

“STIMULATING” THE WRONG DEBATE

What Is This Debt Plan Really About?

Shell Game

- **This Isn't Just About Pork:** President Obama, Speaker Pelosi and Majority Leader Reid want you to believe this debate is about minor “pet projects” making up less than 1% of the bill and tax cuts. That is only part of the debate.
- **It Is Partly About Pork:** Over \$11 billion in pork can easily be identified, like the \$2.2 billion towards community groups like ACORN, plus over \$200 billion in state and local money that will benefit “pet projects” – and that is just for starters.
- **It Is Partly About Taxes:** Pro-growth tax cuts are the real way to increase wages, business incomes and the family checking account, not giving money to people who do not pay taxes in the first place.
- **It Is Partly About Doubling the Size of Government:** In the current plan, the Departments of Education and Energy will double in size and scope.

Government Controlled Health Care

- **It Is About a Radical Health Care Agenda:** Inside this massive “stimulus” bill are profoundly controversial and far-reaching health care provisions that would set the country on a path toward more fiscal irresponsibility, unfunded entitlement liabilities and less control by families over their personal health care decisions.
- **It Isn't About Affordable Health Care Choices for the Unemployed:** The bill would only give help to those unemployed workers that choose the most costly coverage. The House bill goes further by opening the Medicaid program to these workers. The same poor performing program that states are asking taxpayers to bail them out from.
- **It Is About Centralizing Health Care Decisions in Washington:** Combining the comparative effective research with health IT provisions opens the door to direct government interference in the doctor-patient relationship, undermining personal control over health care decisions. Just like Britain and other socialist systems.

Fiscally Irresponsible States

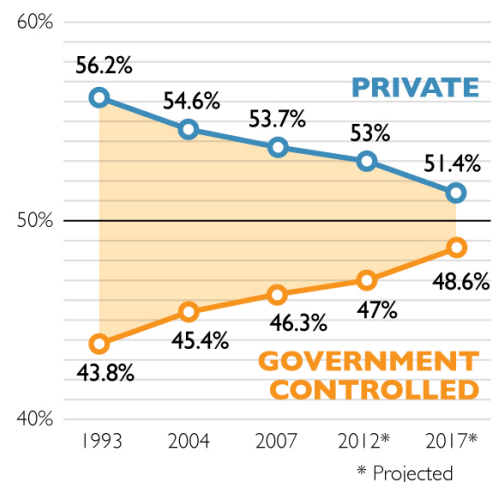
- **It Is Robbing Peter to Pay Paul:** Calling the state and local money “stimulus” is a misnomer since hiking federal debt to keep state taxes low is like running up your Visa card to keep the MasterCard balance from rising. Either way, you will pay. All that changes is where you send your payment.
- **It Is the Federal ATM:** In 2003, states demanded and received a \$30 billion bailout. States went right back to spending, with budget hikes averaging 7.2% over the next four years. Now they are back to withdraw more.
- **It Is Not Playing by the Rules:** The biggest losers from a federal bailout are taxpayers who live in fiscally responsible states. They resisted extravagant new spending programs – and will be rewarded with a soaring federal debt to bail out the states that went on unaffordable spending sprees.
- **It Is 1,000 Bridges to Nowhere:** Mayors have pledged to spend stimulus funds on items such as a polar bear exhibit in Rhode Island or to curb prostitution in Ohio, but these special projects are not even disclosed in the bill, so taxpayers have no idea where their money is really going.

Twice the Jobs at Half the Price

Check out Heritage ideas for how to provide twice the jobs at half the price at heritage.org.

Pushing health care to a tipping point

Proportions of total funds spent on personal health



Source: Centers for Medicare and Medicaid Services, Office of the Actuary 2008.

NO JOBS, NO GROWTH, NO NEED

Why a Trillion Dollars Only Buys Debt

The Basics

- **Wrong Idea:** Debt should make the economy more competitive by purchasing assets that produce income – that is, assets that earn a return greater than the cost of borrowing; otherwise the debt becomes a burden on economic growth. The current Senate bill being debated ignores this principle.
- **Right Idea:** The most effective means of helping the economy recover is to improve the incentives that drive economic activity, and that means reducing tax rates on work, saving, investment, risk taking and entrepreneurial activity.

Economic Effects of the Trillion Dollar Spending Plan

A Heritage Foundation economic analysis showed:

- **No GDP Growth:** The 10-year average increase in GDP is only \$72 billion. The largest increase in GDP comes in 2010 at \$173 billion and drops off considerably thereafter, despite continued government borrowing and spending.
- **No Jobs:** The 10-year average number of jobs created is 616,000. The maximum number of mostly temporary jobs created in any one year as a result of this plan will be 1.8 million and that isn't until 2011. Jobs growth actually declines over the next two years.
- **No Investment:** Non-residential investment, which drives sustainable growth, actually *decreases* by an average \$3.1 billion.
- **No Need:** According to CBO estimates, most of the discretionary spending will occur well after the economy would have recovered on its own.

Borrowing close to \$1 trillion to purchase earmarks and special projects, not only does nothing to stimulate the U.S. economy, **but it will actually further weaken it.**

Smart Stimulus

The American Option will create rapid growth in wages and business incomes by reducing business taxes from 35% to 25%; reducing the estate tax to 15%; keeping the tax rates on dividends and capital gains at 15%; reducing individual tax rates to three levels and permanently repealing the Alternative Minimum Tax (AMT).

- **Employment:** Increases employment by a half million jobs in 2009 and by 1.3 million jobs in 2010, and creates 4.8 million jobs between 2009 and 2012.
- **Families:** Disposable personal income for an average family of four would rise, on average, by \$1,300 in 2009 and quickly rise to more than \$4,500 by 2013.
- **No New Taxes:** Without the pro-growth elements of this plan, these families could expect their tax rates to rise 4 percentage points, from an effective rate of 12% to an effective rate of 16%. This plan would keep the rate just under 13%.
- **Small Businesses:** The effective tax rates for small businesses would fall from an average of 17.1% to an average of 14.8% and provide more than 2 million successful small businesses with lower tax rates.

Twice the Jobs at Half the Price

Check out Heritage ideas for how to provide twice the jobs at half the price at heritage.org.

Comparing the Benefits of Each Plan

Average Change in Key Macroeconomic Variables, 2009–2018

	Heritage Plan	Bill H.R. 1
GDP (Adjusted for Inflation)	\$267 billion	\$72.4 billion
Employment	2.2 million	616,000
Personal Disposable Income (Adjusted for Inflation)	\$437 billion	\$177 billion
Non-Residential Investment	\$67.3 billion	-\$3.1 billion
10-Year Treasury Bond	-0.2 percentage points	0.5 percentage points

Source: Heritage Analyst Calculations using Global Insight Macroeconomic Model of the U.S. Economy.

 heritage.org