CENTER ON BUDGET AND POLICY PRIORITIES

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NEW HOUSE STIMULUS PROPOSAL RETAINS MANY FEATURES OF EARLIER HOUSE BILL
New Plan Filled with Costly Multi-Year or Permanent Tax Cuts That Would Do Little to Stimulate the Economy

> The full report can be viewed at http://www.cbpp.org/12-18-01tax.htm

The House of Representatives approved a new stimulus package in the morning of December 20. An updated Center analysis issued December 20 finds that the package is largely a multi-year tax-cut package, rather than a package primarily aimed at simulating the economy now.

- The new stimulus proposal includes numerous multi-year (and, in some cases, permanent) tax cuts for corporations and higher-income individuals that would either be inefficient in stimulating the economy or much more effective as stimulus if limited to one year. These multi-year or permanent provisions will widen budget deficits in years after the recession is over.

- Preliminary estimates issued December 18 by the Joint Congressional Committee on Taxation — Congress's official scorekeeper on tax legislation — indicate that only 40 percent of the plan's tax cuts over the next five years would come in fiscal year 2002. The plan would cost roughly $75 billion in fiscal year 2003 and $50 billion in fiscal year 2004. More than 90 percent of the cost in both years would come from tax cuts. These are years in which the nation already faces deficits in the unified budget *and* in which the economy is expected to be in recovery and further stimulus is not expected to be needed.

- Over five years, the package would cost $214 billion, not counting the additional interest payments on the debt that would have to be made as a result of the package. When the additional interest costs are included, the total cost is approximately $260 billion over five years

  The new Joint Tax Committee estimates also show that 92 percent of the cost of the package over five years and 95 percent of the cost over ten years consists of tax cuts.

- Proposing tax cuts that would remain in effect long after the downturn ends makes sense only if one of the goals of the proposal is to heighten the chance that these tax cuts will become permanent fixtures of the tax code. Such a course would result in several hundred billion dollars in additional cost over the coming decade.

- Although proponents of the plan present it as being more moderate than the stimulus bill the House passed in October, its tax provisions are similar to the earlier House bill in a number of key respects. Many of the principal tax provisions of the House stimulus bill remain intact in whole or in large part. The plan also adds several new special interest tax provisions, such as changes in pension rules that would enable firms to reduce pension contributions and changes in the individual Alternative Minimum Tax that would principally benefit high-income taxpayers.

- The plan retains the original House provision to accelerate to 2002 the reductions in the 27.5 percent income tax rate now scheduled for 2004 and 2006. As various Brookings and CBPP analyses have shown, this provision is mistargeted and would have little stimulative effect. It would affect only the top quarter of all tax filers — an inefficient targeting of resources since high-income individuals spend a smaller share (and save a larger share) of each additional dollar of after-tax income they receive than do individuals with more moderate incomes. Furthermore, more than three quarters of the $60-billion tax reduction that this provision (and an accompanying provision) would provide would come *after* 2002.

- The plan does not formally repeal the corporate Alternative Minimum Tax, but substantially alters and largely eviscerates the AMT and does so on a permanent basis. As a result, a number of profitable corporations would be able to avoid paying any income tax in future years. In addition, many of the corporations that would have received multi-hundred-million-dollar checks under the original House bill would still get a large portion of these tax benefits. The benefits would be spread over a number of years rather than paid up front.

- The plan would extend for five years a tax break for multi-national financial corporations with overseas operations. While providing a significant tax benefit to firms in the banking, finance, and insurance industries, this provision would have little, if any, stimulative effect since only *three percent* of its $7.9 billion in tax cuts would come in 2002. Some 97 percent of its tax cuts would come in subsequent years.

- The plan continues to exclude measures to extend unemployment insurance benefits for the coming year, at federal cost, to two categories of workers: low-wage workers who would qualify if the wages they earned in recent months were counted, and workers who meet all other criteria for unemployment benefits but are disqualified because they are available only for part-time work. In addition, while the plan includes costly corporate tax breaks that would endure long after the downturn ends, it excludes even a modest, short-term increase in unemployment benefit levels.

- To help the unemployed maintain health insurance, the plan proposes a tax credit for 60 percent of insurance premiums that laid-off workers pay. It also would increase funding for a small Labor Department block-grant program known as the National Emergency Grants program and make the provision of health insurance one of the allowable uses of the block-grant funds.

  These proposals are poorly designed and likely to prove of limited effectiveness. Most unemployed workers with low or modest incomes would be unable to afford insurance even with the proposed tax credit. In addition, the tax credit would subject workers to the vagaries of the individual health insurance market — without significant market reforms to ensure that affordable policies are available — which would make the credits of little use to many older and sicker workers. Furthermore, the National Emergency Grants program is designed to address the need for job training and related employment services in individual localities where events that have caused significant job losses have occurred. It is not designed to respond to problems created in most or all states as a result of a national recession and has no experience or infrastructure to provide health insurance for unemployed workers who lack it.

With the Administration projecting unified budget deficits at least in 2003 and 2004, the Center's report notes, there is little rationale for measures that would produce substantial revenue losses in these years and would constitute inefficient and ineffective ways of stimulating the economy now.