POLICY POINTS

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SENATE FINANCE COMMITTEE MEASURE MORE EFFECTIVE AS STIMULUS THAN HOUSE BILL, DESPITE SOME PROBLEMS:
Senate Action *Not* Delaying Rebates

Some have charged that the Senate, by failing to simply rubber-stamp the House-approved stimulus package, is delaying the injection of stimulus into the economy. This charge is incorrect. Some also have criticized the specific stimulus measures approved by the Senate Finance Committee. In fact, in two major areas — extending unemployment insurance and the design of the tax rebate — the Finance Committee package is a clear improvement over the House bill in terms of providing swift and effective stimulus for the economy.

The Finance Committee package would *accelerate,* not delay, the delivery of stimulus.

- Senate deliberations on the stimulus package are not delaying the rebates. No matter when in the next few weeks Congress completes work on the stimulus package, the IRS will not be able to start issuing the rebates until mid-May, when it has finished processing the 2007 tax returns.

- The IRS needs 60 days after a stimulus bill is enacted to reprogram its computers for the rebates. Thus, so as long as Congress enacts stimulus legislation before mid-March (i.e., 60 days before mid-May), the rebates can go out as soon as the IRS is able to send them — i.e., starting in mid-May.

- The Senate Finance Committee-approved stimulus package would actually *accelerate* the delivery of stimulus because it includes extended unemployment benefits. Those benefits could begin reaching unemployed workers and being injected into the economy in 30 days — by mid-March, some two months before the first rebate checks would go out.

Today's unemployment report provides further evidence that the Finance Committee's unemployment insurance provision would considerably strengthen a stimulus package.

- A broad range of economists agrees that providing unemployed workers with additional weeks of unemployment benefits is one of the most effective ways to stimulate the economy. These workers, struggling to make ends meet after losing their paychecks, are likely to spend these benefits quickly.

  As CBO director Orszag recently told Congress, "research has shown that the unemployment insurance system is among the most effective dollar-for-dollar economic stabilizers that we have in terms of counterbalancing periods of economic weakness."

- For this reason, extended unemployment benefits have always been an important component — sometimes the only component — of federal fiscal stimulus packages, including the package enacted in 2002.

- In determining whether extended unemployment benefits are needed, the relevant measure is long-term unemployment, since extended unemployment benefits are targeted on long-term unemployed workers. Today's Labor Department report shows that the percentage of unemployed workers who have been out of work for more than 26 weeks (the normal duration of unemployment benefits) and are still looking for a job is well above the level at the start of the last recession. In January 2008, some 18 percent of unemployed workers had been out of work this long, compared to 11 percent at the start of the last downturn.

  Similarly, the percentage of the total labor force that consists of long-term unemployed workers is far above its level at the start of the last downturn.

The Finance Committee's tax rebate is better targeted — and thus more effective as stimulus — than the House rebate.

- By extending the rebate to low- and moderate-income seniors who receive Social Security but do not have earnings, and by giving the same rebate to low- and moderate-income working families as to families at higher income levels, the Finance Committee plan would strengthen the stimulative effect of the rebates, because it would direct a larger share of the rebate dollars to people who are likely to spend them quickly. (This is true even though the income limits for the rebates are higher than under the House bill.)

  - Under the House bill, a married couple with no children would receive a $600 rebate if its income is $15,000 — but a $1,200 rebate if its income is $150,000. The Finance Committee plan would provide both families with rebates of $1,000.

  - Under the House bill, a senior with $70,000 in income from pensions, capital gains, and dividends would get a rebate, while a senior living on $7,000 in Social Security benefits would be left out. The Finance Committee plan would include both individuals.

- Federal Reserve chair Bernanke recently told Congress, "If you're somebody who has lots of financial assets and you receive an extra dollar, you may not change your spending much. … If you're somebody who lives paycheck to paycheck, you're more likely to spend that extra dollar." The Senate rebate's greater focus on low-income families makes it more effective as stimulus than the House rebate.

The energy-related tax incentives in the Senate Finance Committee bill are not true stimulus measures and should not be included in a stimulus package.

- The Finance Committee package includes roughly $5 billion worth of extensions and expansions of existing energy tax incentives. These provisions have little to do with economic stimulus — they are part of a larger group of temporary tax cuts that Congress was expected to renew this year anyway. They apparently were inserted into the stimulus bill primarily to maneuver around the requirement that their costs be offset under Congress's "pay-as-you-go" rule. (Congress has agreed to waive the PAYGO rule for the stimulus bill.)

- The decision to waive PAYGO for the stimulus package should not be misused to permit Congress to extend ordinary tax cuts without paying for them.