



December 23, 2008

President-elect Barack Obama
The Office of the 2008 Presidential Transition
Washington, DC 20270

Dear President-elect Obama:

On behalf of the National Retail Federation (NRF), our member companies serving consumers across the income-level spectrum and the 25 million workers employed in the retail industry, we urge you to act quickly on legislation to help stimulate consumer spending as one of the first priorities of your new Administration.

The situation is critical. Experts are forecasting a weak economy well into 2009. In October, consumer confidence was at its lowest level in the 41 years that records have been kept. This is due, as you know, to a disastrous combination of decreasing home values, increasing unemployment, reduced availability of credit, failures of major companies and weakness in the stock market. Moreover, it does not appear that these concerns will abate any time soon. With consumer spending accounting for 70 percent of GDP, it is difficult to foresee an improvement in overall economic growth until the consumers regain their footing.

This letter is to share with you our recommendations, based on the collective knowledge of our membership, about how to stimulate consumer spending and growth in the face of these concerns. Our proposal takes into account three crucial factors. To be effective, any fiscal stimulus package must be enacted with great speed. It must be substantial. And it must be sustained. To accomplish this, the plan must include a longer-term investment designed to produce sustained economic growth through job creation, as well as a short-term economic stimulus, aimed at increasing consumer spending.

Long-Term Stimulus Proposal: Investment in Infrastructure

To produce longer-term, sustained growth, we believe that significant investment in infrastructure spending will provide jobs and increase GDP at a higher rate than most other Government investments and will produce longer-term, sustained growth. Importantly, this investment will also repair the decaying roads, rails and ports that are critical to the conduct of commerce in the United States. In addition, infrastructure spending could make an important investment in our public schools and in the development of renewable energies.

Liberty Place
325 7th Street NW, Suite 1100
Washington, DC 20004
800.NRF.HOW2 (800.673.4692)
202.783.7971 fax 202.737.2849
www.nrf.com

Short-Term Stimulus Proposal: National Sales Tax Holidays

Retailers' considerable experience with state sales tax holidays has shown that they provide a substantial inducement for people to shop. To this end, we suggest a series of three national sales tax holidays that would cover a very broad range of goods. These holidays would each last for ten-day periods in March, July and October, respectively. Under this proposal, the Federal Government would reimburse states for revenue lost by providing for such sales tax holidays.

This two-pronged proposal, which is outlined in more detail in the enclosure to this letter, reflects extensive research and deliberation, and we feel strongly that it would provide crucial support for Americans and the long-term financial health of our Nation. We would be pleased to meet with your economic policy transition team to share information on the state of the consumer, our experience with sales tax holidays, as well as areas of infrastructure spending that provide the most effective impact. As you and your team are well aware, time is of the essence.

We look forward to your leadership in steering our Nation through its current economic crisis, and we are eager to support your Administration as it pursues objectives that will restore the economic confidence of American consumers and families.

Sincerely,

Myron E. Ullman III
Chairman and CEO
J.C. Penney Company, Inc.
And Chairman, NRF

Philip L. Francis
Chairman and CEO
PetSmart, Inc.
And NRF First Vice Chairman

Stephen I. Sadove
Chairman and CEO
Saks Incorporated
And NRF Second Vice Chairman

Tracy Mullin
President and CEO
National Retail Federation



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NRF Proposal for Fiscal Stimulus

With consumer confidence now at its lowest level in the 41 years since records have been kept, it is more essential than ever that Congress take immediate action to provide assistance to the U.S. consumer. Without swift, additional Congressional measures, the current economic weakness could worsen, creating a more rapid downward spiral – beyond what economists are predicting for 2009 – in the years ahead.

The National Retail Federation and the nation's retailers support a two-pronged fiscal stimulus that would provide both a short-term boost to the economy aimed at increasing consumer spending, as well as a longer-term economic investment designed to produce sustained economic growth. This proposal is outlined below.

Long-Term Stimulus Proposal: Investment in Infrastructure

Given the substantial weakness in the economy, NRF believes that the Federal Government needs to make a longer-term investment in the economy that will help create jobs. Moreover, we believe that investment in targeted infrastructure will have the additional benefit of helping to repair our decaying roads, rails and ports that are critical to the conduct of commerce in the United States. In addition, infrastructure spending should be considered for public schools and in the development of renewable energies. However, because of the long lead time before these projects can be started, Congress should marry this proposal with the short-term stimulus for consumer spending outlined below.

Short-Term Stimulus Proposal: National Sales Tax Holidays

With consumer spending accounting for 70 percent of GDP, the economy cannot recover without participation from the consumer. The retail industry's experience with state sales tax holidays demonstrates they provide an immediate and valuable stimulative effect to the economy by boosting consumer spending.^[1] Reflecting the considerable data supporting the positive impact of sales tax holidays, we believe the most efficient and cost-effective way to address the needs of the consumer is through the implementation of a series of three, ten-day each, national sales tax holidays over the course of 2009.

^[1] Some retailers report that when a state creates a sales tax holiday for the first time, same store sales may increase by as much as 45 percent.

Specific Proposal:

- Create three, 10-day national sales tax holidays in 2009 (each to include two weekends): March, July, and October.
- The holiday periods would apply to all tangible goods subject to state sales tax, ranging from apparel and home furnishings to restaurant dining and automobiles (and excluding tobacco and alcohol).
- Require the Federal Government to reimburse 45 states with sales taxes for revenues lost during the holiday period.
- For the five states that do not have sales taxes, require that the Federal Government provide the states with a revenue distribution that would approximate the sales tax reimbursement provided to a state with a similar population. It would then be left to the discretion of each of these states to allocate the proceeds of the distribution (i.e., in a way that is akin to a tax refund) to their respective populations in a way which would stimulate spending.

Based on our past experiences with sales tax holidays in a number of states during the back-to-school shopping season, this program is estimated to cost between \$20 and \$25 billion.