



# CENTER ON BUDGET AND POLICY PRIORITIES

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## The Centrist Coalition's Disappointing Stimulus Proposal

On November 20, the Center on Budget and Policy Priorities released a report, *The Centrist Coalition's Disappointing Stimulus Proposal*. The report analyzes an economic stimulus package unveiled on November 14 by Senators John Breaux, Olympia Snowe, and several other senators. That package has been presented by its sponsors as being the basis for a possible compromise on a stimulus package. The Centrist Coalition package, however, is a significant disappointment in some key respects. This is particularly the case with regard to assisting unemployed workers and providing fiscal relief to states — the two areas where a number of leading experts on the economy have stated Congress can provide the most effective stimulus. The report's findings include:

The full report can be viewed at  
<http://www.cbpp.org/11-16-01tax.htm>

- The proposals in the Centrist Coalition plan fall short of what should be the minimum for assisting unemployed workers. Although the plan provides additional weeks of unemployment benefits for those who exhaust their regular benefits, it jettisons two significant temporary improvements in unemployment insurance benefits contained in the Senate Finance Committee stimulus plan.

First, the Centrist plan fails to address two widely recognized problems in unemployment insurance rules that cause many deserving unemployed workers to be denied unemployment benefits. Many unemployed workers who are available for work less than full time — such as mothers with young children — are denied benefits solely because they are not available for full-time work. In addition, since most states do not count wages that a worker earned in the current or the previous quarter when determining the worker's eligibility for unemployment benefits, a substantial number of low-wage workers who entered the job market fairly recently — such as single working mothers who have worked their way off welfare — are ineligible for benefits. The Centrist plan does not address these problems and thus would fail to prevent many low-income parents who have struggled to raise their children on low wages from being denied unemployment insurance benefits if they are laid off. Making this group eligible for unemployment benefits is both equitable and sound stimulus policy, since unemployed workers with low incomes are likely to spend nearly every dollar in unemployment benefits they receive.

Second, unlike the Senate Finance Committee bill, the Centrist plan provides no increase in weekly unemployment benefit levels. On average, unemployment benefits replace less than half of workers' lost wages, making it difficult for many families with unemployed workers to pay rent or mortgage bills and also meet other family needs if they do not find new jobs fairly quickly. An increase in benefits would be an effective stimulus policy since any additional benefits would, in general, be quickly spent and injected into the economy.

- The Centrist plan also would exacerbate fiscal problems in the states. Nearly all states are required by their laws or state constitutions to balance their budgets, even in recessions.

Currently, states face sizeable budget shortfalls as a result of the economic downturn, and a majority of states are moving to cut programs or raise taxes to restore budget balance.

A business tax cut in the Centrist plan would cause states and a few localities to lose nearly \$4 billion in state and local tax revenue in the coming year, thereby necessitating nearly \$4 billion in additional state budget cuts and tax increases. Actions by states to cut programs or raise taxes would further dampen economic activity and offset part of the stimulative effect that a federal stimulus package aims to have.

The Senate Finance Committee plan contains a smaller version of this business tax cut that would cost the states revenue, but the Senate plan more than compensates for this loss by providing states with roughly \$5 billion in fiscal relief. The Centrist plan includes no fiscal relief.

- The Centrist plan would provide inadequate assistance to help unemployed workers maintain health insurance. The plan would subsidize 50 percent of the cost of the cost of health insurance premiums for unemployed workers through COBRA. (Under COBRA, individuals who lose their jobs can remain in their former employer's health insurance plan for 18 months after the job loss, provided the individual pays the full premium costs.) With the costs of a family health insurance policy under COBRA averaging around \$7,000, many unemployed workers will not be able to pay 50 percent of COBRA premium costs.

The Senate Finance Committee plan, in contrast, would subsidize 75 percent of COBRA costs. The Senate plan 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.

The Centrist plan does include \$5 billion in grants to state and local workforce boards through the National Emergency Grants program that could be used to provide health insurance to unemployed workers not eligible for COBRA. However, the National Emergency Grants program has no experience in purchasing health insurance or providing health care coverage, and does not appear to provide a viable structure to provide this sort of assistance on a timely basis.

- While the Centrist plan's tax provisions represent a substantial improvement over those in the House bill and the Administration's tax proposals, several provisions raise significant concerns. Under the Centrist plan, certain tax cuts enacted in June and scheduled to be implemented in 2004 and 2008 would be moved up to 2002. Accelerating these tax cuts would account for more than half of the plan's total cost over ten years (and 85 percent of its cost after 2002). Of particular note, four of every five dollars that these tax-cut acceleration proposals would provide in tax cuts would occur after fiscal year 2002 — in other words, in years after the economy is expected to be in recovery and when stimulus is no longer needed.

Such measures also would aggravate somewhat the budget crunch the nation will face after the recession ends and the need to restore fiscal discipline and hit certain budget targets returns. Recently, the Administration's budget director has been issuing pronouncements that the budget will be in deficit in coming years and is in such bad shape that programs not related to defense or counter-terrorism should be considered for cuts. At such a time, it makes little sense to aggravate these problems by instituting measures that will reduce federal revenues further in years after the recession has ended.