Congressional Democrats embrace Bush’s economic stimulus plan

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In a cave-in that was as swift as it was total, the congressional Democratic leadership reached agreement with the White House Thursday on an economic stimulus plan that is limited to tax cuts and provides no new funding for unemployment compensation, food stamps or other social programs, or for public works.

The agreement came after three-way talks between House Speaker Nancy Pelosi, House Minority Leader John Boehner and Treasury Secretary Henry Paulson, representing the Bush administration. Senate Majority Leader Harry Reid backed the plan, which is to be introduced into the House first, but said there could still be significant changes in the details once it reaches the Senate.

The plan is the same size proposed by Bush January 18: about $150 billion, divided between $100 billion in tax rebates for individuals and $50 billion in tax incentives for business. There are additional provisions related to the mortgage market crisis, including expanded authority to federal agencies to help refinance mortgages.

The tax rebates will be focused largely on middle-income families, with much smaller amounts for the lower-income working-class families, about 40 percent of the total, who do not pay income tax but have substantial amounts deducted from their paychecks for Social Security and Medicare.

Those making at least $3,000 a year would be eligible to receive a check for $300. Those who pay income tax (earning approximately $50,000 a year and up for a two-income couple), would receive $1,200 rebates per family, or $600 for an individual, plus an additional $300 per child. These rebates would be phased out gradually for families with incomes between $150,000 and $178,000 a year (or for individuals with incomes between $75,000 and $87,000). Wealthier individuals and families would receive no rebate.

Congressional Democrats hailed the agreement because the number of families receiving rebates rose from 82 million under the original Bush plan to 117 million by adding 35 million lower-income families. These families would receive rebates totaling $28 billion.

But in return for this “concession”—clearly envisioned as a bargaining chip by the White House when it issued its plan—Pelosi agreed to drop any extension of unemployment and food stamp benefits as well as proposed funding increases for low-income heating assistance and state Medicaid programs.

Even some of Pelosi’s fellow House Democratic leaders were taken aback by this abrupt abandonment of traditional social safety net programs, particularly unemployment compensation, which has been extended from the standard 26 weeks to 39, 52 or even 65 weeks during many US recessions.

According to reports from the Labor Department, more than 1.4 million unemployed workers had been without a job for more than 27 weeks as of November. This is twice the level of long-term unemployment that existed before Bush took office in 2001.

Pelosi acknowledged the anger which her action would provoke, but dodged a reporter’s question about what she did not like about the stimulus plan. “Let us praise this package for what it does and not disrespect it for what it does not.” This formula perfectly expresses the combination of impotence, condescension and political arrogance that the congressional Democratic leadership embodies.

She told the news conference on Capitol Hill, “First and foremost, the stimulus package will put money in the hands of hardworking Americans. This is a middle-class initiative to strengthen the middle class and to those who aspire to be in the middle class." In other words, low-paid workers, the disabled, the unemployed, the elderly, young people all need not apply.

While billed as an effort to stimulate the US economy and stave off a recession, the package is both pathetically small and far too slow to have any significant impact. The $150 billion total is less than the financial losses incurred in a one-percent drop in the New York Stock Exchange. It is a fraction of the losses in the subprime mortgage market alone, to say nothing of the wider financial carnage of the past six months.

As for the plan's timing, Secretary Paulson said that if approved by Congress by February 15—which is much in doubt—the stimulus package would result in the first rebate checks being delivered in May or June. Whatever minor boost is given to spending is thus as much as six months off.

The business tax write-offs, including accelerated depreciation and provisions allowing businesses to deduct net operating losses from future tax payments, will also have a minimal and much-delayed effect.

It is clear that the main concern of both the congressional Democrats and Republicans as well as the White House was to put on a public display of concern about the impact of the mortgage crisis, while doing as little as possible, and suppressing any public discussion of measures that might actually alleviate the deepening social distress in the United States.

Pelosi & Co. spurned a plea by more than 250 mayors, assembled in Washington for the winter meeting of the United States Conference of Mayors, for a significant increase in federal aid to cities hard-hit by falling tax revenues, rising levels of hunger and homelessness, and the spreading blight of foreclosures and evictions.

The president of the conference, Douglas Palmer, mayor of Trenton, New Jersey, declared, "It's an economic tsunami that is hitting our cities," adding, "We need federal action not six months from now, but within the next 30 days."

Last month the mayors' group released a forecast that home values would fall by $1.2 trillion in 2008, devastating city budgets, which are largely dependent for their revenues on property taxes paid by local homeowners.

State governments are also being hit, according to a report released Wednesday by the Center on Budget and Political Priorities, which found that some 16 states were predicting budget shortfalls for FY 2009 totaling over $30 billion.

The Federal Reserve Bank of Philadelphia reported Tuesday that the economy shrank in 23 states last month, including Ohio, Missouri and Arizona, and was stagnant in seven others.

The federal government also faces a swelling budget deficit. Congressional Budget Office Director Peter Orzag told Congress Wednesday that the budget deficit for the current year, FY 2008, will hit $250 billion, up from $163 billion in FY 2007 (the current fiscal year began last September 30, 2007).

In the event Congress adopts an economic stimulus package of the dimensions proposed by Bush and Pelosi, the deficit would rise to more than $400 billion, close to the all-time record set in 2004.