

Rocky Mountain News

Bush, Congress unite on aid Tax rebates part of stimulus plan to avert recession

**By Jeannine Aversa and Andrew Taylor , Associated Press
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United for urgent action, the White House and Congress raced toward emergency steps Thursday to rescue the national economy from a possible recession, including tax rebates of at least \$300 a person - and maybe as much as \$800.

Federal Reserve Chairman Ben Bernanke endorsed the idea of putting money into the hands of those who would spend it quickly and boost the flagging economy.

All the talk of rescue efforts failed to soothe Wall Street. The Dow Jones industrials plunged 306.95 points, underscoring deepening concern about the country's economic health.

The sudden scramble to take action came as fears mounted that a severe housing slump and a painful credit crisis could cause people to clamp down on their spending and businesses to put a lid on hiring, throwing the country into its first recession since 2001.

President Bush told congressional leaders privately he favors income tax rebates for people and tax breaks for businesses, officials said. Bush spoke with congressional leaders as aides worked on an emergency package that could also include more money for food stamp recipients and the unemployed.

The president did not push for a permanent extension of his 2001 and 2003 tax cuts, many of which are due to expire in 2010, one official said. That would eliminate a potential stumbling block to swift action by Congress, since most Democrats oppose making the tax cuts permanent.

Bush planned to lay out his position today, but he wasn't expected to go into specifics. Press secretary Dana Perino said he would demand that any package be effective, simple and temporary.

Senior aides to House Democrats and Republicans reviewed an emerging plan that included tax rebates for individuals - from \$300 to as much as \$800 - breaks

for businesses and more money to help food stamp recipients and the unemployed.

Additional aid to help states complete construction projects was also among the proposals under consideration, according to officials familiar with the discussions. They spoke on condition of anonymity.

Bernanke voiced his support for a stimulus package in an appearance before the House Budget Committee. He stressed that it must be temporary and must be implemented quickly - so that its effects could be felt as much as possible in the next 12 months.

"Putting money into the hands of households and firms that would spend it in the near term" is a priority, he said.

Especially important is making sure a plan can put cash into the hands of poor people and the middle class, who are most likely to spend it right away, he said.

He declined to endorse a particular approach but said he preferred one that would not have a long-term adverse impact on the government's budget deficit.

Bush and congressional leaders from both parties consulted via conference call Thursday for about 30 minutes. Both sides basically were in agreement that they needed to cooperate to do something quickly, Perino said.

"There is reason to be hopeful when the president recognizes there is a problem in the country," House Speaker Nancy Pelosi, D-Calif., said afterward.

For now, Bernanke is hopeful the country can skirt a dangerous downturn.

"We're not forecasting recession but, rather, at this point, slow growth," he told lawmakers. Still, the toll of the housing and credit debacles will be felt for some time, he added. "We believe we'll see below-trend growth certainly in 2008 and probably early into 2009, as well."

When asked about a stimulus package totaling around \$100 billion, he said the impact could be "significant," not "window dressing." Temporary equipment tax write-off provisions for businesses also could spur spending, which would help the economy, Bernanke said.

The fragile state of the economy has gripped Wall Street and Main Street and is a rising concern among voters. The situation has galvanized politicians - including those vying to be the next president - and poses the biggest test to Bernanke, who took over the Fed nearly two years ago.

Stimulating a recovery

The *Rocky Mountain News* asked local investment professionals what one stimulus would be best for the nation and/or Colorado. Here are a few responses:

"The best stimulus I can think of is to legislate an end to the banking industry's and Wall Street's longstanding practice of privatizing gains and socializing losses through incentive compensation programs that deliver enormous payouts to managers that push the risk envelope the hardest but obfuscate the risk the best. Malfeasance at Wall Street firms is continually the biggest threat to the entire economy, yet the ability to see it (at least in the short term) is almost impossible.

"Taking away the Wall Street reward system of 'heads I win, tails you lose' by limiting bonus payouts to restricted stock that vests over a long period of time will encourage more responsible behavior. Until this changes, we will go from one Wall Street-generated scandal to another, and the general public will pay the price every time."

John Goltermann, vice president, Obermeyer Asset Management

"Cut corporate tax rates."

Jeff Tjernehoj, senior research analyst, Lipper

"No gimmicky, one-time economic stimulus will have enough impact to turn this market around. It will require a general change of attitude among investors, and that change could come from a broad-based tax cut at the corporate and individual levels."

Gregory Anderson, GRAnderson Wealth Management

"Energy independence. The U.S. should finance a massive R&D program and subsidize immediate production of alternative fuels as a replacement for gasoline and diesel. There should be tax credits to consumers for using alternative fuels. We are sending over \$1 billion every day overseas for oil. Brazil is now energy-independent. If all new vehicles sold in the U.S. starting in 2010 were "flex-fuel," we could be energy independent by 2020.

Most stimuli just create a bigger problem down the road. This is the only short-term stimulus that would have a profound and positive long-term benefit to our country."

Jeff M. Wilson, president, Wilson Advisory Group LLC

Fed chairman on fixing it

What's been done: "The Federal Reserve has taken a range of steps, including a cut of the discount rate by 50 basis points, or a half-percentage point, on Aug. 17, and maintained the spread between the federal funds rate and the discount rate at 50 basis points, rather than the customary 100 basis points."

What a fiscal stimulus package needs: "It should be implemented quickly and structured so that its effects on aggregate spending are felt as much as possible within the next 12 months or so."

How much is needed: "A temporary package of at least \$60 billion to \$70 billion in spending by early 2009 would have a significant effect in the second half of this year. It would certainly be measurable. It would not be window dressing."

The rescue plan

Tax rebates: All sides agree that tax-rebate checks - in the range of \$300 to \$800 a person - will be in any final stimulus measure. The government is hoping you'll go right out and spend it.

Unemployment insurance: Democrats want to extend unemployment benefits for people whose benefits run out after 26 weeks.

Food stamps: Democrats want to boost food stamp benefits on the theory that low-income recipients of them will quickly spend that money. Republicans are opposed.

Heating subsidies: Democrats are pressing to sharply boost heating subsidies for the poor. Some cold-weather-state Republicans are willing to go along, though party leaders are reluctant.