



CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org <http://www.cbpp.org>

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Senate Finance Committee Plan Includes Sound Stimulus Proposals

On November 26, the Center on Budget and Policy Priorities released an analysis of the economic stimulus plan developed by Senate Finance Committee Chairman Max Baucus and recently adopted by that

The full report can be viewed at
<http://www.cbpp.org/11-26-01tax.htm>

committee; the provisions of this plan will be among those discussed in the stimulus negotiations now beginning among Congressional leaders and the Administration. The Senate Finance Committee plan includes a number of sound stimulus proposals that are not part of either the House-passed or Administration measures. Almost all of the plan's provisions would expire by the end of 2002, so the plan would not worsen the federal government's long-term fiscal problems. Furthermore, its provisions generally are well-targeted on low- and moderate-income individuals and the unemployed — the people most likely to spend quickly any additional dollars they receive — and on businesses that make new investments.

Some have criticized the Senate Finance Committee bill for including extraneous provisions such as agricultural assistance payments, tax incentives for New York City, and other targeted tax breaks. A number of these provisions do not belong in a stimulus package. These provisions, however, represent less than 10 percent of the bill's cost in 2002. The bill's core provisions, which account for the vast majority of its cost, represent effective stimulus. The extraneous Finance Committee provisions are modest in comparison to provisions in the House-passed and Administration plans that would cost tens of billions of dollars and shower long-sought-after tax breaks on profitable corporations and upper-income taxpayers, while doing little to stimulate the economy.

Regarding the specific elements of the Senate Finance Committee bill:

- The bill would provide more adequate assistance to unemployed workers, offering several times the low levels of assistance contained in the House and Administration proposals. The bill would make an additional 13 weeks of unemployment benefits available to individuals who have exhausted their regular unemployment benefits but been unable to find a job. The bill also would provide an across-the-board increase in unemployment benefits that would average \$35 a week.

In addition, the bill would address two widely recognized problems in the unemployment insurance system that cause many workers unavailable for full-time work, as well as workers who entered the job market fairly recently, to be denied benefits. These problems in the current system are particularly injurious to low-

income workers who are laid off. The Finance Committee bill would provide benefits to unemployed workers who meet all other criteria for benefits but are currently disqualified solely because they are available for work on less than a full-time basis. It also would allow workers to count their earnings in the most recently completed calendar quarter when their eligibility for unemployment benefits is determined.

- To help unemployed workers maintain their health insurance, the bill would subsidize 75 percent of COBRA costs. It also would enable states to provide Medicaid coverage to low-income unemployed workers who are not eligible for COBRA and to use Medicaid funds to pay the remaining portion of COBRA premiums for low-income unemployed workers who are eligible for COBRA but are too poor to pay much for it.
- In addition, the bill would provide \$5.1 billion of fiscal relief to states to reduce the degree to which states must cut expenditures or raise taxes to comply with the balanced-budget requirements under which they must operate even in recessions. A portion of this amount would offset the impact of business tax cuts in the bill (discussed below), which would cost states roughly \$2 billion in revenue. The remaining \$3 billion represents net fiscal relief to the states.

Neither the House nor Administration packages include funds for state fiscal relief. According to a number of leading experts on the economy — including this year's co-winner of the Nobel Prize in economics, Joseph Stiglitz — fiscal relief to states and the provision of additional benefits to the unemployed are two of the most effective stimulus measures Congress can adopt.

- The Senate Finance Committee bill would stimulate business investment by providing subsidies to firms that make new investments in equipment and certain other items. In addition, the bill would adjust the corporate Alternative Minimum Tax so it would not diminish the impact of this business tax incentive.

The Finance Committee's business tax cuts are more responsible than the business tax provisions of the House and Administration packages. The Finance Committee provisions are focused on encouraging new investment. The Finance Committee package does not confer large corporate tax cuts that are unrelated to new business investment and hence would have little stimulative effect, such as repeal of the corporate AMT.

In addition, all of the Finance's Committee principal tax cuts (as well as its principal spending provisions) would expire at the end of 2002. These provisions consequently would provide stimulus during the recession without worsening the federal government's long-term fiscal problems. By contrast, all of the major business tax cuts in the House and Administration packages are multi-year or permanent.