

From Senator Rockefeller's Press Office:

As you are aware, on Friday June 4th, Senator Don Nickles (R-OK) released a GAO report that assessed how states used a portion of the federal assistance provided under the Jobs and Growth Tax Relief Act of 2003. After reading the report, Senator Jay Rockefeller (D-WV) challenged its findings on the failure of state fiscal relief. In a letter to Senate Budget Committee Chairman Nickles, Rockefeller cited examples that highlighted GAO's assessment of state fiscal relief as incomplete, inaccurate, and misleading.

Rockefeller was the author of the State Fiscal Relief Act of 2003 with Senators Susan Collins (R-ME), Ben Nelson (D-NE), Gordon Smith (R-OR), and Kay Bailey-Hutchison (R-TX).

The following is the text of the letter to Chairman Nickles.

June 16, 2004

The Honorable Don Nickles
Chairman
Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Nickles:

The General Accounting Office (GAO) report that you released on Friday, June 4, provides an incomplete and misleading picture of how states have used the federal assistance provided under the Jobs and Growth Tax Relief Reconciliation Act of 2003. As you will recall, the fiscal relief measure enacted last year included \$20 billion - \$10 billion for the Federal Medical Assistance Percentage (FMAP) and \$10 billion in general revenue sharing. Your request for GAO to report solely on the impact of the general revenue portion of fiscal relief seems somewhat one-sided, given the fact that both pots of money were included in the fiscal relief package enacted by Congress. It is neither fair nor practical to measure the success of fiscal relief at stimulating the economy by considering only half of the total package. In addition, many of the report's criticisms related to revenue sharing appear not to be supported by the facts. State fiscal experts have cited several serious flaws with the report, as noted below.

In order to have a complete picture of the success of the state fiscal relief package enacted in 2003, it is important to consider how states have used the \$10 billion in FMAP. There are several published reports that point to the fact that the FMAP portion of fiscal relief helped states close significant budget gaps in their Medicaid programs. For example, in January, the Kaiser Commission on Medicaid and the Uninsured released a study entitled States Respond to Fiscal Pressure: A 50-State Update of State Medicaid Spending Growth and Cost Containment Actions. As Kaiser points out, the results of this study "clearly convey that the fiscal relief has helped stabilize states' budgets, resolve budget shortfalls, and forestall additional and more far-reaching Medicaid policies to reduce Medicaid spending growth." Because of the timeliness of this assistance, all fifty states were able to maintain their Medicaid eligibility at the previous year's levels. Forty-two states used the funds to resolve budget shortfalls in their Medicaid programs. Twenty-seven states used the additional funds to prevent, minimize or postpone Medicaid cuts or freezes.

I am very troubled by some of the GAO criticisms that appear to be incorrect or reflect a lack of thorough assessment of how the grants helped states during one of the most severe fiscal crises in decades. Let me highlight three particular problems with the GAO report.

First, GAO expresses concern that the first grants were distributed in July 2003, 19 months after the official end of the recession. But the grants were enacted not just in response to the recession, but also in response to the extraordinarily sluggish economic recovery. GAO acknowledges that non-farm payroll employment continued to fall steadily during those 19 months, declining by 1 million jobs. For states, fiscal years 2003 and 2004 were the most difficult budget years, according to the National Conference of State Legislatures. Not until after all the grants were disbursed in October 2003 did employment levels finally begin to rise and states begin to meet their revenue targets. Thus, although state fiscal grants provided earlier would have been very helpful, it is incorrect to suggest they were too late to boost the economy and help states.

It is instructive to contrast the timing of the state grants with the timing of the \$330 billion in tax cuts enacted in the same legislation.

By October 2004, all of the fiscal relief grants had been disbursed. By contrast, less than one-sixth of the tax cuts were expected to have been claimed by the end of fiscal year 2004. In fact, a large portion of the tax cuts - 43 percent - will not be claimed until October 2005 or later, according to the Joint Committee on Taxation.

Second, GAO conducted what appears to be a cursory set of interviews with budget officials in 12 states and was unable to determine in substantial detail how states spent the funds. This is because the federal funds in most cases were commingled with states' own funds before being expended, and it does not in any way demonstrate that the money was not put to good use. Most states placed the funds in their general funds, which primarily pay for education, health care, and public safety. General-fund budgets were hard-hit by the economic downturn and have declined in overall real per-capita terms each of the last several years.

The GAO also did not examine the severity and types of spending cuts states actually instituted due to their budget deficits over the last two years or the cuts they were considering prior to enactment of the fiscal relief provisions. Nor did it examine whether various proposed state spending cuts were averted or limited in the 12 states after the fiscal relief funds became available. There is little doubt that without the federal funds, the reduction in general-fund spending - and hence large spending cuts to education, health care and other essential state services - would have been greater.

Finally, I'd note a significant inconsistency in the GAO report: if, as GAO contends, the grants to states came too late to be helpful and failed to go where they were needed, then it is unclear why states would expect, as GAO claims they would, the federal government to provide helpful grants in the next economic downturn.

When you analyze all the available data on the \$20 billion fiscal relief package enacted last year, only one logical conclusion can be reached - during the economic downturn, when many Americans lost their jobs, states were able to step in and fill in some of the gaps in programs and services because they had the benefit of federal fiscal relief.

This fiscal relief strengthened the economy by preventing drastic state cuts in critical public services and programs such as education, health care, and social services. Strong evidence exists that this assistance helped states reduce the magnitude of the spending cuts and tax increases they would otherwise have had to make. Even the GAO report concludes, "the fiscal relief payment likely helped resolve ongoing budgetary problems."

In closing, claims by the White House and Republicans on the Hill that economic growth can be attributed to the President's tax policies are dubious. The Bush tax cuts have been heavily targeted to the most fortunate members of our society. Last year, almost thirty percent of the benefits of the tax cuts went to the wealthiest one percent of Americans. Moreover, many of the tax cuts will take effect at the end of the decade and cannot possibly be credited with stimulating current economic growth. Arguments that the current economy would benefit from extending the tax cuts or even making them permanent are even more spurious. Ultimately, tax breaks for working Americans, such as the child tax credit and the ten percent tax bracket, have had a more stimulative impact than the hundreds of billions of dollars of unaffordable tax breaks for the wealthiest among us. Attributing any economic improvement to the fact that millionaires have more money is insulting to the millions of Americans who are working at low-wage jobs, who benefit from the numerous public programs and services that fiscal relief helped to maintain, and who are in the process of reinvigorating our economy.

Sincerely,

John D. Rockefeller IV

United States Senator

Cc: David Walker, Comptroller General

United States General Accounting Office