of state revenue sharing is that it can absorb large and variable amounts of spending, and inject those resources quickly into public spending on existing programs that would otherwise be subject to budget cuts (e.g., public education and transit). At least $30 billion should be injected into this program per year for at least two years.

Increased funding for existing domestic programs

To be effective, a fiscal stimulus program must increase spending in a way that immediately injects cash into the economy. The worst option would be to appropriate budget increases, which means that actual

PROGRAM: Social welfare spending

YEAR 1: $21.0B
YEAR 2: $21.0B

spending would rise only as the economy begins to recover. Thus, existing, under-funded programs—particularly those that benefit poor and working class families—are excellent channels for delivering a fiscal stimulus. Such programs often have waiting lists of needy clients and projects that can immediately be supported if new resources are provided. These programs are especially good targets for inclusion in the stimulus package because they usually have substantial unmet needs that are likely to grow worse during the coming downturn. For example, the Head Start program is so poorly funded that it can only serve one out of 10 eligible children. Other programs, however, meet needs that will decline as the economy recovers. Some examples of these programs include:

- *TANF-related programs.* States are now spending significant resources on welfare-to-work policies that have effectively helped former Temporary Assistance to Needy Families (TANF) recipients move into the low-wage labor market. In fact, at this point, states are spending most of their federal TANF dollars on these work support and training policies, and less on cash assistance. As the economy slows, however, states may be hard-pressed to maintain these spending levels. In FY2000 (most recent available data), half of the states spent at least their entire annual TANF grant, and 12 states actually exceeded the grant (including California), meaning they dipped into state reserves. Targeting additional resources to these states to be used specifically for TANF work supports can help keep these programs operating. This will be particularly important if labor demand falters in industries such as tourism, which employ many low-wage workers. To meet these needs, TANF funding should be increased by $2 billion per year for at least two years, beginning in FY2002.

  Many TANF families are also eligible for other kinds of support, such as Head Start, Medicaid, the Child Health Insurance Program (CHIP), Food Stamps, and other nutrition programs or child care assistance. Families who receive TANF money are limited by federal law to five years of aid over a lifetime, although many states (20) have set shorter time limits.[7] Funding for these TANF-related (but separately funded) programs should be increased by $4 billion per year, starting in FY 2002. As unemployment rises, many families may turn back to TANF, and if we want to continue to provide work supports, such as subsidized child and health care, increasing the grants may be both necessary and politically viable.

  To cover all of these proposed increases for both TANF and related program expenditures together would require a $6 billion annual increase in spending for TANF-related programs.

- *Other unmet needs.* There are also a number of other programs with a significant backlog of unmet or under-funded needs that should receive increased support. The federal government devoted an estimated $2.0 billion in FY 2001 (*Budget of the United States* 2001) on the child care development block grant, but only about one in 10 eligible children receives these subsidies. Increasing funding would assist families in accessing much-needed child care and stimulate job creation for child care workers and other staff. Health care coverage should be expanded, especially for parents of children who are eligible for CHIP. In a typical state, a family living at 59% of the poverty line or above (around $8,000) is ineligible for

Medicaid. Eligibility should be expanded to all families below 200% of the poverty line, enabling more families to gain access to health care services. To expand these programs would require an increase in appropriations of at least $10 billion each in FY 2002 and 2003.

- *Section 8 housing vouchers.* Access to public housing has become increasingly limited in recent years. Waiting lists have grown rapidly and are now closed in some cities. Additional resources are needed to both increase the supply of Section 8 housing vouchers (for use in private sector housing) and to increase the value of these vouchers in locations where subsidies are too far below private-sector market rents to be of any use. In addition, as unemployment rises in the near future, the demand for public housing assistance will grow rapidly. Therefore, an increase of at least $5 billion in FY 2002 for Section 8 housing voucher programs is needed.

Medium-term proposals: expanded school construction

PROGRAM: School construction

YEAR 1: $20.0B
YEAR 2: $20.0B

Public infrastructure has been underfunded in the United States for two decades. In addition to the railroad investments recommended above, needed investments include transportation and communication infrastructure spending (public transit, airport and commercial airplane modernization, backup telecommunications and data networks), which would ripple through the economy in sectors like steel and machine tools that are in desperate need of orders after more than a year of industrial recession. These infrastructure investment programs are not included here, but they merit further consideration. An immediate need that has broad support is school construction.

There is a tremendous need across the U.S. for repair, replacement, and construction of new public schools, particularly at the K-12 levels. The National Center for Education Statistics recently estimated that providing adequate school buildings for all children would require $127 billion in additional spending.

Two small federal programs currently support school construction through tax credits that subsidize the interest paid on school bonds by state and local governments: the Qualified Zone Academy Bond (QZAB) program provides funding for school construction in empowerment zones and other distressed areas, and the Emergency School Repair Program provides funds to address long-deferred maintenance and emergency repair projects such as roofs, boilers, and structural maintenance.

The combined annual federal spending for these programs amounts to about $1 billion per year – just a fraction of what is needed. Senate Res. 905 (House Res. 1076) would expand funding for QZAB and start a much larger tax credit program that would benefit all types of school districts. However, because these programs pay only the interest on new bonds (through tax credits), they still impose significant limits on which districts can spend the money and how fast they can spend it. Significant school construction projects usually require passing a local bond issue, a task difficult to accomplish in low-income school districts.

Therefore, part of the spending proposed in the Senate bill should be converted to grants-in-aid to state governments of $20 billion per year for each of the next two years.[8] These funds could then be distributed to school districts without the need to pass bond issues, allowing accelerated spending and the flow of funds to school districts that are most in need. It is also possible to use the mechanisms in the current Emergency School Repair Program to quickly expand school infrastructure spending.

Long-term proposals: industrial rebuilding

PROGRAM: Industrial rebuilding

YEAR 1: $15.0B
YEAR 2: $15.0B

One of the most important underlying challenges facing the U.S. economy is the huge size of the trade and current account deficits, which are now equal to 4-4.5% of all U.S. economic output. In order to reduce these deficits without sacrificing future growth and current living standards, manufacturing will have to increase its level of output and employment by at least 30%. This growth will require huge private and public investments in goods production in industries that have been ignored by financial markets in the 1990s. The small amounts of public spending proposed here can provide important pump-priming for the major redirection of U.S. investment capital that is needed in basic and advanced manufacturing industries.

The Steel Revitalization Act of 2001 (HR 808), which is designed to provide steel manufacturers credit to maintain and upgrade plant and equipment, includes a $10 billion loan guarantee program.[9] Yet many other domestic industries currently or soon will suffer from diminished access to credit markets as the economy continues to contract or stagnate. To remedy this situation, Congress should create an Industrial Rebuilding Fund to provide $30 billion in loan guarantees over the next two years (FY 2002 and 2003). This program, of which the steel loan guarantee program would be a part, could provide capital to sectors ranging from aircraft and machine tools to automobiles and electrical machinery. These programs should also include employment protection elements and require quid pro quo commitments from firms receiving benefits.

Unhelpful policy proposals

Fast track authority

The Republican leadership has been trying to push through proposals for trade promotion authority ("fast track") for the past six months. It has failed, until now, to achieve a working majority for these proposals, for several reasons. One of the most important is that trade deals have consistently failed to improve U.S. economic performance. The U.S. trade deficit has expanded rapidly over the past decade, to the point that it has now become an independent threat to economic stability despite the negotiation of several hundred new trade agreements by the Clinton Administration. The need to obtain an ever-growing supply of financing for these deficits could trigger a financial crisis and a run on the dollar, sealing the fate of the U.S. economy for many years to come.

Congress should call a "time out" in trade policy agreements while it examines the impact of previous agreements, rather than rush into new trade deals or create fast track authority for them.

Business tax cuts

Members of Congress have reportedly proposed a recovery package that would include a cut in capital gains tax rates, small business tax cuts, and investment tax credits. These programs will not help the economy recover now. Numerous studies have shown that investment tax credits, capital gains cuts, and other tax benefits have minimal if any effect on investment (Fazzari and Herzon 1996). Rather, businesses will invest when they see that demand for their products is rising and when they find or forecast that their available plants are running at or near capacity. Thus, expanding the economy is the most successful way to increase business investment. The government has only a few ways to achieve this. First, it can increase government spending (especially on programs that can pump cash into the economy now). Second, it can selectively use tax rebates (and not permanent tax cuts) to encourage consumers to spend and to help drive the economy into recovery.

International actions

The United States should take steps to coordinate its fiscal and macroeconomic policies with other countries. When the Federal Reserve, the European Central Bank, and the Japanese central banks cut interest rates together on Monday, September 17, they helped turn what could have been a terrible market collapse into a moderate adjustment. Similar coordinated policy interventions are needed to increase government spending around the world and to gradually reduce the value of the dollar. These steps will reassure workers, consumers, investors, and financial markets, and stop the downturn before it turns into a global recession.

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Endnotes

1. This total assumes 100,000 jobs lost, a $40,000 average wage for displaced employees (who will be those most recently hired), benefits costs totaling 15% of salary, and $230 per week in unemployment benefits (current U.S. average) for 26 weeks. We also assume that all benefit payments are untaxed, to avoid over-counting the net costs of the SUB to the government.

2. SUB costs in year 2 could be scaled back as the airline industry begins to recover and ridership returns to normal levels.

3. The GAO report explains: “While not one of the highest cost investments, Amtrak officials have said that safety to passengers, employees, and others is of paramount importance. An analysis conducted by Amtrak’s Northeast Corridor business unit of life safety improvements shows short-term investment needs concentrated primarily on the tunnels leading into and out of New York City’s Pennsylvania Station. This station serves, on average, over 300,000 intercity and commuter rail passengers each weekday. The tunnels were built in the early 1900s and, according to Amtrak, are in serious need of modernization” (GAO 2000, 42).

4. Amtrak’s chief executive has asked the federal government for $3 billion in emergency funds during the next 18 months (Machalaba and Tejada 2001). Sen. Charles Schumer (D-N.Y.) has written a letter of support to Transportation Secretary Norman Maneta for this proposal, and has offered to work with the administration and Congress to secure these funds. However, this funding request includes funds for additional passenger cars, in addition to track and electrical system improvements and efforts to boost safety and security. Given expected increases in ridership, it is unlikely that the requested amount will fully fund the track bed, electrical system, and life safety improvements identified by the GAO (2000). Thus, we propose a $7.4 billion package of capital improvements for Amtrak in FY 2002 and 2003, with the majority of this amount to be appropriated in 2002.

5. There are currently about 18,000 privately employed airport security personnel in the U.S., most of them earning roughly the minimum wage of $5.15 per hour. These workers could be retrained, the size of the security force doubled, and investments of $10,000 per employee made for a net increase in total security costs in the first year of $2.6 billion. This estimate assumes that retrained and newly employed workers earn an average of $30,000 per year, plus benefits, that one additional supervisor is added for each 10 employees at an average wage of $60,000 per year plus benefits, and that the security workforce expands to a total of 39,600 officers. It is also assumed that each worker receives $15,000 in training, and that investments in new security equipment and weapons total $10,000 per worker.

6. The U.S. Department of Labor is reportedly considering including its UI/ES reform package in its recommendations to the White House for a stimulus package, and the Employment and Training Administration has added this as a possible item.

7. There are several important proposals, such as prescription drug coverage, for major reforms of Medicare and Medicaid programs that could be included in a revitalization program, but they are not included here because of their controversial nature. However, increased funding for health care (such as the rebuilding of the public health system, the Centers for Disease Control, and related programs) should be high on the priority list of other items to include in rebuilding programs.

8. This grants-in-aid program would support a substantial expansion in general, new school construction, as well as the QZAB and Emergency School Repair Programs.

9. The Steel Revitalization Act contains modifications to the previously established steel loan guarantee fund established in Section 101 of the Emergency Steel Loan Guarantee Act of 1999 (Public Law 106 –51, 15 U.S.C.1841, note). HR808 would increase funding for this fund from $1 billion to $10 billion.

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