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Saturday, January 19, 2008

Brian J. O'Connor:

Rebates aimed at restarting economy

Tax refunds to families, business incentives part of Bush's \$150 million stimulus package.



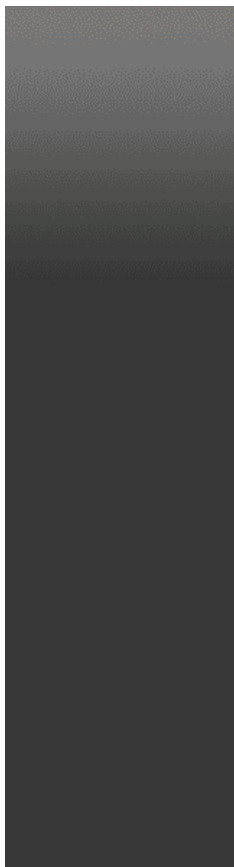
The White House and Congress have a message on the increasingly dire state of the U.S. economy:

"The check is in the mail."

With more economists putting the odds of a full-blown national recession at 50-50 or worse, administration and congressional leaders hope to jolt the economy back on track before growth goes into the red.

"There is a risk of a downturn," President Bush said Friday as he unveiled his outline for a roughly \$150 billion economic stimulus plan of tax incentives for business and tax relief for individuals.

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Details are few as Congress and the administration hash out the plan, but the likely centerpiece will be tax rebates of up to \$800 per person or \$1,600 per family.

"Letting Americans keep more of their money should increase consumer spending," Bush said.

The idea resonates with Mark Woodmore, 51, of Auburn Hills. "I could always use more money. It could give me a jump on paying bills. I still have a daughter in college."

In addition to tax rebates, the discussion includes tax breaks to encourage businesses to make major investments this year. House aides said the measure also could increase food stamp and unemployment benefits.

An extension of unemployment insurance benefits would surely put more money in the hands of Michigan's record level of jobless workers. The state could get an additional boost from a provision that would accelerate business depreciation for capital equipment, which could boost sales of trucks.

The \$150 billion equals about 1 percent of the gross domestic product -- the value of all U.S. goods and services and the best measure of the country's economic health. Many economists say that would be enough to shore up the country's increasingly wobbly financial stance.

"In a recession, we normally have a 1- to 2-percent drop in GDP," said David Sowerby, chief economist and senior portfolio manager at Loomis, Sayles & Co. LP investment management in Bloomfield Hills. "This kind of tax cut would address more than half of the decline."

'If it's done right'

The Federal Reserve has cut interest rates twice to buoy the foundering U.S. economy, and is poised to make another major cut this month. But Fed rate cuts take time to flow through the system. Meanwhile, banks and investors are sitting on the sidelines, waiting to see just how bad the problems will get.

That's where -- in theory -- a short-term stimulus package can help. By injecting spending cash into the economy, the extra money can keep the economy afloat until the benefits of Fed rate cuts kick in later this year.



"It would help out at the moment because I would use it to help with my April wedding planning. But I'm not in favor of them deducting it from later income refunds." -- HEATHER HUFFMAN, 24, Roseville resident and a design consultant

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While a cut won't hurt, Comerica Inc. chief economist Dana Johnson said he doesn't think a stimulus is required at this point.

"We've avoided downturns and come through recessions before without any fiscal stimulus, so I don't view it as essential," Johnson said, "but I think it would buy us some insurance. If it's done right, it could help."

The income tax rebates would be an advance on future tax refunds, or could be structured as a tax credit or payroll tax rebate to all taxpayers.

Some predict little relief

If it's a simple income tax rebate, it won't send much -- if any -- money to people who pay little or no income tax.

Robert Greenstein, director of the Center on Budget and Policy Priorities, noted Friday that the administration plan would give little or no relief to more than 65 million low- and moderate-income households, such as seniors on fixed incomes.

Other analysts see additional downsides to a stimulus package.

Economist Patrick Anderson of Anderson Economic Group in East Lansing sees more value in permanent tax cuts.

"Short-term boosts have short-term effects," Anderson said, "but if you don't reduce tax rates permanently, you're not encouraging people to invest permanently."

This same kind of tax rebate was used by the Bush administration during the 2001 recession with mixed results, said Sophia Koropecjy, an economist who covers Michigan for Moody's Economy.com.

"The last time around, it was \$300. That didn't work too well because a lot of people used that money to pay down debt," Koropecjy said. "If you don't use the money directly to spend, the stimulus is a lot smaller."

If Congress and the White House act fast, your rebate check could arrive by June with hopes that once it hits the mailbox, you'll hit the mall.

Detroit News Staff Writer Delores Flynn and the Associated Press contributed to this report. You can reach Brian O'Connor at (313) 222-2145 or boconnor@detnews.com.

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- [Horoscope](#)
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- [Sudoku](#)
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- [News Photos](#)
- [Autos Photos](#)
- [Audio Galleries](#)
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- [Politics/Govt.](#)
- [Elections](#)
- [Religion](#)
- Local/State:**
- [Metro/State](#)
- [Wayne](#)
- [Oakland](#)
- [Macomb](#)
- [Livingston](#)
- [Commuting](#)
- [Schools](#)
- [Michigan History](#)
- [Obituaries](#)
- [Death Notices](#)

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- [Technology](#)

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- [Tigers/MLB](#)
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- [Wine Report](#)
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- [Performing Arts](#)
- [Casinos](#)
- [Puzzles/Games](#)

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- [Editorials](#)
- [Letter to Editor](#)
- [Blogs](#)
- [Columnists](#)
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