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## What is the Best Stimulus Package? Congress, President Need to Focus on Low-Income Earners

MOUNT VERNON, Iowa (Jan. 23, 2008) — The economic package reportedly being worked out in Washington to deal with a potential recession misses the mark on a key point, according to Iowa economists.

“If tax rebates are used as a tool for stimulus, they have to help people who are going to spend the money right away or they won’t do the job,” said Peter Fisher, research director for the nonpartisan Iowa Policy Project (IPP). “Any tools that would actually stimulate the economy need to be timely, temporary and targeted — but the rebates being discussed target the wrong group: individuals who may not see a need to immediately spend the money.”

Fisher said that aside from rebates that only would go to people who pay taxes, stimulus could come with a short-term boost in Food Stamps and unemployment insurance.

Fisher and David Osterberg, IPP executive director, both noted the figures reported of rebates of as much as \$800 for individuals and \$1,600 for married couples.

“Don’t spend that money yet,” Osterberg said. “Many Iowans at lower and moderate incomes should understand that this package, as it’s been reported, would not offer them anything like those amounts — if anything at all.”

In fact, Fisher and Osterberg noted, budget analysts have shown 30 million working households would receive no rebate, and another 19 million would receive something less than the full amount.

The IPP economists said experience shows a reasonable stimulus package would include the following:

- Temporary assistance in the form of expanded Food Stamp benefits and unemployment benefits;
- Federal assistance to states that are called upon to meet demand for more services despite declining or stagnant revenues; and
- Public projects that put people to work, at the same time meeting public infrastructure needs, such as repairing roads and bridges.

“The last thing you want is for the state to decrease its purchases and its payrolls just as a recession starts. The federal government needs to bolster state coffers, by increasing Medicaid and SCHIP payments, or existing block grants, for example,” Osterberg said.

“There is no question that economists have different views of the best way to spark an economy that is stagnant, or declining,” he added. “The common-sense understanding of how to do it means you put, or leave, money in the hands of those who will put it back into the economy and start churning over the dollars.”

Osterberg said those most likely to do that are people with immediate needs they can't meet in current household budgets.

“You can't say that about higher-income individuals, or even businesses,” he said. “If they don't need to spend the money for their own short-term needs — and this is a temporary plan — they have reason to hang onto it to hedge against a worse downturn than they've seen already.”

“Remember, nobody's sure we are in a recession, or that we may be entering one. And some will take a wait-and-see approach rather than spend the money on something they don't need.”

The Iowa Policy Project is a nonpartisan, nonprofit research and policy analysis organization based in Mount Vernon. IPP reports on job and income trends, budget and tax issues, and energy and environmental policy are available at <<http://www.iowapolicyproject.org>>.

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*Other resources:*

**Center on Budget and Policy Priorities**

<<http://www.cbpp.org/1-22-08tax.htm>>

<<http://www.cbpp.org/1-14-08bud.htm>>

**Tax Policy Center (Urban Institute/Brookings Institution)**

<[http://taxvox.taxpolicycenter.org/blog/\\_archives/2008/1/22/3480604.html](http://taxvox.taxpolicycenter.org/blog/_archives/2008/1/22/3480604.html)>

**Economic Policy Institute**

<<http://www.epi.org/content.cfm/bp210>>

<[http://www.epi.org/content.cfm/webfeatures\\_snapshots\\_20080123](http://www.epi.org/content.cfm/webfeatures_snapshots_20080123)>