Bush announces “stimulus” plan as recession fears grip Washington

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The announcement Friday by President George W. Bush of an economic stimulus package, after months and years of declaring that the US economy is “fundamentally sound,” shows that the vast dimensions of the financial crisis have become evident even to the most blinkered “free market” ideologues in Washington.

There was a distinct note of panic in the sudden issuance of a statement, only hours after Bush’s return to the US from a weeklong trip through the Middle East. Bush could give few details of the stimulus package, since they have not been worked out, but instead outlined what he called the broad “principles”: the package should be limited to 1 percent of GDP, or about $140 billion; and it should consist of tax cuts only, with no increase in social spending.

In rejecting any extension of unemployment benefits, greater funding of home heating assistance, or other direct assistance to those hardest hit by the economic crisis, the Bush administration is making it clear that its sole concern is to stabilize the financial markets and prevent a chain reaction collapse. Hundreds of thousands may lose their homes and their jobs, but the federal government is in the business of defending the hedge funds and investment banks, not working people.

In what seemed to be an effort to provide visual reassurance to Wall Street, Vice President Cheney—the former CEO of Halliburton—and Treasury Secretary Henry Paulson—the former head of Goldman Sachs investment bank—were placed behind the president during his seven-minute statement, creating a tableau reminiscent of the State of the Union speech.

Bush was careful not to use the word “recession” to describe the economic situation in the United States, claiming, “The economy’s still creating jobs, though at a reduced pace.”

In arguing for a stimulus plan that would not include any increase in social benefits, he declared, “This growth package must be built on broad-based tax relief that will directly affect economic growth, and not the kind of spending projects that would have little immediate impact on our economy.”

The claim that tax cuts rather than increases in public spending have a more immediate impact in stimulating the economy is preposterous nonsense. Even bourgeois economists concede money distributed to the unemployed and poor is spent immediately on consumption goods, and therefore has the quickest possible impact on the economy. Tax cuts, particularly those for business and the wealthy, have a slower effect and may not stimulate economic activity at all, since they can be put aside in savings or used to speculate in the financial markets.

There is good reason to believe—without any details of the exact tax cuts envisioned—that the White House has simply seized on the current crisis as another occasion to pour billions into the pockets of the wealthy, offsetting at least a fraction of the losses incurred in the speculative frenzy in the subprime mortgage market. Bush certainly hinted at this when he concluded his brief speech with another appeal to the Democratic-controlled Congress to make permanent his 2001 tax cuts for the rich. These are currently set to expire in 2010.

The other purpose of the “stimulus” package is to provide political cover for the Republican presidential candidates, who have begun to clamor for some display of action from the administration as the primary campaigns enter their most critical stretch.

The size of the package demonstrates that it is purely a cosmetic gesture. The proposed $140 billion is less than the amount American consumers paid out to the oil companies in increased gasoline prices over the course of last year. It is less than one tenth the estimated losses in home equity suffered by American homeowners during collapse of the housing bubble. And it is utterly insignificant compared to the trillions of dollars at risk as

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the subprime debacle spreads into wider financial markets, including commercial paper, bank loans and derivatives.

Bush closed his speech with a reminder to his audience that market fluctuations were an essential part of capitalism and had to be allowed to take their course. “We cannot change that fundamental dynamic,” he said, adding, “eliminating risk altogether would also eliminate the innovation and productivity that drives the creation of jobs and wealth in America.”

There are, of course, many varieties of risk. Working people face the risk of losing their homes, their jobs, their economic future. Corporate bosses have golden parachutes like the $115 million that retiring Countrywide CEO Angelo Mozillo will rake in after his bankrupt home lending company was taken over by Bank of America.

Congressional Democrats immediately declared their willingness to work with the White House in a bipartisan effort to pass a stimulus package, accepting the broad outlines of the Bush plan, particularly its derisory size, without a murmur. They could hardly complain that $140 billion was peanuts, since the two leading Democratic presidential candidates, Senator Hillary Clinton and Senator Barack Obama, proposed stimulus packages only half as large last week.

House Speaker Nancy Pelosi, who met with Federal Reserve Board Chairman Ben Bernanke Monday and has been in close touch with the White House, said that the stimulus plan could be approved by Congress even before Bush’s last State of the Union address, set for January 28. After a conference call Thursday between Bush and congressional leaders, a White House spokesman said, “I think there was a collective sense that there was no reason why we can’t get something done quickly. I think that was a unanimous feeling on the call.”

Bernanke has already given his blessing to the proposal, testifying before Congress Thursday that a stimulus program of $50 billion to $150 billion was “reasonable.” But he emphasized that it should be temporary because of the likely impact on the federal deficit.

Wall Street’s reaction to Bush’s announcement was one of obvious disappointment. The Dow Jones Industrial Average had been up 180 points in the morning, fueled by higher profit numbers from GE and rumors that the Federal Reserve Board might order an interest rate cut before its scheduled January 30 meeting. After Bush’s remarks—and with no sign of action by the Fed—the New York Stock Exchange plunged 300 points, to 120 points down for the day, before rallying at the end to close with a net loss of 60 points.

The stock market plunge during the first three weeks of January has wiped out far more in paper wealth than Bush’s entire stimulus package. The Dow has lost nearly 9 percent in the first 13 trading days of 2008, and is down over 1,000 points for the year so far. The Dow average has fallen 2,000 points, nearly 15 percent, since the record high of 14,198 last October.

The financial rot goes far deeper than the hundreds of billions already lost in the stock exchange and the subprime mortgage collapse. Economic specialists have begun warning of the danger of a more far-reaching financial debacle.

Nouriel Roubini, an economist at the Stern School of Business at New York University, told the *New York Times* last week: “We’re facing the risk of a systemic financial crisis. It’s not just subprime mortgages. The same kind of reckless lending has been occurring throughout the financial system. And it’s not only mortgages: Now it’s credit cards and auto loans, where we see problems increasing. The toxic junk is popping up everywhere.”

On his blog, Roubini elaborates on some of the more arcane financial instruments which are now at risk, including such highly speculative forms of gambling as the “credit swap market,” which now accounts for some $43 trillion in paper values. Roubini estimates losses of over $1 trillion in bad investments in such markets.

The systemic aspect of the financial crisis is what frightens Wall Street the most. A case in point is the effective collapse of bond insurers such as Ambac and MBIA. Ambac announced Friday it was abandoning an effort to raise $1 billion in new capital because of the disturbed market conditions. Should such firms go under, the bond market itself could shut down, since no one would be willing to trade.

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