

# 'Stimulus Guide for Dummies' details Obama plan

By George E. Curry  
Special to Sentinel-Voice

With dueling economists and back and forth between Democrats and Republicans over President Obama's economic recovery package, the Center on Budget and Policy Priorities has provided us with a Stimulus Guide for Dummies. Actually, it's a report by Chad Stone, the center's chief economist, titled, "Attacks on Congressional Package Don't Withstand Scrutiny."

"The plan, for the most part, is well designed to produce as much stimulus as possible as quickly as that can be done," the report states. "It includes fast-spending, high 'bang for the buck' items such as expansions in food stamps and unemployment insurance — provisions that a broad range of economists and CBO [Congressional Budget Office] have rated as the most highly stimulative types of spending. It also includes state fiscal relief, which is essential to moderate the depth of the budget cuts and tax increases that states otherwise will have to impose; such budget cuts and tax increases would withdraw demand from the economy and make the downturn deeper.

In addition, the package includes infrastructure investments, which are highly stimulative once projects are underway but sometimes require significant lead time. Finally, the package includes tax cuts, some of which are targeted on low- and moderate-income households, making them more effective

as stimulus, and some of which are less well-targeted and, according to CBO, likely to have far less of a stimulative effect."

Now you have an overview of the plan written in plain English, something hard to find these days in Washington. But there's more.

"Effective economic stimulus and recovery measures work by increasing the demand for goods and services at a time when there is insufficient existing demand to keep businesses operating at full capacity and to generate full employment. Measures that increase demand stop the destruction of jobs and begin to put people back to work during times when business and consumer confidence is low and economic activity is spiraling downward."

House Republicans have been especially critical of President Obama's stimulus plan, saying it wastes money on social spending, a charge Chad Stone rejects.

"Some critics, for example, argue that spending on safety net programs like food stamps and unemployment insurance may be justified on humanitarian grounds but does not provide stimulus or create jobs in the way that reductions in, say, taxes for businesses would. In fact, this argument is completely backward in a recession," he observes. "When the problem is that businesses have



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excess productive capacity and can't sell everything they can make, the way to reduce pressure on them to lay off workers and to give them a greater incentive to expand is to give their customers more money to spend. When you increase benefits for unemployed workers or food stamp recipients, they spend the money quickly and the benefits spread through the economy."

Of course, there is the complaint that a deeply indebted federal government cannot afford to send money to the states.

"Critics are similarly confused about fiscal relief measures for cash-strapped states. Here, too, some critics have mistakenly charged that such measures are not stimulus and do not create jobs," Stone argues. "... In an economic downturn, states see their revenues fall off and their caseloads for social safety net programs like Medicaid increase. Unlike the federal government, states have balanced budget requirements for their operating budgets. As budget deficits begin to emerge, states must take actions to cut existing programs or raise new revenues."

"Those actions translate into layoffs of state workers, cancellation of contracts with vendors, and a diminished response to the hardship that beneficiaries of safety net programs experience. Without help from the fed-

eral government, those state actions will reverberate through the economy, adding to the job losses and further weakening economic activity. States currently face budget shortfalls projected at more than \$350 billion over the next 2-1/2 years, a stunning amount that, in the absence of federal relief, would translate into budget cuts and tax increases that would make the recession longer and deeper."

Republicans still propose additional tax cuts as a means of jumpstarting the economy. Again, Stone is not impressed.

"A persistent argument heard in the stimulus debate is that tax cuts are more effective stimulus than government spending. That is not the conclusion of mainstream macroeconomic theory or evidence," he notes. "... Tax cuts are most effective as stimulus when they are targeted on low- and moderate-income households that will likely spend a high proportion of the benefits. Tax cuts are far less effective as stimulus when they go to high-income taxpayers who will likely save a large proportion of the tax benefits or, as discussed above, to businesses that will not likely spend the tax cuts on expansion when their sales are depressed and they are laying off workers."

Now that we have raised our economics IQ, no one can play us for dummies.

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## GOP practices willful ignorance on economic crisis

By Ron Walters  
Special to Sentinel-Voice

In the discussions about what to do to fix up the economic mess left by George Bush, I have come to understand why it happened when I hear the unimaginably ignorant proposals put forth by many Republicans.

I wonder what planet someone could come from who says, for example, "just let the auto companies go into bankruptcy and work themselves out of their financial problems without government assistance."

Just what will the market for automobiles be doing while American auto companies are in bankruptcy — that's right, gaining the market share they left behind, so if they could possibly recover, there would little auto industry left that the Asian and European firms did not own.

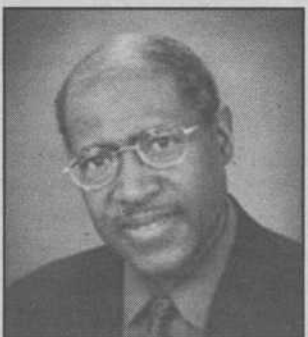
As if that wasn't enough, now we hear them suggesting that the government should just let the banks fail that are in trouble. Are they crazy?

The viability of the big banks (they are really banking systems because of the variety of services they offer and the outreach of

their networks) are central to the capital markets for firms and the credit system for businesses and consumers, and if they fail, the entire economy — including much of the international economy — could come tumbling down. As bad as things are now, the entire American economy is not involved, since many banks and other financial institutions are still solvent and operating. Likewise, we hear, "Just don't give AIG the money."

I've never heard anything so stupid. If you Google AIG, you can readily see that the scope of its insurance activities covers many of the largest and most well-endowed companies in the world and if they are not insured, they are opened up to immeasurable risks which, in turn, affects evaluations of their credulity in the market place.

It is a little like the difference between a person having a credit score of 720 or 500, if you are well insured against risks, you are perceived to be in good shape. I agree with



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Newt Gingrich: that is, we now have a set of institutions that are too big to fail, that they should be broken up, but where were he and his people when the path to monopoly capitalism was paved with the fortunes of their friends?

The lack of creative ideas are substituted with simplistic formulas that would put the country in worse shape than

before. Let's face it, Republicans have not had good ideas for 30 years. I remember when David Stockman, President Reagan's Director of Office of Management and Budget, described Reaganomics as "Voodoo Economic," a description that gave Voodoo a bad name.

It was the source of "trickle down" economics, practiced by most Reagan's successors except Bush 41 who was thrown out because he violated his pledge not to raise taxes. The idea has been to let the rich escape paying high taxes and they would spur economic growth, employ everyone and make us all rich. It didn't work.

All I know is that this is no time for pure capitalism of letting every tub sink or swim on its own bottom as though governmental institutions played no role in helping to guide monetary or fiscal policy and is the insurer of last resort.

This is a raw and ultimately crude understanding of how to manage an economy which says run it into the tank and let the economy correct its own way out. Sophisticated economic managers understand that economies must have a balance of both private and public management, since both sets of interests must be protected.

I am in Kansas at this writing, reading that

in the most Republican State in the Union, the State legislature is coming to the end of its session and neither the House nor Senate has passed an expansion of SCHIP the program that insures the health of poor children.

This, despite the fact that the national government passed the bill providing extra resources to the states and there is additional money in the Stimulus Package. Are they just mean-spirited and anti-humanitarian? Remember, every tub on its own bottom.

You would think that people would rise up and vote against legislators who act in this fashion but first, they are mostly unaware of what is going on, and second, there is mass economic ignorance of how the economy works and the responsibility of government to provide a balance to society.

Many in the public take their cues from conservative talk radio jocks who are also economically challenged, then pass on the ignorance to their families and friends.

They challenge the proposals set forth by President Obama, but don't really have any good alternatives. But the real sources of such ignorance may be party and race, since some people don't want to follow the leadership of the President because that would legitimize him and his programs and some people just cannot bring themselves to submit themselves to the leadership of a Black man, especially in matters that are the most important that the country has faced in nearly 80 years. But since he is in power and has a deep and experienced economic team, I think they should have their chance as others have, rather than following the known chaos that results when everyone knows best.

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## Alford

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The CAPER). This evaluates the effectiveness of the Annual Action Plan and updates the progress of the 5 Year Consolidated Plan. The performance may provide review and advice by HUD on the compliance of Section 3. Finally, for each grant there must be an "A-133 Audit." Included in this audit is the 60002 Report. This report details the activity of Section 3 in regards to the grant implementation. Remember, nearly 3/4 of HUD grantees are not doing these reports.

It will be the NBCC mission to police this and enforce it. Right now, HUD doesn't have

the manpower to adequately do it. Failure to comply with Section 3 can lead to sanctions and the freezing of HUD funding for those out of compliance. Our chapters and sister organizations should get very busy on this.

For those of you who want to track the HUD money in the Stimulus Bill, please go to [www.hud.gov/recovery](http://www.hud.gov/recovery) and click "funding by state." Check on it every week or so and you can track the actual money coming to your town. Make sure Section 3 compliance takes place.

Alford is the co-founder, President/CEO of the National Black Chamber of Commerce.