COMMITTEE ON FINANCE

NEWS RELEASE

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American Recovery and Reinvestment Act of 2009:
Near 100 Percent Of Finance Effects Will Come In First Two Years

With responsibility for over half of the American Recovery and Reinvestment Act of 2009, the Finance Committee has charted a rapid course of action to stabilize and renew the economy. This document seeks to explain both how and why the Finance Committee measures will be deployed in the economy in the near term. The Finance plan, set for consideration by the full Senate, contains $522 billion in job-creating tax cuts and investments to correct spending slowdowns and rising unemployment. This includes $342 billion in tax cuts for families and businesses, with a focus on creating jobs in the green energy, highway, and school--building sectors, and approximately $180 billion in unemployment insurance improvements, health care assistance and investments, and other measures.

According to the Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT), when Finance Committee provisions and Appropriations Committee provisions are combined in the final American Reinvestment and Recovery Act of 2009, the overall effects will be immediate:

- 99% of the Finance Committee portion is felt in the remainder of FY 2009 and in FY 2010

- 79% of the total plan (Finance + Appropriations) is felt in FY 2009 and in FY 2010

- Total plan is estimated to save 0.9 million jobs in 2009 and 5.6 million jobs by 2012[1]

- Total plan is expected to cut unemployment by 0.8 percent in 2009 and 3.1 percent by 2012.

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How These Provisions Work for America

The Finance Committee measures were structured with specific intent to stabilize the economy and accelerate growth in the near term. Funds that are introduced and spent in the economy as a result of this plan constitute extra dollars of income to certain targeted groups most likely to spend it quickly, such as small business owners, the unemployed, seniors and vets, and students and middle-class families. The spent funds translate into additional income for yet more groups who will also use it to purchase goods and services. The cumulative effect of all of these steps is what economists refer to as the multiplier effect. Key components of the plan that will provide stimulus with high "bang for the buck" include:

Extension and Increase of Unemployment Insurance: Extending the number of weeks of unemployment insurance benefits is estimated to increase Gross Domestic Product (GDP) -- the total output of goods and services and incomes within the economy -- by $1.63 for every dollar spent. An increase in unemployment benefits will increase consumer spending as households with unemployed members spend their benefits right away.

General Aid to States: Providing general aid to state governments is estimated to increase GDP by $1.38 for every dollar spent. More than 40 states have fiscal shortfalls putting Medicaid and other programs and their beneficiaries -- at risk. The aid to states in this package forestalls the need for spending cuts and tax increases by state governments, and protects against further job loss.

Why These Provisions Work for America

The "Making Work Pay" tax credit: The "Making Work Pay" tax credit is estimated to increase GDP by at least $1.22 for every dollar spent.5 The tax credit is provided by changing the amount of income tax that is withheld from the paychecks. This puts cash into the hands of more than 95% of American families by giving them more disposable income every two weeks. The credit is spread out over the year, not in one lump sum, increasing the likelihood that families will spend it rather than save it.

Other provisions for seniors, SSI recipients and disabled veterans: Up to 4 million American families are protected by this plan from being hit by the Alternative Minimum Tax for one more year. Families with children, college students, and more than 50 million of the nation's seniors, SSI recipients and disabled vets will get a boost from tax credits and one-time payments. According to the U.S. Economic Research Group, households receiving rebate checks in 2008increased spending by 3.5% relative to households that did not receive one. The use of withholding should increase that percentage even more.

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Job-creating incentives for new energy technology and development: In 2008, the United States spent $475 billion on foreign oil, which makes up nearly 70% of our total consumption.7The energy provisions in the Finance plan reward companies for working on projects to advance energy independence, energy security, and clean energy. Measures to give an immediate boost to renewable energy development and energy job creation in the U.S. include:

- 20 percent R&D credit for companies doing research and developing new renewable energy technology
- New manufacturing incentive for companies to locate their factories for clean technology in the United States
- Provision designed to jumpstart the tight tax equity market for investment in alternative energy
- Expanding wind power across the country is estimated to create 138,000 jobs in the first year and as many as 3.5 million jobs over a 10 year period

Small business help for quicker recovery: Small businesses employ nearly 50% of all workers in the U.S. economy and create 80% of new jobs.9 The business provisions in the Finance plan, such as the loss carry backs and credit carry backs, help small businesses by providing immediate cash to help them meet payroll and make investments. The section 179 expensing provision, which allows businesses to write off a greater amount of the cost of new assets, and the bonus depreciation provision are specifically targeted at businesses that are trying to make pro-growth investments. Small businesses are also especially sensitive to tax changes, and the Finance business tax provisions are designed to help generate immediate cash and prevent further job loss.

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