# Making the Case for Federal Support to the States

*to create jobs, protect essential public structures and rebuild our economy*

Follow-up materials for participants of the **Demanding Federal Aid for Jobs and Essential Public Goods and Services Conference** organized by the Institute for Wisconsin's Future and funded by the Ford Foundation.

## Introduction

Across the country states are reeling from the impact of the Great Recession -- a recession that was set off by the reckless behavior of Wall Street firms, made possible by decades of financial deregulation. All sources of state revenue collapsed in 2009 and 2010, as the ripple effects of the economic meltdown have hit families, communities and businesses alike. Lawmakers have struggled to balance increased demands for public services with declining tax revenues. Even states that have implemented tax and fee increases as part of their budget solutions have seen dramatic cuts to essential public services. The American Recovery and Reinvestment Act of 2009 (ARRA) was instrumental in preventing even more job losses and contractions in state and local economies. But, states have not yet recovered and the next budget cycle will be even more challenging.

If we are to avoid further dismantling of our core public functions we must make a compelling case for continued federal support to the states to ensure that our economic recovery can be sustained. We face some challenges in this effort.[1] People have a hard time understanding how the economy works, tending to default to a view that it is like the weather – good and bad and something you just have to cope with. They think that economic outcomes are tied not to policy choices but to hard work, and they are deeply suspicious of government "intervention" in the economy. But, there are openings in the public mind, especially in the wake of the recent and ongoing crisis. People judge how the economy is doing by the wellbeing of those around them. Do people have jobs? Can they send their kids to college? Can they save for

**Table of Contents**



[1] Research conducted for Dēmos by the Topos Partnership investigated how Americans think about the role of Government and the Economy and how to create a more productive conversation about the ways that public policy choices can and do create the economy we have. The findings from that work have influenced this memo and you can learn more at: www.publicworkspartners.net.

retirement? We need to help connect the dots between those basic economic expectations and the public policies and investments that help to make them possible. The simple idea that our public systems and structures are the foundation of an economy that can work for us all can and does resonate. At this moment, when public systems across the country are being devastated by the ripple effects of our economic downturn, we must help our fellow Americans recognize what is at risk and build the public will to support the funding needed to keep the foundations of our economy strong and put our country back to work.

We believe that to be effective in this debate we must consistently and persistently emphasize three key points – or Big Organizing Ideas:

- **The economy we have is no accident;** it is shaped by the policy decisions we make every day. A strong recovery, a resilient middle class, broad-based prosperity and avoiding future catastrophes like we have just experienced -- all demand public action and oversight.

  **The meltdown we have just experienced was no accident either**; it was the direct result of the reckless behavior of deregulated Wall Street banks and financial institutions, fostered by inadequate public protections and oversight.

- **Public structures are the foundation of our economy**. Physical and organizational structures, from schools and the court system, to highways and Medicare social supports – the public structures and services we have built and maintained for decades are the foundation of our nation's prosperity and the tools for creating a strong middle class. Dismantling these essential public structures will undermine our economic recovery.

- **A national recession demands a national response**. Every state, community and family was harmed by Wall Street's gamble with our economy and the problem won't be solved with small piecemeal efforts. This challenge requires a robust national response – one that gets us back on track toward an economy that works for all of us. The first round of stimulus funding was essential in stabilizing our economy and pulling us back from the brink. But, it was not enough. It is time for more federal support to the states to create jobs, shore up public structures and pave the way for a strong recovery.

  Wall Street speculation created the crisis, and fees on Wall Street traders should be used to help restore the Main Street economy. Similarly, we should fix our upside down tax system so that those who benefit most from the American economic system pay their fair share to support it.

These are the core message that we believe should be part of all of our communications as we demand more federal aid to states.

## Background

**Our country is in this situation** because the essential public protections and rules that protect consumers and provide oversight of our financial system were deliberately dismantled and undermined over the past 20 years, allowing Wall Street investment banks to create complex new financial products and borrow huge sums of money to bet on these “innovations.” This casino-style banking resulted in short-term profits for investment banks while setting up the whole economy for a fall. When the high-risk mortgage-based security products inevitably failed, the bets were called and the house of cards came tumbling down, crashing our entire economy.

**We are all suffering the consequences** of the reckless abandonment of the standards and practices that ensured that our financial institutions serve working Americans and family businesses. We have a new and painful awareness of what happens when no one is looking out for the public’s interests.

**In economic times like these the federal government has a critical role to play.** The ARRA was instrumental in helping to shore up state and local economies. But, states face a daunting fiscal challenge in the coming budget cycle. With little left to cut and facing the political difficulty of raising taxes in an election year, states are at risk of undermining decades of past investments and damaging their recovery efforts. The public structures we have built – from schools and courts, to highways and social supports – are the foundation of our nation’s prosperity, and eroding them threatens our economic recovery. A new Center on Budget and Policy Priorities report estimates a potential loss of 900,000 jobs in the coming year if states have to balance their budgets through cuts alone.[2] This national crisis demands a national response. It is time to demand more federal support to states.

**We have several challenges before us**. First and foremost we must make a compelling case for continued federal support to the states to ensure that our economic recovery can be sustained. We need to use recently passed regulatory tools to provide the kind of oversight and protections that can keep such a crisis from happening again. And, we need to help our fellow Americans recognize that we can indeed afford to invest now to rebuild our economy in ways that benefit us all. Despite heightened concerns in Washington about debt and deficits, this is no time to cut back. In fact, sensible revenue options exist to offset additional federal spending that will not increase taxes on the middle class. We can start by asking Wall Street to foot some of the bill for the crisis they created, and we can ask those who have benefited most from the winner-take-all economy of the last decades to pay more.

Recently, over 80 state and national organizations met in Baltimore to strategize about how to make an effective case for additional federal support to states – both to policymakers and to

[2] Center on Budget and Policy Priorities. “Additional Federal Fiscal Relief Needed to Help States Address Recession’s Impact Without It, States’ Steps to Balance Their Budgets Could Cost Economy 900,000 Jobs Next Year.” March 1, 2010. (http://www.cbpp.org/cms/index.cfm?fa=view&id=2988)

the public. The conference, organized by the Institute for Wisconsin's Future (http://www.wisconsinsfuture.org/) and funded by the Ford Foundation (http://www.fordfoundation.org/), concluded with an awareness of the need to work together, share strategies and materials, and organize others by holding similar meetings in their state or region. Materials from that meeting are available at: (http://sites.google.com/site/demospublicworks/federal-aid)

## Included in this Document

This document compiles the core communications recommendations that emerged from that discussion. It is informed by research on Government & the Economy conducted for Public Works: The Dēmos Center for the Public Sector (www.publicworkspartners.net) by the Topos Partnership (http://www.topospartnership.com/), by the field experiences of Public Works, and by the good work of dedicated advocates, policy analysts and community leaders around the country.

This document offers guidance for your communications efforts in support of additional federal support to the states; it has four parts that are designed to reinforce each other. They are:

1. **Making the Case** – an outline of the basic story we need to tell, grounded in the Big Ideas and illustrated with examples and relevant supporting points.
2. **Communication Commandments** — a Compendium of Dos and Don'ts.
3. **Answering Questions about State Revenues, Deficits and Debt** - tough questions we are likely to face with examples for weaving Big Ideas into effective answers.
4. **FAQs** on the difference between debt and deficits.

We look forward to your feedback and to working with you on this important campaign. We also want to collect and share all the best communications efforts we can find. We will be compiling sample op-eds, talking points and other communications materials and posting them on the dedicated webpage at www.publicworkspartners.net. Please send any comments, questions or examples to: publicworkspartners@demos.org.

These materials are derived from field work conducted by Public Works: The Dēmos Center for Public Sector, research conducted by Topos partnership, and documents prepared by Katherine McFate, Ford Foundation.

# Making the Case:

## Why we need a National Response to the Revenue Crises in the States

*It is important to consistently structure the conversation around big organizing ideas. These can then be further illustrated with one or more selected supporting points and explanations as appropriate for your particular audience and situation. Avoid stating lots of disconnected facts or arguments. Customize metaphors and a few select figures for your audience.*

***Big Organizing Idea:*** **We create the economy we have through the policy choices we make. The Great Recession was not an accident.**

- **Supporting Point:** The policy decisions and rules we make to enforce them shape the kind of economy we have. From home mortgage deductions, to tax and investment policies, to caps on interest rates, we use policies to direct the flow of resources and to shape our economy.
- **Supporting Point:** We have learned the hard way that the financial system needs rigorous oversight and rules – self-regulation does not work. We need rules that support the Main Street economy, which means requiring banks and lenders to lend on fair terms to American families and businesses, to provide mortgages and credit cards that don't include hidden fees, tricks and traps, and to protect the savings of ordinary Americans.
- **Supporting Point:** The Financial Reform legislation that just passed in Washington will only work if we get tough regulators in place to strictly enforce the new rules.
- **Explanation:** The Great Recession happened because many of the regulations put on banks and financial institutions after the Great Depression were removed over the last 20 years, and others weren't enforced. This allowed commercial banks – where most people keep their money and families and businesses get loans – to get more involved in risky activities on Wall Street (rather than the safe, low-risk investments community banks made in the past). It also allowed Wall Street investment banks to create complex new financial products and recklessly borrow huge sums of money to bet on their "innovations." This casino-style banking resulted in short-term profits for investment banks but set up the economy for a crash. When the high-risk mortgage-based security products they created inevitably failed, they couldn't pay back all the bets they made, and the house of cards came tumbling down, crashing the entire economy.

**_Big Organizing Idea:_ States are experiencing revenue crises because the recession caused all their sources of income to plummet – just as the needs of families and communities grew.**

- **Supporting Point:** The Great Recession pushed states into a revenue crisis all across the country. State budgets are dictated by two things – money in and money out. When the economy shrank by 10 percent, revenues to state and local governments fell too. At the same time, as construction stopped and jobs were lost, the need for government assistance grew. So state income dropped while citizen and community needs grew.
- **Explanation:** State and local governments rely on a variety of revenue sources, all of which were affected by the economic crash. Revenue from property taxes fell when housing values fell; revenue from income taxes fell when people lost their jobs or had wages or hours cut; revenue from corporate taxes fell when businesses cut back; and revenue from sales taxes fell when people had less money to spend. So, all the revenues that state and local governments rely on to maintain and invest in the public structures that people need have fallen dramatically.
- **Explanation:** At the same time, needs have grown. Economic downturns always create an increased demand for critical public services. Over 15 million people are unemployed today and many need Unemployment Insurance, health insurance, or assistance buying food or finding affordable housing. Meanwhile states' other expenses haven't gone away; we have to continue to support the public structures on which we all rely such as schools, police and fire departments, transportation, and so on.

**_Big Organizing Idea:_ Protecting our quality of life and future prosperity depends on investments in public structures.**

- **Supporting Point:** Our quality of life and prosperity depends on the public structures we have created – from public schools and libraries, to mass transit, public safety, communications systems, FDIC insurance, and more. They are a foundation of our society and our economy and are what allow all of us to prosper and create opportunities for our children.
- **Supporting Point:** We can't allow a temporary economic downturn to destroy the public structures on which we rely. State and local government investments determine the quality of education in our communities, public safety, water quality, elder care services, recreational facilities, and all the things that make our state and community a good place to live, work, and raise a family or start a business.
- **Supporting Point:** If we let our public structures crumble or disappear in this economic downturn, it could cost more to rebuild them later. And, if we sell off some of these structures, we may never get them back under community control.

- **Supporting Point:** We need to focus on the long-term and protect the public structures and systems that are essential to the economic wellbeing of ordinary Americans.
- **Supporting Point:** Many of the public structures that we rely upon today are ones that our parents and grandparents built and maintained. Are we going to continue to sustain and improve them for the next generation?

## *Big Organizing Idea:* The Great Recession is a national problem; it requires a national response.

- **Supporting Point:** Wall Street's gamble drove our economy into the ditch; we are not going to get back on track with small piecemeal efforts. This challenge requires a robust national response if we are to create an economy that works for all of us.
- **Explanation:** The Recovery Act helped, but wasn't enough. The first round of federal assistance to communities – the Recovery Act – provided important help and protected indispensable frontline civil servants – like school teachers and firemen. And, it provided funds to invest in new construction projects, creating private sector jobs. But, it was not enough. The Great Recession sucked at least $1.3 trillion dollars – 10% of the economy – down the drain. The Recovery Act replaced about $300 billion a year[3] back into the economy. But, if you lose $10, $2.50 doesn't fill the gap.
- **Explanation:** The Recovery Act put a brake on the economic freefall we were in, but we'll start slipping again if we don't keep up the effort. The first round of federal assistance to communities – the Recovery Act – allowed states to pay the bills without making even more drastic cuts in education and other services. But, if states have to deal with next year's shortfalls without further federal help, we could lose another 900,000 jobs – sending the economy back into a downward spiral.

## *Big Organizing Idea:* Our nation is strong and resilient enough to solve this.

- **Supporting Point:** We have been in worse economic shape. For example, debt (as a percentage of the economy) was bigger after WWII than it is today, but as our economy grew, our debt declined. The United States is still the wealthiest nation on earth; we have the biggest economy on earth, and we have the lowest interest rate on borrowed

[3] The original Recovery Act totaled $787 billion. However, the Center for Economic Policy Research ("the Budget Deficit Crisis Crisis." Truthout. Feb. 8, 2010 http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/the-budget-deficit-crisis-crisis/), estimates that only $300 billion a year is truly economic stimulus. The ARRA included $70 billion in tax reductions for higher income taxpayers that they were already anticipating and therefore they did not have a stimulative effect on the economy. Also, a portion is scheduled to be spent far enough into the future that it will not impact on the current recession.

.

money in 50 years because in times of economic uncertainty, other countries want to hold dollars.

- **No Debt Increase is needed:** We can solve this problem without increasing the federal deficit or debt; we have many reasonable options to raise the revenue we need. We just have to decide that our national priority is to protect and expand the middle class – just like we did during the Great Depression and after WWII.

- **Supporting Point:** There are a number of things we can do to solve this problem - without adding to the deficit or the debt. States urgently need to replace lost revenue and shore up their state economies.
[***Treat this as a menu – let your audience choose and please let us know which ones they like best.]***
    1. A financial speculation tax is one simple way to offset the costs of federal support to the states that does not ask the middle class to pay more. This straightforward mechanism, already in place in other the countries, would ask Wall Street traders to help pay for the economic meltdown they initiated. A tiny fee on each trade could raise $150 billion annually for investments in communities across the country, with the added benefit of discouraging short-term speculative trading.
    2. There are ways to ask those who were helped by the bailout in 2008 to help us all solve this crisis. Taxing income from trading at the same rate as ordinary workers' earnings (taxing capital gains) would raise $96 billion a year.
    3. Letting the Bush tax cuts expire next year will generate $40 billion in additional revenue next year.
    4. Closing corporate loopholes on foreign earnings could raise $50 billion a year.
    5. A 5% surtax on millionaire incomes could raise $53 billion a year.
    6. Re-establishing the estate tax would raise $28 billion a year.

- **Supporting Point:** It is OK to go into debt if it builds long-term prosperity. Families take on debt to buy a home or finance their child's college education; these are smart investments. As a nation, we have made similar smart choices. For example, after WWII we grew out of our debt by investing in our national transportation systems, college and home ownership for GIs, research for the future <u>and</u> by asking those who benefit the most from the American economy to pay their fair share. We can do it again.

- **If Debt Defense is needed:** But, we shouldn't go into debt for those things that don't build our nation. The previous Administration reduced taxes on the wealthy and THEN financed two wars with borrowed money. This was the first time in our history that we reduced taxes while going to war. In the past, we asked everyone to shoulder the increased costs of war. That choice left us $1 trillion in debt – before the financial meltdown occurred. That choice weakened our economy; it didn't build it for the long-term.

- **If Debt Defense is needed:** Ronald Reagan used deficit spending to get out of the second worst recession since the Great Depression in 1982-3, and left a large debt for the next administration.

# Compendium of Communication Commandments (A Crib Sheet)

| *Do* | *Don't* | *Why* |
|---|---|---|
| Use **Big Ideas that connect with listeners' world views and help them understand** what this is about. | Don't just talk **stats and facts.** | People quickly decide what they think you are talking about, connecting to something they already know or an interpretation of how the world works. They will hear and retain what you are telling them if you connect to Big Ideas they understand. |
| Talk about how **state revenues** have crashed due to the Great Recession. | Don't use the term **budget** crisis. | If it's a revenue crisis, we need to find new revenue sources. If it's a budget crisis, we need to cut spending. |
| Assert that **we have a choice in the kind of economy we want to have.** | Don't let opponents say government has no role to play in the economy. | The middle class didn't arise by accident; it was the result of deliberate, proactive policy choices. We will either make decisions to build broad-based prosperity, or not. |
| Talk about the **public structures we all rely upon and that support the common good;** illustrate with specifics – schools, public safety, transit, communications, etc. | Don't talk about overall government, programs in the abstract, use acronyms or stop with the program name; say what it aspires to do. | The very word "government" can elicit negative images of us-them and politicians, and nobody understands acronyms. *"Public structures" leap frogs the listener to thinking about what we all rely upon* that are key to any functioning economy and what created the middle class. |
| **Critique specific policies** that undermine important public purposes. | Don't **undermine the value of government.** | Certain kinds of attacks reinforce that government is incompetent and unable to solve problems. Always underscore the unique public purposes at stake. |
| Embrace **accountability and transparency** mechanisms. | Don't focus on **intricate program changes** or neglect this key value. | Accountability and transparency reinforce that "government is us" and we all have a responsibility for effective government. |
| When talking about deficit/debt cite as **% of spending/economy (GDP)**. | Don't talk about **billions and trillions over multiple years.** | Big numbers scare people and most Americans don't know we have a $14 trillion economy. |
| When talking about taxes, discuss fixing "**our upside down tax system"** – where those with less pay more than those with more. | Don't talk about "fairness" without defining it. | Talking about fairness can lead your audiences in unpredictable directions. Once you cue up fairness, audiences are left to consider "fair to whom?" And "is this fair to me?" A flat tax can be made to sound fairer than progressive taxes; many Americans don't understand progressive or regressive taxes. |

# Answering Questions about State Revenues, Deficits and Debt

*The "Making the Case" and "Communication Commandments" documents provide the basic outline for the public conversation we need to have. However, we recognize that there are times you will need to handle challenging questions or loop in other ideas. Here we have put together a series of challenging questions with some suggestions about how to incorporate the Big Ideas, Supporting Points and Explanations noted in the Making the Case document. There are also additional stats, examples, and points made in the answers to these questions that we hope will prove useful in developing your own approach.*

## Aren't all the states in crisis because they have just tried to do too much? They've been spending too much money?

*(Start with a Big Idea)* No, every state having trouble is there because all their revenue sources suddenly tanked - at the same time that demands on public services from families and communities were increasing. *(Explain)* When you have an economic downturn, states face TWO challenges: First, needs increase (people who lose their jobs need immediate unemployment assistance and help with healthcare; parents who have their hours cut need help feeding their kids). Second, revenues fall. Less money in; more money out. In a recession, all the revenue sources that fund public services are affected. Income tax revenues plummeted because 15 million people are out of work. Sales tax revenues fell because people have less to spend. Revenue from businesses dropped because profits fell and business spending contracted. Revenue from property taxes has fallen because housing values have dropped in our state.[4] And yet, the needs are even greater – the jobless need unemployment insurance, health care, and so on until they are able to get back to work. Almost every state is having trouble because their economy contracted and people lost jobs.

*(Reinforce Big Ideas)* The real danger is that the very public structures that we all rely upon and that underpin our quality of life and future prosperity are at risk. (*Supporting point)* It would be irresponsible to fire thousands of teachers and police officers, or let our bridges go without maintenance, or cut back on mass transit -- these are the things that make communities in our state a good place for businesses to invest. If we cut these public structures, we may never get the jobs we've lost back.

*(Big Idea, solutions)* This is a national problem that requires a national response. We need continued federal support to states -- to shore up public structures, lessen the severity of the recession, and pave the way for a recovery.

[4] You can explain the specific percentage decline in your state.

## But, weren't a lot of states in trouble before the recession?

*(Start with a Big Idea)* Clearly this is a national problem that requires a national response; no state could have prepared for the scale of this economic crisis.

*(Big Idea)* We are a strong and resilient nation, and we can fix this. We have to help states protect their core public structures; a strong recovery depends on it. *(Supporting point)* We can't lose sight of the foundations of a healthy state economy. We can't let our roads and bridges fall apart or our education system fail to serve our kids. If we don't maintain these essential public structures in a downturn, we could lose out on new job growth when the economy recovers. It could end up costing a lot more to rebuild these structures if we don't maintain them. And, if we sell off some of these structures, we may never get them back under community control. *(An example if needed . . .)* Chicago has tried that and they still have big budget holes and now they have given up the income from their parking meters and toll roads for 99 years; a bad deal for current residents and for future generations.

*(If desired, bridge your answer into state-specific reforms:* "Going forward, we should learn from this national recession and enact some necessary fiscal reforms like . . . ")

## Well, however we got here, the only thing we can do now is cut spending, right?

(Big Idea) Actually, no. When the private economy is shrinking, cutting back on public spending only makes things worse. We need MORE public investments to stabilize the economy.

*(Alternate Explanation – Economic Flow of Money)* The private economy won't start generating jobs until people and businesses start spending again. Government spending does help – it keeps the economy from spiraling downward and can create new markets for jobs in the private sector – construction, green retrofitting, weatherization, etc. During recessions, the federal government always steps in to play this role. Ronald Reagan did it in the 1980s and other Presidents have done so in previous downturns. When the government sends money into state and local economies – small business loans, infrastructure improvements, assistance to local schools, law enforcement and public works – it creates "multiplier effects" that maintain and yes, create, jobs in the private sector.

When private sector demand is weak, government spending is an important way to pump money into the economy until the private economy starts growing again. Without it, the downturn would be more severe and last longer. With it, the recession won't be so deep, and as people start getting back to work, state revenues will rise. Cutting state spending when the private economy is contracting will only prolong the recession and make it more difficult to recover.

## Why are you advocating an expansion of the Recovery Act? Everyone knows it didn't help.

*(Big Idea)* Actually it did. It created 2-3 million jobs -- the great majority in the private sector. Every recent survey suggests the public wants and expects government to help create jobs – and how do people want the government to do that? By investing in transportation projects, protecting teachers and frontline public servants, providing loans to small business --- this is EXACTLY what the Recovery Act did. It wasn't that the Administration got it wrong or that the American people are wrong. We make deliberate policy choices that create and shape the kind of economy we have every day. The Recovery Act provided stability to our economy and helped pull us back from the brink of an even more devastating economic crisis. But it wasn't enough – it created 2-3 million jobs, but we lost 8 million. If you have a house on fire and only throw a couple of buckets of water on it, and it doesn't go out, would you go get your gasoline or find a hose? We need more federal support to states right now to make sure our recovery is still on track.

*(Explanation)* The Recovery Act injected about $300 billion a year[5] into the U.S. economy, providing tax cuts to working families to encourage them to spend, saving hundreds of thousands of jobs of frontline workers like teachers, nurses, and firefighters, and creating 2-3 million jobs in construction projects, green industries and research. But, the Wall Street meltdown took $1.3 trillion a year out of the economy. Obviously, the Recovery Act couldn't fill the entire gap, but it did preserve our economy at a critical time.

## But if the government spent less money, there would be more money for the private job creation.

*(Big Idea)* Government spending is NOT competing with private spending now. Consumers are not yet spending and private businesses have not yet begun to hire in any significant numbers. The central challenge is to create demand now. This is a critical role that public spending can play. Government funding often goes to private businesses that do construction and other work. And, every dollar the federal government spends in states and localities is money that ripples out into those economies: rents get paid, groceries are bought, gas tanks are filled and families and communities are stabilized as the economic recovery takes hold. Government spending paves the way for economic recovery. Businesses recognize this and are busy right now competing for government contracts.

[5][5] The original Recovery Act totaled $787 billion. However, the Center for Economic Policy Research ("the Budget Deficit Crisis Crisis." Truthout. Feb. 8, 2010 http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/the-budget-deficit-crisis-crisis/), estimates that only $300 billion a year is truly economic stimulus. The ARRA included $70 billion in tax reductions for higher income taxpayers that they were already anticipating and therefore they did not have a stimulative effect on the economy. Also, a portion is scheduled to be spent far enough into the future that it will not impact on the current recession.

## But the jobs created by the Recovery Act aren't real jobs. They're just temporary.

*(Big Idea)* Most Americans certainly believe that teachers, police officers, and private sector contractors hold "real" jobs.

*(Explanation)* The Recovery Act created jobs in three important ways. First, it protected the public structures on which we all rely by providing funds to state and local governments so public school teachers, highway patrolmen, and firefighters could stay on the job for us. Second, it saved and created millions of jobs through public contracts to private businesses like health care providers and contractors that build highways and weatherize homes. Finally, it saved millions of other private sector jobs by making sure that more workers were able to continue shopping in their local stores, paying their mortgages, etc. The Recovery Act has thus far created or saved close to three million jobs, and most are permanent.

## Even if we agree that states need federal assistance, the federal government has no money – the federal debt is huge and it's irresponsible to run it up even further.

*(Big Idea)* Our nation is strong and resilient enough to deal with this.

*(Supporting Point)* We have been in far worse economic shape before. For example, debt (as a percentage of the economy) was bigger after WWII than it is today, but as our economy grew, our debt declined. The United States is still the wealthiest nation on earth; we have the biggest economy on earth ($14 trillion), and the government has a 50 year low interest rate because every other country wants to hold dollars.

*(Supporting Point)* Most economists agree that during recessions, especially one as deep as this, it is appropriate for the federal government to borrow money, particularly if that money is spent on long-term investments that build for our economic future.

*(Supporting Point)* We can solve this problem without increasing the federal deficit or debt; there are ways to raise the revenue we need, we just have to decide that our national priority is to protect and expand the middle class – like we did during the Great Depression and after WWII.

There are several ways Congress could generate the needed revenue. And, these practical solutions would not ask the struggling middle class to contribute any more.

One such option is a financial speculation fee, which could raise $150 billion a year. These funds could shore-up state and local public services and give communities the help they need to get through the immediate crisis. This approach has the added benefit of discouraging the out-of-control speculation that sends the stock market on roller coaster rides and destabilizes our economy. Another revenue option is to reform our upside-down tax system, which results in average families paying more in taxes than wealthier families. If we turn the tax system right-side-up by ending some special tax preferences for certain corporations and very wealthy individuals, we could raise another $175 billion a year.

## But we have the biggest deficit ever – it is over a TRILLION dollars.

*(Big Idea)* We also have the biggest economy we've ever had - $14 trillion. We've seen tougher times than these and gotten through.

*(Supporting point)* When you talk about the federal deficit, you have to put it into context. You need to look at the deficit as a share of the entire economy. The current deficit is only 10 percent of the annual output of the economy Gross Domestic Product, a common measure of the size of the economy.

*(Supporting Point)* It is OK to go into debt if it builds long-term prosperity. Families take on debt to buy a home or finance their child's college education; these are smart investments. As a nation, we have made similar smart choices. For example, when we invest in our national transportation systems, college and home ownership, research and innovation, we are paving the way for future economic growth.

*(for differences between deficit and debt, see next section)*

## The Recovery Act is the reason the deficit is so high. We can't increase it even more.

*(Big Idea)* The deficit we face today is a direct result of economic choices we have made over the last decade.

*(Supporting Point)* It is OK to go into debt if it builds long-term prosperity. When we invest in our national transportation systems, college and home ownership, research and innovation, we are paving the way for future economic growth.

But, we shouldn't go into debt for those things that don't build our nation. And, that's what created most of our current debt. George W. Bush left a $1 trillion debt – BEFORE the recession – because he reduced taxes on the wealthy and financed two wars with borrowed money. Those choices weakened our economy; and didn't build it for the long-term.

Spending on the Recovery Act, in comparison, represented only 14% of the deficit in 2009 and that money is largely geared toward supporting and strengthening our economy.

> *(Proof for stats above, for knowledge, not broad communication)* Fully 40% of the deficit is the result of Bush-era tax cuts (26%) and the cost of the wars in Afghanistan and Iraq (13%), all of which were paid for through deficit-spending. 17% of the current deficit is attributable to the cost of TARP as well as assistance to and Fannie Mae and Freddie Mac. Finally, 30% is due to reduction in federal revenue due to the economic declines and payments on the national debt. (Center on Budget and Policy Priorities, Critics Still Wrong on What's Driving Deficits in Coming Years, June 28, 2010)

# Frequently Asked Questions

## On the difference between debt and deficit

### What's the different between the federal deficit and the federal debt?

The deficit is the difference between the revenue the government takes in (mostly taxes and fees) and the spending it does EACH YEAR. The Debt is the total amount owed over time. If the government runs a deficit every year and is continually borrowing, then its debt will grow over time. If it costs a lot to borrow money for the deficit (if interest rates are high), then the debt grows faster. Currently, interest rates are very low, because investors feel the dollar is a safe investment and when world financial markets seem shaky, lots of people want to buy US treasury notes (buy US debt).

### Is deficit spending bad?

Not necessarily. National governments – just like households – sometimes need to buy goods and services on credit to stretch out payments. Depending on the size of the loan and what you use the loans for, borrowing may not be a problem. For example, borrowing money for college is generally considered a good investment. Borrowing money to repair a hole in your roof would be a good investment. Borrowing money to go on a fancy vacation instead of repairing your roof seems irresponsible. Right now the most important thing is to make sure states and localities can make a strong economic recovery, to lessen the depth and severity of the recession, which would be a responsible reason to borrow because it puts us in better economic shape for the future.

### How do you know when the deficit is too high?

Deficits and debt should be judged as a percentage of the economy. Think about it this way – if I told you that a family spent $5000 a year on video games, what would you think? And if I told you they only earned $30,000 a year, you might think – "they have a problem." But if I told you about another family who earned $300,000 a year and spent the same $5,000 a year on video games, you might just think they really like video games. Deficit and debt number can and should only be understood as a percentage of overall economic activity.

The U.S. has the biggest economy in the world – $14 trillion, so having a deficit of 10% or even higher for a few years while the economy recovers is not a big problem. But, if the deficit grows faster than the economy grows each year and interest rates start growing – then we would have a problem. So as the economy recovers, it is important to reduce the deficit and begin to pay down or at least stabilize the debt, so that we are ready to weather other downturns/problems.

## What debt level is too high?

Over time, we'd like our debt level to be getting smaller, but there is no rule of thumb about what the "right" debt level should be. The Chairman of the Federal Reserve has admitted that "Neither experience nor economic theory clearly indicates the threshold at which government debt begins to endanger prosperity and economic stability." Most economists think the economy will be fine if the debt is stabilized at between 70-80% of GDP over the next decade.

Perhaps the better question is WHY the country has gotten into debt. In hindsight we have made economic decisions that ignored their long-term economic impact and did not realistically take into account costs we could have predicted. Over the last decade we gave away very expensive tax breaks – especially to those already extremely well-off – at the same time we had to pay for two wars. Our leaders knew the fiscal impact of these choices but we were told it would all work out. Clearly, the situation we find ourselves in today raises serious concerns about this kind of poor fiscal planning and we should make sure we do not make the same kind of mistakes again. Right now we have to both plan for the future and shore up our current economic situation at the same time. This means we are going to have to spend some money today to make sure that the foundations of our future prosperity are protected.

If we went into debt to send every qualified high school senior to college and/or to invest in an affordable high speed train system or to invest in research to ensure that the US is a leader in green technology, we might feel this was "good debt." The United States went into debt to win WWII because we felt it was critical to defeat Hitler. During the war, our debt level was 120% of the size of our economy (our gross domestic product), but we were able to reduce the debt over time as we invested in the public systems and structures that helped the economy innovate and grow.

## Aren't we in big trouble because baby boomers are going to retire and overwhelm Social Security and Medicaid and bankrupt the country?

No. Social Security has its own dedicated source of revenues and there are no predicted shortfalls in the program for about 27 years. Like any policy it will need adjustments from time to time to keep it in good financial shape, but we can easily fix those. We do have a long-term problem with medical costs – but this is because medical costs across the board (not just in Medicare) are rising much faster than other costs. We need to do more to contain medical costs (like negotiating drug prices, etc.), but that is a general problem for the U.S., not related to baby boomers.

## But couldn't we end up like Greece and go bankrupt?

No. The U.S. has the biggest economy in the world – $14 trillion. Private sector jobs represent 88 % of the U.S. economy. The Greek economy is small – only $355 billion; the public sector represents 40% of the economy and it is estimated that 30% of economic activity is "underground/the black economy" – i.e., not taxed and therefore not going to support their public systems and large public sector. Our situation is nothing like theirs.

And investors are willing to give hundreds of billions of dollars in long-term loans to the United States at interest rates of just 3.0 percent. They wouldn't do this if they thought the US economy was in trouble.