

Missouri Budget Project E-News
State and Federal Policy Update
March 25, 2011

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State Issues

1. **Unemployment & Mega Sales Tax: Issues to Watch as Legislators Return from Spring Break**

On Monday, state lawmakers will return from spring recess for the final seven weeks of the legislative session. Two critical issues facing legislators as they return include:

Extension of Unemployment Insurance Benefits

As previously reported, a small group of Senators have continued to block the passage of House Bill 163 [<http://www.house.mo.gov/billsummary.aspx?bill=HB163&year=2011&code=R>] (Representative Fisher), a bill that would allow Missourians who are facing long-term unemployment due to the economic recession to receive extended federally funded unemployment benefits. **If the bill does not pass by April 2nd, 9,767 Missourians will lose the federally funded extended benefits, and 56,667 more will be impacted in the near future.**

In addition, the move makes little economic sense: Mark Zandi of Moody's Economy.com estimates that unemployment insurance generates \$1.64 of GDP per dollar spent in the first year. According to the Congressional Budget Office, "Households receiving unemployment benefits tend to spend the additional benefits quickly, making this option both timely and cost-effective in spurring economic activity and employment." CBO estimates that providing additional unemployment insurance benefits would boost economic output by as much as \$1.90 per dollar of budgetary cost and increase employment by as many as 19,000 jobs per billion dollars of budgetary cost. As of December, 9.6 percent of Missourians were unemployed.

Mega Sales Tax

House Joint Resolution 8

[<http://www.house.mo.gov/billsummary.aspx?bill=HJR8&year=2011&code=R>] passed the House Rules Committee prior to the spring recess, making it ready for debate when lawmakers return.

HJR 8 proposes a constitutional amendment to eliminate the state's current general revenue tax structure and replace it with a greatly expanded sales tax. The proposal is unlike anything ever enacted in any state and would expand the sales tax to apply to nearly everything Missourians purchase – including services such as child care and rent, and items that are currently exempt from the sales tax, such as food and prescription medication.

While the details of the proposal are fraught with uncertainty, it caps the sales tax rate at 7 percent. However, many independent analyses, including separate assessments prepared by the Missouri Budget Project and Jim Moody, former budget director under Governor Ashcroft, found that the actual rate necessary to replace existing revenues would near 12 percent. As a result, a constitutionally capped rate of 7 percent would significantly compromise the ability of Missouri to fund critical core services including education, health care and infrastructure.

Furthermore, an overreliance on sales tax revenue could hurt the state's credit rating. Moody's recently downgraded Nevada's credit rating [http://media.lasvegassun.com/media/pdfs/blogs/documents/2011/03/24/Mar_2011_State_of_Nevada_downgrade.pdf] because, according to a report, [<http://www.nevadanewsbureau.com/2011/03/24/moodys-downgrades-nevadas-credit-rating/>] “the state depends too much on revenues from sales tax and gaming revenues. An economic recovery in Nevada could stall if either of those revenue sources falter.”

To read Missouri Budget Project's statement on the mega sales tax measure click here. [http://www.mobudget.org/files/Mega_tax_efforts_advance,Threaten_Missouris_future.pdf]

2. Legislative Action on Other Bills Pertaining to Economic Opportunities for Missourians

The Senate Small Business, Insurance, and Industry Committee will meet at 12 p.m. on Tuesday, March 29th in Senate Committee Room #1 to discuss House Bill 61 (Nolte) [<http://www.house.mo.gov/billsummary.aspx?bill=HB61&year=2011&code=R>], a bill that prohibits the state minimum wage from exceeding the federally mandated minimum. The legislation would overturn a statute passed by 76 percent of Missouri voters in 2006, which raised the state's minimum wage and tied it to inflation. HB 61 passed the House in early March.

3. Happy Birthday Affordable Care Act!

This week marked the one year anniversary of the Affordable Care Act (ACA), and Missourians are already benefitting from some of the law's early provisions. Provisions prohibiting insurers from dropping coverage if someone gets sick or denying coverage to children with pre-existing

conditions and allowing young adults to stay on their parents' insurance policies until aged 26 have meant treatment for those who need it. The law has ensured that doctors and patients control their medical care – not insurance companies.

The state of Missouri is responsible for implementing many provisions of the ACA, and a bill to create the state's health insurance exchange is moving through the legislature. The "exchange" would operate like a Travelocity or Expedia for health insurance plans. Information will be presented so that Missourians can "compare apples to apples" when reviewing plans and prices.

Though the law won't be fully in effect until 2014, thousands of Missourians are already able to access health care when they need it, thanks to the ACA.

Federal Issues

1. Deficits v. Debts – What's the Difference?

As federal policymakers discuss the budget for the current and future fiscal years, there has been significant discussion about deficits and debt.

While the terms deficit and debt are often used interchangeably, the term "deficit" refers to government expenses that exceed revenues within a given year, while payments on the loans used to pay what the government owes constitute the long term "debt." While the consequences of federal deficits are a concern, it is the long-term national debt that poses the greatest threat to our economic prospects.

The Missouri Budget Project has released a paper, *Background on the National Deficit and Long-Term Debt: A Primer*, which explains the differences between deficits and debts and outlines how deficits function as an aid for national recovery, how they have been reduced in the past, as well as how those historical dynamics apply to our current situation.

For more information, click here. [http://www.mobudget.org/articles/show/187-A_Primer_on_the_National_Deficit_and_LongTerm_Debt] An additional paper analyzing policy options to address deficits and debt levels will be released shortly.