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For Obama, Tax Deal Is a Back-Door Stimulus

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WASHINGTON

A year ago, [President Obama](#) and the Democrats made the [mistake of assuming](#) that an economic recovery was under way. This week's deal to extend the [Bush tax cuts](#) shows that the White House's top priority is avoiding the same mistake again — even if it has to upset many fellow Democrats in the process.

Mr. Obama effectively traded tax cuts for the affluent, which Republicans were demanding, for a second stimulus bill that seemed improbable a few weeks ago. Mr. Obama yielded to Republicans on extending the high-end Bush tax cuts and on cutting the [estate tax](#) below its scheduled level. In exchange, Republicans agreed to extend unemployment benefits, cut payroll taxes and business taxes, and extend a grab bag of tax credits for college tuition and other items.

For the White House, the deal represents a clear shift in policy focus. Mr. Obama and Democrats spent much of the last year pursuing long-term goals like a health care overhaul and [financial regulation](#), while hoping the economic recovery would continue. But with the [recovery faltering](#) and Republicans retaking the House, the administration is turning back to short-term job creation.

Congressional Democrats have reacted with a mix of wariness and anger, and some said Mr. Obama should have put up a fight on the high-end tax cuts. Yet once the Democrats bungled this issue — failing to deal with it before the midterm elections — their choices were **extremely limited**. If they stood firm on the high-end tax cuts and Republicans stood firm as well, all of the Bush tax cuts, not just those on income above \$250,000, would have expired Dec. 31. The economy would surely have suffered as a result, and a bad economy is rarely good for the party that holds the White House.

Tellingly, economists and Democratic policy experts were largely pleased with the deal. Forecasting firms on Tuesday **upgraded their estimates** for growth and job gains over the next two years.

Economists at **Goldman Sachs**, who have been more negative and more accurate than most Wall Street forecasters lately, called the deal “significantly more positive” than they had anticipated.

And left-leaning policy experts said the package did more to create jobs than they had thought possible after the Republicans’ midterm election victories. **Robert Greenstein, Lawrence Mishel and John Podesta** — who run prominent Washington research groups that range from liberal to staunchly liberal — all offered praise for the package. **Of its estimated** \$900 billion-plus cost over two years, roughly \$120 billion covers the high-end tax cuts and the estate tax cut, \$450 billion covers Mr. Obama’s wish list and \$360 billion covers the tax cut extensions both parties favored.

“People are kind of venting their disappointment and acting as if the administration did a terrible job in the negotiations,” said Mr. Greenstein, who runs the Center on Budget and Policy Priorities. “But it didn’t. The mistake the administration made — and it was a serious one — was that it should have dealt with this well before the election.”

Still, the risk for Democrats, and the economy, remains the same as it was. Financial crises wreak terrible havoc. They **typically cause unemployment** to rise for more than five years and leave consumers and business uncertain about when healthy growth will finally resume. Aftershocks are common, as is evident in Europe. Virtually no economist believes the new **stimulus package** will be big enough to make the economy feel healthy anytime soon.

The ideal package would have been larger than the current one, and it would have been better tailored. The \$120 billion cut in the payroll tax, for example, will apply to the portion paid by workers, not companies. The [Congressional Budget Office](#) and other analysts **have said** that cutting the workers' portion provides less bang for the buck because individuals are likely to save some portion of the money. Cutting the employers' portion subsidizes hiring.

But politics prevented the best kind of payroll tax cut. Republicans did not want one larger than the \$120 billion, one-year cut in the package. Administration officials wanted the political benefit of having that whole sum apply to individual workers. The resulting compromise will help the economy, but not as much as it could have.

Initial estimates by economists suggested that the overall legislation would reduce the unemployment rate by one-half a percentage point to a full point over the next year, compared with allowing all the tax cuts to expire and passing no new stimulus. By the end of 2012, the decline could be up to 1.5 percentage points, economists said.

On the other hand, the unemployment rate will still probably be near 8 percent by the end of 2012, when the current package expires, and the two parties will get to have this fight all over again.

What's the early line on that fight? Republican officials hope that Democrats will again find it hard to let all the tax cuts expire in the name of letting some expire. White House officials hope the economy will have improved enough by then to help Mr. Obama win re-election — and to allow him to threaten, credibly, to veto any bill that includes a tax cut for the wealthy.

There is also one big unknown looming over the whole debate: the deficit. This week's deal, of course, will worsen the deficit. In the short run, many economists believe a larger deficit is better than the alternative. As [Ben Bernanke](#), the [Federal Reserve](#) chairman, said during a recent ["60 Minutes" interview](#), "We don't want to take actions this year that will affect this year's spending and this year's taxes in a way that will hurt the recovery."

Yet Mr. Bernanke and other economists usually add another point. Any additional spending now, they say, should be paired with future deficit reduction. Otherwise, the long-term deficit will continue to rise, and nervous investors may eventually demand that the federal government pay higher interest rates. Interest rates remain low for now, but they did rise on Tuesday, after the compromise was announced.

The problem is that raising the deficit — be it through high-end tax cuts or a new stimulus program — is a lot easier than cutting it. Strange as it may sound, some of the only fiscal conservatives in Washington this week have been liberals who would be willing to let everyone's taxes rise. And they seem unlikely to win on this issue.

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