



**OBAMA'08**  
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## **BARACK OBAMA'S EMERGENCY ECONOMIC PLAN**

### **TAKE THE EXCESS PROFITS OF OIL COMPANIES TO HELP WORKING FAMILIES DEAL WITH ENERGY COSTS WITH NEW \$1,000 REBATE CHECKS AND ENACT A \$50 BILLION PACKAGE TO SAVE 1 MILLION JOBS**

Barack Obama recognizes that for tens of millions of hardworking American families the economic winds have become a perfect storm: Seven straight months of job loss, gas above \$4.00 a gallon, falling wages and home values, and foreclosures mounting. Barack Obama believes that America cannot afford to continue the reactive, too-little-too-late approach that the Bush Administration has taken to our immediate economic challenges – an approach that John McCain is committed to continue. Barack Obama understands that we must move aggressively to provide immediate help to America's working families and turn our economy around, as well as move to enact a long-term plan to foster shared, bottom-up growth. The roots of our current economic problems lie in our failure to tackle long term challenges: energy policy, skyrocketing health costs, education, oversight of financial institutions, and the abandonment of fiscal discipline. Obama has proposed bold initiatives to address these long-run structural problems. But beyond those steps, the economy cannot wait – the risks of insufficient action are mounting by the day as economic uncertainty grows.

That is why today Barack Obama is calling for an Emergency Economic Plan that will relieve the burden on families struggling with high gas and grocery bills or preparing for high heating bills. At the same time, the Obama plan will help create jobs to jumpstart an economic recovery. This Emergency Economic Plan is a down-payment on Obama's long-run plans to restore tax fairness and invest in infrastructure and clean energy to foster long-run growth. It has two parts:

- 1. Forcing big oil companies to take a reasonable share of their record breaking windfall profits and use it to help struggling families with direct relief worth \$500 for an individual and \$1,000 for a married couple.** The relief would be delivered as quickly as possible to help families cope with the rising price of gasoline, food and other necessities. The rebates would be fully paid for with five years of a windfall profits tax on record oil company profits. This relief would be a down payment on Obama's long-term plan to provide middle-class families with at least \$1000 per year in permanent tax relief.

## **2. \$50 billion in immediate measures to turn our economy around and help prevent more than 1 million Americans from losing their jobs:**

- \$25 billion in a State Growth Fund to prevent state and local cuts in health, education and housing assistance or counterproductive increases in property taxes, tolls or fees. The fund will also ensure sufficient funding for home heating and weatherization assistance as we move into the fall and winter months.
- \$25 billion in a Jobs and Growth Fund to replenish the highway trust fund; prevent cutbacks in road and bridge maintenance and fund new, fast-tracked projects to repair schools – all to save more than 1 million jobs in danger of being cut.

### **BACKGROUND**

#### **BARACK OBAMA HAS BEEN A LEADER IN PUSHING FOR ECONOMIC STIMULUS THAT HAS PROVIDED MEANINGFUL RELIEF FOR FAMILIES**

Early in 2008, Obama was a leader in calling for an economic stimulus package with rebate checks for workers and seniors. At the time, John McCain said he was “skeptical” of stimulus<sup>1</sup> and instead proposed a corporate tax cut that would not be fully effective until 2015. Tax experts from the Congressional Budget Office (CBO) to Goldman Sachs to McCain economic adviser Mark Zandi have argued that such a permanent corporate tax reduction would be extremely poor stimulus.<sup>2</sup> Ruth Marcus of the *Washington Post* gave Obama’s plan an “A” while grading McCain’s stimulus plan a D+, explaining that McCain “proposes permanent tax cuts – cutting corporate rates, increasing investment breaks, eliminating the alternative minimum tax – masquerading as a stimulus plan.”<sup>3</sup> The bipartisan stimulus legislation that ultimately became law repudiated the McCain approach and embraced the Obama approach of broad rebates for working families.

In fact, that stimulus package would have been even more effective if McCain had not failed to show up for a key vote to provide rebates to 20 million seniors and 250,000 disabled veterans. That expansion was defeated by one vote, and McCain was the only Senator absent. He explained that he was “too busy” to vote, and “focused on other stuff” even though he was in Washington D.C. at the time.<sup>4</sup> Only on the final vote did John McCain come around to supporting Obama’s version of fiscal stimulus. Had John McCain has his way, a stimulus plan with tax rebates would have never passed and experts agree that our economic performance this year would have been even weaker.

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<sup>1</sup> Associated Press, 1/17/08

<sup>2</sup> Congressional Budget Office, “Options for Responding to Short Term Economic Weakness,” 1/08 (“Corporate tax rate reductions have only a limited effect on new investment decisions and may take time to affect business investment because capital spending decisions are often made in advance”); Goldman Sachs Weekly, 9/21/07 (“companies don’t spend money just because it’s there to spend. To justify outlays for new projects, the expected returns have to exceed the costs, and that usually requires growth in demand strong enough to put pressure on existing resources.”); Mark Zandi, “The Economic Impact of the Bush and Congressional Democratic Economic Stimulus Plans,” *Economy.com*, 02/03.

<sup>3</sup> “Who’s stimulus makes the grade?” 1/23/08.

<sup>4</sup> Associated Press, 2/7/08

Over the past few months, the stimulus checks Obama championed have helped our economy by providing a buffer against declining consumer spending.<sup>5</sup> However, their impact has been offset by soaring energy and food prices, and growing joblessness. The original Obama stimulus plan included a specific contingency plan that if the job numbers deteriorated further it would trigger another round of fiscal stimulus.<sup>6</sup> On June 9, Obama announced an additional \$50 billion stimulus package. Since then, two important elements of the Obama package have been passed by Congress: extended unemployment insurance benefits and some of the foreclosure relief Obama has called for. And at the same time, job losses have continued, infrastructure cuts have mounted, gas prices have stayed high, financial turmoil has accelerated, the credit crunch is growing and forecasters expect home heating oil costs to be very high this fall and winter. In light of these developments, Barack Obama is announcing a new, 2-part emergency plan.

**PART I**  
**TAKE A PORTION OF THE WINDFALL PROFITS FROM BIG OIL**  
**AND PUT \$1,000 IN THE POCKETS OF WORKING FAMILIES**

Barack Obama believes that, over the long term, middle class families need permanent tax relief, which is why he has proposed a new “Making Work Pay” tax credit of up to \$1,000 for working families. However, Obama recognizes that the skyrocketing price of energy is taking a heavy toll on families right now. To address the squeeze on families today, Obama is calling for emergency energy rebate checks of \$500 per worker and \$1,000 per family. These rebates would be fast-tracked to get out to families as soon as this fall, so they don’t have to wait until next tax season for relief. They would help families offset the cost of filling up their gas tanks and heating their homes this winter. And the more that families make choices to be energy efficient, the further their \$1,000 rebate checks will go. The Obama energy rebates would:

- *Offset the entire increase in gas prices for a working family over the next four months; or*
- *Pay for the entire increase in winter heating bills for a typical family in a cold-weather state.*

As we help to reduce the burden of rising energy prices, Barack Obama believes it is important not to abandon our commitment to long-term fiscal discipline. That is why he is proposing to offset the cost of his emergency energy rebates over the next five years by enacting a windfall profits tax on big oil companies. While oil companies and shareholders need incentives to run well managed businesses that invest in efficiency and innovation, a significant share of the record profits the big oil companies have been making have nothing to do with their management skill. It is the result of changes in the price of oil because of factors like supplies in the Middle East, demand in Asia, and disruptions and distortions in the oil market. Obama simply asks that big oil companies contribute a reasonable share of the windfall profits they receive from high oil prices over the next five years to pay for emergency assistance for families right now. This will

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<sup>5</sup> Christian Broda and Jonathan Parker, “The Impact of the 2008 Rebate,” 7/26/08, available at: <http://faculty.chicagogsb.edu/christian.broda/website/research/unrestricted/TaxRebateJuly2008.pdf>

<sup>6</sup> Available at: [http://obama.3cdn.net/8335008b3be0e6391e\\_foi8mve29.pdf](http://obama.3cdn.net/8335008b3be0e6391e_foi8mve29.pdf)

help families today and give our economy a shot in the arm, while helping restore fiscal responsibility over the first term of an Obama presidency.

In contrast, John McCain's plan is centered around giveaways to big oil companies. These include:

- McCain's corporate tax cut would put an additional \$4 billion *annually* in the pockets of oil companies, including \$1.2 billion for Exxon-Mobil alone.<sup>7</sup>
- McCain's gas tax holiday proposal gives oil companies another tax cut – and hopes they pass on a small portion of savings to consumers. As President Bush's former top economic adviser N. Gregory Mankiw explains, "the short-run supply curve is almost inelastic, so the welfare gain from the tax cut falls almost entirely on producers rather than consumers."<sup>8</sup>
- McCain's drilling proposal would give oil companies a new way to make profits without having any meaningful impact on the price of oil. According to the Department of Energy, we wouldn't see a drop of oil from new offshore drilling for seven years, and the effect on oil prices would be "insignificant."<sup>9</sup> Even McCain admits that we wouldn't "see an immediate relief" from drilling.<sup>10</sup>

Obama's emergency rebate plan is designed to help struggling families today while laying the groundwork for his long-term energy plan, which invests \$150 billion per year in developing renewable technologies, encouraging energy efficiency and catalyzing the next generation of clean vehicles to end our dependence on foreign oil and create up to 5 million new jobs.

## **PART II**

### **ENACT \$50 BILLION IN IMMEDIATE MEASURES TO HELP PREVENT MORE THAN 1 MILLION AMERICANS FROM LOSING THEIR JOBS AND TO TURN OUR ECONOMY AROUND**

Barack Obama's \$50 billion stimulus package is specifically designed to jump start job creation, avoid job-killing and otherwise damaging cutbacks by state and local governments, and provide further targeted relief for families. This stimulus plan consists of:

**(1) \$25 Billion in a State Growth Fund to ensure states can continue to provide health, education and housing assistance without having to raise taxes – and to ensure sufficient funding for home heating and weatherization assistance as we move into the fall and winter months.** In January, 2008, Barack Obama identified the need for state relief to offset budget cuts that could cost jobs and undermine important services like fire, police and health care. In the six

<sup>7</sup> Center for American Progress, 3/27/08, available at:

[http://www.americanprogressaction.org/issues/2008/pdf/oil\\_tax.pdf](http://www.americanprogressaction.org/issues/2008/pdf/oil_tax.pdf).

<sup>8</sup> Available at: <http://gregmankiw.blogspot.com/2008/04/bad-news-for-pigou-club.html>.

<sup>9</sup> Department of Energy, *Annual Energy Outlook 2007*, p. 51, available at:

[http://www.eia.doe.gov/oiaf/archive/aeo07/pdf/0383\(2007\).pdf#page=59](http://www.eia.doe.gov/oiaf/archive/aeo07/pdf/0383(2007).pdf#page=59)

<sup>10</sup> Available at: <http://firstread.msnbc.msn.com/archive/2008/06/24/1163504.aspx>

months since that time, the case for providing state fiscal relief has only become more compelling. At least 29 states are now facing budget deficits in the 2009 fiscal year.<sup>11</sup> The National Conference of State Legislatures (NCSL) recently found that U.S. states will face a combined \$53 billion in budget shortfalls in 2008 – 2009.<sup>12</sup> States have already begun cutting spending for essential services like police, firefighters, and elementary schools, in response and could be forced to raise taxes if they get no assistance. State and local governments have also started to downsize their workforces and cut back on worker benefits. Seven states have already frozen salaries or decreased retirement fund contributions this year.

When states are forced to cut back on services and lay off workers during a time of economic weakness, it not only undermines the safety and stability of their residents, but further exacerbates the downward economic spiral. This is particularly true in areas hardest-hit by the housing crisis where communities are reeling from declining property tax revenues. Obama's emergency plan would provide \$25 billion in relief to state and local governments, to ensure that these authorities can continue to maintain essential services for their citizens and to support their payrolls without having to increase taxes on their citizens. State and local governments account for over 20 million payroll jobs in the United States, and Obama's stimulus would boost domestic demand by ensuring that this sector of the labor market does not shrink unnecessarily. This fund will also enable states to continue providing foreclosure counseling, refinancing opportunities and other innovative services to help struggling families stay in their homes and help forestall property value declines in hard-hit neighborhoods. Finally, the fund will ensure that states have sufficient resources to cushion the impact of high energy prices on the cost of home heating, so families are not left in the cold this fall and winter.

**(2) \$25 Billion in a Jobs and Growth Fund to replenish the highway trust fund, prevent cutbacks in road and bridge maintenance and fund new, fast-tracked projects to repair schools. These steps would save more than 1 million jobs while making a down payment on Obama's growth-enhancing long-run infrastructure and energy efficiency proposals.**

Another area where the contraction of state budgets is costing jobs and undermining demand is in rebuilding our schools and modernizing our roads and bridges. On the other hand, the cost of inputs for building roads and bridges has jumped in recent years. The producer price for highway construction has increased 70 percent since 2004. Meanwhile, declining tax receipts have sapped the highway trust fund and are threatening road and bridge construction projects. As a result, states have been forced to stop work on current infrastructure projects and delay implementation of new projects as well. Coupled with the fallout in the housing market, this trend has driven substantial job loss in the construction industry—with 600,000 construction related jobs lost in the past two years. If John McCain's plan to divert billion more from the Highway Trust Fund for a gas tax holiday was passed, even more jobs would be lost.

The Obama emergency plan would make \$25 billion immediately available in a Jobs and Growth Fund to help ensure that in-progress and fast-tracked infrastructure projects are not sidelined, and to ensure that schools can meet their energy costs and undertake key repairs starting this fall. First, Obama will replenish the highway trust fund, which currently funds hundreds of in-

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<sup>11</sup> Center on Budget and Policy Priorities, 6/30/08, <http://www.cbpp.org/1-15-08sfp.htm>

<sup>12</sup> National Conference of State Legislatures, *State Budget Update*, June 2008, available at: <http://www.ncsl.org>.

progress projects to improve our roads and bridges but which is facing a substantial funding shortfall. Second, at a time when 76 percent of American public schools have structural deficiencies<sup>13</sup> and schools in at least 16 states are being forced to move to 4-day school weeks this fall because of high energy costs and budget cuts<sup>14</sup>, no one can be satisfied with the state of America's public school infrastructure. A federal commitment to ensuring in-progress projects go forward and fast-tracked school repairs are undertaken serves as a triple win, generating capital deployment and job creation to boost our economy in the near-term, enhancing U.S. competitiveness in the longer term, and improving the environment by adopting energy efficient school repairs.<sup>15</sup> In total, Obama's \$25 billion investment will result in 1 million jobs created or saved, while helping to turn our economy around.

The Jobs and Growth fund is meant to avoid cuts in the short run and fund urgent, high-priority infrastructure investments. It is a complement to Obama's long-run, fully paid-for proposal to establish an infrastructure bank that will leverage \$6 billion per year into \$35 billion in new investments, and help improve the competitiveness and energy efficiency of our economy in the years ahead.

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<sup>13</sup> Economic Policy Institute, *Investing in U.S. Infrastructure*, 4/29/08, available at: <http://www.sharedprosperity.org/bp217/bp217.pdf>.

<sup>14</sup> Available at: <http://www.reuters.com/article/lifestyleMolt/idUSN2439039120080724?feedType=RSS&feedName=lifestyleMolt&rpc=22&sp=true>

<sup>15</sup> Fast-tracked infrastructure projects that did not fall into these two categories would be considered for funding through an immediate review to establish whether they met conditions of being in-progress and related to an essential public need.