Effective Economic Stimulus:
How Do Congressional Proposals Measure Up?

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EXECUTIVE SUMMARY

Early in October, the bipartisan leadership of the House and Senate Budget Committees agreed to a set of principles for evaluating economic stimulus proposals. They emphasized the importance of measures that had a rapid impact and were temporary. Others have embraced similar principles including a group of noted economists comprising nine Nobel laureates and four former members of the President's Council of Economic Advisors. These principles draw a clear distinction between policies that provide effective economic stimulus now while the economy is in a recession and policies that may operate with a longer lag.

There are currently at least four competing congressional economic recovery proposals. The House of Representatives passed H.R. 3090, The Economic Security and Recovery Act of 2001, which relies heavily on tax cuts and particularly tax cuts for businesses. The Senate Finance Committee reported out a recovery package, the Economic Security and Assistance for American Workers Act of 2001, which includes tax cuts but also provides substantial assistance to displaced workers and state governments. Senate Republicans have an alternative recovery package containing only tax cuts that follows the plan outlined by President Bush. A small coalition of Senators from both parties has suggested a fourth alternative that attempts to find a middle ground between the House and Senate Finance Committee packages.

Overall, the provisions in the Senate Finance proposal adhere most closely to the principles for stimulus outlined by the House and Senate Budget Committees. It is the only package that focuses almost all its stimulus on 2002, when the economy will be weakest. Tax and spending provisions in that year would account for more than 90 percent of the total cost. Provisions taking effect in 2002 account for about three-fourths of the total cost of the Senate coalition proposal. In contrast, the House bill and Senate Republican alternative stray even further from this standard, implementing a significant portion of the tax cuts after 2002. With this delayed impact, these proposals run the risk of creating stimulus when the economy is already well into a recovery and thus forcing the Federal Reserve to raise interest rates as a hedge against inflation.

Most of the provisions in the Senate Finance bill are targeted towards assisting the most vulnerable workers or to spurring new investment. More than half of the cost in 2002 would be used to provide additional unemployment benefits, assistance with health insurance, and rebates to lower-income households. Almost all the business tax cuts in the Senate package consists of incentives for new investment.

The other three proposals provide tax cuts for high-income individuals in addition to those for low-income workers, and tax breaks for businesses and corporations that are not tied to new investment. The Senate Republican plan would spend nine times as much on high-income tax breaks as it would on the rebate for low-income workers. The House bill includes provisions such as the retroactive repeal of the corporate alternative minimum tax that will do little to boost business investment in the near term. The House bill provides only limited assistance for unemployed workers, while the Senate Republican bill fails to provide any assistance at all.

To gauge the impact on the economy of each provision, the Joint Economic Committee Democratic staff compared simulations of the economic effects of the plan's various provisions using the Washington University Macroeconomic Model. These simulations suggest that a supplemental rebate for low-income working families and increased transfer payments to dislocated workers are especially potent and cost effective ways of boosting gross domestic product (GDP) over the short term.

Other policies were not nearly as cost effective or else provided little stimulus in the near-term. The tax rebate provided thirteen times the increase in GDP in the first year per dollar of ten-year revenue cost as accelerating all the individual income tax rate cuts scheduled for 2006 to 2002. Reducing corporate income taxes, such as through the retroactive repeal of the corporate alternative minimum tax, resulted in virtually no stimulus. Even a provision to allow businesses and corporations an additional first-year depreciation deduction of 30 percent of the cost of new investment produced little impact on GDP in the first four calendar quarters, although the effects from such a proposal would grow over time.

INTRODUCTION

On November 26, the National Bureau of Economic Research (NBER) declared that the country's longest economic expansion on record had come to an end in March, and a recession had begun. This was not news to millions of unemployed workers. It was evident before the NBER made it official that the country had entered a period of slow economic growth, which was aggravated by the terrorist attacks on September 11.

The challenge now for policymakers is how to get the economy out of recession quickly and put it back on the path of strong and sustainable growth. Monetary policy is already doing its part. The Federal Reserve has cut short-term interest rates ten times since the beginning of the year. Congress and the Administration also took steps immediately after the attacks by enacting $40 billion in emergency spending and $15 billion in assistance to the airline industry.

These steps might be enough to keep the recession short and shallow. Many economists believe however, that the post-September 11 economy is particularly vulnerable to negative shocks and that additional economic stimulus would provide valuable insurance against a serious downturn—as long as such stimulus is quick and effective. A poorly designed policy, in contrast, would waste vital resources, provide little or no help with economic recovery, and could even be counterproductive by driving up long-term interest rates.

This paper assesses efforts to date to develop an economic stimulus package. Early in the process the bipartisan leadership of the House and Senate Budget Committees agreed to a set of principles for evaluating stimulus proposals. They emphasized the importance of measures that had a rapid impact and were temporary. Other analysts including a group comprising nine Nobel laureates in economics and four former members of the President's Council of Economic Advisors have embraced similar principles. These principles draw a clear distinction between policies that provide effective economic stimulus in an economy operating with excess capacity and elevated levels of unemployment and policies that may operate with a longer lag. Whatever their merits on other grounds, these latter policies do not belong in an economic recovery package.

In testimony before the Joint Economic Committee, economist and former member of the President's Council of Economic Advisors Alan Blinder proposed two simple tests, consistent with those principles, to determine whether a proposal belongs in an economic stimulus package.

> *Scorekeeping*: Is at least 80 percent (and preferably 100 percent) of the cost incurred in the first year? If not, the economy is probably not going to get much stimulus bang for the budgetary buck.
>
> *Customization*: Were the people who are now advocating the policy also advocating it a year or two ago, and will they also want it a year or two from now? If so, it is probably not tailored to the current situation.

There are currently at least four competing congressional economic recovery proposals. The House of Representatives passed H.R. 3090, The Economic Security and Recovery Act of 2001, which relies heavily on tax cuts and particularly tax cuts for businesses. The Senate Finance Committee reported out a recovery package, the Economic Security and Assistance for American Workers Act of 2001, which includes tax cuts but also provides substantial assistance to displaced workers and state and local governments. Senate Republicans have an alternative recovery package that follows the plan outlined by President Bush, and which relies exclusively on tax cuts. A small coalition of Senators from both parties has suggested a fourth alternative that attempts to find a middle ground between the House and Senate Finance Committee packages.

The analysis in this paper shows that only the Senate Finance package adheres closely to the principles laid out by the bipartisan Budget Committee leadership. To a much larger extent than the other three packages, the provisions included in the Senate Finance package pass the tests set out by Professor Blinder.

PRINCIPLES FOR AN ECONOMIC RECOVERY PACKAGE

On October 4, 2001, the chairmen and ranking members of both the Senate and House Budget Committees reached agreement on a set of principles regarding economic stimulus.[1] They emphasized the need for quick, effective, yet temporary measures to boost the economy. They stressed the overall principle that, "*An economic stimulus package should be based on the recognition that long-term fiscal discipline is essential to sustained economic growth*," and *"Any short-term stimulus should not result in higher long-term interest rates."*

Objectives. The Budget Committee leadership argued that a stimulus package should *"restore consumer and business confidence, increase employment and investment, and help those most vulnerable in an economic downturn."* They added the critical caveat, however, that it *"do all of the above without converting a cyclical deficit into a structural deficit."* Allowing a cyclical budget deficit likely to occur in the short-term to turn into a long-term structural deficit will not only hurt future generations, but will also undermine the economic recovery by driving up long-term interest rates.

Timing. The Budget leaders issued their report on October 4 and urged the Congress to "*assemble a stimulus package deliberatively but with dispatch, aiming for passage within 3-4 weeks."* Two months later, the budget talks were still at an impasse.

Rapid Impact. The committee leadership recommended that *"a substantial portion of the fiscal impact on the economy should be felt within six months."* More often than not in the past, Congress has failed to implement an economic stimulus plan until the economy was well into a recovery. Stimulus that comes too late forces the Federal Reserve to raise interest rates in order to keep demand from growing so fast as to generate inflation.

1 "Revised Budget Outlook and Principles for Economic Stimulus," Senate Budget Committee and House Budget Committee, October 4, 2001.

Sunset. According to the budget leaders, *"all economic stimulus proposals should sunset within one year, to the extent practicable."* Because of the importance of long-term fiscal discipline, stimulus proposals should not produce significant multi-year budgetary effects. Thus, permanent tax cuts or new infrastructure spending that spends out slowly are not attractive candidates for stimulus, whatever their overall policy merits. Safety net programs such as Unemployment Insurance, in contrast, are designed to be counter-cyclical, contracting as the economy improves. Expanding these programs is therefore a better choice for providing fiscal stimulus without significantly boosting spending when stimulus is no longer needed.

Targets. The budget leaders stressed that: *"Economic stimulus should be broad-based rather than industry specific. Policies should achieve the greatest possible stimulus effect per dollar spent and should be directed to individuals who will most likely spend the additional after-tax income and businesses most likely to increase investment spending and employment."* For example, a tax cut for low- and moderate-income households who will likely spend nearly all of the extra income is more effective stimulus than a similarly sized tax cut for higher-income households who are more likely to save a substantial portion of it. Similarly, increased government outlays to provide unemployment benefits to displaced workers will likely be spent quickly. Tax relief for businesses targeted to new investment provides a much more effective stimulus than retroactive tax cuts.

Size: Taking their lead from the recommendations of Federal Reserve Chairman Alan Greenspan and former Treasury Secretary Robert Rubin, the Budget leaders suggested that "*The economic stimulus package should equal approximately 1 percent of GDP (about $100 billion) but should count the budgetary effects of policies implemented since August, which, at present, total roughly $40 billion."* This $40 billion represents an estimate of outlays in 2002 from three sources: an agreement to raise the cap on discretionary spending, the appropriation of $40 billion in emergency spending (not all of which spends out in 2002), and $15 billion in assistance to the airline industry (which also does not all spend out in 2002). In addition, another $77 billion in tax cuts not included in the recommendation on the size of the economic stimulus package, is scheduled to take effect in 2002.

Offsets. Emphasizing the importance of fiscal discipline, the budget leaders recommended that, *"to uphold the policy of repaying the greatest amount of national debt feasible between 2002-2011, out year offsets should make up over time for the cost of the near-term economic stimulus."* Ideally, a recovery package should pay for itself over the long-term. Running a budget deficit in the immediate future, while the country recovers from the terrorist attacks and works its way out of the recession, is entirely necessary and appropriate. Once the economy begins to recover, public saving will need to rise. At that point, federal debt held by the public will be higher than previously anticipated, while the retirement of the baby boomers will be that much closer--less than a decade away. Some "catching up" relative to prior budget goals will be desirable.

Numerous prominent economists have embraced these principles. For example, a letter from nine Nobel laureates in economics and four former members of the President's Council of Economic Advisors to Senate Majority Leader Tom Daschle and Minority Leader Trent Lott echoed the need for effective yet temporary stimulus. In the letter these noted economists wrote,

"The basic principles in designing an economic stimulus are (1) that it be targeted to increase spending immediately; and (2) that it be temporary, phasing out when the economy recovers." Those who signed the letter found the House stimulus package wanting in these regards and urged the Senate to pass a better measure.

This report assesses the competing economic recovery packages offered by the House of Representatives, the Senate Finance Committee, and Senate Republicans. It begins with a brief discussion of what constitutes effective economic stimulus, presents an overview of the different proposals, compares specific provisions, and evaluates how well each plan meets the principles laid out by the Budget Committees.

WHAT IS EFFECTIVE ECONOMIC STIMULUS?

The key to achieving a rapid recovery from a recession is to bolster incomes. When cash-strapped households reduce spending, businesses face falling sales and become increasingly reluctant to invest. This further lowers incomes, initiating a downward spiral of economic activity.

The traditional remedy in such a case is economic stimulus. The Federal Reserve has provided one type of stimulus through a succession of interest rate cuts. It has cut short-term interest rates 10 times since the beginning of the year, lowering the federal funds rate from 6.5 percent to 2.0 percent.

With the economy contracting in the third quarter and possibly the fourth quarter of this year, it appears that monetary stimulus alone may be insufficient to hasten economic recovery. Before going overboard with additional stimulus, however, it is prudent to recognize that the groundwork for economy recovery may already be in place. First, it often takes times for the economy to respond to interest rate cuts. Second, Congress has already enacted $41 billion in additional spending for 2002 beyond that agreed to in the fiscal year 2001 budget resolution. Third, $77 billion in tax reductions will take effect next year as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (see Table 1).

If there is a need for additional stimulus, the federal government has a number of options. It could bolster income by increasing government purchases of goods and services, increase household disposable income by reducing personal income taxes and increasing transfer payments, or encourage business investment through tax incentives. All of these actions inject money into the economy and can boost economic activity in the short-term. However, only the first—the direct purchases of goods and services—insures that all the additional money will be spent rather than saved.

Table 1
FISCAL POLICY CHANGES ALREADY ENACTED

	Cost in billions		
	2001	2002	2001- 2011[1]
SPENDING INCREASES	-	41	80
Additions to FY 2002 Discretionary Spending [2]	-	10	25
Emergency Anti-Terrorism Supplemental	-	25	40
Airline Assistance	-	6	15
TAX DECREASES	45	77	1,441
Revenue Reductions Resulting from the Economic Growth and Tax Relief Reconciliation Act of 2001 [3]	41	71	1,349
Outlays for Refundable Tax Credits Included in Economic Growth and Tax Relief Reconciliation Act of 2001	4	6	92

Source: Calculations by the Joint Economic Committee Democratic staff. Estimated from Congressional Budget Office (CBO), "The Budget and Economic Outlook," August 2001, table 1-4, and "Revised Budget Outlook and Principles for Economic Stimulus," Senate Budget Committee and House Budget Committee, October 4, 2001.

Notes:
1. Includes only amounts specified in appropriations bills or the tax act. Does not include any allowances for carrying funds forward beyond amounts appropriated. Also excludes debt service impacts of new spending.
2. Estimate reflects 25 billion in supplemental appropriations for spending on defense and education. Outlays for 2002 based on CBO's composite outlay rate for discretionary spending.
3. Amounts shown are net of effects of the corporate tax payment date changes.

Results From a Simple Policy Experiment

Large-scale macroeconomic models estimated over the postwar period have affirmed that, in the short run, increasing government purchases is generally a more effective way to stimulate the economy than cutting taxes. The reason is that higher federal purchases directly increase gross domestic product (GDP). By contrast, lower taxes affect GDP only indirectly, by increasing the disposable incomes of households and firms, leading them to gradually increase their consumption and investment demands. This, in turn, increase GDP by less than the amount of the tax cut over the short term.

Simulation estimates published by the Federal Reserve demonstrate this conventional result. Those simulations compared the macroeconomic effects of a fiscal stimulus equivalent to

one percent of GDP achieved through increased federal purchases or through a reduction in taxes. Under alternative assumptions regarding monetary policy, increases in federal spending raise real GDP by more than do equivalent cuts in taxes over the course of a year.[2]

Simple policy simulations using the Washington University Macroeconomic Model show similar results. Three alternative types of fiscal stimulus were simulated: (1) an increase in federal government purchases of nondefense goods; (2) a reduction in federal individual income tax rates; and (3) a reduction in the marginal federal corporate tax rate. Federal purchases were increased by one percent of baseline GDP. The tax rates were reduced sufficiently to lower collections by one percent of GDP, before allowing for changes in baseline taxable incomes.

Following the Federal Reserve study, the simulations were done assuming two alternative types of monetary policy. In one case, the Federal Reserve was assumed to respond to the fiscal stimulus in such a way that the real federal funds rate (that is, the nominal rate net of inflation) remained unchanged from its baseline level. In that scenario, the central bank's sole concern is the rate of inflation and it adjusts the funds rate point-for-point with the inflation rate. An alternative to that policy is the so-called Taylor rule. In that scenario, the central bank was assumed to adjust the supply of reserves to keep the economy from deviating too far from its target rate of inflation and its target rate of real growth. Many analysts regard such a rule as a good approximation of the Federal Reserve's actual behavior.

The model clearly shows that government purchases provide more short-term stimulus than tax cuts under either monetary policy assumption (see Table 2). Because the stimulus is not inflationary over the short run, the monetary policy that holds the real funds rate at baseline levels is less restrictive than the monetary policy that follows the Taylor rule. It is also noteworthy that the cut in the marginal corporate tax rate was less stimulative than the individual income tax cut.[3] Although the Washington University model shows larger increases in GDP than in the Federal Reserve's model, the model's results concerning the impact of spending increases relative to tax cuts matches those of the Federal Reserve.

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2. See, D. Reifschneider, R. Tetlow, and J. Williams, "Aggregate Disturbances, Monetary Policy, and the Macroeconomy: The FRB/US Perspective," *Federal Reserve Bulletin*, January 1999, pp. 1-19.

3. The reason is that the corporate tax cut stimulates business investment by lowering the cost of capital, which, over the short term, yields less additional investment than changes in demand. Short-run movements in investment have tended to be more highly correlated with changes in demand than with changes in the cost of capital and this is reflected in econometric models of short-run investment behavior. To be sure, under the neoclassical view of capital demand, a one percent decline in the cost of capital (for example, as a result of a cut in corporate tax rates) raises the desired capital stock to the same degree as a one percent increase in output over the long term. But over four quarters–the period of greatest relevance to countercyclical economic stimulus–changes in the cost of capital have a relatively small effect on investment.

Table 2
SHORT-TERM RESPONSE TO FISCAL STIMULUS

	RESPONSE AT END OF THE QUARTER percentage increase in real GDP				
	First	Second	Third	Fourth	Eighth
Federal Reserve Maintains Constant Real Federal Rate Funds					
Increase federal purchases by 1 percent of GDP	1.4	2.0	2.1	2.3	2.6
Decrease federal personal income taxes by 1 percent of GDP	0.5	0.8	1.0	1.2	1.9
Decrease federal corporate income taxes by 1 percent of GDP	0.0	0.1	0.3	0.5	1.5
Federal Reserve Adjusts Federal Funds Rate to Inflation and Growth Targets					
Increase federal purchases by 1 percent of GDP	1.3	1.6	1.5	1.4	0.8
Decrease federal personal income taxes by 1 percent of GDP	0.5	0.7	0.8	0.8	0.7
Decrease federal corporate income taxes by 1 percent of GDP	0.0	0.1	0.2	0.4	0.8

Source: Simulations by the Joint Economic Committee Democratic staff using the Washington University Macroeconomic Model.

SUMMARY OF CONGRESSIONAL RECOVERY PACKAGES

There currently are at least four competing congressional economic recovery proposals, one passed by the House, one reported out of the Senate Finance Committee, one proposed by Senate Republicans, and one proposed by a coalition of Senators from both parties.

House Bill

On October 12, the House of Representatives passed HR. 3090, The Economic Security and Recovery Act of 2001. The Act would provide a total of $101.1 billion in tax relief and spending increases in fiscal year 2002, and over $163.8 billion for the period 2002-2011. Almost all of the economic stimulus would originate from tax reductions, with just $1.7 billion in 2002 and an additional $2.7 billion in 2003 coming from non-tax provisions.

Over 70 percent of the tax cuts would go to corporations and businesses. The key corporate and business tax reductions are 1) temporarily increasing the first-year depreciation allowances for certain new investments; 2) shortening the depreciation period for improvements to leased property; 3) temporarily extending the net operating loss carryback period from two years to five years; 4) retroactive repeal of the corporate alternative minimum tax; and 5) permanently extending the exemption from subpart F rules for multinational business income from banking, insurance and financing.[4]

The major tax cuts for individuals are 1) a tax rebate for working families who received a partial or no tax rebate this past summer; 2) accelerating to 2002 some of the tax rate cuts scheduled to take effect in 2004 and 2006; 3) a reduction in the tax rate on capital gains; and 4) increases in the exemption amount for the individual alternative minimum tax.

Senate Finance Committee Bill

The Senate Finance Committee reported out its version of a recovery package on November 8, The Economic Recovery and Assistance for American Workers Act of 2001. After adjustments made when it was introduced on the floor, the Senate Finance bill would provide $66.6 billion in tax relief and spending increases in 2002, but only $71.2 billion for the entire 2002-2010 period.

About 44 percent of the first-year cost—$29.3 billion—would come from temporary spending increases for unemployment insurance, health insurance coverage for unemployed workers, and revenue sharing with the States.

The remaining 56 percent would come from tax cuts for corporations and business, tax cuts for individuals, special tax incentives for New York City and other distressed areas, tax relief for victims of terrorism, and other tax provisions. In contrast to their very high share in the House recovery package, tax cuts for business and corporations account for just over half the total tax reductions in the first year. The Senate Finance Committee proposal also would temporarily increase first-year depreciation allowances for certain new investments, but by only one-third as much as in the House bill, and for only one year instead of for three. The proposal would extend the loss carryback period from 2 years to 5 years, as in the House bill. The Senate Finance bill would not repeal the corporate alternative minimum tax, although it would adjust the corporate AMT to prevent it from weakening the effect of the investment stimulus. It also does not permanently extend the exemption from subpart F rules for "active financing income", although it would extend the exemption, which would otherwise expire at the end of 2002, for one year.

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4. Income earned by multinational businesses in foreign countries is generally not subject to U.S. taxes until that income is distributed to shareholders. Under subpart F rules, majority U. S. shareholders with a controlling interest in foreign corporations are subject to tax on income earned by such controlled foreign corporation, whether or not that income is distributed to shareholders. The proposal would permanently extend the current exemption from subpart F rules to income derived from active conduct of banking, financing, or insurance business.

The Senate Finance bill includes almost the same rebate for low-income workers as the House bill, but does not reduce capital gains taxes, increase the individual AMT exemption amount, or accelerate previously scheduled rate reductions.

Senate Republican Alternative

Senate Republicans have proposed an alternative recovery package that follows the plan outlined by President Bush. Their proposal consists entirely of tax cuts, and would total $89 billion in 2002 and $175 billion over the period 2002-2011. It contains of only four provisions, 1) the same tax rebate for low- and moderate-income families as the House and Senate Finance bills; 2) accelerating all of the tax rate cuts scheduled for 2004 and 2006 to 2002; 3) the same increase in deductions for investment expenses as the House bill; and 4) prospective repeal of the corporate alternative minimum tax.

Senate Centrist Coalition Stimulus Package

On November 14, a group of Senate centrists proposed, in their words, a “compromise” stimulus package that aims to find a middle ground between the House and Senate Finance Committee economic recovery bills. It includes the basic provisions of both bills – tax relief such as supplemental rebate checks; one-year extension of existing tax credits and special depreciation rules for investment; extended unemployment insurance benefits; and provisions to help pay for health insurance for the unemployed. While this proposal provides more spending to assist low-income workers than the House bill, it fails to include provisions of the Senate Finance bill – such as higher unemployment benefits and more funds for Medicaid – that could have an immediate stimulative effect on the economy in the coming year and assist those families most vulnerable in the economic downturn.

Table 3
HOUSE ECONOMIC RECOVERY BILL (H.R. 3090)
"Economic Security and Recovery Act of 2001"

	Cost in billions		Cost in 2002 as a percent of 10-year cost
	2002	2002-11	
TAX PROVISIONS	99.4	159.4	62
Individual Relief:			
Rebate for low-income workers[1]	13.7	13.7	100
Accelerate the 25 percent income tax rate[2]	12.8	53.7	24
Increase individual AMT exemption amount[3]	0.7	6.3	11
Increase deduction of capital losses[4]	0.8	1.9	42
Reduce and simplify capital gains tax rates[5]	0.5	10.4	5
Business Relief:			
30 percent expensing[6]	39.3	17.9	>100
Expand small business expensing[7]	0.9	0.3	>100
15-year life for leasehold improvements	0.1	7.1	1
Extend loss carryback period[8]	4.7	0.5	>100
Repeal the corporate AMT and fully refund AMT credits	25.4	24.1	>100
Extend deferral of multinational business income (subpart F)	0.3	21.3	1
Extenders, Miscellaneous:			
Extend all expiring provisions for two years, and technical amendments	0.2	2.2	10
NON-TAX PROVISIONS	1.7	4.4	39
Unemployment Insurance:			
Accelerate transfers to state trust funds[9]	0.7	1.4	50
Health Coverage:			
Increase social services block grant	1.0	3.0	33
TOTAL	101.1	163.8	62

Source: Calculations by the Joint Economic Committee Democratic staff. Congressional Budget Office, cost estimate for H.R. 3090 Economic Security and Recovery Act of 2001," October 17, 2001. Joint Committee on Taxation, JCX-70-01: Estimated Budget Effects of a Modified Chairman's Amendment in the Nature of a Substitute to the Revenue Provisions Contained in H.R. 3090, The 'Economic Security and Recovery Act of 2001," October 12, 2001.

Notes to Table 3:

1. Provides a rebate of 300 per individual, 500 per head of household, and 600 per couple for taxpayers filing a tax return in 2000 (excluding dependents). Rebate reduced by the amount of earlier rebate.
2. As scheduled to take effect in 2006.
3. Increase by 1,600 non-joint and 3,200 joint for 2002 and 2003, and by 850 non-joint and 1,700 joint for 2004.
4. Increase deduction against ordinary income from 3,000 to 4,000 for tax year 2001 only, and to 5,000 for tax year 2002 only.
5. Repeal "mark to market" and the 5-year holding period, and allow adjusted net capital gains to qualify for the 8 percent and 18 percent capital gains rates.
6. For investments in capital and software placed in service over next 36 months. Remaining 70 percent depreciated under current rules.
7. Increase from 25,000 to 35,000 the amount that small businesses may expense under Section 179, and increase beginning point for phaseout to 325,000, for 24 months.
8. Extend carryback period from 2 years to 5 years, and waive AMT 90 limitation on allowance of losses, for the next 36 months.
9. A Manager's Amendment to the Senate bill changed the scoring of unemployment benefits. The estimates in the table include the same changes to the House bill.

Table 4
SENATE FINANCE ECONOMIC RECOVERY BILL
"Economic Recovery and Assistance For American Workers Act of 2001"

	Cost in billions		Cost in 2002 as a percent of 10-year cost
	2002	2002-11	
TAX PROVISIONS	37.3	30.3	>100
Individual Relief:			
Rebate for low-income workers[1]	14.2	14.2	100
Business Relief:			
10 percent expensing[2]	14.0	2.2	>100
Expand small business expensing[3]	0.9	0.1	>100
Extend loss carryback period[4]	4.6	0.1	>100
Other Tax Provisions:			
Tax incentives for NYC and distressed areas[5]	1.8	5.3	34
Victims of terrorism tax relief	0.3	0.4	67
Extend certain expiring provisions	1.0	3.1	32
Additional provisions[6]	0.5	4.9	10
NON-TAX PROVISIONS	29.3	40.9	72
Unemployment Insurance:			
Temporarily extend and expand UI[7]	14.9	20.1	74
Health Coverage:			
COBRA subsidy[8]	5.1	7.4	69
Medicaid[9]	1.8	2.8	64
Other Spending:			
Revenue sharing (Enhanced FMAP match)[10]	4.7	5.1	92
Agriculture relief	2.8	5.5	51
TOTAL	66.6	71.2	93

Source: Calculations by the Joint Economic Committee Democratic staff. Congressional Budget Office, cost estimate for H.R. 3090 "Economic Security and Assistance for American Workers Act of 2001," November 15, 2001. Joint Committee on Taxation, JCX-81-01: "Estimated Revenue Effects of H.R. 3090, The 'Economic Recovery and Assistance for American Workers Act of 2001,'" November 9, 2001.

Notes to Table 4:

1. Provides a rebate of 300 per individual, 500 per head of household, and 600 per couple for taxpayers filing a tax return in 2000 (excluding dependents). Rebate reduced by the amount of earlier rebate.
2. For investments in capital assets with lives of 20 years or less, software, leasehold improvements, and property eligible for the income forecast method, placed in service over next 12 months. Remaining 90 percent depreciated under current rules.
3. Increase from 25,000 to 35,000 the amount that small businesses may expense under Section 179, and increase beginning point of phaseout to 325,000, for 12 months.
4. Extend carryback period from 2 years to 5 years, and waive the AMT 90 limitation on allowance of losses, for 12 months.
5. Expand Work Opportunity Tax Credit targeted categories to include certain employees in NYC; authorize issuance of tax-exempt private activity bonds for rebuilding portion of NYC damaged on 9/11/01; bank carrying cost exception for tax-exempt reconstruction bonds; incentive for reinvestment of insurance proceeds received for property damaged in NYC on 9/11/01, to the extent reinvested in eligible NYC property by 1/1/07; re-enact exceptions for qualified mortgage bond financed loans to victims of Presidentially-declared disasters for calendar year 2002; one-year expansion of authority for Indian tribes to issue tax-exempt private activity bonds.
6. Includes tax credit bonds for Amtrak and other tax credits.
7. a) Provide 13 weeks of extended benefits to workers whose regular Unemployment Compensation has expired; b) require states to use most recent earnings data to determine UI eligibility and provide benefits to certain part-time workers; and c) supplement the amount of benefits paid to UC recipients. A Manager's Amendment changed the scoring of unemployment insurance so the ten-year costs are no longer zero as reported in the official CBO estimate.
8. Provide a 75 percent subsidy for purchase of COBRA continuation coverage. Give states the option to use Medicaid funds at the CHIP match rate to subsidize the remainder of the COBRA premium for low-income individuals.
9. Give states the option to cover displaced workers and their families through Medicaid. Fund at the enhanced CHIP matching rate, which pays 70 percent of the cost, on average.
10. “Federal Medical Assistance Percentage” -- increase the rate at which the federal government matches state spending on Medicaid by 1 percent for all states and 2 percent for high-unemployment states.

Table 5
SENATE REPUBLICAN PROPOSAL

	Cost in billions		Cost in 2002 as a percent of 10-year cost
	2002	2002-11	
TAX PROVISIONS			
Individual Relief:			
Rebate for low-income workers[1]	14	14	100
Make 2006 tax rate schedule effective in 2002[2]	27	121	22
Business Relief:			
30 percent expensing[3]	39	18	>100
Repeal corporate AMT[4]	9	22	41
TOTAL	89	175	51

Source: Calculations by Joint Economic Committee Democratic staff. Senate Republican Proposal for Implementation of President's Stimulus Principles, October 30, 2001.

Notes:
1. Provides a rebate of 300 per individual, 500 per head of household, and 600 per couple for taxpayers filing a tax return in 2000 (excluding dependents). Rebate reduced by the amount of earlier rebate.
2. Accelerate the 25 percent, 28 percent, 33 percent, and 35 percent income tax rates scheduled for 2006.
3. For investments in capital and software placed in service over next 36 months. Remaining 70 percent depreciated under current rules.
4. Prospective repeal. Does not allow refunds for past AMT credits.

Table 6
SENATE CENTRIST COALITION PROPOSAL

	Cost in billions		Cost in 2002 as a percent of 10-year cost
	2002	2002-11	
TAX PROVISIONS	62.2	86.4	57
Individual Relief:			
Rebate for low-income workers[1]	14.0	14.0	100
Accelerate 10 bracket expansion in 2002 to 7K/14K	5.0	30.0	17
Accelerate reduction in 27 bracket to 26 in 2002	6.5	27.0	24
Business Relief:			
20 percent bonus depreciation[2]	26.0	4.1	>100
Extend loss carryback period[3]	4.5	0.1	>100
Expand small business expensing[4]	0.9	0.1	>100
Health Coverage:			
Temporary COBRA tax credit[5]	4.7	8.5	55
Other Tax Provisions:			
Extend certain expiring provisions	0.6	2.6	23
NON-TAX PROVISIONS	13.1	16.0	82
Unemployment Insurance:			
Temporarily extend UI[6]	8.1	11.0	74
Other Spending:			
National Emergency Grants[7]	5.0	5.0	100
TOTAL	75.3	102.4	74

Source: Calculations by Joint Economic Committee Democratic staff. Senate Centrist Coalition Stimulus Package, November 14, 2001.

Notes to Table 6:

1. Provides a rebate of 300 per individual, 500 per head of household, and 600 per couple for taxpayers filing a tax return in 2000 (excluding dependents). Rebate reduced by the amount of earlier rebate.

2. The Coalition estimate of the 10-year cost of this provision is 26 billion. This proposal is similar to one in the Senate Finance bill. Using the ratio from the official cost estimate for that bill, the JEC re-estimated the 10-year cost to account for the fact that firms will be able to take fewer deductions in the out years and thus pay more in taxes.

3. Extend carryback period from 2 years to 5 years, and waive the AMT 90 limitation on allowance of losses.

4. Increase from 25,000 to 35,000 the amount that small businesses may expense under Section 179, and increase beginning point of phaseout to 325,000, for 12 months.

5. Refundable tax credit for 50 of COBRA premiums, not to exceed 140 per month for singles and 340 per month for families. Expires December 31, 2002. The Center on Budget and Policy Priorities re-estimated this provision because the estimated cost for the 50 credit in this proposal is higher than that of a 75 grant to individuals in the Senate bill. CBPP estimates the one-year cost as 3.2 billion, 4.6 billion over ten years. ("Centrist Coalition's Disappointing Stimulus Proposal," November 16, 2001, Center on Budget and Policy Priorities.)

6. Provide 13 additional weeks of unemployment benefits to all eligible workers who exhaust their regular unemployment benefits and have an active benefit year. Expires twelve months after enactment of bill. The Coalition estimate of the 10-year cost of this provision is 8 billion. The JEC used the CBO estimate of a similar provision in the Senate bill.

7. Grants to states to help displaced workers maintain health coverage, supplement their income or receive job training. It is unlikely, however, that the full 5 billion would be spent in the first year because states would need time to establish procedures to distribute the funds. Using the CBO estimate of a similar provision in the House bill, it is more likely that only 1.5 billion would be spent in 2002.

A COMPARISON OF THE PROVISIONS IN THE PACKAGES

We compare provisions of the Congressional proposals in five areas: tax cuts for families, tax cuts for businesses and corporations, unemployment assistance, health insurance coverage for displaced workers, and revenue sharing with the states.

Tax Cuts for Families and Individuals

The Senate Finance Committee bill provides the most stimulus bang-for-the-buck by targeting all its tax cuts for families and individuals to lower-income households. These households have limited discretionary income and thus will more likely spend any tax rebate to meet basic economic needs. The other three proposals also include tax cuts for higher-income families in addition to the rebate for low-income working families, although the Senate Centrist plan would target three-fourths of its individual tax relief to low-income households. Studies have shown that higher-income households are more likely to save a significant portion of any tax cut they receive. While saving is important for long-term economic growth once the economy has recovered, spending is more important for promoting recovery when the economy is weak.

Tax rebate for lower-income households. This summer's income tax rebates were limited to the amount of a taxpayer's income tax liability based on calendar year 2000 tax returns. Some 17 million households who filed tax returns received less than the full amount of the rebate because of this limitation, while an additional 34 million households failed to qualify for any rebate.

All four proposals would provide rebates to people who filed a 2000 tax return but received only a partial rebate or no rebate at all in the last round. Those eligible include millions of lower-income families who work and pay payroll taxes but had insufficient income tax liability to receive the full income tax rebate in the first round. The rebate would be $600 for married couples, $500 for heads of households, and $300 for singles, less the amount of any rebate previously received, and would cost an estimated $14 billion.

Even though the rebate would represent a one-time tax cut, which economists usually believe is less effective in stimulating consumption than a permanent cut, this particular rebate would be effective stimulus because it is targeted to low-income households who typically are cash-constrained and thus likely to spend a significant fraction of any new source of income.

In addition to the rebate, the House bill would accelerate scheduled income tax rate cuts for taxpayers whose incomes are high enough to put them beyond the 15 percent tax bracket. In particular, the House bill would accelerate to 2002 the cut in the "28 percent" bracket scheduled for 2004 and 2006. The tax cut passed in June, lowered the 28 percent rate to 27 percent in 2002 and will reduce it further to 26 percent in 2004 and 25 percent in 2006. Accelerating the reduction to 25 percent to next year would cost $54 billion over the next five years—almost four times as much as the rebate for lower-income households. The Senate Republican alternative would go even further, accelerating all of the upper-tax bracket rate reductions. That proposal

would cost $121 billion over five years, nearly nine times as much as the rebate for lower-income households.

Proposals for accelerating the tax rate reductions are not only extremely expensive, they are also ineffective stimulus for the economy. The bulk of the benefits go to higher-income households. Accelerating the upper-bracket rate cuts would benefit less than one-fourth of households who file income taxes (and thus an even smaller fraction of all households, including non-filers). These households are much less likely to increase consumption in response to this one-time windfall.

In addition to the rebate, the Senate Coalition plan provides additional tax relief to families with moderate and higher incomes by increasing the income range over which the 10 percent tax bracket—the lowest tax bracket—applies. This change was scheduled to take effect in 2008. All taxpayers pay this rate on part of their income. This change has the desirable effect of lowering the marginal tax rate faced by some households currently in the 15 percent tax bracket, but only households whose income places them in the new 15 percent bracket or above will receive the full tax reduction of $100 for a married couple ($50 for single taxpayers). A married couple with two children, for example, would need income of about $34,000 or more to benefit fully from the proposal. The Centrist plan would also accelerate to 2002 part of the tax rate cut scheduled for 2004, reducing the 27 percent tax rate to 26 percent. This is not as large a tax cut as either in the House bill or the Senate Republican alternative, but would still cost $27 billion—nearly twice the cost of the tax rebate for low-income families.

Tax Cuts for Businesses and Corporations

All four proposals provide incentives for businesses and corporations to increase investment. By targeting most of its tax relief for businesses to these investment incentives, the Senate Finance bill would generate more immediate increases in investment per dollar spent. A higher proportion of the business tax cut provisions in the House bill, by contrast, are either not likely to spur investment at all or else create incentives for investment beyond the first year and thus would be of no help with economy recovery.

Additional depreciation allowances. Corporations and businesses can recover the cost of investments through annual deductions for depreciation. The percentage of the cost deductible in each year depends on the recovery period and the depreciation methods allowed for different types of investments. Generally, the more businesses can deduct in the first year, the greater the tax saving. In terms of cost, proposals to accelerate depreciation lead to revenue losses in the early years, but those costs are made up in later years when businesses take smaller depreciation deductions than they otherwise would have. There is, however, a net budget cost because the revenue loss in the early years results in increased debt service costs over time.

The Senate Finance bill would allow businesses and corporations an additional first-year depreciation deduction equal to 10 percent of the cost of the investment. This "bonus depreciation" would apply to property placed in service before January 1, 2003. The temporary nature of these provisions increases the stimulative potential while lowering costs–hence, maximizing the "bang per buck." When investment tax cuts are temporary, businesses are more

likely to immediately invest and expand production and in turn hire more workers because of the "now or never" nature of the tax cut. Temporary tax provisions geared toward new investment are much more effective at encouraging new economic activity than are permanent reductions in corporate tax rates or other cuts in capital income taxes.

In contrast, the House bill and the Senate Republican alternative would allow businesses an additional first-year deduction of 30 percent, which would apply to new investments for the next 36 months. Because this proposal provides incentives over a longer horizon, it is less likely to induce new investment now. In fact, it may not provide any incentive to increase investment for the next two-years. Given the current uncertain investment climate, businesses can wait until well into 2004 before undertaking new investment, and still receive the full benefits from the additional depreciation deduction. This proposal would also create a disincentive for investment in 2005 once the additional deduction no longer applied. There likely would be substantial pressure to make the provision permanent at that time, an extremely costly option.

The Centrist plan would allow businesses to immediately deduct 20 percent of their investment costs in 2002 rather than the 10 percent proposed by the Finance Committee. The additional depreciation deductions would be applicable to new investment over the next 12 months as in the Senate Finance proposal.

Temporarily extend the loss carryback period from 2 years to 5 years. Businesses and corporations with tax deductions in excess of income can use such "net operating losses" to reduce taxes in other years. In general losses may be carried forward 20 years and carried back 2 years to reduce taxable income in those years.

The Senate Finance Committee bill, the House bill, and the Senate Coalition plan would extend the carryback period for losses from its current 2 years to 5 years. The Senate version would apply to losses incurred for the next year, the House version for losses in the next three years. Temporarily extending the loss carryback period would improve cash flow for corporations and businesses whose profits have slipped during the current economic downturn. Extending the applicable period for the next three years, however, would benefit businesses that continue to show losses, presumably long after the economy has recovered.

Extending the loss carryback period would help formerly profitable businesses with current losses, firms that might otherwise be likely to lay off workers. It would not have a large long-term revenue loss because firms that could deduct current losses now, generally would have been able to carry forward those losses and deduct them in the future when they returned to profitability. Although such a provision fails to provide a direct price incentive to undertake new investment, by improving cash flow for constrained businesses, it could encourage a higher level of production and employment than would have otherwise occurred. There is no guarantee that businesses will use their tax saving in this way, however.

Repeal the corporate alternative minimum tax. Enacted in its present form in the Tax Reform Act of 1986, the corporate alternative minimum tax (AMT) was intended to reduce tax-sheltering activity. It operates parallel to the ordinary corporate income tax, with a broader base and a lower rate. Firms pay the higher of regular tax liability or AMT liability but receive credits

for AMT payments in excess of their regular tax liability. They can use these credits to reduce regular taxes owed in future years.

The Senate Finance bill and the Senate Coalition proposal would modify the AMT to prevent businesses from losing the tax saving from the bonus depreciation provisions. The Senate Republican alternative would repeal the corporate AMT going forward, while the House bill would go even further by repealing the AMT and fully refunding credits for past AMT payments.

Reducing or eliminating the corporate AMT would raise returns to existing assets of large corporations without necessarily boosting new investment. With more generous depreciation allowances, for example, firms that stayed on the AMT would face a greater incentive to invest, but firms that would end up back on the regular corporate tax system might actually face less marginal incentive to invest, because their marginal tax rate would have increased (even though their average tax rate would fall). Small businesses would not benefit at all from AMT relief because the Taxpayer Relief Act of 1997 already exempted small firms from the AMT. Large firms also received substantial relief in 1997 when AMT depreciation allowances were made more generous.

Proponents argue that repealing the alternative minimum tax would encourage investment by increasing corporate cash flow. Given that firms currently operate at the lowest capacity utilization since 1983 (currently about 73 percent), it is unlikely that they will undertake new investment to increase output. Efforts to increase consumer demand will likely have a greater immediate impact on new investment than attempts to increase after-tax corporate income.

<u>Expanded Unemployment Insurance Assistance</u>

The Senate Finance bill would extend the duration of unemployment insurance, expand coverage, and increase benefit amounts. The Senate Coalition plan contains some but not all of the provisions in the Finance Committee plan. The House bill provides limited unemployment assistance, while the Senate Republican alternative fails to even address the issue.

In November 2001, 8.2 million people were unemployed, over 400,000 more than in the previous month and over 1.1 more than in September. Another 4.5 million people who wanted full-time work could only find part-time employment. The unemployment rate rose by 0.3 percentage points to 5.7 percent in November, the highest level since August 1995. Since October 2000, when the number of unemployed and the unemployment rate were at their most recent lows, unemployment has risen by 2.6 million and the unemployment rate has gone up by 1.8 percentage points. Since the beginning of the recession in March 2001, the rate has gone up by 1.4 percentage points.

The unemployment rate likely will continue to rise even after the economy begins to recover. For example, during the 1990-1991 recession, the unemployment rate reached 6.8 percent, yet the following year, after the recession had officially ended, the rate climbed to 7.5 percent.

Recipients must be actively looking for work and have been attached to the workforce. Benefits are limited to 26 weeks. In November, over 1.1 million workers had been unemployed for 27 weeks or more. States with high unemployment levels can access the Extended Benefits program, which provides an additional 13 weeks of coverage when one of three specific high unemployment criteria is met. At present, no state meets those criteria.

Unemployment Insurance is an important anti-recessionary government program. Its impact is automatic and immediately counter-cyclical. During periods of increasing unemployment, total earnings decline and consumer spending falls. UI benefits partially replace these lost earnings, thereby lessening the overall decline in consumer spending. Payments fall as the economy recovers and workers are re-employed.

Even in the best of times, the UI program has significant weaknesses that tend to disproportionately affect women, low-wage workers, and part-time workers. First, many workers exhaust benefits, even when conditions fail to trigger payments under the extended benefits program. In 1999, 2.3 million people exhausted their regular unemployment benefits--32 percent of all those receiving benefits in 1999. For the 12 months ending with October 2001, 2.6 million workers had already exhausted their benefits. The number of unemployed who exhaust benefits will likely rise substantially well after the officially defined recession has ended. Although the last recession ended in 1991, 3.9 million people exhausted their regular benefits in 1992.

Second, coverage rates are low in the current UI system, particularly among low-wage and part-time workers. In 1999, only 38 percent those unemployed received benefits. Although about two fifths of unemployed high-wage earners received benefits, less than 20 percent of low-wage ($8.00 an hour or less) earners did so. Even though nearly one in five workers is employed part-time (35 hours a week or less) part-time workers are not covered in most-states – in fact, 30 states explicitly exclude those looking for only part-time work for UI coverage.

Senate Finance Committee provisions

The Senate Finance Committee bill addresses many of the current limits and weaknesses of the Unemployment Insurance program temporarily expanding coverage and benefits during the recession. The Senate UI proposal comprises four basic provisions: 1) extend unemployment benefits (until December 2002) by 13 weeks to those who exhaust regular benefits after September 11, 2001; 2) expand UI coverage to unemployed workers seeking part-time work and those who would be eligible if their most recent earnings were considered; 3) supplement benefit payments by an additional 15 percent or $25 per week, whichever is greater; and 4) transfer additional funds from the Federal unemployment trust fund accounts to state accounts to cover administrative costs of the above provisions.

The Senate Finance proposal funnels money into the hands of people very likely to use the funds immediately and not divert them into savings. Thus, the money goes almost entirely to support immediate consumer demand and stimulate the economy sooner rather than later. In addition, part-time workers and those who would qualify for benefits only by using more recent earnings tend to earn less than other workers. A portion of the funds, therefore, will be targeted to those likely to have the greater need.

All provisions would be felt immediately through a greater number of people now qualifying for benefits, an increase in payments to all beneficiaries, and additional coverage for those workers who had exhausted regular benefits after September 11, 2001. Because these unemployment provisions are temporary, they do not have long-term costs (apart from additional debt service). Even if they were permanent, the costs would decline as the economy recovers and the number of workers claiming regular and extended benefits falls.

House provisions

The House bill offers very little for unemployed workers. The bill's one UI provision is to speed-up an already-slated transfer of $9.3 billion from the federal unemployment trust fund to the state unemployment accounts, with no restriction on the money's use. The following are some of the problems with such a proposal.

Insufficient size. The accelerated $9.3 billion in transfers likely will prove insufficient to meet the increased demands on the program. Immediately following the last recession, $36.8 billion (in nominal dollars) was spent in 1992 alone for unemployment benefits, including an additional 13 weeks of coverage. During 2000, an estimated $21.5 billion regular and Extended Benefits were paid.

No guarantee of proper use. Since there are no restrictions on the use of these funds, states can conceivably use them to shore up their individual UI accounts and make no additional benefit payments. In fact, CBO projects that only $700 million of the $9.3 billion would likely be spent in fiscal year 2002.

No immediate impact. Since the funds are to be transferred to the states' accounts for use and dissemination, nearly all states wishing to expand benefits would need to undertake specific legislative action, delaying payment of benefits by at least several months.

Funds not allocated based upon need. The House proposal allocates funds to states in proportion to their UI revenues already raised. Thus, states with stronger economies in recent years will receive more money, while those experiencing higher rates of unemployment will not.

Does not address existing coverage inadequacies. Nothing in the House bill addresses the problem that UI coverage disproportionately misses lower-wage workers in most states by not covering part-time workers and not including the most recent earnings in calculating benefits.

Senate Centrist Coalition proposal

Like the Senate Finance bill, the Senate coalition proposal extends unemployment benefits for an additional 13 weeks. The coalition estimates the cost of this provision to be $8 billion in 2002.

The proposal, however, fails to include some of the additional provisions in the Senate Finance bill such as an increase in unemployment benefits, or broadened eligibility. Currently,

many lower-income workers are ineligible for unemployment because they are only seeking part-time work or because the most recent quarter is not used to calculate their eligibility.

Health Insurance Coverage

Sixty-five percent of all Americans get their health insurance coverage through their employer. As unemployment increases, many people will be at increased risk of losing their coverage. The Consolidated Budget Reconciliation Act of 1985 (COBRA) requires employers to offer employees and their families the option of continuing group health insurance coverage in case of termination of employment, reduction in hours, retirement, death of the employee, and divorce or separation. In the event of termination or reduced hours employees can continue coverage for 18 months. In all other events, they can continue it for 36 months. Employers are not required to pay for this coverage.

Just under 60 percent of workers are eligible to continue their health coverage under the COBRA provisions. However, most displaced workers fail to take advantage of this opportunity. In 1999, only 7 percent of unemployed adults elected COBRA coverage. Research shows that high costs are one deterrent to COBRA usage. Costs for those who are unemployed are typically higher than those for workers because the unemployed no longer receive employer subsidies of the premiums. People continuing their coverage under COBRA can pay up to 102 percent of the cost of the premiums. This expense can be quite steep. In 2001, the average monthly premium for employer-sponsored health insurance plan was $221 for individuals and $588 for families.

Over forty percent of adults and their depends fail to meet eligibility standards for continuing health insurance coverage under COBRA. There are stark differences in eligibility by income. Two-thirds of workers and their dependents with incomes above 300 percent of poverty were eligible for COBRA in 1999, as opposed to only one-third of workers and dependents with incomes below 200 percent of poverty.

These differences may be due to two factors. Lower-income workers are less likely to be offered insurance through their employer. In 1999, about one-half of workers earning less than $7 per hour were offered employer-sponsored health insurance, as opposed to over 90 percent of workers earning more than $15 per hour. Second, even if offered health insurance, lower-income workers may decline the coverage because they cannot afford their share of the premiums.

Senate Finance Committee provisions

Premium assistance for COBRA health insurance coverage. The Senate Finance committee bill addresses the problem of the high cost of continuing health insurance coverage. Under the bill the federal government would pick up 75 percent of the cost of health insurance premiums for unemployed workers who chose to extend their health insurance coverage under COBRA. Workers who lose their jobs after September 11, 2001 and are eligible for COBRA coverage would receive the 75 percent premium subsidy for up to 12 months, or until the end of calendar year 2002, whichever came first. The bill would also allow state Medicaid programs to

subsidize the remainder of the premium for low-income workers eligible for the 75 percent COBRA premium subsidy.

Medicaid coverage for displaced workers not eligible for COBRA. The Senate Finance Committee proposal would temporarily allow states would provide Medicaid coverage for up to 12 months to workers laid off after September 11, 2001 and before December 7, 2002, who are uninsured and not eligible to continue their health insurance coverage under COBRA. The bill would provide full subsidies for workers with incomes of up to 250 percent of the poverty threshold, and reduced assistance for those with incomes up to 450 percent of poverty. All benefits would end by December 31, 2002, regardless of how long a worker had been covered.

Under provisions of the bill, the federal government would pay a portion of the additional Medicaid costs. The federal government normally pays at least 50 percent of the cost of Medicaid in each State, and can pay as much as 83 percent, depending on per capita income in the state. States receive a higher federal payment for expenditures under the State Children's Health Insurance Program (SCHIP). Under SCHIP, the federal government pays at least 65 percent of the cost of the state SCHIP program, and can pay as much as 85 percent. Federal payments for newly covered Medicaid beneficiaries under the Act would be at the enhanced SCHIP rate.

House provisions

The House bill provides only limited funding for health insurance for lower-income unemployed workers. The bill provides a $3 billion increase in funding for the Social Services Block Grant (SSBG) for FY 2002. States may use the additional funds to help unemployed workers who are not eligible for federal insurance programs to purchase health insurance in the private market.

In addition, the House bill would temporarily loosen requirements for unemployed persons to use personal savings to pay health insurance premiums. Specifically, individuals who are eligible for unemployment benefits for four consecutive weeks between September 11, 2001 and December 31, 2002 can make penalty-free withdrawals from their IRA or retirement savings accounts to pay for health insurance costs. Current law limits this tax break to individuals who have been collecting unemployment benefits for at least 12 weeks. HR 3090 would also extend the Medical Savings Account (MSA) demonstration project for one year to December 31, 2003. MSAs are tax-advantaged personal savings accounts for unreimbursed medical expenses, including premiums for high-deductible health insurance.

The problems and limitations of the House proposals for health insurance are similar to the problems with the bill's unemployment insurance provisions.

Inadequate amount of assistance: In 2001, the average annual premium cost of an employer-sponsored health insurance plan for family coverage is $7,000. Premiums in the non-group market would likely be higher, and $3 billion is not sufficient to provide a meaningful subsidy to millions of unemployed and uninsured individuals. The House proposal fails to

provide any additional funds for Medicaid, even though state Medicaid rolls are likely to swell with rising unemployment.

No guarantee of proper use: The SSBG is used to fund a variety of social services such as job training, child care and foster care. The House bill stipulates that states may use the additional $3 billion to help people purchase health insurance but it does not require them to use the funds for this purpose.

Limited immediate impact: Currently, states do not use any SSBG funds to help families pay for health insurance. The CBO projects that it would take states several months to set up eligibility criteria and disbursement mechanisms for the new funds. It estimates that only one-third of the allocated funds would be spent in 2002.

Funds not allocated based upon need: SSBG funds are allocated based on state population. This formula does not take into account those regions that have been particularly hard hit by the events of September 11th and the economic downturn. In addition, lower-income workers are less likely to have investments in IRAs or MSAs. Therefore, the bill's tax incentives for the purchase of health insurance would do little to help the low-income unemployed attain coverage.

Does not address existing coverage inadequacies: Additional funds can give individuals the ability to purchase health insurance but would not guarantee them access to coverage, particularly in the non-group market. In many states, insurers can deny non-group coverage to individuals – or impose extensive exclusions or premium increases – based on pre-existing health conditions. In addition, some insurers require an application fee, further increasing the cost of securing coverage.

Senate Centrist Coalition proposal

The Centrist plan would provide some funds for unemployed workers to continue purchasing health insurance in the private market. The proposal calls for a refundable, advancable tax credit that could be used to pay up to half of the premium costs for COBRA coverage. The Centrists estimate that this provision will cost $4.7 billion in 2002 and $8.5 billion over ten years. While more generous than the House proposal, it would help fewer workers than the Senate plan which would provide a direct subsidy of up to 75 percent of the cost of COBRA premiums. Under the Centrist provision, families would still need to cover 50 percent of the cost of premiums.

Because many low-income workers are not eligible for COBRA, the proposal also includes $5 billion in National Emergency Grants. States can use these funds to help individuals purchase insurance in the private market. As noted previously, however, there are significant obstacles to securing coverage in the private, non-group market even with sufficient funds. In addition, the National Emergency Grants can also be used for job training and income support, not just health insurance.

Like the House proposal, the Centrists plan provides no additional funds for Medicaid. With rising unemployment, more and more people will become eligible for Medicaid coverage. The increase in Medicaid rolls will put further fiscal pressure on states. In addition, many low-income individuals may not be able to afford health insurance in the private market – even with a 50 percent tax credit – and will likely join the ranks of the uninsured. The Senate proposal includes several provisions to help relieve the financial burden on states and help extend health insurance coverage to the low-income unemployed.

State Revenue Sharing

The slowing economy has reduced state revenue growth, in some cases quite sharply. State revenues increased only 2.6 percent in nominal terms between the second quarter of 2000 and the second quarter of 2001, compared with an 11.4 percent increase over the prior year. This was the lowest level of real revenue growth in eight years. So far, the slowdown in revenues is still mild compared with that seen in the last recession, but as the economy weakens further, revenues are likely to continue to fall. Corporate tax collections have taken the biggest hit so far, but all major components of tax revenue have slowed, including personal income taxes and sales taxes.

This slowdown in revenues potentially has major implications for state budgets in this fiscal year. Almost all states have either constitutional or statutory requirements to maintain balanced budgets, requiring them to reduce spending as revenues slow. This constraint makes it difficult for states to undertake counter-cyclical spending or tax programs themselves, and lessens their ability to respond to the needs of residents particularly hard-hit by the recession. Seven states have already instituted across-the-board spending cuts, and others have implemented hiring freezes and targeted program reductions. Cities and other localities are facing similar budget dilemmas, as both state pass-throughs and revenues from their own sources fall.

Cutting state and local spending or raising taxes during a recession is not a good idea, either as an economic policy or in servicing the needs of those hurt by the downtown. Almost all safety net programs, for example, are administered and often funded at the state or local level. State and local governments are also major employers, and declines in their budgets can translate directly into higher unemployment rates.

The economic downturn will put increased pressure on the Medicaid program, increasing costs for the States. For example, the recent increase in the unemployment rate to 5.7 percent from a low of 4.5 percent as recently as July of this year, could increase the number of people eligible for Medicaid by over 1.5 million and cause state Medicaid expenditures to rise by more than $1.2 billion. If the unemployment rate rose to 6.5 percent, Medicaid enrollment could jump by another 1.6 million people. These increases in enrollments, coupled with rising medical costs, would put pressure on states to cut Medicaid expenditures and leave more people uninsured.

Temporary increase in Medicaid matching rates paid to states. The Senate Finance Committee bill would help states meet rising Medicaid costs from the economic downturn by temporarily increasing the federal Medicaid match rate. A temporary increase in match rates,

effective for fiscal year 2002 only, could help states provide needed medical services to unemployed and low-income workers, as well as to the elderly and the disabled.

The federal government normally pays at least 50 percent of the cost of Medicaid in each state, and can pay as much as 83 percent, depending on per capita income in the state. Because Medicaid match rates depend in part on recent state income levels, and many states experienced strong income growth in the period immediately before the current economic downturn, more than half the states will see a reduction in their federal match rate in fiscal year 2002. This will impose additional fiscal stress in states where revenues are already falling and where Medicaid expenditures are likely to increase as unemployment rises.

The bill would allow states in which the federal matching rate is scheduled to fall in fiscal year 2002 to retain their fiscal year 2001 rate. States in which the match rate is scheduled to rise in fiscal year 2002 would shift to the higher rate. The matching rate in all states would increase by 1.5 percent. The rate would increase by an additional 1.5 percent--for a total increase of 3.0 percent--in states with higher unemployment rates than the national average for a three-month period.

DO THE PACKAGES MEASURE UP TO THE PRINCIPLES?

While it is important to compare the individual provisions of different economic recovery packages, it is also worthwhile to evaluate the proposals in their entirety. The principles set forth by the House and Senate Budget Committees call for an economic recovery package that will have a rapid and substantial impact on the economy, yet maintain a level of budget discipline. The Senate Finance proposal comes much closer than the others to meeting these principles.

Rapid Impact:

The Senate Finance proposal is the only package that focuses almost all its stimulus on 2002, when the economy will be weakest. Tax and spending provisions in 2002 would account for just less than 90 percent of the cost of the package over the next four years, and 93 percent of the total cost over ten years (see Table 7). The Senate coalition plan would concentrate almost three-fourths of its stimulus in 2001.

In contrast, the House bill and the Senate Republican alternative would concentrate more of their stimulative effect in 2003 through 2005. The House proposal would spend less than half of its total four-year cost in 2002. The Senate Republican proposal would spend only about one-third of the four-year cost in the first year. With this delayed impact, these proposals run the risk of creating stimulus when the economy is already well into a recovery and thus forcing the Federal Reserve to raise interest rates in the future as a hedge against inflation.

Short Duration:

Stimulus needs to be not only quick but also temporary. In order to balance the need for short-term stimulus with the importance of long-term budget discipline, a stimulus plan should

limit the amount of multi-year budget effects. The Senate Finance bill primarily contains tax and spending provisions that expire at the end of 2002. The House bill and the Senate Republican proposal are almost entirely composed of permanent tax cuts, or "temporary" provisions that last for 3 years or more. The Senate coalition plan contains both provisions that expire in 2002 and those that last for a number of years.

Table 7

Percent of the Total Stimulus in the First Year

	Cost in billions			Cost in 2002 as percent of 4-year and 10-year cost	
		2002-05	2002-11	2002-05	2002-11
House Bill	101.1	214.8	163.8	47	62
Senate Finance Bill	66.6	74.5	71.2	89	93
Senate Republican Alternative	89.0	244.0	175.0	36	51
Senate Centrist Coalition Alternative	75.3	-	102.4	-	74

Source: Compiled by the Joint Economic Committee Democratic staff.

Notes:
The total cost of the Senate Centrist Coalition Alternative for 2002-2005 is not available.

Targets:

One of the core objectives of the economic recovery package is to "help those most vulnerable in an economic downturn." To that end, all four stimulus plans include a tax rebate for low-income workers who did not receive a full rebate last summer. However, the House bill, the Senate Republican alternative, and the Senate Coalition plan also include tax breaks for high-income individuals. The Senate Republican proposal would spend twice as much on the high-income tax break as on the rebate for low-income workers in 2002, and over nine times as much over ten years. These high-income tax breaks violate the pledge to help those most in need. They are also inefficient in terms of stimulus because research has shown that lower-income individuals are much more likely to spend a tax rebate than higher-income individuals.

The Senate Finance bill also provides more extensive help to the most vulnerable workers through increased and expanded unemployment and health insurance benefits. Over 20 percent of the Senate Finance bill's cost in 2002 would be spent on expanded unemployment benefits for people who lost a job after September 11, and an additional 10 percent on health insurance coverage for people displaced workers (see Table 8). Just less than one-fourth of the cost of the Senate coalition plan in 2002 would be spent on unemployment assistance, health insurance, and worker training. The House bill provides only limited funds for these provisions, while the Senate Republican bill provides no assistance for these needs.

The House bill and the Senate Republican alternative target more than half of their stimulus in 2002 toward business tax cuts. A large portion of that tax relief, however, is not targeted to new investment. In contrast, nearly all the business relief in the Senate Finance bill provides temporary incentives for new investment.

Offsets:

None of the proposals offset the cost of immediate recovery with future spending reductions or tax increases. All the plans would add to the federal budget deficit now projected for the near future. The Senate Finance Committee proposal, however, would limit the impact on the deficit to about $75 billion over the next four years, while the House bill and the Senate Republican alternative would each add well over $200 billion to the deficit in 2002-2005.

Table 8
Distribution of Tax Relief and Spending Within Each Package

	PERCENT OF TOTAL COST IN 2002			
	House bill	Senate bill	Senate Republican Proposal	Senate Centrist Coalition
TAX PROVISIONS				
Individual Relief:				
Rebate for low-income workers	13.6	21.4	15.7	18.6
Expand 10 percent income tax bracket	-	-	-	6.6
Rate cuts and other benefits for higher- income taxpayers	14.6	–	30.3	8.6
Business Relief:				
Incentives for new investment	39.9	22.4	43.8	35.7
Other tax cuts for businesses	30.1	6.9	10.1	6.0
Other Tax Provisions:				
Tax incentives for NYC and victims of terrorism tax relief	-	3.2	–	–
Extenders and other provisions	0.2	2.3	-	0.8
NON-TAX PROVISIONS				
Assistance for Displaced Workers:				
Unemployment insurance	0.7	22.4	–	10.8
Health insurance coverage	1.0	10.4	–	-
Other Spending Provisions:				
Revenue sharing with the states	–	7.1	-	6.6
Other spending	–	4.2	–	-

Source: Calculations by the Joint Economic Committee Democratic staff.

HOW MUCH STIMULUS WOULD THE PROPOSALS PROVIDE?

To gauge the impact on the economy of the proposals, the Joint Economic Committee Democratic staff simulated the effect of different provisions using the Washington University Macroeconomic model described earlier. These simulations suggest that the supplemental rebate and increased transfer payments to dislocated workers are especially potent and cost effective ways of boosting real (inflation-adjusted) gross domestic product (GDP) over the short term. These results support the position that targeting the stimulus to those most vulnerable to the economic downturn is also sound economic and budget policy.

Table 9 details the results of the simulations. The JEC Democratic staff examined eight alternative forms of fiscal stimulus:

- An individual income tax rebate for those lower-income taxpayers who did not receive any rebate this past summer.
- Accelerate to 2002 the reduction in the 27 percent income tax rate to 25 percent scheduled to go into effect in 2006.
- Accelerate to 2002 the entire schedule of individual income tax rate reductions scheduled for 2006.
- Allow businesses an additional first-year depreciation deduction of 30 percent of their equipment purchases for 24 months.
- Repeal the corporate AMT.
- Repeal the corporate AMT and refund past AMT credits.
- Extend unemployment insurance coverage.
- Extend health insurance coverage for displaced workers.

Except for the depreciation deduction, each of these is an element of at least one of the proposed fiscal stimulus packages that lawmakers are now considering.[1] All of the policies were assumed to commence in the first quarter of 2002.

The simulations assume that the Federal Reserve responds to the alternative fiscal policies by holding nonborrowed reserves fixed at their baseline levels. That means that the central bank is willing to allow the fiscal alternatives to boost demand but that it would not counteract any demand-induced increases in short-term rates. That monetary policy assumption is less restrictive than the Taylor rule policy under which the Federal Reserve attempts to keep output and inflation in line with its own targets. By the same token, the monetary response

1 The JEC staff did not simulate the bonus depreciation proposal, which is a hybrid of actual proposals. The simulations reported in the text were published by Macroeconomic Advisers LLC in their *Economic Outlook* (volume 19, number 10, November 14, 2001). That study examined an expensing provision that lay between the 10 percent expensing for 12 months in the Senate Finance Committee bill and the 30 percent expensing for 36 months in the House bill and the Senate Republican alternative. Few macroeconomic models have the type of structure needed to simulate a temporary investment incentive. Accordingly, most of the calculations of the investment response must be calculated outside the model—using subjective assessments as to how rapidly firms will respond—and then introduced as exogenous adjustments in the macroeconomic model. That is what Macroeconomic Advisers did in developing estimates of the effects of their expensing alternative on GDP.

assumed here is probably more restrictive than having the central bank fix the federal funds rate at baseline levels. The fixed nonborrowed reserves assumption seemed most reasonable for the current experiment, because the central bank has expressed its interest in seeing some fiscal stimulus.

The rebate was the single most effective stimulus over the near term, raising real GDP by 0.4 percent (on an annual basis) in the first quarter and 0.5 percent in the second through fourth quarters (see Table 9). The rebate was introduced into the model as a one-time increase in federal transfer payments to reflect its targeting to lower-income recipients. On average, lower-income households have a higher marginal propensity to consume out of additional income.

The same logic held true for those provisions that would increase spending for unemployment and health insurance. The rebate was more effective than those other spending programs over the near term because the rebate was spent entirely during the first quarter of 2002.

Other policies were not nearly as cost effective or else provided little stimulus in the near term. The tax rebate provided more than thirteen times the increase in GDP in the first year per dollar of ten-year revenue cost as accelerating all the individual income tax rate cuts scheduled for 2006 to 2002. Accelerating to 2002 just the reduction in the 27 percent rate to 25 percent was not as cost effective as the spending proposals. Even though that option produced about the same first year impact on GDP, the total cost was more than twice as high. The corporate tax reductions (the AMT provisions) are very ineffective stimulants. The refunding of past credits is a windfall gain to qualifying businesses, and extremely unlikely to induce increased capital spending.

It is likely that temporary expensing for 12 months would be more stimulative over the near term than the 24-month alternative presented here because businesses would have a limited window over which to make new investment. Moreover, temporary expensing for 36 months almost certainly would be less stimulative in 2002 (the appropriate window for stimulus) than a similar 12-month incentive. The temporary expensing incentives encourage businesses to move forward their expenditures on equipment. However, within the period the incentive is in place, businesses also have good reasons to wait as long as they can before investing. Introducing new capital is costly and often irreversible—as such, businesses would value the option of waiting to invest. For this reason, it is desirable that expensing incentives intended as temporary fiscal stimulus have as narrow a window as is practical.

Table 9
NEAR-TERM ECONOMIC EFFECTS OF ALTERNATIVE STIMULUS POLICIES

	Total 10-Year Cost at Baseline Level of GDP (billions of dollars)	RESPONSE AT END OF THE QUARTER (Percentage increase in real GDP)			
		First	Second	Third	Fourth
TAX OPTIONS					
Individual Income Tax					
Supplemental rebate	14.2	.4	.5	.5	.5
Accelerate the 25 percent income tax rate	53.7	.1	.1	.2	.2
Accelerate all of the 2006 rate reductions	121.0	.2	.3	.3	.4
Corporate Income Tax					
30 percent bonus depreciation for 24 months[1]	–	0	.1	.1	.2
Repeal corporate AMT	22.0	0	0	0	0
Repeal corporate AMT and refund past credits	24.1	0	0	.1	.1
SPENDING OPTIONS					
Extend unemployment insurance[2]	20.1	.1	.2	.2	.1
Extend health insurance coverage for displaced workers[3]	10.2	.1	.1	.1	.1

Source: Simulations by the Joint Economic Committee Democratic staff using the Washington University Macroeconomic Model. Expensing simulation published by Macroeconomic Advisers, LLC, *Economic Outlook*, Volume 19 (Number 10), November 14, 2001.

Notes:
1. The ten-year budgetary costs of the depreciation proposal were not available. The first year cost as simulated in the model was 33 billion. Unlike the other proposals examined here, the depreciation proposal shifts current tax liabilities into the future, yielding little long-run budgetary impacts (aside from debt service costs).
2. Simulation uses the unemployment proposal in the Senate Finance bill: extending unemployment benefits, raising benefits, and widening the scope of eligible workers.
3. Simulation uses the health insurance proposals in the Senate Finance bill: 75 COBRA subsidy, temporary Medicaid coverage, and Medicaid-funded COBRA subsidy for low-income workers. It does not include the increased Medicaid Federal Medical Assistance Percentage (FMAP) for 2002.

APPENDIX A: A Payroll Tax Holiday

Senators on both sides of the aisle recently have expressed interest in the idea of a payroll tax holiday as a vehicle for putting more income in people's pockets. Both workers and employers would be exempt from the Social Security payroll tax for one month. Currently, workers and employers each pay 6.2 percent of earnings up to $80,400. For an individual making $40,000 a year, the holiday would increase their take-home pay by $207. The employer would also save the same amount.

The proposal is based on legislation (S.1717) introduced by Senator Pete Domenici (R-New Mexico), along with Senators Christopher Bond (R-Missouri) and William Frist (R-Tennessee), on November 16, 2001. In a press release, Senator Domenici estimated that the payroll tax holiday would pump $40 billion into the economy quickly.

Under the Domenici plan, the Social Security trust fund would not lose tax revenue because of the payroll tax holiday. Funds from general revenues would be transferred to the trust fund to make up for the one-month loss of contributions. The holiday would also be disregarded in calculating individuals' Social Security benefits in the future.

Impact on Lower Income Workers

All workers, except those with earnings above the taxable maximum, would keep an additional 6.2 percent of their earnings. The dollar amount of the tax saving would be greater for higher-income workers. For example, a worker earning $80,400 or more would take home an additional $415 while a worker earning $20,000 would take home an additional $103. As it is currently written, the Domenici plan does not specifically target the payroll tax holiday to lower- and middle-income workers. However, the original proposal would have set the holiday for December 2001, when most higher-income workers would have already earned more than the taxable maximum of $80,400. Because they would not pay any payroll tax in December, they would get no benefit from the payroll holiday. If the proposal went into effect in January, and if there were no change in the way the holiday was implemented, higher-income workers would receive the maximum dollar tax saving. A payroll tax holiday is far less concentrated on lower-income workers than the tax rebate in the current congressional proposals.

Tax Break for Businesses

The Domenici bill gives a tax break to businesses because employers are also exempted from paying their portion of the payroll tax. While economists believe that workers bear the burden of employer payroll taxes over the long-term through lower wages, it is unlikely that the tax saving from a one-month payroll tax holiday would pass through to employees. This tax break probably will not have a significant short-run impact on the economy. The tax holiday is a one-time tax break for employers and it is not tied to any requirements (e.g. new business investment). Therefore, employers have no incentive to spend the money quickly or invest in significant new spending on new hires or equipment.

Implementation Problems

There are some serious implementation issues that might make this proposal infeasible. According to the American Payroll Association, it could take up to six months to properly educate all employers about the holiday and allow for the necessary changes to be made in payroll software. It takes one to two months for employers to make the necessary software adjustments just for a tax rate change. The software changes needed to suspend Social Security taxes for one month would be much more extensive due to the stringent reporting requirements. In addition, the December timing of the Domenici bill brings further complications because payroll administrators would also be handling W2 forms and other end-of-the-year administrative duties at the same time. The time lag necessary to implement the payroll holiday means that it is likely not the best method for short-term economic stimulus.

APPENDIX B. Economic Stimulus Proposals Side-by Side

	House Bill	Senate Finance Proposal	Senate Republican Proposal	Senate Centrist Proposal
Individual Tax Provisions				
Rebate for Low-Income Workers	Provide rebate of $300 per individual, $500 per head of household, and $600 per couple for taxpayers who filed a tax return in 2000; rebate reduced by the amount of previous rebate. **Cost FY 02: $13.7 billion** **10 Year: $13.7 billion**	Provide rebate of $300 per individual, $500 per head of household, and $600 per couple for taxpayers who filed a tax return in 2000; rebate reduced by the amount of previous rebate. **Cost FY 02: $14.2 billion** **10 Year: $14.2 billion**	Provide rebate of $300 per individual, $500 per head of household, and $600 per couple for taxpayers who filed a tax return in 2000; rebate reduced by the amount of previous rebate. **Cost FY 02: $14 billion** **10 Year: $14 billion**	Provide rebate of $300 per individual, $500 per head of household, and $600 per couple for taxpayers who filed a tax return in 2000; rebate reduced by the amount of previous rebate. **Cost FY 02: $14 billion** **10 Year: $14 billion**
Tax Bracket Acceleration	Accelerate to 2002 the 25% individual income tax rate scheduled for 2006. **Cost FY 02: $12.8 billion** **10 Year: $53.7 billion**	No Provision	Accelerate to 2002 the 25%, 28%, 33%, and 35% individual income tax rates scheduled for 2006. **Cost FY 02: $27 billion** **10 Year: $121 billion**	Accelerate to 2002 the 26% individual income tax rate scheduled for 2004. The rate will fall to 25% in 2006 as scheduled. **Cost FY 02: $6.5 billion** **10 Year: $27 billion** Accelerate to 2002 the widening of the 10% individual income tax bracket to $14,000 for married couples and $7,000 for singles, scheduled for 2008. **FY 02 Cost: $5 billion** **10 Year: $30 billion**
Capital Gains Cut	Reduce the 10% and 20% tax rates on long-term capital gains to 8% and 18%, respectively. Repeal the 5-year holding period rule and the election to "mark to market." **Cost FY 02: $500 million** **10 Year: $10.4 billion**	No Provision	No Provision	No Provision
Increase Individual AMT Exemption	Increase the individual AMT exemption amount to $52,200 for joint returns and to $37,350 for non-joint returns in 2002 and 2003, and to $50,700 and $36,600 in 2004. **Cost FY 02: $700 million** **10 Year: $6.3 billion**	No Provision	No Provision	No Provision

	House Bill	Senate Finance Proposal	Senate Republican Proposal	Senate Centrist Proposal

Increase Deduction of Capital Losses	Increase maximum deduction of capital losses against ordinary income from $3,000 to $4,000 for tax year 2001, and to $5,000 for tax year 2002. **Cost FY 02: $800 million** **10 Year:$ 1.9 billion**	No provision	No Provision	No Provision
Individual Tax Total	**Cost FY 02: $28.5 billion** **10 Year: $86 billion**	**Cost FY 02: $14.2 billion** **10 Year: $14.2 billion**	**Cost FY 02: $41 billion** **10 Year: $135 billion**	**Cost FY 02: $25.5 billion** **10 Year: $71 billion**

	House Bill	Senate Finance Proposal	Senate Republican Proposal	Senate Centrist Proposal
Business Tax Provisions				
Bonus Depreciation	Allow additional first-year depreciation deduction of 30% for investments in capital and software placed in service over the next 36 months. Remaining 70% depreciated under current rules. **Cost FY 02: $39.3 billion** **10 Year: $17.9 billion**	Allow additional first-year depreciation deduction of 10**%** for investments in capital assets with lives of 20 years or less, software, leasehold improvements and property eligible for the income forecast methods, placed in service over the next 12 months. Remaining 90% depreciated under current rules. **Cost FY 02: $14.0 billion** **10 Year: $2.2 billion**	Allow additional first-year depreciation deduction of 30**%** for investments in capital and software placed in service over next 36 months. Remaining 70% depreciated under current rules. **Cost FY 02: $39 billion** **10 Year: $18 billion**	Allow additional first-year depreciation deduction of 20% for investments in capital and software placed in service over the next 36 months. Remaining 80% depreciated under current rules. **Cost FY 02: $26 billion** **10 Year: $4.1 billion**
Extend Loss Carryback Period	Extend the net operating loss carryback from 2 to 5 years for losses suffered between September 11, 2001 and September of 2004 and waive AMT 90% limitation on allowance of losses, for the next 36 months. **Cost FY 02: $4.7 billion** **10 Year: $500 million**	Extend carryback period from 2 to 5 years and waive AMT 90% limitation on allowance of losses for 12 months. **Cost FY 02: $4.6 billion** **10 Year: $100 million**	No Provision	Extend the carryback period from 2 to 5 years for losses between September 11, 2001 and September 2004 and waive AMT 90% limitation on allowance of losses. **Cost FY 02: $4.5 billion** **10 Year: $100 million**
Corporate AMT	Repeal the corporate AMT and fully refund AMT credits. **Cost FY 02: $25.4 billion** **10 Year: $24.1 billion**	No Provision.	Prospective repeal. Does not allow refunds for past AMT credits. **Cost FY 02: $9 billion** **10 Year: $22 billion**	No Provision
Expand Small Business Expensing	Increase from $25,000 to $35,000 the amount that small businesses may expense under Section 179 and increase beginning point for phaseout to $325,000 for 24 months. **Cost FY 02: $900 million** **10 Year: $300 million**	Increase from $25,000 to $35,000 the amount that small businesses may expense under Section 179 and increase beginning point for phaseout to $325,000 for 24 months. **Cost FY 02: $900 million** **10 Year: $100 million**	No Provision	Increase from $25,000 to $35,000 the amount that small businesses may expense under Section 179 and increase beginning point for phaseout to $325,000 for 24 months. **Cost FY 02: $900 million** **10 Year: $100 million**
Leasehold Improvement	Allows improvements on leased properties to be deducted on a 15-year depreciation schedule, 24 years shorter than the current law. This applies to improvements made on leased properties after September 11, 2001. **Cost FY 02: $100 million** **10 Year: $7.1 billion**	Included in expensing provision**.**	No Provision	No Provision

	House Bill	Senate Finance Proposal	Senate Republican Proposal	Senate Centrist Proposal
Extend Deferral of Multinational Business Income (subpart F)	Permanently extends current temporary exemption from subpart F rules for "active financing" multi-national corporations, which include banking, insurance, and financing. **Cost FY 02: $300 million** **10 Year: $21.3 billion**	No Provision	No Provision	No Provision
Additional Provisions	No Provision	Includes $9 billion of Amtrak tax credit bonds for one year and a broadband internet access tax credit for one year **Cost FY 02: $500 million** **10 Year: $4.9 billion**	No Provision	No Provision
Extend Certain Expiring Provisions	Extend expiring tax provisions and technical amendments. **Cost FY 02: $200 million** **10 Year: $2.2 billion**	Extend certain expiring tax and trade provisions **Cost FY 02: $1 billion** **10 Year: $3.1 billion**	No Provision	Extend certain expiring tax provisions. **Cost FY 02: $600 million** **10 Year: $2.6 billion**
Tax incentives for NYC and Victims of Terrorism Tax Relief	No Provisions	Provide tax relief for victims of Sept 11 and Oklahoma City terrorist attacks; and allows an employer wage credit of up to $4,800 per employee per taxable year in the New York Recovery Zone; authorize tax-exempt private activity bonds for rebuilding in the area; provide incentives for reinvestment in New York City; and other provisions. ***Cost FY 02: $2.1 billion*** ***10 Year: $5.7 billion***	No Provision	No Provision
Business Tax Total	**Cost FY 02: $70.9 billion** **10 Year: $73.4 billion**	**Cost FY 02: $23.1 billion** **10 Year: $16.1 billion**	**Cost FY 02: $48 billion** **10 Year: $40 billion**	**Cost FY 02: $32 billion** **10 Year: $6.9 billion**
TAX TOTAL	**Cost FY 02: $99.4 billion** **10 Year: $159.4 billion**	***Cost FY 02: $37.3 billion*** **10 Year: $30.3 billion**	**Cost FY 02: $89 billion** **10 Year: $175 billion**	**Cost FY 02: $57.5 billion** **10 Year: $77.9 billion**

	House Bill	Senate Finance Proposal	Senate Republican Proposal	Senate Centrist Proposal
Non-Tax Provisions				
Unemployment Insurance	Accelerate transfers from federal unemployment accounts to the states, including an immediate transfer of $9.3 billion that states would have received in 2003-2005. **Cost FY 02: $700 million** **10 Year: $1.4 billion**	Extend benefits 13 weeks for those who have exhausted regular benefits; require states to use most recent earnings data to determine UI eligibility and provide benefits to certain part-time workers; temporary federal supplement to UI benefits of 15% or $25 per week, whichever is higher; ends 12/31/02 **Cost FY 02: $14.9 billion** **10 Year: $20.1 billion**	*No Provision*	Extends benefits up to 13 weeks to all eligible workers who have exhausted their regular benefits and have an active benefit year. Expires 12 months after enactment. **Cost FY 02: $8.1 billion** **10 Year: $11 billion**
COBRA	COBRA assistance could be provided from Social Service Block Grant funds (see below).	75% Federal subsidy for COBRA premiums for individuals who are COBRA eligible and have become unemployed after Sept. 11; premium assistance would be provided for up to 12 mo., expires 12/31/02 **Cost FY 02: $5.1 billion** **10 Year: $7.4 billion**	No Provision	Advanceable, refundable tax credit for purchase of COBRA coverage; credit worth 50% of premium costs, not to exceed a total of $140/month for single coverage and $340/month for family coverage; expires 12/31/02 **Cost FY 02: $4.7 billion** **10 Year: $8.5 billion**
Medicaid	No Provision	Allows states: 1) to offer short-term Medicaid coverage to those unemployed after Sept. 11 and are ineligible for COBRA, coverage would be available for 12 mo. at the time of enrollment, but would terminate after 12/31/02, states would receive CHIP match to provide coverage; 2) for workers below 200 percent of the federal poverty level, states can choose to subsidize, through Medicaid, the portion of COBRA that is not covered by the 75% federal subsidy **Cost FY 02: $1.8 billion** **10 Year: $2.8 billion**	No Provision	No Provision
Health Coverage and Training	Increase Social Services Block Grant for one year, funds can be used for health insurance assistance or other assistance to unemployed workers. **Cost FY 02: $1 billion** **10 Year: $3 billion**	No Provision	No Provision	Fund National Emergency Grants to states to use for worker training for unemployed. **Cost FY 02: $5 billion** **10 Year: $5 billion**

	House Bill	Senate Finance Proposal	Senate Republican Proposal	Senate Centrist Proposal
Revenue Sharing (Enhanced FMAP match)	No Provision	States in which the federal Medicaid matching rate in FY '02 would be "held harmless" and retain their FY 01 matching rate, states in which the rates are rising would shift to the FY02 rate; all states would receive federal Medicaid matching rate increase of 1.5%; states with higher than average unemployment rate over the past three months would receive an additional 1.5% increase-to a total of 3.0%; for FY 02 only **Cost FY 02: $4.7 billion** **10 Year: $5.1 billion**	No Provision	No Provision
Agriculture Relief	No provision	Provide disaster assistance to crop and livestock producers, loans and grants for rural development and other provisions **Cost FY 02: $2.8 billion** **10 Year: $5.5 billion**	No Provision	No Provision
Non-Tax Provision Total	**Cost FY 02: $1.7 billion** **10 Year: $4.4 billion**	**Cost FY 02: $29.3 billion** **10 Year: $40.9 billion**	**No non-tax provisions**	**Cost FY 02: $17.8 billion** **10 Year: $24.5 billion**
Total Stimulus Package	**FY 02 Total: $101.1 billion** **10 Year Total: $163.8 billion**	**FY 02 Total: $66.6 billion** **10 Year Total: $71.2 billion**	**FY 02 Total: $89 billion** **10 Year Total: $175 billion**	**FY 02 Total: $75.3 billion** **10 Year Total: $102.4 billion**