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An economic game plan emerges

By: David Rogers

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A closed door-meeting of the Senate Finance Committee on Thursday will be an early test of President-elect Barack Obama's economic plan, with Chairman Max Baucus hoping to use the executive session to judge support for the tax cuts and major health provisions at the heart of the \$775 billion package.

Better than half the total cost of the Obama package falls within the Finance Committee's jurisdiction, affecting tax cuts, Medicaid financing and a new proposal providing a 65 percent subsidy to help unemployed workers try to hold on to health insurance coverage for their families.

"My goal is to get this passed in a bipartisan way," the Montana Democrat told Politico after giving notice of the meeting Tuesday morning. "I want to move to markup soon, and this is where I can get a sense and feel of what to present in markup, what the threshold is."

In a separate interview, Iowa Sen. Charles Grassley, the ranking Republican on the panel, said Baucus will be helped by the estimated \$300 billion in tax cuts in Obama's plan and perception among a solid bloc of Republicans that "some sort of a stimulus package has to be passed." But the level of new spending, much of it targeted to states, is meeting Republican resistance, Grassley said, and will be a "hard swallow."

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Less than two months ago, for example, Senate Democrats proposed spending \$37.8 billion to help cash-strapped states pay their share of Medicaid, the federal-state health care program for the poor and disabled. The new package would spend more than twice that, and the price tag could grow to \$100 billion, depending on how far Democrats and the Obama administration go to target extra bonus aid to states hit hardest by the economic downturn.

"You can't just spend money and stimulate the economy," Grassley told Politico. "You have to have incentives for investment, because you have to expand the economic pie."

"There's a lot of good news in the tax area," Grassley said. "But our party is raising questions about the stimulus coming from giving money to the states. And I think that's going to be a hard swallow."

Baucus said he is prepared for some resistance on the spending front. "Earlier discussions with Republicans ... last year were a lot lower, a lot lower," he agreed of the Medicaid provisions. And Baucus conceded that he could face objections as well to expanding the child tax credit as far as the \$3,000 threshold now proposed.

But the chairman, who was scheduled to meet with Grassley on Tuesday evening, was upbeat given the political stakes for both parties. "My sense is the economy is in such difficult shape, and potentially getting in worse shape, that there will be a lot of

cooperation all the way around,” Baucus said.

Obama is slated to address his plan in greater detail in a speech on Thursday — the same day of the Finance Committee meeting. But the basic outlines of the package have already been aired by his team in a series of calculated press leaks designed to maximize their political advantage.

Details of the tax portion, for example, became public Monday morning, prior to the president-elect’s first meeting on the package with House and Senate Republicans. And when major newspapers last month overstated the cost of the package, the Obama team tamped down this speculation by releasing new job creation figures to shift attention — and provide a screen to allow the cost reports to be adjusted.

Obama himself showed some of the same skill Tuesday when he met with his economic advisers and used the occasion to steal the thunder from a Congressional Budget Office report, due Wednesday, on the burgeoning federal deficit. Rather than wait for the report, the president-elect effectively trumped CBO by citing his own team’s estimate that the 2009 deficit will approach \$1 trillion — or double the deficit as of Sept. 30, 2008, the end of the last fiscal year.

“Potentially we’ve got trillion-dollar deficits for years to come, even with the economic recovery that we are working on,” Obama said, as if to defuse the matter.

Even with the deficits, in fact, he has substantial support for a large package from economists across the political spectrum. And while job creation is Obama’s first goal, he clearly hopes to use the exercise to advance some of his own budget priorities, such as investments in education and new information technology to lower future health costs. Most striking is the progressive distribution of tax cuts and spending directed at lower income families.

The centerpiece of his tax package is a \$1,000 per family tax credit intended to help relieve the strain of payroll taxes on workers who don’t otherwise pay incomes taxes. An old Clinton administration idea to expand the earned income tax credit for households with three or more children would be revived. And the plan would expand the child tax credit also to benefit lower income households not paying income taxes.

This is combined with plans to raise food stamp benefits by 10 percent — and possibly 15 percent. And temporary workers, typically at the lower end of the wage scale, would benefit from an expansion of jobless benefits.

Robert Greenstein, head of the liberal Center for Budget and Policy Priorities, argued that these choices are not ideological but go to the fact that the best way to pump money into the economy is to focus on those most in need of extra purchasing power.

“The top criterion should be what is most effective in stimulating the economy in order to lessen the length and depth of recession,” Greenstein said. “The fact of the matter is that tax reductions that put money in the pockets of people who are living paycheck to paycheck and just trying to make ends meet are most effective.”

Greenstein told Politico that Republicans make a mistake in assuming that aid to states — even at the level anticipated in the Obama package — will promote waste.

He said his center estimates that states now face deficits of \$350 billion over the next 2½ years and will still have “wrenching decisions” because the Obama package can’t possibly fill that gap entirely.

Much the same argument is made in a new report Tuesday by economist Mark Zandi, who once served as an adviser to Republican Sen. John McCain’s presidential campaign and has also helped House Democrats.

Zandi outlines his own \$750 billion framework of an economic recovery bill — up from \$600 billion in November. And he predicts that while unemployment will still rise, the jobless rate would be substantially higher — topping 11 percent in 2010 — if nothing is done.

“Because most state constitutions require their governments to quickly eliminate deficits, most have drawn down their reserve funds and have already begun to cut programs ranging from health care to education,” Zandi writes in the report. “Cuts in state and local government outlays are sure to be a substantial drag on the economy in 2009 and 2010.”

“Additional federal aid to state governments will fund existing payrolls and programs, providing a relatively quick economic boost,” his report adds. “States that receive checks from the federal government will quickly pass the money on to workers, vendors and program beneficiaries. Arguments that state governments should be forced to cut spending because they have grown bloated and irresponsible are strained, at best. State government spending and employment are no larger today as a share of total economic activity and employment than they were three decades ago.”

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