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Tuesday, October 13, 2009

Analysis

Third Round of Stimulus Will Be Smaller - Experts[Comments \(1\)](#) [Add Comment](#)[Share This](#) | [Respond to Editor](#) | [Print](#)Ken Sweet
FOXBusiness

A large proportion of the funds in the White House's \$787 billion economic stimulus bill remain unused. No matter. There is growing chatter in Washington in favor of another another stimulus bill, the third since the economy soured nearly two years ago.

This is because the first two, a \$160 billion stimulus bill signed by then President George W. Bush, and the Obama bill, have yet to resolve near-10% unemployment and settle the growing worries that once the U.S. economy exits this recession growth will be will be weak at best.

Jobs is a big issue. Many company reporting earnings, such as Alcoa (AA: 14.065, -0.315, -2.19%) last week, said improved profits are the result of spending cuts rather than growing demand. Spending cuts means fewer jobs.

Economists and policy experts have said they believe a third economic package may be signed into law if the economy doesn't start showing stronger signs of improving. White House Budget Director Peter Orszag did not rule out another stimulus package in a recent interview with the Associated Press, saying "additional measures" may be necessary if the economy remains fragile.

Right now the additional measures appear to be a cacophony of government programs that may be extended or renewed, including an extension of unemployment benefits, health insurance coverage for the unemployed, and a renewal of the first-time home buyer tax credit. It is unlikely, policy experts said, that a broad and costly stimulus bill will have the political capitol to get through Congress in light of record deficits.

"I think what you will see from Congress will be programs described as "targeted" attempts to help stimulate the economy," said Tad DeHaven, fiscal and budget scholar at the CATO Institute. "They are going to be small programs."

"I don't think we'll see any broad stimulus," said Adolfo Laurenti, chief U.S. economist with Mesirow Financial in Chicago.

The extension of unemployment benefits appears to be the most likely to happen. The House of Representatives has already approved a package to extend unemployment benefits by 13 weeks, and the Senate is considering a program extending it by 14 weeks.

While unemployment benefits may have support, it's hardly economic stimulus, according to economists. Stimulus is traditionally programs that have a multiplier effect in the economy – for example, infrastructure spending – and unemployment benefits are seen as more of a social "safety net" than something to prop up the economy, said Ted Gayer, co-director of economic studies at the Brookings Institute, a non-partisan policy think tank.

"It may not be stimulative to the economy, but it makes sense from a social point of view," Gayer said.

The \$8,000 first-time home buyer tax credit is considered popular in Congress and is expected to be renewed when it expires Nov. 30. However the program is not popular with some economists and policy experts, who argue that it's too specifically targeted and doesn't help lift the broader economy.

"I think natural market forces are working through the problems in the housing market, and giving a tax credit does little to help excess inventory," Gayer said. "The credit has propped up prices somewhat, but it's expensive and poorly targeted."

The National Association of Realtors, the chief lobbying arm for the realtor industry, has been pushing for an extension of the first-time home buyers' credit, saying that 355,000 to 400,000 of the annualized 5.1 million homes sold this year can be attributed to the tax credit.

Instead of temporary programs or one-time tax credits, there has been talk of making the Bush tax cuts of 2001 and 2003 permanent. John Lonski, chief U.S. economist at Moody's, said he believes it would be politically and economically difficult for Democrats to allow the Bush tax cuts to expire in 2010 during an election year

"If there is going to be fiscal stimulus, I think the most likely form will be making the Bush tax cuts permanent," he said.

In order to compensate politically for making the cuts, Democrats will most likely readjust the tax brackets when the cuts are renewed to move some of the tax burden back to upper income earners, Lonski said.

Other programs being considered include a "job creation" tax credit that has been proposed by some Republicans. Small businesses and corporations would get a temporary tax credit for every job they create over a period of time – something advocates argue would help target the nation's weak labor market.

The problem with the program, according to Gayer and other policy experts, is answering the question of "what is a created job?"

"There's a lot of administrative burden for such a program," he said. "It can be difficult to figure out what is a new hire versus who would a company have hired anyway."

Either way, the central issue for all these programs will be finding a way to pay for it. With a \$1.4 trillion deficit for 2009, a \$787 billion stimulus plan not yet fully used, and an estimated \$900 billion health care plan in the works, it may be difficult to pass even small target programs under the umbrella of "stimulus."

"The long-term fiscal policy should be moving toward finding a way to pay for the debt," Gayer said.

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