



# How to Spend \$350 Billion in a First Year of Stimulus and Recovery

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## Introduction

The U.S. economy is in as serious trouble as at any time in decades. The long-run problems of stagnant or falling wages and incomes are no longer hidden by artificially inflated asset values. The effects of the financial crisis have moved from Wall Street to the daily operations of business and the daily lives of families. Consider that:

- The 0.5 percent decline in gross domestic product in the third quarter of 2008 was the biggest since the last recession in 2001.
- Total job losses in 2008 have hit over 1.9 million, including 533,000 in November alone.
- Median household income is lower than it was in 1999.
- The values of homes fell by 2.5 percent, or \$351 billion, in the second quarter of 2008.
- One in 11 mortgages is delinquent or in foreclosure, and credit card defaults rose to 5.5 percent of all credit card debt by the second quarter of 2008.
- Credit-market borrowing financed 35.2 percent of fixed investment by non-financial corporate businesses in the second quarter of 2008, down from 80.1 percent a year earlier.

The time is right for a set of federal policies designed to provide stabilization, stimulus, recovery, and growth to address these huge problems.<sup>1</sup> Without action, there is too great a risk of further collapse and an ever-worsening spiral of job loss and economic decline. In addition to action aimed at stabilizing the extremely shaky auto industry and financial and housing markets, Congress should act quickly to pass measures to stimulate the broad economy and commence the road to recovery. If Congress can reach agreement with President George W. Bush regarding some of the measures to be undertaken, then

those measures should be passed immediately by Congress and sent to the president. The remaining measures should be passed by the 111th Congress and be ready to be signed on inauguration day by then-President Barack Obama.

Stimulus policies should be designed to offer an immediate boost throughout the economy by spurring demand. Their purpose is to quickly stall a downward spiral in the economy and give confidence to businesses to invest and hire by restoring demand for their products. But the consequences of the current downturn are not likely to be reversed quickly by traditional fast-moving stimulus measures. Also needed is a recovery program to accelerate the creation of a strong labor market and restore lost jobs over the next two years. Well-designed recovery policies create jobs efficiently—producing many good jobs per dollar of public expenditure—while making investments that further our long-term economic prospects and restore confidence in the nation’s future.

Immediate passage of stimulus and recovery measures are absolutely necessary if the United States is to avert an even more devastating economic downturn and restore lost jobs. But beyond the immediate challenges, the economy has long-standing fundamental problems that must be addressed by major changes in our nation’s approach to energy, health care, education, infrastructure, scientific research, innovation, and other areas as described in the Center for American Progress report “Progressive Growth.”<sup>2</sup> Stimulus and recovery measures aimed at the immediate crisis should be designed, where possible, to serve double duty by providing a jumpstart in the investments needed for the country’s long-term growth.

There is a growing consensus that stimulus and recovery spending should be on the order of 2 percent to 4 percent of GDP. Nobel Prize-winning economist Paul Krugman concludes that, “the stimulus package should be at least 4 percent of GDP, or \$600 billion.”<sup>3</sup> Goldman Sachs calls for a stimulus of \$500 billion.<sup>4</sup> CAP Senior Fellow Gene Sperling, former director of President Bill Clinton’s National Economic Council and Clinton’s national economic advisor, says, “The breadth and potential depth of that demand crisis require us to undertake a bolder ‘Powell Doctrine’ on stimulus in which \$300 billion to \$400 billion—or at least 2 percent of GDP—should be the starting point with an understanding that more could be needed and that we will need to call for a coordinated global stimulus.”<sup>5</sup>

Outlined here is a proposal for how to allocate \$350 billion (greater than 2 percent of GDP) in the first year for stimulus and recovery. As the economic situation unfolds, the need for additional action may become evident. But care should be taken that, whatever a final package includes, taxpayers’ funds are used efficiently to produce the best result for the economy in these difficult times. This document contains measures that would provide almost immediate economic stimulus as well as others that would have their impact later. Most of the spending outlined would occur within the year.

This document is a starting place. The programs here meet the criteria of either moving very quickly to spur demand or being efficient job creators, and in many cases, they provide a jumpstart to addressing long-term, fundamental economic needs. The programs described here are not the only ones worthy of inclusion in a stimulus and recovery package. In particular, other policies that move money quickly into the economy should be considered. Procurement programs such as replacing aging vehicle fleets at the federal, state, and local levels could be sped up. Money for defense procurement or research and development that has been authorized but not spent could also be brought forward. There are programs that could be responsibly accelerated within almost every government agency to help give the economy the boost it needs. If the state fiscal situation gets worse over the year, increasing aid to states beyond what is proposed here may be prudent.

In broad categories, the \$350 billion package outlined here includes approximately:

- \$55 billion to spur demand and assist those most in need.
- \$70 billion aid for state and localities.
- \$175 billion for infrastructure investments in stimulus and recovery, including \$100 billion in green job creation.
- \$50 billion for tax cut stimulus.

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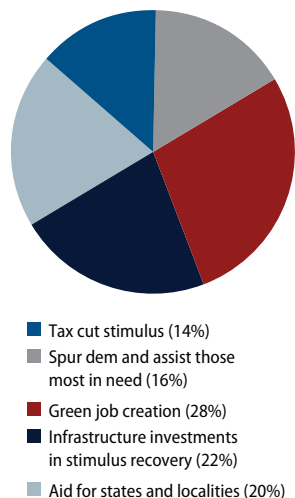
## Stimulus spending to spur demand and assist those most in need

Measures designed to provide support to those most in need serve two purposes. First, they assist people who are particularly hard hit by an economic downturn. Second, they spur demand, and do so more effectively than many other approaches to economic stimulus. The reason these measures are particularly effective at spurring demand is basic. Those most in need are compelled by their circumstances to spend the money they receive just to obtain the necessities. Thus, while some stimulus policies face the risk that the funds dispensed will end up getting pocketed instead of spent, producing little change in the economy, policies to help those in need face no such risk.

### Unemployment insurance

The United States has lost close to 1.2 million jobs since January, and the unemployment rate is heading to levels not seen since the serious recession of the early 1980s. The recent extensions in Emergency Unemployment Compensation passed by Congress and signed by President Bush were necessary measures. Nonetheless, the unemployment insurance system remains poorly designed for today's volatile labor market and is failing to serve many of the unemployed. Indeed, only 37 percent of jobless workers qualify for benefits, and the limited extensions already passed do not protect people from longer spells of unemployment.

Figure 1



- **The Unemployment Insurance Modernization Act.** As discussed in “Helping the Jobless Helps Us All,” a joint report by the National Employment Law Project, the Center for American Progress Action Fund, and Half In Ten, the stimulus should include \$7 billion in incentive funding for states to cover at least 500,000 additional workers per year who currently fall through the cracks of the unemployment insurance program, and to support those states already doing a better job with coverage.<sup>6</sup> This measure includes \$500 million for the states to handle the administrative burden of the surge in claims.

The Congressional Budget Office has found that extending or expanding unemployment insurance benefits is a highly cost effective form of short-term stimulus.<sup>7</sup> And according to congressional testimony by Mark Zandi, chief economist and cofounder of Moody’s Economy.com, extending these benefits has a multiplier effect of 1.64.<sup>8</sup> This means that for every \$100 spent by the government, the economy gets a boost equivalent to \$164.

### Health care for the unemployed

Individuals who lose employment should not be forced to lose health coverage. The Consolidated Omnibus Budget Reconciliation Act, or COBRA, allows many employees who leave or lose their job to pay their full premium and administrative fee to keep their employer-sponsored coverage for a period of time. Congress can prevent growth in the number of uninsured likely to result from job losses by providing subsidies for COBRA premiums and extending COBRA eligibility beyond the current 18-month limit.

- **COBRA premiums.** Congress should enact temporary COBRA premium subsidies to cover 50 percent of newly unemployed workers’ COBRA costs for up to a year after leaving their job. An amount of \$10 billion should be provided for this measure.
- **COBRA eligibility.** Congress should extend the length of time a person can be on COBRA by an additional 12 months. This has no cost to the federal government.

### Helping the unemployed find work

Targeted programs to create jobs are efficient ways of getting the unemployed back to work in a weak labor market. As recommended by the Coalition on Human Needs, expansions to current programs should include:<sup>9</sup>

Spur demand and assist those most in need	Cost (\$bn)
The Unemployment Insurance Modernization Act	\$7.0
COBRA premiums	10.0
COBRA eligibility	0.0
Transitional jobs for low-income people	0.4
Summer jobs	1.0
Re-employment services	0.3
Workforce Investment Act	1.3
Adult education	0.5
College work-study programs	0.3
Summer school	1.0
Pell Grants	5.4
Increase food stamp benefits	19.0
Emergency Food Assistance Program	0.2
Special Supplemental Nutrition Program (Women, Infants, and Children)	0.5
Child Care Development Block Grant	1.0
Head Start	0.8
Child support enforcement	0.5
Neighborhood stabilization funds	5.0
Affordable rental opportunities	1.0
Volunteers in Service to America	0.1
AmeriCorps State and National	0.3
YouthBuild	0.1
<b>Total</b>	<b>\$55bn</b>

- **Transitional jobs for low-income people.** \$400 million should be provided to help 60,000 low-income people who are least able to find employment on their own. Transitional Jobs programs combine wage-paid real work with services such as skills development and job retention support to help individuals with barriers to employment transition into the labor market.
- **Summer jobs.** \$1 billion for summer 2009 jobs for young people through the Workforce Investment Act.<sup>10</sup>
- **Re-employment services.** An additional \$250 million for re-employment services targeted at those most likely to exhaust their unemployment benefits.

## Education and training

Improving the skills of unemployed American workers and providing funds to allow low-income students to work their way through college would provide a boost to the economy and improve the workforce skills needed when businesses begin to hire again as the economy improves. Suggested measures include:<sup>11</sup>

- **Workforce Investment Act.** \$1.25 billion should be provided to enhance the nation's training and employment services capacity to help unemployed and underemployed people gain the skills and connections needed to get good jobs that can sustain a family. There are aspects of WIA that warrant revamping, but it is the best vehicle for providing these needed services immediately.
- **Adult education.** Expand by \$500 million existing programs funded by the Adult Education and Family Literacy Act that integrate basic skills, English language proficiency, and occupational training, and focus on transitioning to postsecondary education and job training in order to ensure that lower-skilled people are not left behind in the labor market.
- **College work-study programs.** \$250 million to expand the Federal Work-Study program to enable low-income college students to earn the funds they need to pay for postsecondary education.
- **Summer school.** \$1 billion to prevent cutbacks in summer school programs.
- **Pell Grants.** Increase Pell grants by \$500 a piece and close the current funding shortfall. This would cost \$5.4 billion.<sup>12</sup>

## Food stamps and measures to address rising food prices

Grocery-price inflation is estimated to hit 5 percent in 2009, and price increases for staple foods such as eggs and cheese reached 13 and 24 percent, respectively from 2007 to 2008.<sup>13</sup> Measures are therefore needed to help low-income earners:

- **Food Stamp benefits.** A two-year temporary increase of 20 percent in the maximum benefit levels would cost \$19 billion.
- **Emergency Food Assistance Program.** An additional \$165 million to replenish declining food inventories, assist with food distribution, and help rural food banks maintain capacity.
- **Special Supplemental Nutrition Program for Women, Infants, and Children.** \$450 million for the WIC Program to prevent more than 625,000 low-income women, infants, and children from losing their benefits.

The Congressional Budget Office has found that food stamp increases are a highly cost-effective form of short-term stimulus. According to Mark Zandi's testimony, a temporary increase in food stamps has a multiplier effect of 1.73.

## Support for children's services

The economic downturn also has an effect on children's services. Layoffs and reduced hours make day care unaffordable for many parents. Pressure on state budgets can reduce the availability of public support. Federal support for these services assists lower-income parents and avoids layoffs for childcare workers.<sup>14</sup>

- **Child Care Development Block Grant.** Funding for the CCDBG should be increased by \$956 million. This will allow states to provide child care assistance for more than 164,000 children in low-income working families who have been hit hard by the economic crisis.<sup>15</sup>
- **Head Start.** An increase of \$832 million would prevent program reductions.<sup>16</sup>
- **Child support enforcement.** Boost funds by \$500 million.

## Addressing the housing crisis

Addressing the housing crisis requires a series of dramatic measures. CAP has long argued that at-risk mortgages should be modified and foreclosed properties should be returned

to productive use to keep families in their homes, protect neighborhood housing values, and stabilize credit and housing markets. In addition to the new spending described below, the Department of the Treasury should use money available under the Troubled Assets Relief Program to acquire mortgages and restructure them on sustainable terms. Congress should also allow judges to modify mortgages on primary residences in bankruptcy.

These measures either do not cost taxpayers, or in the case of the TARP funding, could provide a net positive fiscal benefit since troubled mortgages currently sell at a discount, leaving significant room for profits to be made after restructuring. These actions would help stabilize the housing market, which would quickly put more money in family pockets and bring a quicker resolution to the overhang of bad loans that is dragging down the financial markets.

In addition, new spending for stimulus and recovery measures should include:

- **Neighborhood Stabilization Funds.** An additional \$5 billion for the acquisition and rehabilitation of foreclosed and abandoned properties that blight neighborhoods and drive down house prices.
- **Affordable rental opportunities.** \$1 billion, split equally between project-based and portable vouchers, to address the needs of low-income renters squeezed out of the rental market or evicted from foreclosed properties. The project-based vouchers would be linked to green public housing units brought back into use, as described below.

These measures would stimulate the economy by bringing properties back onto the market, which improves neighborhood asset values and community wealth, and frees up the resources of low-income renters who use those resources to spur demand.

## Community

- **Volunteers in Service to America.** VISTAs serve largely with grassroots nonprofit organizations in low-income communities. They help to build the capacity of these organizations as well as provide direct services. VISTAs can be placed quickly, and a placement is the equivalent of a full-time job. Using the current structure, the program could be doubled from 5,200 to 10,400. This would cost \$17,500 per person, or \$91 million in total.
- **AmeriCorps State and National.** AmeriCorps offers 75,000 opportunities every year for adults to serve in local and national nonprofit groups. AmeriCorps State and National could put up to 25,000 new members in the field in 2009. This costs approximately \$11,000 per member or \$275 million in total.
- **YouthBuild.** YouthBuild takes 16-24 year olds who have dropped out of school and are unemployed, provides training leading to a GED or high school diploma, and helps them find employment or enroll in higher education. \$100 million would provide the

opportunity for an additional 10,000 young adults through a proven delivery system in 226 urban and rural communities.

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## Aid to states and localities

Another important set of stimulus policies are those that help states cope with falling revenues that otherwise force them to lay off workers, cut spending on critical safety-net programs, and shortchange areas of long-term importance such as education, infrastructure investment, and health care. According to the Center on Budget and Policy Priorities, the July-to-September state revenue numbers are the worst in years.<sup>17</sup> Of 15 surveyed states, the average real decline was 5.9 percent in total tax revenue. Fiscal year 2009 budget gaps are estimated to be at least \$72 billion, and likely to be higher.<sup>18</sup> Nobel Prize Winner, Joseph Stiglitz has written that, “States are facing massive revenue shortfalls; without assistance, they will have to cut spending, plunging the economy into deep recession.”<sup>19</sup>

States are already enacting layoffs and cuts in key services. If there is one area where additional spending beyond what is recommended in this document may be warranted, it is if the state fiscal situation further deteriorates. According to Mark Zandi’s testimony, aid to state governments has a multiplier effect of 1.36.

A number of the measures outlined elsewhere in this paper are administered by, and would be of assistance to, states and localities. Some of the measures would assist fiscal problems by, for example, substituting federal dollars for state dollars in needed infrastructure improvement. Other measures, however, are for expanded activities and would not support existing state and local functions. The measures below are designed to address state fiscal problems more directly.

### Support for Medicaid

States are a primary source of health care for the uninsured. When unemployment goes up, so does the number of Americans without health insurance. According to the Kaiser Commission on Medicaid and the Uninsured, “increases in unemployment have a negative impact on state revenues making it even more difficult to pay the state share of Medicaid spending increases.”<sup>20</sup> For every 1 percent increase in the national unemployment rate, 1.0 million additional people enroll in Medicaid and the State Children’s Health Insurance Program, 1.1 million more people become uninsured, and state revenues decline by 3 percent to 4 percent.

- **Federal support for Medicaid.** Congress should raise the federal Medicaid matching rates to help provide Medicaid and secure state finances. A total of \$30 billion should be provided to help protect states from the rising cost of Medicaid programs. To deliver

**Table 2**

Aid to states and localities	Cost (\$bn)
Federal support for Medicaid	\$30
General block grants	\$30
Community Development Block Grants	\$10
Total	\$70



this support, the federal government would need to increase its share of Medicaid spending by approximately 7 percentage points. In return for this support, states should be required to agree to maintain existing eligibility levels, benefit levels, and provider payment rates.

States should also be allowed to extend Medicaid coverage to newly unemployed individuals and their family members who are not eligible for COBRA benefits. Eligibility for this coverage should be limited to individuals and families who are uninsured, and should expire after a 12-month period. These costs would be matched at the enhanced federal matching rate.

### Other aid to states and localities

- **General block grants.** Additional support should be provided for states to allocate to their highest priorities. Total spending on these grant awards should be an additional \$30 billion.
- **Community Development Block Grants.** \$10 billion for community development and revitalization.<sup>21</sup>

### Infrastructure investments for stimulus and recovery: transportation, utility, schools, health, energy, environment, and broadband

Addressing our nation’s infrastructure challenges—from the traditional areas of roads, bridges, and transit systems, to innovative health and energy-related infrastructure—can efficiently create jobs while setting the stage for long-term economic growth.

The American Society of Civil Engineers estimates that \$1.6 trillion is needed over a five-year period to bring the nation’s physical infrastructure up to a good condition.<sup>22</sup> Transforming our economy to one less dependent on carbon-based energy sources and altering our course away from dangerous and economically destructive global warming is a key to long-term economic growth. Addressing these needs would efficiently create jobs concentrated in the troubled construction and manufacturing sectors. In addition, one of the great challenges we face as a nation is the cost of health care. Investment in key health infrastructure is a first step to addressing this problem.

As Congress addresses job creation through the investments described below, it is important that the projects funded—including those that are administered by state and local governments—are designed to offer

**Table 3**

Infrastructure investments for stimulus and recovery	Cost (\$bn)
Ready-to-go highways projects	\$18.0
Water and wastewater infrastructure	10.0
Necessary improvements in aviation infrastructure	3.5
Green school construction and renovation	7.25
Maintenance and repair initiatives for schools	12.8
Public Housing Capital Funds	5.0
Greening affordable housing	5.0
Health information technology, prevention, and care coordination	8.0
Enhanced broadband service provision	5.0
Gulf Coast Civic Work	1.0
Green job creation	100.0
<b>Total</b>	<b>\$175</b>

decent wages, health coverage, good working conditions, training programs, and career paths. Contractual arrangements with private employers engaging in the work described in this section should include provisions ensuring that these conditions are met. Prevailing wage laws should be fully enforced.

## Transportation and utility infrastructure

The American Society of Civil Engineers gave the United States a “D” grade on its infrastructure in 2005 and reported that traffic congestion and air travel problems lead to huge productivity losses.<sup>23</sup> Job-creating projects to address these problems should include:

- **Ready-to-go highways projects.** \$18 billion to be spent by states for 3,000 projects, which could create 630,000 jobs.<sup>24</sup>
- **Water and wastewater infrastructure.** \$10 billion for cities to address issues with water and wastewater treatment.<sup>25</sup>
- **Necessary improvements in aviation infrastructure.** \$3.5 billion to plug the gap identified by the Congressional Budget Office.<sup>26</sup>

The Congressional Budget Office has found that public works projects are not the most cost-effective form of short-term stimulus—primarily because of the time it takes to commence and complete projects. In the current context of a projected sustained economic downturn, this is of less concern than during a typical, briefer recession. According to Mark Zandi’s testimony, increasing infrastructure spending has a multiplier effect of 1.59.

## Rebuilding schools

According to the National Center for Education Statistics, close to a third of schools have one or more temporary buildings housing an average of 160 students each.<sup>27</sup> This is true for more than half of all schools in California, Florida, Hawaii, Louisiana, New Mexico, North Carolina, Texas, Utah, and Washington. The American Society of Civil Engineers estimates that it will cost between \$127 billion and \$268 billion to bring facilities to a good condition. Two measures to address this problem are:

- **Green school construction and renovation.** Immediately support state and local school modernization, renovation, and repair at a cost of \$7.25 billion.
- **Maintenance and repair initiatives for schools.** An additional \$12.75 billion federal contribution to school districts to eliminate years of deferred maintenance, particularly in schools in low-income communities.

These two measures together could generate 250,000 skilled maintenance and repair jobs and supply \$6 billion of materials and supplies.<sup>28</sup>

### Housing infrastructure

- **Public Housing Capital Funds.** \$5 billion to start addressing the backlog in capital needs for affordable housing.<sup>29,30</sup>
- **Greening affordable housing.** Provide an additional \$5 billion for both public housing and federally subsidized, privately owned units. This could be distributed through public housing agencies and the HOME program, and used to increase energy efficiency, reduce energy operating costs, and bring empty homes back into use.

### Health infrastructure

- **Health information technology, prevention, and care coordination.** Key investments in health-related technology will greatly reduce health care costs. A large investment in these health technologies will reap large savings for the economy and the federal budget. A total of \$8 billion is needed in 2009 to begin these investments.

### Enhancing broadband infrastructure

The United States has fallen from third out of 30 in 2001 to 15 today in the Organisation for Economic Co-operation and Development's league table of broadband subscribers per 100 people. Most users in the United States also suffer from poor quality relative to other nations, and a rural to urban, and rich to poor divide has persisted.

- **Enhanced broadband service provision.** The Communications Workers of America have advocated for \$5 billion to be spent to help build the infrastructure necessary to enhance access and increase demand. Different mechanisms include competitive grants, investment tax credits, and expanded depreciation allowances. There are advantages and disadvantages to each of these policies with trade-offs for speed and efficiency. A total of \$335 million of the funds could also be used to fully fund the Broadband Data Improvement Act, which would help states get a clearer picture of where gaps currently exist. This \$5 billion investment would create 97,500 new jobs.<sup>31</sup>

### Disaster relief

- **Gulf Coast Civic Works.** \$1 billion to create a minimum of 15,000 Civic Works jobs for local and displaced people to rebuild Gulf Coast infrastructure and environment. This

will provide funding to the Office of Gulf Coast Federal Recovery Coordination to administer ready-to-go projects that will address the overwhelming unmet needs of the individuals, families, and communities devastated by hurricanes Katrina, Rita, Gustav, and Ike.

## Green job creation

Green investments are especially effective job and growth creators as they move the economy to advanced technology, modern infrastructure, and skilled labor.<sup>32</sup> Many of the green investment projects, such as building weatherization, are labor intensive in construction and manufacturing where unemployment is high. A number of these proposals very effectively spur demand by providing funding for green expenditures. “A Strategy for Green Recovery” from the Center for American Progress Action Fund describes in greater detail some of the proposals outlined below. In addition, the joint Center for American Progress and Political Economy Research Institute report “Green Recovery” estimates that \$100 billion of green investment will create 2 million jobs.<sup>33</sup> The following energy-related investments can start stimulating the economy relatively rapidly.

- **Transit fare reductions and service expansions.** Provide \$2 billion in assistance to transit agencies to reduce transit fares and expand services.
- **The Weatherization Assistance Program.** Fully fund the Weatherization Assistance Program at \$900 million, the amount Congress is authorized to spend on the program in fiscal year 2009, and build toward a goal of weatherizing 1 million homes.
- **The Federal Energy Management Program.** \$1.3 billion to fully fund energy- efficiency programs.
- **Workforce investment in the Green Jobs Act.** Appropriate \$250 million for the Green Jobs Act, authorized in the Energy Independence and Security Act of 2007, to provide job training and workforce investment in energy efficiency and renewable-energy installations.
- **Refundable residential energy efficiency tax credits.** Increase funding for refundable residential energy efficiency tax credits to \$5 billion and raise the maximum credit for household efficiency upgrades to \$2,000.

**Table 4**

Green job creation	Cost (\$bn)
Transit fare reductions and service expansions	\$2.0
The Weatherization Assistance Program	0.9
The Federal Energy Management Program	1.3
Workforce investment in the Green Jobs Act	0.3
Refundable residential energy efficiency tax credits	5.0
Solar roofs on federal buildings	3.5
New Starts Transit project investments	5.0
Smart grid federal matching funds	1.3
Green jobs restoring the land	0.8
The Manufacturing Extension Partnership	0.2
Building retrofits	10.0
Energy efficiency and conservation block grants	5.0
“Cash for Clunkers” rebates for older cars	2.5
Clean Renewable Energy Bonds	3.0
Advanced coal technology to capture carbon	1.1
Electric transmission grid	10.0
<b>Manufacturing</b>	<b>15.0</b>
Advanced technology vehicle manufacturing and retooling	7.5
Replacing aging buses and acquiring rail cars	4.0
Local transit infrastructure	8.0
Capital assistance to states	10.0
Clean Energy Corps	3.0
The Industrial Waste Recovery Program	0.4
<b>Total</b>	<b>\$100bn</b>

- **Solar roofs on federal buildings.** Provide \$3.5 billion to install 2,000 megawatts of solar power on federal rooftops, and amend federal electricity contracting to allow for 30-year power purchasing agreements.
- **New Starts Transit project investments.** \$5 billion to partially bridge the anticipated shortfall in federal transit capital funding for fixed-guideway projects approved in the Federal Transit Administration New Starts pipeline.
- **Smart grid federal matching funds.** Fund the Smart Grid Title of the Energy Independence and Security Act of 2007 to support \$1.3 billion for infrastructure investment and demonstration projects.
- **Green jobs restoring the land.** Expand existing programs by \$800 million to restore parkland, forests, wetlands, wildlife refuges, and rural ecosystems.
- **The Manufacturing Extension Partnership.** Expand the capacity of domestic manufacturing modernization efforts by increasing MEP funding to \$200 million.

The following additional energy infrastructure investments are less fast-acting than the stimulus proposals above, but can come on stream in the next year to help create needed jobs:

- **Building retrofits.** New authorization and funding of \$10 billion to provide the initial financing for a public revolving loan fund—tax exempt, with credit guaranteed by the federal government, available for packaging with private capital—to spur the national building retrofit effort, with the principal to be repaid at the end of a five-year period.
- **Energy efficiency and conservation block grants.** Appropriate \$5 billion to fund states, cities, and counties pursuing clean energy projects.
- **“Cash for Clunkers” rebates for older cars.** Initiate a \$2.5 billion annual program to purchase and scrap older, more polluting cars, in exchange for an owner agreement to acquire a more efficient vehicle or use alternative transportation.
- **Clean Renewable Energy Bonds.** Increase CREB funding by \$3 billion to finance renewable energy projects by electric cooperatives, government entities, Indian tribal governments, and others.
- **Advanced coal technology to capture carbon.** Invest \$1.1 billion to deploy demonstration carbon capture-and-storage technology at a coal-fired power plant.
- **Electric transmission grid.** New authorization for a \$10 billion outlay for a new Federal Trust Fund for transmission and smart-grid build out through direct spending and grants to states and municipalities.

- **Manufacturing.** \$15 billion in grants to states to support manufacturing plant retooling to produce clean and energy-efficient technologies and advanced batteries for electric vehicles.
- **Advanced technology vehicle manufacturing and retooling.** \$25 billion in additional loans for automobile manufacturers. The budget cost will be \$7.5 billion.
- **Replacing aging buses and acquire rail cars.** \$4 billion on a competitive bid basis for mass transit agencies to replace aging buses with efficient, low-emission vehicles, acquire new rail cars to meet the surging demand for transit services across the nation, and perform needed and backlogged maintenance.
- **Local transit infrastructure.** \$8 billion to fund 559 “ready-to-go” public transportation capital projects that could begin within months of federal funding being made available. The funding would include the oldest and largest rail transit systems that face increasing maintenance and upkeep costs.
- **Capital assistance to states.** \$10 billion to fund and dramatically expand the Intercity Passenger Rail Service Program for a federal-state partnership to promote intercity passenger rail development. This will include helping the states and Amtrak acquire new and rehabbed passenger rail rolling stock.
- **Clean Energy Corps.** \$3 billion for a national CEC, a combined service, training, and job-creation effort to combat global warming, grow local and regional economies, and demonstrate the equity and employment promise of the clean energy economy. The funding could be distributed through the Corporation for National and Community Service and the Department of Labor to administer CEC-related programs.
- **The Industrial Waste Recovery Program.** \$410 million to provide incentives for industrial facilities to generate electricity from recovered waste heat, as authorized by the Energy Independence and Security Act.

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## Tax cut stimulus

President-elect Obama during his campaign proposed a set of changes to the tax system involving both tax increases and tax reductions. The proposed provisions for tax reductions that would be most effective at stimulating the economy are the “Making Work Pay Credit,” the “Emergency Energy Rebate,” and expansion of the “Earned Income Tax Credit.” Expending \$50 billion to enact a portion of these tax cuts in advance of passage of the full set of tax proposals, including the offsetting tax increases, would provide a measure of stimulus for the economy.

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## Conclusion

The U.S. economy is in trouble and only a large injection of responsibly targeted spending can get it back on the road to recovery. Stabilizing the financial markets and other specific industries is essential, but not enough. Fixing the financial markets but otherwise leaving the economy to recover on its own would lead to a much deeper economic hole and a much longer climb back than necessary.

A long and deep recession can be avoided and a strong recovery initiated by focusing at least \$350 billion of stimulus as described above. Measures targeted at those most in need, selected tax cuts, aid for states, upgrades to the nation's crumbling infrastructure, and a green recovery program can help raise aggregate demand and create jobs. These measures will also provide the best route for the economy to move from mere stability to achieving progressive growth and the restoration of the American dream.

# Endnotes

- 1 Michael Ettlinger, "Time for Stabilization, Stimulus, Recovery, and Growth," Center for American Progress, November 6, 2008, available at [http://www.americanprogress.org/issues/2008/11/getting\\_to\\_growth.html](http://www.americanprogress.org/issues/2008/11/getting_to_growth.html).
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