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Strains for Democrats in Budget-Balancing Act

By [JACKIE CALMES](#)

WASHINGTON — When economists met privately with Democratic leaders of the House on Wednesday, the topic was how to pump billions more into the economy to stimulate job creation. They left with a homework assignment: How to cut trillions from future [federal budget](#) deficits.

That seemingly contradictory mix captures the unusual political and policy tension in the White House and Congress these days as the politicians deal with an economy that has begun a slow but jobless recovery and a public that is increasingly fretful about the accumulating debt.

Not since the early 1990s have Washington's policy makers faced this balancing act between demands for immediate economic stimulus and pressure for longer-term plans to restore fiscal stability. But this time is a lot worse, both in the severity of the economic downturn and the size of the deficit.

"It is a complicated balance because these imperatives point in different directions," [Lawrence H. Summers](#), the senior economic adviser to [President Obama](#), said in an interview. "Imagine a business if it were trying to execute a plan of rapid expansion for two years, followed by retrenchment and cost-cutting for the next three. It would be a complicated business strategy to execute."

The complications are evident as Democrats shape the stimulus measures under discussion now, as well as in the administration's drafting of its budget for the fiscal year 2011, which is due by February and which will include "proposals to put our country back on firm fiscal footing," [Peter R. Orszag](#), the budget director, said last week.

Administration officials and Democrats in Congress are confronting questions from Republicans and some reporters about how they plan to "pay for" stimulus measures, like proposed tax credits for first-time home

buyers and for employers who hire new workers and Mr. Obama's recent proposal for a second round of \$250 [Social Security](#) checks to older Americans, veterans and the disabled. The first checks went out last spring as part of the \$787 billion [stimulus package](#) enacted soon after Mr. Obama took office.

But stimulus measures, like the one last winter, typically are not offset with savings elsewhere — budget cuts or tax increases — because such steps would take money out of the economy when the purpose of stimulus is to funnel money into it.

“Stimulus doesn't work unless it increases the deficit; that's the bottom line,” said Mark Zandi, an economist with Moody's [Economy.com](#), who has advised lawmakers of both parties and was at Wednesday's meeting in the office of Speaker [Nancy Pelosi](#), Democrat of California.

Afterward, Ms. Pelosi said Democrats would not have another big stimulus bill but instead a series of smaller ones. That reflects their sensitivity to the fact that a single bill would carry a bigger price tag and to Republicans' criticisms that the first stimulus package has been a failure, a claim that most economists, including those at the Capitol meeting, reject.

“We do not have a plan for an additional stimulus package, but we do have plans to stimulate the economy,” Ms. Pelosi told reporters.

Those plans are expected to total at least \$100 billion. Much of that would go to extending into next year the original stimulus package's provisions for expanded unemployment compensation, health benefits and food stamps for people who have been out of work for long periods. Those safety-net provisions, which have some bipartisan support, are set to expire Dec. 31.

Other spending and tax cut proposals are proving more controversial as heightened concerns about the deficit play out in the internal debates at both ends of Pennsylvania Avenue.

Within the administration, for example, economic advisers generally were unenthusiastic about spending nearly \$14 billion early next year to send out \$250 Social Security checks regardless of the beneficiaries' income. But political advisers favored it, people familiar with the discussions say. Americans over 65 are the age group least supportive of Mr. Obama, but the most likely to vote in midterm elections.

At the Capitol, the House Democratic majority leader, Representative [Steny H. Hoyer](#) of Maryland, has been outspoken in his opposition on fiscal grounds, but other Democratic leaders favor the proposal.

Congressional Democratic leaders are far more enthusiastic than the White House about the proposal to extend the stimulus law's \$8,000 tax credit for first-time home buyers. The provision is due to expire Nov. 30.

In a meeting on Wednesday with about 30 House Democrats, [Timothy F. Geithner](#), the [Treasury](#) secretary, cautioned that the home buyers credit was costly and of uncertain efficacy when officials should be seeking "the maximum bang for the buck for every dollar we spend," according to an attendee.

On Thursday, a House subcommittee will hold a hearing on alleged fraud involving the tax credit. According to the panel, investigators at the [Internal Revenue Service](#) have identified 167 criminal schemes involving the tax credit and opened 107,000 civil examinations.

But the credit is a priority of Senator [Harry Reid](#), Democrat of Nevada and the majority leader — who faces a tough re-election race in a state hit hard by the housing crisis — as well as other lawmakers in both parties and the housing industry.

Among other ideas on the table are extending business tax breaks and using the financial bailout money to expand lending to small businesses now that the financial system is stabilized.

[Alan S. Blinder](#), a former vice chairman of the Federal Reserve System and one of those who met with House leaders, afterward paraphrased a quote he attributed to St. Augustine, "Lord, make me chaste, but not just yet."

"We do need to become more chaste about the budget deficit," Mr. Blinder said. But, he added, "this is not the time to do it."

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