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In a world of austerity, Obama bucks the trend

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Success of $300-billion-plus stimulus proposal will depend on winning over the skeptics in the House of Representatives

U.S. leaders are pushing back against the prophets of austerity, making a lonely case for government spending in the face of chronic unemployment.

In a three-pronged assault Thursday, President Barack Obama, Federal Reserve Chairman Ben Bernanke and Treasury Secretary Timothy Geithner laid the groundwork for the most aggressive round of economic stimulus since the financial crisis, attacking the notion that heavy debt burdens have disabled the ability of policy makers to do something about elevated jobless levels.

Mr. Obama used a speech to a joint session of Congress to propose a combination of tax cuts and infrastructure spending that would cost the Treasury more than $447-billion (U.S.), an audacious pitch that will pit the President against a Republican opposition that was uncompromising in last month's fight over raising the debt ceiling.

The White House stimulus plan "will provide a jolt to an economy that has stalled, and give companies confidence that if they invest and hire, there will be customers for their products and services," Mr. Obama said. "You should pass this jobs plan right away."

His proposals are minor compared with the roughly $800-billion program that he shepherded through Congress in early 2009, and could easily be shouted down by an array of politicians and investors who say the economy can be saved only by reducing the deficit and paying down debt.

The mere suggestion of spending government money at time when the financial markets and legislatures the world over are obsessed with debt will be interpreted as either bold or dangerously naive. European governments, whose debt burdens are similar in proportion to that of the U.S., are implementing sharp spending cuts to satisfy anxious bond traders.

The same impulse exists in the United States, where polls show a majority of respondents rank deficit reduction ahead of spending as an economic priority. The U.S. economy grew at an anemic annual rate of 0.7 per cent in the first half of the year, and the unemployment rate has climbed to 9.1 per cent from 8.8 per cent in March, despite an extra shot of stimulus last year in the form of a temporary cut in payroll taxes and extended unemployment benefits.

"We have to sacrifice. Period. End of story," said Barry Sloane, chief executive officer of New York-based Newtek Business Services, which provides everything from payroll processing to loans for 100 small- and medium-sized companies. "No one is telling Americans that they have to sacrifice."

Acknowledging those concerns, Mr. Obama emphasized the short-term nature of his proposed initiatives. Next week, the President said he will present his ideas on balancing the budget and constraining the debt in the longer term.

The success of Mr. Obama's stimulus plan will depend on winning over the skeptics in the House of Representatives, which the Republicans control. The President got some help in that regard Thursday from Federal Reserve chairman Ben Bernanke, who told an audience in Minneapolis that legislators are putting too great an emphasis on austerity.

Mr. Bernanke, who has overseen an unprecedented effort to keep borrowing costs low in the wake of the financial crisis, said state and local governments already are contributing to the economy's weakness by cutting spending and reducing payrolls.

"While prompt and decisive action to put the federal government's finances on a sustainable trajectory is urgently needed, fiscal policy makers should not, as a consequence, disregard the fragility of the economic recovery," Mr. Bernanke said.

The Fed chief kept alive the possibility of further monetary stimulus, saying he and his colleagues on the central bank's policy committee would consider its options at a meeting in two weeks. Policy makers "are prepared to employ these tools as appropriate," Mr. Bernanke said.

The central banker's efforts also are contentious. With the Fed's benchmark interest rate near zero since December, 2008, and the recovery still fragile after two extraordinary asset-purchase programs worth more than $2.6-trillion, many question whether monetary policy has run its course. Other critics, including fellow policy makers abroad, say the Fed has done nothing but sow the seeds of inflation and destabilize currency markets by depressing the value of dollar.

It fell to Mr. Geithner to fight back against such discord.

The Treasury Secretary, who was set to meet counterparts from the Group of Seven countries Friday and Saturday in Marseilles, France, called on the world's economic powers to rediscover the resolve they showed in 2008 and 2009, when they teamed to create enough demand to lift the world economy out of recession.

With deficits at historic levels, Mr. Geithner conceded there are constraints to what policy can accomplish. Still, the bigger constraints are "political paralysis, misplaced fears about inflation and moral hazard, and unwarranted disaffection with the efficacy of the traditional fiscal tools of tax cuts and investment to encourage growth," he wrote in a commentary for the Financial Times that was released Thursday by the Treasury.

Mr. Geithner's words had extra weight because they represented his first significant public commentary on the economy since Standard & Poor's downgraded the U.S.'s credit rating a month ago. S&P based much of its reasoning on the debt-ceiling fight, judging a political system that would risk default as unworthy of its highest grade.

During those negotiations, Mr. Obama twice attempted to interest Republicans in a "grand bargain" that would have included some short-term stimulus measures and longer term deficit reduction. The President failed, ultimately accepting a compromise that included only spending cuts.

Mr. Obama's concession a month ago raises questions about whether he will have any more success in winning support for significant fiscal stimulus now, said Robert Shapiro, co-founder and chairman of Sonecon LLC, a Washington-based economics consultancy.

The Obama administration's proposals are positive and could help turn the economy around, said Mr. Shapiro, who was a senior official in the Commerce Department during Bill Clinton's presidency. But asked whether he was confident that Mr. Obama could get his program through Congress, Mr. Shapiro said: "I have confidence the President will give it his best."