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Stimulus Plan Should Include Pro-Growth Tax Relief for Families in Every State

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The stimulus plan scheduled for debate in the Senate should include:

- An extension of the 2001 and 2003 tax reductions; and
- A reduction of tax rates for individuals, small businesses, and corporations through 2013.

According to a recent Heritage Foundation analysis,¹ including these elements in the stimulus plan would soften the current recession in 2009 while speeding economic recovery, increasing employment, and reducing federal tax receipts. The spending included in the current stimulus plan would have little positive effect on the economy. Instead, Congress should reduce spending and lower tax rates.

Taken together, these two elements—extending the 2001 and 2003 tax cuts and reducing taxes for individuals, small businesses, and corporations—would increase family disposable personal income and increase jobs in every state. Tax reductions would allow families to plan and grow in the near future, since they would not have to worry about tax increases. In addition, people would be more secure in their jobs or business, since taxes on business establishments would also be reduced, leaving business owners with more money for hiring new employees and other operational expenses.

As a result of this plan, families of four could expect to gain over \$1,300, on average, in disposable personal income in 2009. This amount would quickly rise to over \$4,500 in additional personal

income in 2013. (Family income and jobs estimates for each state can be found in Table 1.) Furthermore, by 2013, four-person families could also expect a tax rate three percentage points lower under this plan than without it. Without the pro-growth elements of this plan, these families could expect their tax rates to rise four percentage points, from an effective rate of 12 percent to an effective rate of 16 percent. This plan would keep the rate just under 13 percent. Larger families would see an even greater benefit from the low rates.²

State Estimates of Job and Income Growth

Arizona. If the stimulus plan includes the pro-growth elements described above, Arizona could expect to gain an additional 10,080 jobs in 2009 and 40,954 jobs in 2013.³ Due to tax deductions, improved employment prospects, and strengthened economies, four-person families could expect their personal income to increase by \$1,166 in 2009 and by \$3,908 in 2013. Based on current average expenditures for four-person families, this increase would cover the cost of meats, poultry, fish, and eggs (an average annual expenditure of \$1,146) and in 2013 would cover a large portion of the average annual cost of utilities, fuels, and public services (\$4,481).⁴

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2262.cfm

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California. California could expect to gain an additional 59,379 jobs in 2009 and 241,250 jobs in 2013. Families could expect their personal income to increase by \$1,485 in 2009 and by \$4,975 in 2013. This increase in personal income would cover families' average annual expenditures on education (\$1,483) and in 2013 would cover their cost of food at home (\$4,967).

Kentucky. Kentucky could expect to gain an additional 6,526 jobs in 2009 and 26,512 jobs in 2013. Families could expect their personal income to increase by \$1,134 in 2009 and by \$3,798 in 2013. This increase in personal income would cover almost all of families' average annual expenditures on dairy, cereals, and bakery products (\$1,216) and in 2013 would cover their entertainment budget for one year (\$3,785).

1. For more on The Heritage Foundation Stimulus Plan and the estimates in this paper, see J. D. Foster and William W. Beach, "Economic Recovery: How Best to End the Recession," Heritage Foundation *WebMemo* No. 2191, January 7, 2009, at <http://www.heritage.org/Research/Economy/wm2191.cfm>.
2. Without the plan, five-person families would see a tax rise from 14 percent to 20 percent by 2013, while under the plan that rate would be 13 percent in 2009 and would only rise to 14 percent by 2013, a full six percentage points lower than without the plan.
3. For each state discussed in this paper, the number of new jobs gained is in addition to jobs that would have been created in the absence of these policies.
4. All average annual expenditures figures are from Bureau of Labor Statistics, Consumer Expenditure Survey, 2007, table 4, at <http://www.bls.gov/cex/2007/Standard/cusize.pdf> (February 1, 2009).

State-by-State Benefits From Pro-Growth Tax Relief

	Income Gains per Four-Person Families		Job Gains	
	2009	2013	2009	2013
Alabama	\$1,180.93	\$3,956.57	6,858	27,862
Alaska	\$1,541.27	\$5,163.85	1,153	4,683
Arizona	\$1,166.50	\$3,908.22	10,080	40,954
Arkansas	\$1,102.52	\$3,693.84	4,363	17,727
California	\$1,484.79	\$4,974.60	59,379	241,250
Colorado	\$1,488.38	\$4,986.63	8,757	35,577
Connecticut	\$1,950.17	\$6,533.82	6,033	24,511
Delaware	\$1,414.40	\$4,738.77	1,418	5,761
District of Columbia	\$2,271.40	\$7,610.04	1,049	4,260
Florida	\$1,356.88	\$4,546.07	29,654	120,480
Georgia	\$1,202.47	\$4,028.72	15,533	63,110
Hawaii	\$1,425.91	\$4,777.36	2,107	8,560
Idaho	\$1,130.20	\$3,786.60	2,419	9,828
Illinois	\$1,476.80	\$4,947.85	21,144	85,905
Indiana	\$1,171.10	\$3,923.62	10,287	41,796
Iowa	\$1,276.78	\$4,277.69	5,324	21,629
Kansas	\$1,331.54	\$4,461.18	4,797	19,490
Kentucky	\$1,133.61	\$3,798.02	6,526	26,512
Louisiana	\$1,290.97	\$4,325.23	6,563	26,664
Maine	\$1,210.56	\$4,055.84	2,263	9,194
Maryland	\$1,657.13	\$5,552.01	9,538	38,753
Massachusetts	\$1,786.05	\$5,983.93	10,884	44,219
Michigan	\$1,215.04	\$4,070.85	15,584	63,316
Minnesota	\$1,468.25	\$4,919.18	9,399	38,187
Mississippi	\$1,024.26	\$3,431.65	4,174	16,959
Missouri	\$1,224.86	\$4,103.73	9,592	38,969
Montana	\$1,215.28	\$4,071.65	1,610	6,542
Nebraska	\$1,292.72	\$4,331.11	3,176	12,906
Nevada	\$1,415.26	\$4,741.66	4,543	18,458
New Hampshire	\$1,471.11	\$4,928.77	2,355	9,567
New Jersey	\$1,738.17	\$5,823.54	14,490	58,870
New Mexico	\$1,120.06	\$3,752.62	3,076	12,498
New York	\$1,676.61	\$5,617.29	30,680	124,649
North Carolina	\$1,226.43	\$4,109.01	14,529	59,032
North Dakota	\$1,392.02	\$4,663.81	1,183	4,806
Ohio	\$1,229.68	\$4,119.90	19,014	77,253
Oklahoma	\$1,318.14	\$4,416.27	5,632	22,884
Oregon	\$1,257.98	\$4,214.72	6,339	25,756
Pennsylvania	\$1,390.32	\$4,658.09	20,513	83,341
Rhode Island	\$1,399.37	\$4,688.44	1,803	7,325
South Carolina	\$1,153.49	\$3,864.64	6,956	28,262
South Dakota	\$1,327.81	\$4,448.68	1,420	5,768
Tennessee	\$1,228.99	\$4,117.58	9,687	39,357
Texas	\$1,384.37	\$4,638.18	37,744	153,349
Utah	\$1,109.85	\$3,718.42	4,404	17,891
Vermont	\$1,327.87	\$4,448.87	1,136	4,617
Virginia	\$1,506.34	\$5,046.81	13,244	53,810
Washington	\$1,498.96	\$5,022.08	11,253	45,721
West Virginia	\$1,049.68	\$3,516.81	2,547	10,349
Wisconsin	\$1,308.48	\$4,383.92	9,853	40,030
Wyoming	\$1,762.25	\$5,904.19	936	3,802

Sources: The Heritage Foundation, Center for Data Analysis, calculations based on the Global Insight Macroeconomic Model, the Current Population Survey, March 2007, and U.S. Department of Labor; Bureau of Labor Statistics, "Civilian Labor Force and Unemployment by State and Selected Area, Seasonally Adjusted", Table 3, at <http://www.bls.gov/news.release/laus.t03.htm> (February 2, 2009).

Table 1 • WM 2262  heritage.org

Maine. Maine could expect to gain an additional 2,263 jobs in 2009 and 9,194 jobs in 2013. Families could expect their personal income to increase by \$1,211 in 2009 and by \$4,056 in 2013. This increase in personal income would cover families' average annual expenditures on vehicle insurance (\$1,211) and in 2013 would cover a vast majority of their cost of food at home (\$4,967).

Missouri. Missouri could expect to gain an additional 9,592 jobs in 2009 and 38,969 jobs in 2013. Families could expect their personal income to increase by \$1,225 in 2009 and by \$4,104 in 2013. This increase in personal income would cover families' average annual expenditures on eggs, dairy products, fresh fruits, and vegetables (\$1,147) and in 2013 would cover almost their entire entertainment budget (\$3,785).

New York. New York could expect to gain an additional 30,680 jobs in 2009 and 124,649 jobs in 2013. Families could expect their personal income to increase by \$1,677 in 2009 and by \$5,617 in 2013. This increase in personal income would cover families' average annual expenditures on electricity (\$1,670) and in 2013 would cover almost all of their annual expenditures on apparel and services as well as vehicle and health insurance (\$5,754).

Tennessee. Tennessee could expect to gain an additional 9,687 jobs in 2009 and 39,357 jobs in 2013. Families could expect their personal income to increase by \$1,229 in 2009 and by \$4,118 in

2013. This increase in personal income would cover families' average annual expenditures on meats, poultry, fish, and eggs (\$1,146) and in 2013 would cover almost all of their utilities, fuels, and public services (\$4,481).

Texas. Texas could expect to gain an additional 37,744 jobs in 2009 and 153,349 jobs in 2013. Families could expect their personal income to increase by \$1,384 in 2009 and by \$4,638 in 2013. This increase in personal income would cover families' average annual expenditures on health insurance (\$1,684) and in 2013 would cover their cost of health care and education (\$4,630).

The Bottom Line. In order to be successful, the stimulus bill should extend the 2001 and 2003 tax cuts and should reduce taxes for individuals, corporations, and small businesses. Doing so would increase employment and family income, shorten the recession, and speed economic recovery. All families and businesses would benefit from these policy changes, seeing an immediate but modest increase in income in 2009. As a result of these policies, however, families could expect their incomes to increase by an average of more than \$4,500 and their taxes to decrease by three percentage points in 2013.

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