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THE ADMINISTRATION'S STIMULUS PROPOSAL: IS IT A SOUND AND BALANCED PACKAGE?

by Robert Greenstein and Joel Friedman

On October 4, the Bush Administration released a proposal on the assistance it would provide to the unemployed. In late October, the Administration clarified which tax cuts it is proposing for inclusion in the stimulus package. The Administration's stimulus proposals thus are now known. The Senate Republican caucus appears to be moving to present the Administration's tax-cut and unemployment assistance proposals as its stimulus package.

The Administration officials have taken pains to portray these proposals as a moderate, centrist package. Close examination, however, suggests otherwise.

1. The plan consists overwhelmingly of tax cuts. In the first year, more than 90 percent of the Administration's stimulus plan consists of tax cuts. Over ten years, well over 95 percent of the plan is made up of tax cuts.

2. While providing very generous tax cuts to high-income individuals and large corporations, the assistance that the plan would provide to the unemployed is surprisingly meager. No unemployed workers who exhausted their 26 weeks of regular unemployment benefits and were unable to find jobs could receive additional weeks of federal unemployment benefits *until mid-March*, and then only in a modest number of states. Moreover, workers who lost their jobs before September 11 and exhausted their regular unemployment benefits would be ineligible for additional weeks of benefits at any time, regardless of the level of unemployment in their state. Under the Administration's proposal, if the recession proves to be comparable to the recession of the early 1990s,[1] the amount of additional unemployment benefits provided would constitute only about one-seventh of the amount provided in the earlier recession. The Administration's other proposals to assist the unemployed also are very small. Under the Administration's plan, the majority of unemployed workers would likely receive no additional assistance of any kind.

3. While the plan's modest aid to the unemployed and its tax rebate for low- and moderate-income workers would be short term, all of its corporate and upper-income tax cuts would be multi-year or permanent. The duration of these tax cuts would violate the principles for an effective and fiscally responsible stimulus package that the bipartisan leadership of the Senate and House Budget Committees set forth in early October and would worsen the nation's deteriorating medium- and long-term budget outlook. Because of the plan's long-term costs, approval of it could exert upward pressure on long-term interest rates, which are sensitive to long-term fiscal risks. Federal Reserve Chairman Alan Greenspan and former Treasury Secretary Robert Rubin have emphasized that long-term rates have failed to follow short-term rates down because of market nervousness over the government's long-term fiscal position and have urged that the

> ***The proposal is inconsistent with principles for an effective and fiscally responsible stimulus package set forth by the chairmen and ranking members of the House and Senate Budget Committees, which call for stimulus measures to take effect quickly and be temporary.***

stimulus package not worsen this outlook and thereby risk pushing long-term rates higher. Increased long-term rates would have a dampening effect on economic activity now and thus would undercut some of the stimulative effect that a stimulus package otherwise might have.

4. The plan would accelerate income-tax reductions for higher-income Americans, which makes little sense as a stimulus measure and poses dangers to fiscal discipline over the longer term. The plan would accelerate into 2002 the tax rate reductions scheduled for 2004 and 2006 in all four of the upper tax brackets — the 28 percent, 31 percent, 36 percent, and 39.6 percent brackets. The acceleration of these rate reductions would benefit only the top quarter of taxpayers and be of greatest benefit to the most affluent one percent of Americans, a group whose average income is over $1 million a year. Although most middle-income families would not benefit from this proposal, a family with an income of $1 million a year would get an additional $85,000 in tax cuts over the next four years, above and beyond what it already would receive under the tax cut enacted in June, while a family making $5 million a year would get an additional $500,000 in tax cuts. Indeed, 55 percent of the tax cuts that would result from this provision would go to the top one percent of households. Moreover, this measure would do little to stimulate the economy. Over three-fourths of the tax cut it would provide would come *after* 2002 — that is, after the downturn is expected to be over. In addition, as just noted, the vast bulk of the tax cuts resulting from this measure would go to high-income households; these households tend to save rather than spend much of any new income they receive. The primary purpose of this proposal thus does not seem to be to stimulate the economy, but rather to lock in these tax-rate reductions so that policymakers will not have the option of deferring or cancelling them when the recession ends and the budgetary problems related to financing the war on terrorism and other costs of government return. The Committee for Economic Development, an organization of leading corporate executives and university presidents, issued a report in October warning that the nation's long-term fiscal difficulties are increasing and pointing to the gradual phase-in of the tax cut enacted this spring as providing a possible budgetary safety valve, since provisions that are phasing in could be deferred or removed before taking effect. The Administration's plan would substantially weaken this safety valve.

5. The plan's principal corporate tax cut — partial expensing — is designed in a fashion that weakens its stimulative effect and increases the chances it will become a costly, permanent feature of the tax code. On October 4, the four chairs and ranking minority members of the House and Senate Budget Committees issued a joint statement warning that the surplus in the total budget (which includes the Social Security surplus) is shrinking rapidly and setting forth a set of principles for an economically sound and fiscally responsible stimulus package. One of their principles was that all provisions in a stimulus package must sunset after one year to the extent practicable. Ignoring this principle, the Administration's proposal includes a provision that would grant firms a tax break for the next *three* years. Firms would be able to take larger tax write-offs for certain equipment and other items that they purchase during this three-year period. This provision is supposed to induce firms to make more purchases now by according them more favorable tax treatment for purchases made while the tax cut is in effect than for purchases made after the tax cut expires. Keeping this provision in effect for three years rather than one, however, materially weakens the measure's effectiveness as a stimulus. As William Gale of the Brookings Institution emphasized in recent testimony before the Senate Budget Committee, a three-year window gives firms little reason to invest *now*, when the economy is in need of stimulus but the prospects that a firm's investments will pay off may be uncertain, since firms could hold off making such investments for a year or two to assess the economic situation and still get the same tax break.

Furthermore, keeping this provision in effect for three years — long after the economic slowdown is expected to be over — is likely to result in the original rationale for ending the tax break after three years to have faded by the time the provision is scheduled to expire. By then, the

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tax break 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 it routinely extends various other expiring corporate tax provisions each year. If this provision becomes part of the regular package of tax extenders (the name used for the array of tax breaks that are always extended when they are scheduled to expire), its future costs will be very large. Joint Tax Committee estimates indicate that if this provision remains in effect for the next ten years rather than expiring after three years, its cost will be $265 billion over the coming decade. This is nearly 15 times the $18 billion figure that is shown as the provision's cost when it is scheduled to sunset after three years.

6. The plan would cause states to lose $5 billion a year in state revenue this year, which would lead to an equivalent amount of state budget cuts or tax increases and thereby weaken the plan's already limited stimulative effect. Most states tie their state corporate income tax rules to the rules for the federal corporate income tax. (This is done so that firms operating across state lines do not face a multiplicity of conflicting tax rules and definitions.) As a result, the "partial expensing" tax cut included in the Administration's package would automatically result in state corporate tax reductions as well. If this federal tax cut becomes law, 44 states will lose a total of $5 billion a year for each of the next three years. This is a particular problem for states since nearly all states must balance their budgets, even in recessions, and most state budgets have now fallen out of balance as a result of the downturn. Most of the 44 states affected by this provision consequently would have to cut their budgets or raise other state taxes by a dollar for each dollar of revenue they lost as a result of this provision. Such action by states to cut programs or raise taxes would further dampen economic activity, however, and offset some of the stimulative effect the federal stimulus package otherwise might have. Many leading fiscal policy experts — such as Robert Reischauer, former CBO director and now president of the Urban Institute, Joseph Stiglitz, co-winner of this year's Nobel Prize in economics, and Richard Nathan, director of the Nelson A. Rockefeller Institute of Government in Albany — have said in recent weeks that one of the most effective steps the federal government could take to stimulate the economy would be to provide fiscal relief to states so they do not have to institute substantial budget cuts or tax increases amidst the downturn. The Administration's plan not only fails to provide states with any fiscal relief but makes state budget deficits larger, since it would trigger a loss of state tax revenue without providing federal resources to offset the loss.

7. The plan's permanent repeal of the corporate alternative minimum tax would provide substantial tax breaks to large, profitable corporations but would have little stimulative effect and worsen the long-term budget outlook. The Administration's plan would permanently repeal the corporate Alternative Minimum Tax, which was established so that profitable corporations could not use so many tax breaks and shelters that they paid little or no income tax. Repeal of this tax has long been an objective of a number of large corporations and corporate lobbyists, who were pushing for repeal long before any sign of an economic downturn appeared. Now it is included in the Administration's stimulus package, as well as in the House-passed bill, despite the fact that it cannot be regarded as an effective stimulus measure. As a recent Brookings analysis explains, this tax cut would primarily reduce taxes on corporate profits earned on investments *made in the past* and do little or nothing to induce new corporate investments. Only new investments are stimulative. In addition, permanent elimination of the corporate AMT is likely to lead to an upsurge in lobbying activity in future years to secure new and larger corporate tax breaks; in the absence of the corporate AMT, such tax breaks will be worth more to a number of powerful corporations. It also should be noted that most of the corporations that would receive multi-hundred-million-dollar checks from the Treasury under the House stimulus bill would get most or all of this largess under the Administration's proposal, as well; they would simply get these large tax bonanzas over a number of years, rather than upfront. This is why the Joint Tax Committee estimates that the cost of the Administration's corporate AMT tax break is only one-tenth — or $2.4 billion — smaller over ten years than the cost of the House corporate AMT provision that has elicited severe criticism.

The Administration's Misleading Claim that Most Stimulus Measures Already Enacted are Spending Measures

The Administration has argued that a stimulus package should consist overwhelmingly of tax cuts because the stimulus measures that have already been enacted consist primarily of spending measures. The Administration counts as stimulus the expenditures expected to occur in 2002 from recent legislation to boost funding for defense, security and counter-terrorism, rebuilding New York and the Pentagon, and bailing out the airlines. Under this Administration accounting, the defense spending increases the Administration proposed last June when there was little sign of recession are counted as stimulus. But when claiming that the stimulus measures enacted to date are overwhelmingly spending measures, the Administration fails to count the tax rebates sent out this summer, the first round of tax rate reductions that took effect on July 1, or the additional tax cuts that take affect on January 1, 2002. These tax cuts total $112 billion in 2001 and 2002.

Furthermore, in describing the cost of its new stimulus proposals, the Administration tends to talk only of their cost in fiscal year 2002. Nearly 50 percent of the cost of the Administration's tax proposals, however, would occur *after* 2002. The Administration's tax proposals have four components: accelerating the reduction in tax rates scheduled for 2004 and 2006, partial expensing of business purchases for the next three years, permanent elimination of the corporate alternative minimum tax, and the provision of a tax rebate to lower-income workers who received no rebate or only a partial rebate this summer. Both the cost estimates for these four provisions that the Joint Committee on Taxation has issued in recent weeks and the cost estimates contained in a document circulated by Senate Republicans and obtained by the Bureau of National Affairs show that the cost of these tax provisions is just under $90 billion in fiscal year 2002 and $175 billion over ten years.

The remainder of this analysis first examines the Administration's proposals for the unemployed and then looks in more detail at the proposals to accelerate the scheduled tax-rate reductions and to provide multi-year or permanent corporate tax cuts.

How the Unemployed Would Fare

The Administration's proposal includes additional weeks of unemployment benefits and some funding for health care or job training for the unemployed. In this part of the plan, the devil is in the details, which the Administration released on October 4. The details show there is much less here than the rhetoric surrounding these proposals might suggest.

Unemployment Insurance

- Only workers laid off after September 11 would qualify for additional weeks of benefits. Workers laid off in August, when the unemployment rate jumped to 4.9 percent, would be denied, even if the unemployment rate is six percent or higher at the time their regular unemployment benefits run out this winter and they cannot find another job.

- Additional weeks of federal benefits would be provided only in states where the unemployment rate rises 30 percent above its June/July/August average (except that additional weeks of benefits would be provided in New Jersey, New York, and

Level of Unemployment That Would Be Needed in Various States To Trigger Extra Weeks of Benefits[1]

	June, July, August Average Unemployment Rate	Unemployment Level Needed to Trigger Added Benefits		June, July, August Average Unemployment Rate	Unemployment Level Needed to Trigger Added Benefits
Alaska	6.2%	8.1%	Nevada	4.7%	6.1%
Arkansas	4.7%	6.1%	New Mexico	5.6%	7.3%
California	5.1%	6.6%	North Carolina	5.1%	6.6%
District of Columbia	6.4%	8.3%	Oregon	6.0%	7.8%
Idaho	4.5%	6.2%	Pennsylvania	4.7%	6.1%
Illinois	5.3%	6.9%	Rhode Island	5.0%	6.5%
Kentucky	5.0%	6.5%	South Carolina	5.0%	6.5%
Louisiana	5.0%	6.5%	Texas	4.8%	6.2%
Michigan	4.8%	6.2%	Washington	5.9%	7.7%
Mississippi	4.6%	6.0%	West Virginia	5.1%	6.6%

[1]These are states in which an unemployment rate of at least 6.0% would be required. All states shown here are seasonally adjusted.

Virginia without regard to the exact level of increase in their unemployment rates). In a state such as California, where the unemployment rate averaged 5.1 percent in that three-month period, unemployment would have to hit 6.6 percent before any additional weeks of benefits would be paid to workers who exhaust their 26 weeks of regular benefits and cannot find employment.

- Under the Administration's proposal, if the recession is comparable to the recession of the early 1990s, extra weeks of benefits will be provided in only about one-quarter to one-half of the states. By contrast, in the recession of the early 1990s, these benefits were provided in all states.

Even in states in which the extra weeks of benefits are provided, the benefits generally would not begin to be paid until March 11, and then only to workers laid off after September 11.

- In addition, if the recession is comparable to the recession of the early 1990s, most of the modest number of states that would qualify to provide extra weeks of benefits would not do so until late in calendar year 2002, weakening the effectiveness of the proposal as a stimulus measure.

- The Labor Department estimates that if the recession is comparable to the recession of the early 1990s, the extra weeks of jobless benefits provided by the proposal would cost $5 billion. In the earlier recession, $28 billion of additional weeks of benefits — or $35 billion in 2002 dollars — were provided through the mechanism that Congress created at that time. Thus, the Administration's proposal would provide about one-seventh the amount of additional unemployment benefits that the federal government provided in the last recession.

- The Administration's proposal also fails to address flaws in unemployment insurance coverage that cause many low-income workers and working mothers to be ineligible for unemployment benefits when they lose their jobs. For example, in most states, a mother with young children who works two-thirds or three-quarters time and is laid off — and who meets all other qualifications for unemployment benefits and is seeking similar employment — is denied because she is available for work on less than a full-time basis. A bipartisan commission in the 1990s and a business-labor-state task force last year recommended that these problems be addressed.

Some $5 billion in additional weeks of benefits would be provided if the recession is comparable to the recession of the early 1990s; in that earlier recession, $35 billion of additional weeks of benefits (in 2002 dollars) were paid.

Other Proposals for the Unemployed

The Administration's plan includes $3 billion in grants to state and local workforce boards through a National Emergency Grant program. The workforce boards could use the funds for health insurance coverage, income supplements, and/or job training for unemployed workers. This proposal has several large flaws. First, the workforce boards are generally advisory or planning groups with little administrative experience. There are serious questions about whether many of them have the administrative capacity to gear up to administer a complex program quickly. It could take a substantial period of time — many months in a number of areas — before these boards gear up, decide how to use the funds, and actually get the programs that administer these funds up and running. Second, the amount involved is far too small to make much of a dent in the need for health insurance among workers (and their families) who lose employer-based coverage when they lose their jobs.

The Administration says these funds could be used to cover up to 75 percent of the cost of health insurance premiums through COBRA for laid-off workers. Yet the amount of funding that would be made available would be sufficient to cover such costs only for a small fraction of laid-off workers. A proposal developed by Senator Max Baucus, chairman of the Senate Finance Committee, that would subsidize 75 percent of COBRA premium costs but be available to all laid-off workers who qualify for COBRA — and that would be supplemented by granting states a temporary Medicaid option to cover low-income unemployed workers who cannot afford the remaining 25 percent of the COBRA premium or are ineligible for COBRA because they worked for a small business or for a firm that did not offer insurance — would cost about $15 billion. If every dollar in the Administration's proposal were used for health insurance coverage, which is highly unlikely, and the workforce boards were sufficiently well organized to use all of the funds made available to them, the mechanism the Administration is proposing would provide one-fifth of the health insurance coverage the Baucus proposal would provide.

The Administration's plan also purports to make up to $11 billion in "unused" funds in the State Children's Health Insurance Program available to cover unemployed workers. This proposal is more public relations than substance. It is not a new proposal but a restatement of current policy that allows a state to seek a waiver to use some of its SCHIP funds to serve groups other than children. This proposal is likely to be of little value in covering the unemployed (unless states are willing to take risks with the future health care needs of low-income children).

The notion that there are large amounts of unused SCHIP funds that can be shifted to coverage of unemployed workers is incorrect and is belied by data the Office of Management and Budget released earlier this year. States do have unspent SCHIP funds from the early years of SCHIP when states were just gearing up their programs. But most of these funds are slated to be used in the next few years. The 1997 law that established SCHIP sought to balance the budget by 2002. To meet that goal under the budget forecasts in use at that time, policymakers wrote into the law a *26 percent cut* in SCHIP funding starting in fiscal year 2002. Projections that OMB released this spring show that the effects of this cut will be delayed a few years because states will draw down the unspent SCHIP funds in the interim but that eventually states will cut their programs and insure fewer low-income children. Specifically, OMB projected that the number of children insured through SCHIP will be reduced by 400,000, starting in 2005.

Even that figure may prove to be optimistic; the cutbacks could start earlier than 2005 if the recession makes more children eligible for SCHIP and causes more children to enroll now (and thus causes SCHIP funds to be used more rapidly than earlier anticipated). If states were to shift billions in SCHIP funds to cover unemployed workers, they would likely have to start reducing the number of children they insure at an earlier time and the total reduction in the number of children served would likely be greater than 400,000. The proposal thus pits the health care needs of children in coming years against the health care needs of unemployed workers. For this and other reasons, few states are likely to use this mechanism.

The Administration's Tax Cut Proposals

As noted above, the Administration's plan includes four tax cuts: 1) a rebate for those who received less than $300 per filer in the first rebate (including those who pay payroll tax but not income tax); 2) acceleration of all of the upper-bracket tax rate reductions enacted this spring; 3) partial expensing of business equipment for three years; and 4) permanent repeal of the corporate alternative minimum tax. The tax cut for low- and moderate-income workers would be temporary, with all of its $14 billion cost occurring in 2002. By contrast, more than half of the $161 billion cost over ten years of the other three tax provisions — which exclusively benefit corporations, other businesses, and upper-income taxpayers — would occur after 2002, when forecasters expect the economy already to have recovered. These other three provisions are estimated to cost $75 billion in 2002 and an additional $86 billion over the remainder of the decade. The rebate for low-income taxpayers would constitute 16 percent of the tax cuts in 2002 but less than 8 percent of the total tax cuts the plan would provide through 2011.

The proposed acceleration of the tax-rate reductions enacted in June merits particular note. Under this proposal, the tax rate reductions scheduled to take place in 2004 and 2006 in *every one* of the upper income tax brackets — the 28 percent, 31 percent, 36 percent, and 39.6 percent brackets — would be accelerated to 2002. By contrast, the House-passed bill would accelerate only the rate reductions scheduled in the 28 percent bracket. Not only would more than three-quarters of the ten-year, $121.5 billion cost of accelerating all of these rate reductions occur *after* 2002 — seriously undermining the measure's usefulness as a short-term boost to the economy — but its effectiveness as a stimulus measure would be further diminished because the tax cuts it provides would be concentrated among people with the highest incomes. Analysis by Citizens for Tax Justice finds that the wealthiest one percent of taxpayers would receive 55 percent of the tax-cut benefits this proposal would provide. This high-income group is much more likely to save rather than spend an additional dollar in after-tax income than families with smaller incomes are. Tax cuts can generate stimulus only if they are spent. For these reasons, a recent Brookings Institution

Percentage Share of the Costs in 2002 and Over Ten Years of the Tax Provisions in the Administration/Senate Republican Package

	2002	10 years
Corporate and business tax cuts	54%	23%
Tax cuts for upper-income taxpayers	30%	69%
Tax cuts primarily for low- and moderate-income taxpayers	16%	8%
Total	100%	100%

Source: Bureau of National Affairs (BNA) Daily Tax Report, October 29.

If the rate reductions scheduled for 2004 and 2006 are accelerated to 2002, some 75 percent to 80 percent of the cost of the acceleration will occur after 2002, when the economy is likely to have recovered and budgetary pressures may be intense.

analysis by William Gale, Peter Orszag, and Gene Sperling concludes that this proposal would do little to stimulate the economy and advises against adopting it.[2]

Indeed, a married couple with two children and an income of $66,550 or less would receive no tax cut whatsoever from the proposed acceleration of the rate reductions. But families with high incomes would reap enormous benefits. A married family with two children that has income of $500,000 would receive a tax cut of about $9,500 in 2002, plus another $21,500 over the next three years, for a total break of about $31,000, with all of this being on top of the tax cuts the family already is scheduled to get as a result of the tax cut enacted last spring. A family with annual income of $1 million — the average income for the top one percent of taxpayers — would receive an additional $25,000 in tax cuts from the rate-acceleration provision in 2002 and $85,000 more over four years. As noted above, a family with an annual income of $5 million would receive more than $500,000 in additional tax cuts over the four years as a result of this proposal.

The proposal to accelerate the reductions in all of the top rates causes the Administration's tax proposals as a whole to be more even more skewed to the highest-income taxpayers than the tax cuts in the House bill. Analysis by Citizens for Tax Justice finds that the top five percent of taxpayers — those with incomes exceeding $153,000 — would receive more than half of the tax cuts under *both* the House measure and the Administration's plan in 2002, but that the top one percent of taxpayers — those with incomes exceeding $384,000 — would do considerably better under the Administration's plan than under the House measure. The top one percent of taxpayers would receive a stunning 44 percent of the tax cuts provided in the first year under the Administration's plan, as compared to 35 percent of the tax cuts in the House bill. By 2003, when the rebate would have ended but the other tax cuts would remain in effect, the wealthiest one percent of taxpayers would receive a whopping 51 percent of the tax reductions in the Administration's plan, compared to 41 percent of the tax cuts in the House bill.

The corporate and business tax cuts in the Administration's plan are problematic as well. As noted, the proposal to provide partial expensing for business investment for three years violates the principle that provisions in a stimulus package should expire after one year to the extent practicable. In addition, allowing this tax break to continue for three years weakens its effectiveness as immediate economic stimulus, since companies will be able to take advantage of the tax cut if they delay investments for a year or two while they assess the economic outlook. The three-year term of the provision also heightens the risk that the proposal will be extended permanently, since by the time it expires in 2004 its original rationale as temporary economic stimulus will likely have been forgotten and business lobbyists will press for its extension.

The proposal for permanent repeal of the corporate AMT also is poorly designed as a stimulus measure; it provides no incentive to spur new business investment. A Brookings Institution analysis estimates that 90 percent of the tax benefits that corporations would derive from repeal of the corporate AMT would consist of tax reductions on profits from old investments — that is, investments in plant and equipment made in previous years — rather than profits from new investments.[3] Only new business investment, however, is stimulative. In addition, while the Administration's plan does not include the widely reported provision of the House bill under which the Treasury would write large checks to corporations that have accumulated AMT credits, these corporations would still be able to claim most of these credits in later years under the Administration's plan. This is why there is little difference in cost over ten years between the

Repeal of the corporate AMT would likely encourage corporate lobbyists to seek enactment of new corporate tax breaks in the years ahead; in the absence of the AMT, such tax breaks would become more lucrative and attractive.

Administration and the House corporate AMT provisions. Under the House corporate AMT provision, these corporations would gain $24.1 billion in tax breaks over ten years. Under the Administration's provision, these corporations would secure $21.7 billion in tax breaks. The same corporations — such as IBM, General Motors and General Electric — that would benefit under the House bill would reap substantial benefits under the Administration's corporate AMT repeal proposal as well. Overall, as the Brookings analysis concludes, "elimination of the corporate alternative minimum tax is an extremely blunt and inefficient approach to encouraging new investment in the short run."

The corporate AMT was enacted to address a widespread problem of large, highly profitable corporations using so many tax loopholes that they paid little or no corporate income tax. Repeal of this provision would raise yet another concern — that it would encourage corporate lobbyists to seek enactment of more such loopholes in the years ahead. In the absence of the AMT, such loopholes would become more lucrative — and hence more attractive — to a number of corporations.

Fiscal Discipline

One of the most disturbing aspects of the Administration's proposal is the damage it would do to fiscal discipline. The chairs and ranking minority members of the House and Senate Budget Committees issued a strong statement last month warning that the total budget surplus is rapidly shrinking and urging that a stimulus package be limited to temporary measures. They showed that under some assumptions, the *total* budget surplus is already gone. The Concord Coalition has sounded a similar note, urging policymakers to reject stimulus proposals that would involve significant ongoing costs and "further compromise the budget position down the road."

In addition, both Federal Reserve Chairman Alan Greenspan and former Treasury Secretary Robert Rubin have observed that the Fed's efforts to lower interest rates have caused short-term rates to come down sharply but that long-term rates have not followed. Both men have said this reflects market nervousness over the government's long-term fiscal situation. Nothing should be done in a stimulus package to cloud further the medium and long-term fiscal outlooks.

The Administration's proposal fails this test in two ways. Its permanent repeal of the corporate Alternative Minimum Tax would make the long-term budget picture more problematic. Of still greater concern, its acceleration of the tax-rate reductions would place further pressure on the budget in the years just after the downturn has ended and remove an important option that policymakers may need to have available in those years if strong action proves necessary to restore fiscal discipline and address a deteriorating fiscal picture.

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1. For the recession to be "comparable to the recession of the early 1990s," unemployment rates would need to rise by approximately the same amount that they increased in the early 1990s. This does not mean that unemployment rates would reach the same levels as in the 1990s, since the base level of unemployment was somewhat higher before the last recession started than before the onset of the current downturn, but that the *increase* in unemployment would be comparable.

2. William Gale, Peter Orszag, and Gene Sperling, "Stimulating the Economy Through Tax Policy: Principles and Applications," Brookings Institution, October 5, 2001.

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