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Rebates: Real lift or quick fix?

Bush, House leaders agree on \$150 billion stimulus; what it means for you.

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Practically every Sacramento wage earner would get a tax rebate check from the U. S. government under the economic stimulus package unveiled Thursday – \$600, \$1,200, even more for families with kids.

What's uncertain is how much good it will do for an economy in danger of slipping into recession.

While President Bush said the \$150 billion plan would "boost our economy and encourage job creation," California economists said the effect may be negligible and would provide only a short-term boost. An advocate for the poor said it doesn't direct enough money to those most likely to pump it back into the economy – the people at the bottom of the economic ladder.

Also uncertain is the impact of a plan to boost the upper end of the housing market by raising the ceiling on so-called jumbo loans. The plan likely will reduce interest rates in certain high-end metropolitan areas of California but may have limited effect in more affordable areas like Sacramento.

Nonetheless, the package will surely boost consumer spending. Nearly every wage earner is eligible for a rebate of at least \$300; most individuals will get \$600 and couples will get \$1,200. There's an extra \$300 per child. The full rebates are available to those with adjusted gross incomes of \$75,000 for individuals and \$150,000 for couples, and get phased out for those earning more.

In metropolitan Sacramento, probably more than 90 percent of taxpayers would receive at least some rebate, according to U.S. census data.

"The good news is that low- income working families will get some benefit," said Jean Ross of the California Budget Project, a Sacramento advocacy group for the working poor.

But by stripping out the extended unemployment insurance and food-stamp benefits originally sought by Democrats, the plan doesn't offer enough help to those struggling economically, she said.

"In terms of stimulating consumption, how do you get the biggest bang for the buck? By giving it to people who are going to turn around and spend it," Ross said. Wealthier Americans will simply pocket more of their rebate checks, she added, while middle-class and lower-income people will spend the money.

At Sacramento's Downtown Plaza Thursday evening, Jonathan Whitcomb, an unmarried Macy's employee from Cameron Park, said he would spend the \$600 he's likely to receive.

"It's probably going towards a new car," he said.

But several others said they would probably pay some bills or plow the money into savings.

"Right now, with everything going on, I just want to save it," said Lydia Yowell of El Dorado Hills, a mother of two.

At Arden Fair mall, retired truck driver Irwin Hart of Sacramento said the stimulus package won't do enough to revive the economy.

"People here are sweating because they can't buy a home, and others are sweating because they can't sell theirs," he said.

The rescue plan, agreed to by House leaders and Bush, comes as some experts say California is on the verge of recession. The state's unemployment rate is at 6.1 percent as thousands of jobs have disappeared in construction, finance and real estate.

There are signs, too, that the pain is spreading to other sectors. Retailers statewide employed 24,000 fewer workers in December than they did a year earlier. Car sales fell 8.2 percent in 2007, according to the California Motor Car Dealers Association.

Chuck Williams, dean of the business school at the University of the Pacific, said the short-term nature of the stimulus package will reduce its effectiveness. Even if

it induces consumers to spend more, factories and other businesses will tend to discount the boomlet and won't gear up as they would for a long-lasting surge in sales.

"It's not the same as real demand, which is what companies respond to," Williams said. "It's not the same thing as having lower taxes month after month or having higher wages month after month."

The package does include \$50 billion in tax breaks to encourage businesses to invest in plant and equipment. They would be allowed to immediately write off 50 percent of their purchases of plant and equipment.

Williams called the \$50 billion incentive "relatively small," although several business executives said it couldn't hurt.

"Is it going to help expansion on a go-forward basis? We'll look at it very closely to see what it could do for our business," said Doug Youngdahl, president of Blue Diamond Growers in Sacramento.

On the whole, the \$150 billion in stimulus will likely ease the slowdown in consumer spending just getting under way, said Chris Thornberg of Los Angeles consulting firm Beacon Economics.

But Thornberg said it's "not going to do much" compared with the \$2 trillion he believes American homeowners will lose in wealth this year as housing values continue slipping.

During the boom, homeowners tapped their properties for hundreds of billions of dollars in home equity, using the cash to remodel or buy cars and other goodies, he said. That's now over. "The consumer has to pull back on spending," Thornberg said.

Part of the stimulus package would raise the limit on Federal Housing Administration-insured loans, and on the loans purchased by Freddie Mac and Fannie Mae, to around \$730,000, though there was confusion as to what the new ceiling would be. Higher limits would help, freeing up money for mortgages in expensive markets, said Mike McGee of Winchester McGee Financial, a Rancho Cordova mortgage firm.

The higher limits on Freddie Mac and Fannie Mae would be tied to each metro area's median sales price. That would mean higher ceilings in ultra-expensive markets like San Francisco but might have less effect in the Sacramento area, where houses are cheaper.

The higher limits wouldn't help homeowners who have lost all their equity and are struggling to make payments, said McGee and other mortgage brokers.

"This is not even close to a cure-all," said John Arvanitis, president of Sunrise Vista Mortgage Corp. in Citrus Heights.

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