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Administration's New Stimulus Offer Reflects Largely Cosmetic Changes

by Joel Friedman and Robert Greenstein

Treasury Secretary O'Neill presented a new $100 billion proposal on December 11 as part of the negotiations to develop an economic stimulus package. This new offer by the Administration, which followed discussions with members of the Senate's Centrist Coalition, reflects largely cosmetic changes from previous offers and represents little significant progress toward a compromise position that would effectively stimulate the economy in the short run.

Moreover, the offer continues to cling to overly ideological positions on tax issues. The Administration's new offer relies on large multi-year tax cuts for business and upper-income taxpayers, while providing relatively modest benefits for the unemployed. In addition, the Administration continues to reject one of the most effective and badly needed types of stimulus measures — fiscal relief to states to ease the need for states to cut programs or raise taxes to cope with the growing deficits created by the economic downturn.

- The National Governors Association is estimating that state budget deficits in the current fiscal year could rise to $50 billion, a shortfall that significantly exceeds the shortfall states encountered in the worst year of the recession in the early 1990s. The Administration not only rejects fiscal relief for the states, but the Congressional Research Service estimates that its proposal would actually cause states to lose an additional $5.4 billion of tax revenue in 2002, forcing even larger budget cuts or tax increases in the months ahead. This budget-tightening by the states offsets and counteracts the effect of steps taken at the federal level to stimulate the economy.

- The Administration adopted the House position on accelerating implementation of one of the income tax rate reductions enacted in June, even though more than three quarters of the ten-year cost of this $54 billion proposal would occur *after* 2002, when the economy is recovering. While the Administration agreed to forgo accelerating the rate cuts for those in highest tax brackets, the House plan to speed up implementation of the 25 rate still benefits only the top one-quarter of taxpayers, according to the Congressional Budget Office.

- The Administration rejected several significant provisions in the Senate Finance Committee bill that would have strengthened the unemployment insurance system so that it can adequately assist the unemployed during the current recession.

Amidst mounting evidence of the severity of the unemployment caused by the recession, the Administration now accepts the need for additional weeks of unemployment benefits in all states. But it continues to resist ideas to make more laid-off workers eligible for benefits and provide for a modest increase in benefits.

- Further, the Administration's plan includes health provisions that would not ensure that unemployed workers receive meaningful health insurance assistance in a timely manner, relying on a tax-credit subsidy approach that would leave out many unemployed workers and encourage the use of the flawed individual health insurance market. The Administration would also use National Emergency Grants to supplement to the tax credit, but these grants typically are used to address local job-training efforts and are an inappropriate mechanism for meeting the nationwide problem of helping the unemployed maintain health insurance.

- The Administration plan retains most of the multi-year tax cuts for business included in the House-passed package. Although the Administration has called for the repeal of the corporate Alternative Minimum Tax, its new offer does not identify which specific proposal it wants with regard to the corporate AMT, stating that this matter is "to be determined later." One of the proposals the Administration reportedly is considering as an alternative to repeal is the permanent elimination of key components of the minimum tax. If these components of the minimum tax are jettisoned, however, the continuation of the corporate AMT will be largely symbolic, as the tax will essentially be gutted.

The Administration's new offer is reportedly the product of discussions with the bipartisan Centrist Coalition, led by Senators John Breaux and Olympia Snowe. The Centrist Coalition issued a stimulus package on November 14 that was flawed in a number of respects, particularly with regard to its proposals to assist unemployed workers and the impact it would have on state budgets.[1] It is therefore not surprising that the "compromise" reached between the White House and the Centrist Coalition continues to reflect flaws found in each of their original proposals. A number of the most effective stimulus proposals are included only in the Senate Finance Committee bill.

In addition, by relying on multi-year tax cuts, the Administration's plan incurs significant costs after 2002 that offer no near-term stimulus, since these policies would be in effect when the economy is expected to be in a recovery. While largely ineffective as stimulus, these proposals — which provide benefits primarily to higher-income taxpayers and profitable businesses — would nonetheless place more pressure on the budget in the years after 2002. As a result, these proposals would worsen an already deteriorating budget outlook. This seems ill-advised,

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[1] Robert Greenstein, "The Centrist Coalition's Disappointing Stimulus Proposal," Center on Budget and Policy Priorities, revised December 11, 2001.

particularly in the light of the recent acknowledgment by the Administration's Budget Director that the budget will be in deficit for the next several years.

Business Tax Cuts Are Multi-Year

The Administration's plan includes a provision from its original proposal that allows businesses to write-off immediately (or "expense") 30 percent of the cost of new equipment and other investments. Another investment-related provision would increase the amount that small businesses can expense. Both of these provisions would be in effect for three years. Finally, the Administration would allow businesses for the next two years to use losses in the current year to offset taxes paid in the five prior years.

Similar provisions were in the Senate Finance Committee bill, but they would have applied for only one year.[2] Keeping the investment provisions in effect for three years, as the Administration proposes, diminishes their effectiveness as short-term stimulus. A three-year window gives firms little reason to invest *now*, when the economy is in need of stimulus, and more reason to hold off for a year or two to assess the economic situation. Firms can delay investment decisions for a year or more and wait for the business climate to improve, since they would still get these tax breaks if they make the investments after 2002. To be effective as a stimulus, however, a measure must spur new investment in the next few quarters.

In addition, these provisions raise two further issues. First, the expensing proposals would result in 46 states losing revenues. Forty-four of these states conform their state's corporate and individual income tax rules to the federal rules in such a way that enlarging the depreciation deductions at the federal level automatically causes these deductions to grow larger at the state level as well. Two other states would lose revenues because of other effects this tax cut would have on their state tax codes. In total, the Congressional Research Service estimates that states would lose $5.4 billion in revenue in 2002 and nearly $15 billion over the next three years.[3] As discussed in more detail below, the Administration's plan includes no fiscal relief for states to offset the negative impact of this proposal on state budgets.

Second, with these provisions in effect for three years, they would expire long after the economic slowdown has ended. This is likely to result in the original rationale for sunsetting the proposals to have faded by the time the provision is scheduled to expire. By then, these tax breaks may have come to be viewed as a standard feature of the tax code, making it more likely that Congress will continue it, just as numerous other expiring corporate tax provisions are routinely extended each year. Indeed, the proposal for 30 percent expensing would expire on

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[2] The Senate Finance Committee provided for a 10 percent expensing bonus, rather than the 30 percent bonus in the Administration and House-passed proposals.

[3] Steve Maquire, "Potential State Revenue Change from the Depreciation Proposals in H.R. 3090, the Senate Finance Alternative, and the Grassley Alternative," Congressional Research Service, December 7, 2001.

September 11, 2004, less than two months before the presidential (and a Congressional) election, thereby creating great pressure to continue this tax break. If this provision alone were to become part of the regular package of "tax extenders" that are renewed every few years, its future costs would be very large. Joint Tax Committee estimates indicate that if 30 percent expensing were to remain in effect for the next ten years rather than expiring after three years, its cost would be well over $200 billion over the coming decade — or some 12 to 15 times the $18 billion ten-year cost of the proposal in the Administration's plan.

Corporate AMT

The Administration's new offer does not include a specific proposal regarding the corporate Alternative Minimum Tax, stating that the AMT proposal will "be determined later." Based on press reports, it is clear the Administration continues to seek changes to the corporate AMT that go well beyond what is necessary to ensure that the AMT does not interfere with the effectiveness of the business investment incentives in the Administration's package. For example, the Administration is reportedly looking at permanently eliminating key components of the corporate AMT — such as the AMT depreciation rules or its limitation on net operating losses. These provisions account for the bulk of the corporate AMT. Stripping them out permanently would essentially gut the minimum tax while making it appear as though the corporate AMT had been retained rather than repealed. As another alternative, the Administration is reportedly considering repealing the corporate AMT for three years.

In general, elimination of the corporate AMT (or near elimination stemming from the repeal of its key components) is a poorly designed stimulus measure, providing no incentive to spur new business investment. Only new business investment is stimulative. In a recent analysis, Brookings Institution senior fellows William Gale and Peter Orszag estimate that in 2002, approximately 90 percent of the tax reductions from eliminating the corporate AMT would consist of tax cuts on profits from *old* investment — that is, investments made in years before 2002 — rather than new investment.[4] Similarly, the permanent repeal of the corporate AMT depreciation rules would give a tax break for investments made in previous years, which does not yield near-term stimulus. To be effective as stimulus simply entails adjusting the corporate AMT depreciation rules temporarily to accommodate the new business investment encouraged by tax incentives in the stimulus package. This is the approach the Senate Finance Committee bill takes.

[4] William Gale and Peter Orszag, "Evaluating President Bush's Tax Stimulus Package," Brookings Institution, October 9, 2001.

Who Benefits from the Acceleration of the 25 Percent Rate?

The tax-cut legislation enacted in June reduced the rates in the 28 percent income tax bracket, lowering the rates to 27 percent in 2002 and to 25 percent by 2006. As part of its new stimulus package, the Administration is proposing that the 25 percent rate be made effective in 2002. According to Congressional Budget Office data, more than three-quarters of all tax filers would receive no benefits from this proposals. CBO estimates that 31.5 percent of tax filers had sufficiently low incomes that, after allowable deductions and exemptions, they paid no income taxes in 2000. Another 45.3 percent of tax filers faced a maximum marginal tax rate of 15 percent in 2000; beginning in 2002, a portion of these tax filers will face only the 10 percent rate. These tax filers are unaffected by any changes in the 28 percent tax bracket.

As shown in the table, only 23.3 percent of all tax filers were in the 28 percent bracket or a higher bracket in 2000. Only this group would benefit from the implementation of the lower 25 percent rate.

Moreover, only the 4.4 percent of tax filers in the 31 percent and the two higher brackets would receive the *full* benefit of this rate reduction. Because of the income tax code's progressive rate structure — under which higher levels of income are taxed at higher rates — only taxpayers in brackets higher than the current 27 percent bracket would have the maximum amount of income taxed at the 25 percent rate and get the maximum tax cut this proposal would provide.

Upper-Bracket Marginal Income Tax Rates, 2000

Highest Marginal Rate	Percent of Tax Filers Who Fit in This Bracket
zero	31.5%
15%	45.3%
28%	18.9%
31%	2.6%
36%	0.9%
39.6%	0.9%

Source: Congressional Budget Office

Some Members of Congress have argued that moderate-income taxpayers — for instance, those with annual incomes of under $30,000 — would also benefit from accelerating implementation of the 25 percent. This conclusion appears to be the result both of confusing "taxable income" with "total income" and of failing to recognize that different groups of taxpayers will face the 27 percent rate in 2002 at different levels of income. For example, a single taxpayer would begin to pay the 27 percent rate when his or her *taxable* income reaches $27,950. But taxable income is calculated after applying the standard deduction and personal exemption; to have this level of taxable income, this single taxpayer would need total income of at least $35,650. For a married couple with two children, the corresponding income levels are much higher; such a married couple faces the 27 percent rate on taxable income above $46,700, which translates into total income above $66,550. Moreover, if these taxpayers itemized their deductions rather than using the standard deduction, the income level at which they would become subject to the 27 percent rate would be higher.

Thus, a married couple with two children and an income of less than $66,550 would receive no benefit from the acceleration of the 25 percent rate. Those with incomes slightly higher would receive only a small benefit, while those at much higher levels would receive a significant benefit. For example, if a married family of four had total income of $70,000, it would receive a tax cut of just $70 in 2002 and $210 over the next four years as a result of accelerating the implementation of the 25 percent rate. If that family had an income of over $135,000, on the other hand, it would receive the maximum tax cut of $1,300 in 2002 and nearly $4,000 over four years.

Rate Acceleration Still Tilted to Upper-Income Taxpayers

The largest component of the Administration's package is its proposal to accelerate the reduction in the 27 percent tax rate to 25 percent, which costs $53.7 billion over ten years.[5] According to the Congressional Budget Office, only the top one-quarter of taxpayers would benefit from this proposal, and the top five percent — those with incomes exceeding $150,000 — would benefit the most. A married couple with two children and an annual income of $66,550 or less, on the other hand, would receive no benefits from this proposal (see box on page 5).

The tilt toward upper-income taxpayers diminishes the effectiveness of the proposal as short-term economic stimulus. First, research has shown than those with higher incomes are more likely to save (and not spend) an additional dollar in income than low- and moderate-income families. Tax cuts only generate the needed stimulus if they are spent, not saved. The supplemental tax rebate, which is also part of the Administration's plan, is targeted on low- and moderate-income families and consequently represents a far more effective stimulus proposal than the acceleration of the 25 percent rate. Second, according to the Joint Committee on Taxation, more than three-quarters of the $53.7 billion cost of accelerating the implementation of the 25 percent rate would be incurred *after* fiscal year 2002 — that is, when the economy is expected to be in recovery — undermining its rationale as effective short-term stimulus.

Proposal Would Worsen State Fiscal Problems

The Administration's revised plan would deepen the fiscal problems facing states because, as noted above, it includes depreciation proposals that would result in states losing approximately $5 billion in revenue in 2002 (see table on page 7) and similar amounts in each of the next two years for a three-year revenue loss of nearly $15 billion. In contrast, states would lose only $2 billion for one year under the depreciation provisions in the Senate Finance Committee plan. More important, the Finance Committee bill provides $5.1 billion in state fiscal relief, offsetting the impact of its depreciation tax cut and providing needed support to state budgets. The Administration plan includes no state fiscal relief. Thus, its plan would aggravate the budget crises in which states now find themselves.

The National Governors Association estimates that state deficits equal or exceed $40 billion, up from an earlier estimate of a $15 billion deficit. About $35 billion of this shortfall is due to the impact of the recession, which lowers revenue collections and causes higher spending

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5 In addition to the rate acceleration, the Administration also appears to have embraced a House-passed provision that would increase for three years the exemption for the individual (as distinguished from the corporate) Alternative Minimum Tax, at a ten-year cost of $6.3 billion. Without this increase in the AMT exemption, the number of taxpayers affected by the AMT would rise as a result of implementing in 2002 the reduction of the 27 percent rate to 25 percent.

Estimated Loss in Fiscal Year 2002 of State Tax Revenues Due to Administration Proposal (in millions of dollars)			
ALL STATES	**$5,430**		
Alabama	$56	Montana	$22
Alaska	70	Nebraska	33
Arizona	110	Nevada	not affected
Arkansas	53	New Hampshire	42
California	not affected	New Jersey	260
Colorado	87	New Mexico	40
Connecticut	99	New York	710
Delaware	31	North Carolina	190
Florida	210	North Dakota	15
Georgia	180	Ohio	200
Hawaii	21	Oklahoma	48
Idaho	31	Oregon	100
Illinois	360	Pennsylvania	340
Indiana	180	Rhode Island	19
Iowa	60	South Carolina	58
Kansas	57	South Dakota	8
Kentucky	73	Tennessee	110
Louisiana	57	Texas	340
Maine	30	Utah	43
Maryland	120	Vermont	11
Massachusetts	270	Virginia	140
Michigan	60	Washington	not affected
Minnesota	180	West Virginia	36
Mississippi	55	Wisconsin	140
Missouri	87	Wyoming	not affected
ADDITIONAL AFFECTED JURISDICTIONS			
District of Columbia	40	New York City	390

Note: These are CBPP estimates. The total for all the states is identical to the Congressional Research Service estimate, but the CRS estimates by state are not available.

on countercyclical programs such as Medicaid. An additional $5 billion is due to unanticipated expenditures for homeland security. Because not all states have estimated the size of their budget deficits, and because state economies are expected to worsen, the National Governors Association projects that shortfalls for the current fiscal year could rise to $50 billion.

The projected state shortfall is greater in both absolute and percentage terms than the state shortfalls experienced as a result of the recession of the early 1990s. During the worst year of the state fiscal crisis in 1992, state deficits totaled about $19.5 billion, an amount equal to 6.5 percent of states' budgets. The present shortfall of $40 billion equals 7.8 percent of projected spending; if the shortfall were to rise to $50 billion, it would equal nearly 10 percent of state spending in this fiscal year.[6]

Leading economists have identified fiscal assistance to states (along with benefits for the unemployed) as very effective fiscal stimulus.[7] Because virtually all states are required to balance their budgets, they must close their deficits by enacting tax increases, expenditure reductions, or a combination of the two. Given the latest projections of state budget shortfalls, states will have to undertake spending cuts and tax increases totaling as much as $50 billion, which would have the effect of offsetting fully half of the $100 billion stimulus package proposed by the Administration. To worsen these state fiscal problems by eroding state tax bases and causing them to lose tax revenue, as the Administration's plan would do, would only exacerbate the negative effects of state budget actions on the economy. Rather, Congress should act aggressively to ameliorate state fiscal conditions, offsetting the impact of the depreciation provisions in the final stimulus package as well as providing additional net fiscal relief for states.

Inadequate Assistance for the Unemployed

Unemployment Insurance

The Administration's new plan would provide an additional 13 weeks of unemployment benefits for workers who lost their jobs after March 15 and who have exhausted their regular benefits. Given the upsurge in the number of unemployed workers who have recently exhausted their benefits, this provision will be an essential component of any final stimulus package.

However, the Administration rejected two significant temporary improvements in unemployment benefits contained in the Finance Committee stimulus plan. These provisions would make more part-time and recently employed workers eligible for benefits when they are laid off and provide for a modest increase in unemployment benefits.

The Administration retained a proposal from its original plan that would speed up the transfer of $9.3 billion already slated to be shifted from the federal unemployment insurance trust funds to state unemployment accounts. Despite Administration materials that seem to portray this provision as adding $4 billion to unemployment insurance, the provision would neither offer

[6] See Nicholas Johnson, Iris Lav, and Kevin Carey, "New Estimates Show State Fiscal Conditions Continue to Worsen," Center on Budget and Policy Priorities, December 11, 2001.

[7] See testimonies of William Gale and Peter Orszag, both of whom are senior fellows at the Brookings Institution, before the Senate Budget Committee, October 25, 2001. Also see Joseph Stiglitz, "Statement at the Center on Budget and Policy Priorities Press Conference," October 12, 2001.

much assistance to the unemployed nor do much to stimulate the economy.[8] This is because most of the funds it would transfer to state unemployment accounts *would not be spent*. Most states would use a substantial share (or all) of these funds to strengthen the reserves in their state unemployment trust funds, rather than to expand or extend unemployment benefits. States have no way of knowing how long or deep the recession will be, and they understandably are concerned that their reserves be adequate to weather the recession.

A new survey of states conducted by the National Association of State Workforce Agencies confirms that most states would not use any of these funds to expand or extend unemployment benefits.[9] These findings are also supported by Congressional Budget Office estimates. CBO estimates that if the $9.3 billion in funds are transferred now, only $2.3 billion of these funds will actually be used in fiscal year 2002 either for benefit expansions or for administrative costs. Furthermore, it appears from the state responses to the NASWA survey that a sizeable share of the funds that would be spent this year would go for administrative costs rather than for strengthening benefits.

Expanded unemployment insurance benefits are a highly effective economic stimulus. In a recent analysis, Nobel Prize winning economist Joseph Stiglitz and Brookings Institution senior fellow Peter Orszag noted that "in a recession, the primary problem is that the nation's firms face a reduction in demand for their products — not that they lack available workers, equipment, or anything else needed to produce goods and services."[10] Increasing unemployment benefits addresses this critical demand problem by boosting consumer spending and thereby helping other workers keep their jobs. In fact, by increasing aggregate demand, increased unemployment benefits are more effective in providing economic stimulus and reducing layoffs than most corporate tax cuts.[11]

Health Insurance for the Unemployed

The Administration's revised plan includes two proposals to provide health insurance to workers laid-off during the economic downturn that are of questionable design and would likely prove inadequate and of limited effectiveness. The Administration is advancing a provision

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[8] Under current law, $5 billion will be transferred to states under the Reed Act in 2002. The Administration's proposal would also make $4 billion that would not have been transferred until 2003 available in 2002, making a total of $9.3 billion available in 2002. But, as explained above, these transfers do not necessarily translate into spending on additional unemployment benefits.

[9] The survey, "How Would Your State Use An Accelerated Reed Act Distribution? A Summary of A State Survey by the National Association of State Workforce Agencies" is available on the NASWA website (www.naswa.org).

[10] Peter Orszag and Joseph Stiglitz, "Tax Cuts Are Not Automatically the Best Stimulus: A Response to Glenn Hubbard," Center on Budget and Policy Priorities, November 27, 2001.

[11] Peter Orszag, "Strengthening Unemployment Benefits Would Be Much More Effective in Saving Jobs than Most Corporate Tax Cuts," Center on Budget and Policy Priorities, November 14, 2001.

similar or identical to one offered by Rep. Bill Thomas, Chairman of the House Ways and Means Committee, last week to give a tax credit to unemployed workers to help them pay for health insurance premiums. Under that proposal, workers currently eligible for unemployment insurance could receive a tax credit equal to 50 percent of the cost of health insurance, although the subsidy could not exceed fixed dollar caps. The credit could be used to pay for health insurance available through the worker's former employer under COBRA or to purchase health insurance in the individual market. The tax credit suffers from a number of significant flaws.

With the costs of a family health insurance policy under COBRA averaging around $7,000, it is unlikely that many unemployed workers — particularly those with low or moderate incomes — would be able to pay 50 percent of COBRA premium costs. In addition, the tax credit would limit assistance to fixed dollar caps equal to half the national average cost of employer-based coverage even though premiums vary widely by geography and the age and health of a former employer's workforce. As a result, the subsidy for some individuals may constitute less than half of the COBRA premium; for instance, premiums in the Northeast tend to be more expensive than those in the South.

Under the Thomas and Administration tax credit proposal, unemployed workers could also purchase insurance in the individual market. But the individual market is unregulated and lacks the advantages of group insurance purchased through employers. For instance, many plans sold on the individual market do not provide comprehensive coverage, impose high deductibles, and offer limited benefits. Furthermore, premiums in the individual market can vary based on risk factors such as age and medical history, and people can be denied coverage altogether. Thus, older and sicker workers generally cannot obtain health insurance in the individual market or can obtain it only at prohibitive cost.

Still another problem is that only unemployed workers eligible for unemployment insurance could receive the tax credit. Many unemployed workers do not receive unemployment insurance. Indeed, because the Administration does not include the proposals in the Senate Finance Committee bill that would expand access to unemployment insurance to part-time workers and low-wage workers who recently entered the labor force, many unemployed individuals who fall in these categories would be excluded from eligibility for the health tax credit.

Finally, supporters of the credit view its inclusion in the stimulus package as an opening for subsequent establishment of an individual tax credit for the purchase of health insurance in the individual market generally. Such a general individual health insurance credit could encourage a significant number of businesses not to provide health care coverage. Similarly, the credit could encourage younger, healthier individuals to leave the employer-based system for the individual market, leaving the older, less healthy workers in the pool covered by employers — which will drive up premiums for employer-based coverage.

To supplement the tax credit, the Administration would provide $3 billion through the National Emergency Grants program. This program, which is currently funded at about $200 million a year and provides grants to a modest number of states each year, would likely be neither an effective nor an expeditious way to provide health insurance to unemployed workers.[12] This grant program is designed to address the need for job training and related services in individual localities where events that have caused significant job losses have occurred, not to respond to problems created in most or all states as a result of a national recession — or to provide health insurance for unemployed workers who lack it. For example, its “first-come, first-served” funding allocation procedures are inadequate and inappropriate for distributing $3 billion across most areas of the country during a recession.

In addition, the program has no experience in purchasing health insurance or providing health care coverage. States would likely need a number of months to make decisions and to develop eligibility rules and procedures for what would effectively be a new health insurance program, to determine the nature and scope of the insurance coverage to be offered, to contract with health insurers and plans, and to train and hire new staff. By the time health insurance coverage could be provided to employees through NEGs, the recession could be over.

Given these shortcomings, the Administration’s NEG proposal is unlikely to provide adequate assistance to many low- and moderate-income workers who lose their jobs. As a result, these individuals and their families will become more reliant on Medicaid. Yet a perverse outcome of the Administration’s plan is that Medicaid coverage in a number of states will likely be scaled back in response to the budget shortfalls created by the recession and worsened by the Administration’s package, which includes tax provisions that would reduce state revenues but contains no fiscal relief to states. Overall, the package would increase pressures on states to cut their budgets. In many states, Medicaid is a likely candidate for budget cuts. Cuts in Medicaid may further limit the options available to some low- and moderate-income families seeking health care coverage during the recession.

Conclusion

The Administration’s new offer remains focused on multi-year tax cuts for businesses and upper-income individuals, while offering relatively modest assistance for the unemployed and no fiscal relief for the states. Accelerating the implementation of the 25 percent rate from 2006 to 2002, while less egregious than the Administration’s original proposal to accelerate implementation of all of the upper-bracket rate reductions, is nonetheless costly and would be largely ineffective at stimulating the economy in the near term. Three-quarters of the $54 billion cost of this provision would occur after 2002, when the economy is excepted to have recovered.

[12] Sandra Clark, “Do Proposals to Increase Funding for National Emergency Grants Provide an Effective Way to Meet the Health Insurance and Other Needs of Laid-off Workers?,” Center on Budget and Policy Priorities, revised November 27, 2001.

With the Administration now projecting budget deficits at least in 2003 and 2004, there is no rationale for enacting this proposal. Further, by fashioning its business tax cuts as multi-year cuts that extend beyond the period for which the recession is forecast, the Administration would virtually ensure that there will be significant pressure to make these tax breaks permanent, creating yet another danger for the budget outlook.

A key shortcoming of the Administration's plan continues to be its lack of fiscal assistance to states. New estimates by the National Governors Association show states will be forced to undertake substantial program cuts, tax increases, or a combination of both to close budget shortfalls that may rise to $50 billion. Such actions by states this year counteract steps by the federal government to stimulate the economy. The Administration's proposal not only fails to address this increasingly serious problem, but would make the situation worse, since its business investment tax proposals would have the effect of further reducing state revenues by more than $5 billion this year.