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*From the Los Angeles Times*

## Will \$800 help much?

David Lazarus  
Consumer Confidential

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President Bush sounded a hopeful note Friday when he called for as much as \$150 billion in tax rebates to goose the economy back into high gear. "Letting Americans keep more of their own money should increase consumer spending and lift our economy at a time when people otherwise might spend less," he said.

Though no specific amounts have been set, the buzz in Washington was that rebates would be in the range of \$800 for individuals and \$1,600 for households.

Would it work? Nowhere was the challenge of this proposition more evident than South Los Angeles, where tough economic times for families tend to be that much tougher.

"Let me show you something," said Israel Bolivar, 53, when asked how he'd spend an extra \$800. He produced a pay slip from the hospital where he works as an emergency-room technician.

Bolivar pointed at his total pay: \$1,223.98 for two weeks' work. Then he pointed at the net take-home amount after taxes and other deductions: \$571.05. "That's all I got left," Bolivar said. "That's supposed to be enough for two weeks."

So \$800 would help, right?

"After I pay my bills, I don't even know if I'd break even," Bolivar answered.

The president, lawmakers and many economists believe that if you just give people a fistful of cash, they'll go out and buy the cars, stoves and clothes that keep the U.S. economy purring.

Consumer spending accounts for more than two-thirds of economic activity in this country. With a recession looming (or perhaps already here), much is riding on keeping Americans shopping.

It's not enough just to make Visa or MasterCard happy for some past purchase. The economy benefits primarily when new stuff gets bought.

When Bush cut taxes in 2001, about \$38 billion in rebates was sent to 89.5 million taxpayers -- up to \$300 for individuals and \$600 for families.

In a recent study, economists Sumit Agarwal of the Federal Reserve Bank of Chicago, Chunlin Liu

of the University of Nevada and Nicholas Souleles of the Wharton School used credit card data to determine that many consumers used their 2001 rebates initially to pay down debt.

But over ensuing months, they increased spending by an average \$200.

Jeff Nugent, an economics professor at USC, said the wild card this time was that many people weren't as well off as they might have been in 2001. This could affect how much of the rebates ends up being spent on new clothes, shoes and other goodies.

"The hope is that people pay their bills and then they have money left to spend elsewhere," he said. "We have to see."

There's another big difference between now and 2001: the mortgage meltdown and related kick in the teeth to financial institutions. It could be argued that we got into this mess partly by making easy money available to people who didn't spend it responsibly.

Now, we'll be giving many of those same people a few extra bucks to help make the problem go away.

The view from South Los Angeles suggests that many people are just trying to keep their heads above water, and that \$800 in tax rebates would serve more as an economic life preserver than motivation to go on a spending spree.

"Times are really hard," said Jeanette Johnson, 54, taking a break from her job as a bus driver. "Really hard."

She said she'd use her \$800 to pay down some debt.

"That would pay off a couple of bills," Johnson said. "That's about it."

This was a common sentiment as I made my way around the neighborhood, from the Gigante Supermarket on Slauson Avenue to the nearby Kmart. Groceries and gas were the most frequently mentioned expenses, and just about everyone had bills to pay.

Sergio Kuinonez, 31, said he's about \$4,000 in the hole. As a carpenter, he was especially worried that a prolonged economic slump could bring the construction industry to a virtual standstill.

"People say things are only to get worse," Kuinonez said.

Alan Auerbach, who heads the Robert D. Burch Center for Tax Policy and Public Finance at UC Berkeley, said he wasn't surprised that the people primarily targeted by tax rebates weren't planning to rush out and purchase a new appliance or two.

"That's the problem with these things," he said. "We typically see that people do spend something, but nowhere close to 80 or 90 cents on the dollar."

"People have bills to pay," Auerbach added. "If you're worried about losing your job, you're not going to take the money and go on vacation."

Tax rebates are largely meaningless as an economic-stimulus measure among more affluent families, he said, because such people already have cash on hand for discretionary spending. The

real trick is getting lower-income people to do some extra shopping.

"Normally we'd say it's a good thing if they're using money to pay their bills," Auerbach said. "But not in this case."

Tax rebates aren't the only remedy for an ailing economy. A case can also be made for longer-term tax cuts, although that could just drive the country as a whole deeper into debt.

Then there's a New Deal-type solution that could guarantee results by having the government spend the money rather than leaving it up to consumers. But politicians probably wouldn't see it as advantageous to commit \$150 billion to the rebuilding of New Orleans, say, compared with handing out cash to voters during an election year.

Ultimately, tax rebates may be our best bet under the present circumstances. And we'll just have to hope for the best.

In South Los Angeles, Maria Hernandez, 62, said \$800 wouldn't go very far in covering all the bills she has to pay. "Yesterday I had to walk to the store because I didn't have money for the bus," she said.

But if she did have some extra cash from a tax rebate, Hernandez said, she'd probably just give it to friends who are hurting even more than she is.

"There's always someone who needs help," she said.

Score that economy 0, karma 1.

Consumer Confidential runs Wednesdays and Sundays and occasionally in between. Send your tips or feedback to [david.lazarus@latimes.com](mailto:david.lazarus@latimes.com).

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