January 30, 2012

John Steele Gordon on taxes and Buffett BS.
... According to Buffett's article in the New York Times last August, he pays far less in taxes than the working stiffs in his office:

"Last year my federal tax bill — the income tax I paid, as well as payroll taxes paid by me and on my behalf — was $6,938,744. That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income — and that's actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent."

If Warren Buffett submitted a filing at the SEC this dishonest, he'd be in big trouble. But, since this fits the party line, the president took it as gospel, and the mainstream media has carefully refrained from asking any inconvenient questions. (h/t Powerline).

By conflating payroll (FICA) taxes and income taxes, Buffett is playing the intellectual equivalent of three-card monte. FICA taxes are collected only on wages, to a limited amount, in order to provide a limited income in retirement. Technically, they are not taxes at all, but "contributions," (although I wouldn't recommend deciding not to contribute). The fact that the federal government commingles these contributions with general revenues in order to make the federal deficit look better is a disgrace. Since Buffett's income comes overwhelmingly from investment income and he is one of the richest people in the world, of course the people working for him in his office pay a higher percentage of their incomes in FICA taxes. ...

James Pethokoukis blogs on just how progressive the US tax system is.

And **Pethokoukis** writes on 11 things the president neglected to tell us in SOTU.
1. The top 1 percent pay 36.7 percent of federal income taxes and earn 16.9 percent of adjusted gross income (as of 2009).

2. The top 0.1 percent pay 17.1 percent of taxes and earn 7.8 percent of adjusted gross income.

3. The average income tax rate for the top 1 percent is 24 percent. The bottom 50 percent? Just 1.85 percent.

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Jennifer Rubin says Romney's rate of taxation and charitable giving is 42% of his income. Saint Barack gives only 1%. Or course he pays a higher rate.

... Another way of looking at it is that in 2011 the Romneys paid out 42 percent of their income in taxes and charity. Here's how I got there: Total tax (line 60) + foreign taxes (line 47) + state taxes and real-estate taxes + other taxes (Schedule A, line 9) + charitable contributions (Schedule A, line 19) divided by Adjusted Gross Income (1040 line 37).

Let's compare this percentage to that of average Americans. A 2009 Urban Institute study found: "The average charitable contribution per return filed in 2009 was about 2.0 percent of [adjusted gross] income."

As for the effective marginal rate, [Jim Pethokoukis writes](): "While Romney's tax rate is — in his own words — 'probably closer to 15 percent than anything,' that's still higher than the 8.2 percent average effective income tax rate (as of 2010) of U.S. households (once you factor in various tax credits). Indeed, nearly half of U.S. households pay no income tax at all. Their average effective tax rate is actually negative. Even if you add in the payroll tax, the effective tax rate of the middle fifth of U.S. taxpayers is 12.8 percent."

So, yes, Romney is much wealthier than most Americans. But he also gives away or pays in taxes in absolute and percentage terms far more than most Americans. ...

Back to **Pethokoukis** who says it is fair to compare the weakness of Obama's recovery to the strength of Reagan's.

Ronald Reagan inherited a Long Recession. The economy declined 0.3 percent in 1980, grew at a subpar 2.5 percent in 1981, and then plunged 1.9 percent in 1982. The lengthy downturn was really the culmination of more than a decade of bad economic policy. But the Reagan Recovery was stunning. GDP rose 4.5 percent in 1983 and 7.2 percent in 1984. It was Morning in America, and Reagan won reelection by a landslide.

Barack Obama also inherited a Long Recession. According the National Bureau of Economic Research, the U.S. economy entered recession in 2007 and stayed there until June 2009. But the Obama Recovery has been terribly weak. The economy grew at a 2.8 percent pace in the second half of 2009, 3.0 percent in 2010, and — according to new Commerce Department data – 1.7 percent in 2011. We'll see what happens in the 2012 election, but Obama's current approval rating is 43 percent, according to Gallup.

As economist Lawrence Kudlow of CNBC notes:

After 10 quarters of recovery, the Reagan growth rate was 6 percent. Compare that with Obama's 2.4 percent. Or compare Obama's 2.4 percent with the 4.6 percent post-World War II average recovery rate after 10 quarters.

But Obamacrats and other liberals say the Reagan-Obama comparison is unfair. After all, Reagan didn't have to deal with a collapsed housing bubble. ...

Speaking of the housing bubble mentioned in the pull quote above, it is instructive to remember one of the few times Barack Obama has taken a stand was when, on July 6, 1994, he sued Citibank for not loaning enough to minorities. So, the great loan and housing collapse of '07 and '08 was in part caused by a lawsuit filed by Barry Obama. **MediaCircus** had a post on the story in 2008.

Do you remember how we told you that the Democrats and groups associated with them leaned on banks and even sued to get them to make bad loans under the Community Reinvestment Act which was a factor in causing the economic crisis (see HERE) … well look at what some fellow bloggers have dug up while researching Obama's legal career. Looks like a typical ACORN lawsuit to get banks to hand out bad loans.

In these lawsuits, ACORN makes a bogus claim of Redlining (denying poor people loans because of their ethnic heritage). They protest and get the local media to raise a big stink. This stink means that the bank faces thousands of people closing their accounts and get local politicians to lobby to stop the bank from doing some future business, expansions and mergers. If the bank goes to court, they will win, but the damage is already done because who is going to launch a big campaign to get the bank's reputation back?

It is important to understand the nature of these lawsuits and what their purpose is. ACORN filed tons of these lawsuits and ALL of them allege racism.

Thanks to the IUSB Vision Weblog for providing additional details of this story.

*We pulled the **docket** down, but here's a brief for your summary: ...*

NY Post OpEd examines the shortcomings of the 2009 stimulus and explains . . .
... Things could have been different.

The incoming administration could have led more from the outset to ensure the stimulus was quicker, more targeted and written with Republican support. The president and his aides could have tackled criticism head-on instead of letting it fester.

In explaining the stagnant economy, President Obama has said that the recovery was trammeled by the European debt crisis, rising gas prices and the impact of the Japanese earthquake on the supply chain. But if the stimulus had been designed to generate more thrust on the front end, the American economy might have been in stronger shape to withstand these headwinds.

Others say that businesses are scared stiff with uncertainty and a lack of confidence. It might not be this way if the president and congressional leaders had focused on long-term infrastructure and energy bills instead of health-care reform. Health care was one of the few growing sectors during the recession. And by setting Congress down one of the most divisive policy paths, the administration was left with an atmosphere in which everything the president proposed, including ideas that Republicans supported in the past, were now considered radical and corrosive.

The stimulus money wasn't enough to transform American infrastructure, the education system or the energy sector. But it was just enough for Republicans to be able to say, "We tried that already."

Despite the historic investments in the stimulus, there seems little chance landmark bills to continue the programs will pass. Left with only a down payment on his major initiatives, Obama now faces a tough election and may end up like many of the homeowners who ran out of money during the Great Recession.

Contentions

[The Truth About Buffett and Taxes]

by John Steele Gordon

For show-and-tell at the State of the Union Address on Tuesday night, President Obama had Warren Buffett's secretary sitting next to the First Lady. Debbie Bosenek has become the poster child for the allegation that "the rich" don't pay their fair share of federal taxes.

But Buffett's secretary is not exactly poverty stricken. On "Fox and Friends" this morning, it was reported that she earns $200,000 a year. CEO's secretaries, on average, earn $67,000, according to Michael Patrick Leahy. She has also apparently bought a second house, in Arizona.

According to Buffett's article in the *New York Times* last August, he pays far less in taxes than the working stiffs in his office:

"Last year my federal tax bill — the income tax I paid, as well as payroll taxes paid by me and on my behalf — was $6,938,744. That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income — and that's actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent."

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And, as I have discussed earlier, he ignores the fact that his investment income, from dividends and capital gains, has already been taxed–at 35 percent–at the corporate level. So the personal taxes he pays on it are double taxation. His actual effective tax rate is closer to 44 percent than 15 percent. He's paying far more in taxes, as a percentage of income, than his secretary.

People sometimes have trouble grasping that corporate profits are the profits of the stockholders, especially as the corporate income tax has been in place for 100 years now. So let me see if I can make clear what is involved here.

Say a man owns a house he rents out. His income from the property, after expenses, is $25,000. He's in the 30 percent bracket, so he pays $7,500 in taxes on the income and the $17,500 remaining is his.

Now, in an effort to make the rich pay their fair share (and, of course, anyone who owns rental property is rich, at least in liberal newspeak), the federal government decides to require that all rental properties must file their own tax returns and pay a 35 percent tax on income after expenses. That means that the house itself now pays an income tax of $8750. It then sends the rest, $16,250 on to the owner. But he's in the 30 percent bracket himself, so he has to pay 30 percent on what he gets after the house has paid its taxes, $4875. So now he's left with $11,375 to spend or save, not $17,500. Thus, the owner is now paying a tax of 45.5 percent on his rental income, not 30 percent.

For someone as good as Warren Buffett at numbers and financial analysis to call 45.5 percent 30 percent is to tell a bald-face lie. For President Obama and the mainstream media to call it truth is, well, typical.

American.com

Look at just how progressive the U.S. tax system is

By James Pethokoukis

Great, great table from the Tax Foundation looking at the average real income tax rate for various income groups. People with adjusted gross incomes of less than $100,000 pay 8 percent or less. People making $500,000 or more pay no lower than 22 percent on average. The overall average rate is 11 percent. Looks pretty progressive to me …

Income Tax Summary Statistics for 2009							
	All Returns	AGI ($Billions)	Taxable Returns	Income Tax After Credits ($Billions)	Average Tax Rate	Share of total taxes	Share of all AGI
All returns, total	**140,494,127**	**$7,626**	**81,890,189**	**$865.9**	**11%**	**100%**	**100%**
No adjusted gross income	2,511,925	($199)	3,820	$0.1	0.0%	0%	-3%
$1 under $5,000	10,447,635	$27	306,587	$0.0	0.1%	0%	0%
$5,000 under $10,000	12,220,335	$92	1,899,331	$0.4	0.4%	0%	1%
$10,000 under $15,000	12,444,512	$155	2,883,906	$0.8	1%	0%	2%
$15,000 under $20,000	11,400,228	$199	4,868,050	$2.5	1%	0%	3%
$20,000 under $25,000	10,033,887	$225	4,639,085	$4.7	2%	1%	3%
$25,000 under $30,000	8,662,392	$238	4,603,763	$6.8	3%	1%	3%
$30,000 under $40,000	14,371,647	$500	9,589,845	$20.2	4%	2%	7%
$40,000 under $50,000	10,796,412	$483	8,381,017	$25.4	5%	3%	6%
$50,000 under $75,000	18,694,893	$1,149	16,449,393	$78.0	7%	9%	15%
$75,000 under $100,000	11,463,725	$990	10,987,101	$80.5	8%	9%	13%
$100,000 under $200,000	13,522,048	$1,801	13,374,553	$212.3	12%	25%	24%
$200,000 under $500,000	3,195,039	$905	3,178,420	$176.3	19%	20%	12%
$500,000 under $1,000,000	492,567	$332	489,904	$80.5	24%	9%	4%
$1,000,000 under $1,500,000	108,096	$130	107,416	$32.8	25%	4%	2%
$1,500,000 under $2,000,000	44,273	$76	44,015	$19.4	25%	2%	1%
$2,000,000 under $5,000,000	61,918	$183	61,535	$46.9	26%	5%	2%
$5,000,000 under $10,000,000	14,322	$97	14,236	$24.6	25%	3%	1%
$10,000,000 or more	8,274	$240	8,211	$53.8	22%	6%	3%
Summary for $1 Million+	**236,883**	**$726.9**	**235,413**	**$177.5**	**25%**	**20%**	**10%**
Source: IRS 2009 Data, Table 1.2 http://www.irs.gov/pub/irs-soi/09in12ms.xls							

American.com

11 things Obama didn't tell you about tax fairness during SOTU

by James Pethokoukis

President Barack Obama talked a lot about taxes and fairness in his State of the Union speech. Like this bit:

"But in return, we need to change our tax code so that people like me, and an awful lot of members of Congress, pay our fair share of taxes. … We don't begrudge financial success in this country. We admire it. When Americans talk about folks like me paying my fair share of taxes, it's not because they envy the rich. …Tax reform should follow the Buffett rule: If you make more than a million dollars a year, you should not pay less than 30 percent in taxes."

Are wealthier Americans really not paying their fair share? Here are some numbers on income inequality:

1. The top 1 percent pay 36.7 percent of federal income taxes and earn 16.9 percent of adjusted gross income (as of 2009).

2. The top 0.1 percent pay 17.1 percent of taxes and earn 7.8 percent of adjusted gross income.

3. The average income tax rate for the top 1 percent is 24 percent. The bottom 50 percent? Just 1.85 percent.

4. The bottom 50 percent pay just 2.3 percent of income taxes.

5. Buffett chose to leave most of his fortune to the Bill & Melinda Gates Foundation, avoiding a 55 percent estate tax.

6. Buffett actually pays 50 percent tax since capital gains and dividends taxes are a double tax on corporate income.

7. Taking half of yearly income from every person making between $1M and $10M would only decrease the nation's debt by 1 percent.

8. Taking every dollar from everyone making more than $10M per year would only reduce the nation's deficit by 12 percent and the debt by 2 percent.

9. IRS will give out roughly $110 billion in “refundable” tax credits this year to households that pay no income taxes.

10. If taxable income in the 35 percent bracket were taxed at 49 percent, federal income tax revenues would be just $78B higher (Tax Policy Center).

11. To get the deficit to 2 percent by 2020 using Obama's budget baseline, it would take a 91 percent top rate by taxing just the rich.

Right Turn

Romney paid 42 percent of 2011 income in taxes and charity

by Jennifer Rubin

Mitt Romney gave a lot of money away to charity. Phil Klein explains

Typically, liberal rhetoric on taxes makes it seem as if the wealthy are getting a free ride on the backs of middle and lower-income Americans who are doing all the work and are really paying the taxes. But to put things on perspective, here's what $3.2 million in federal taxes — Romney's estimated 2011 burden — pays for:
— The monthly food stamp allowance for about 23,909 people.
— The cost of educating 302 elementary and high school students.
— The base salary (before bonuses and allowances) of 178 privates in the U.S. Army.
— The federal contribution to the benefits of 636 Medicaid enrollees.
In addition to his taxes, Romney has given around 16.4 percent of his income over the past two years to charity through his family charity, the Tyler Foundation. In addition to donations to the Mormon church, here's where else Romney and his wife Ann donated money: the Boys and Girls Club of Boston, the Center for the Treatment of Pediatric MS, the Dana Farber Cancer Institute, Homes for Our Troops, and the Inner-City Scholarship Fund, among others.

Another way of looking at it is that in 2011 the Romneys paid out 42 percent of their income in taxes and charity. Here's how I got there: Total tax (line 60) + foreign taxes (line 47) + state taxes and real-estate taxes + other taxes (Schedule A, line 9) + charitable contributions (Schedule A, line 19) divided by Adjusted Gross Income (1040 line 37).

Let's compare this percentage to that of average Americans. A 2009 Urban Institute study found: "The average charitable contribution per return filed in 2009 was about 2.0 percent of [adjusted gross] income."

As for the effective marginal rate, Jim Pethokoukis writes: "While Romney's tax rate is — in his own words — 'probably closer to 15 percent than anything,' that's still higher than the 8.2 percent average effective income tax rate (as of 2010) of U.S. households (once you factor in various tax credits). Indeed, nearly half of U.S. households pay no income tax at all. Their average effective tax rate is actually negative. Even if you add in the payroll tax, the effective tax rate of the middle fifth of U.S. taxpayers is 12.8 percent."

So, yes, Romney is much wealthier than most Americans. But he also gives away or pays in taxes in absolute and percentage terms far more than most Americans.

The media is obsessed with Romney's wealth, taking the amount earned as a sign of some moral failing in the U.S. economic system. But in fact what we see is that the income tax code is already very progressive (the rich pay a higher percentage than less-rich taxpayers). And in Romney's case, the amount of his income given (or taken) away suggests that at least this particular wealthy American does more than his fair share for society.

American.com

[Is it unfair to compare the Obama and Reagan economic recoveries? No]

by James Pethokoukis

Ronald Reagan inherited a Long Recession. The economy declined 0.3 percent in 1980, grew at a subpar 2.5 percent in 1981, and then plunged 1.9 percent in 1982. The lengthy downturn was really the culmination of more than a decade of bad economic policy. But the Reagan Recovery was stunning. GDP rose 4.5 percent in 1983 and 7.2 percent in 1984. It was Morning in America, and Reagan won reelection by a landslide.

Barack Obama also inherited a Long Recession. According the National Bureau of Economic Research, the U.S. economy entered recession in 2007 and stayed there until June 2009. But the Obama Recovery has been terribly weak. The economy grew at a 2.8 percent pace in the second half of 2009, 3.0 percent in 2010, and — according to new Commerce Department data – 1.7 percent in 2011. We'll see what happens in the 2012 election, but Obama's current approval rating is 43 percent, according to Gallup.

As economist Lawrence Kudlow of CNBC notes:

After 10 quarters of recovery, the Reagan growth rate was 6 percent. Compare that with Obama's 2.4 percent. Or compare Obama's 2.4 percent with the 4.6 percent post-World War II average recovery rate after 10 quarters.

But Obamacrats and other liberals say the Reagan-Obama comparison is unfair. After all, Reagan didn't have to deal with a collapsed housing bubble. Obama, they contend, was dealt an near-impossible hand and played it about the best he could. Americans needs to lower their expectations, and Reaganites need to quit making the comparison.

The reality: Housing is usually a key contributor to GDP growth during the early stages of a recovery. As a 2011 St. Louis Fed analysis points out, "Somewhat surprisingly, the housing component of GDP (more formally known as residential investment) tends to be a solid contributor to GDP growth during a recovery. Historically, residential investment has contributed only about 5 percent of GDP—a small share considering the consumption component is close to 70 percent. Nevertheless … it can contribute substantially to the GDP growth rate for short periods of time."

According to Commerce Department data, residential investment added 1.33 percentage points to GDP in 1983, 0.64 in 1984. By contrast, residential investment subtracted 0.11 percentage point in 2010 and 0.03 in 2011. (See chart below.)

But here's the thing: Subtract the housing rebound from the Reagan Recovery and GDP still grows twice as fast as during the Obama Recovery. For example, the economy grew 7.2 percent in the second full year of the Reagan Recovery. Without residential investment, it would have grown 6.6 percent vs. 1.7 percent growth in 2011, Obama' s second full year of recovery. Score one for the Gipper … and for supply-side/Schumpeterian economics over demand-side/Keynesian economics. ...

Media Circus

[Obama Sued Citibank Under CRA to Force it to Make Bad Loans]

Do you remember how we told you that the Democrats and groups associated with them leaned on banks and even sued to get them to make bad loans under the Community Reinvestment Act which was a factor in causing the economic crisis (see HERE) … well look at what some fellow bloggers have dug up while researching Obama's legal career. Looks like a typical ACORN lawsuit to get banks to hand out bad loans.

In these lawsuits, ACORN makes a bogus claim of Redlining (denying poor people loans because of their ethnic heritage). They protest and get the local media to raise a big stink. This stink means that the bank faces thousands of people closing their accounts and get local politicians to lobby to stop the bank from doing some future business, expansions and mergers. If the bank goes to court, they will win, but the damage is already done because who is going to launch a big campaign to get the bank's reputation back?

It is important to understand the nature of these lawsuits and what their purpose is. ACORN filed tons of these lawsuits and ALL of them allege racism.

Thanks to the IUSB Vision Weblog for providing additional details of this story.

We pulled the **docket** down, but here's a brief for your summary:

Case Name
Buycks-Roberson v. Citibank Fed. Sav. Bank Fair Housing/Lending/Insurance
Docket / Court 94 C 4094 (N.D. Ill.) FH-IL-0011
State/Territory Illinois
Case Summary
Plaintiffs filed their class action lawsuit on July 6, 1994, alleging that Citibank had engaged in redlining practices in the Chicago metropolitan area in violation of the Equal Credit Opportunity Act (ECOA), 15 U.S.C. 1691; the Fair Housing Act, 42 U.S.C. 3601-3619; the Thirteenth Amendment to the U.S. Constitution; and 42 U.S.C. 1981, 1982. Plaintiffs alleged that the Defendant-bank rejected loan applications of minority applicants while approving loan applications filed by white applicants with similar financial characteristics and credit histories. Plaintiffs sought injunctive relief, actual damages, and punitive damages.

U.S. District Court Judge Ruben Castillo certified the Plaintiffs' suit as a class action on June 30, 1995. Buycks-Roberson v. Citibank Fed. Sav. Bank, 162 F.R.D. 322 (N.D. Ill. 1995). Also on June 30, Judge Castillo granted Plaintiffs' motion to compel discovery of a sample of Defendant-bank's loan application files. Buycks-Roberson v. Citibank Fed. Sav. Bank, 162 F.R.D. 338 (N.D. Ill. 1995).

The parties voluntarily dismissed the case on May 12, 1998, pursuant to a settlement agreement.
Plaintiff's Lawyers Alexis, Hilary I. (Illinois)
FH-IL-0011-7500 **|** FH-IL-0011-7501 **|** FH-IL-0011-9000
Childers, Michael Allen (Illinois)
FH-IL-0011-7500 **|** FH-IL-0011-7501 **|** FH-IL-0011-9000

Clayton, Fay (Illinois)
FH-IL-0011-7500 | FH-IL-0011-7501 | FH-IL-0011-9000
Cummings, Jeffrey Irvine (Illinois)
FH-IL-0011-7500 | FH-IL-0011-7501 | FH-IL-0011-9000
Love, Sara Norris (Virginia)
FH-IL-0011-9000
Miner, Judson Hirsch (Illinois)
FH-IL-0011-7500 | FH-IL-0011-9000
Obama, Barack H. (Illinois)
FH-IL-0011-7500 | FH-IL-0011-7501 | FH-IL-0011-9000
Wickert, John Henry (Illinois)
FH-IL-0011-9000

UPDATE : Hotair.com comments on this story HERE .

New York Post Article HERE :

THE seeds of today's financial meltdown lie in the Community Reinvestment Act – a law passed in 1977 and made riskier by unwise amendments and regulatory rulings in later decades.

CRA was meant to encourage banks to make loans to high-risk borrowers, often minorities living in unstable neighborhoods. That has provided an opening to radical groups like ACORN (the Association of Community Organizations for Reform Now) to abuse the law by forcing banks to make hundreds of millions of dollars in "subprime" loans to often uncreditworthy poor and minority customers.

Any bank that wants to expand or merge with another has to show it has complied with CRA – and approval can be held up by complaints filed by groups like ACORN.

In fact, **intimidation tactics, public charges of racism and threats to use CRA to block business expansion have enabled ACORN to extract hundreds of millions of dollars in loans and contributions from America's financial institutions** .

The Woods Fund report makes it clear Obama was fully aware of the intimidation tactics used by ACORN's Madeline Talbott in her pioneering efforts to force banks to suspend their usual credit standards. Yet he supported Talbott in every conceivable way. He trained her personal staff and other aspiring ACORN leaders, he consulted with her extensively, and he arranged a major boost in foundation funding for her efforts.

And, as the leader of another charity, the Chicago Annenberg Challenge, Obama channeled *more* funding Talbott's way – ostensibly for education projects but surely supportive of ACORN's overall efforts.

NY Post

How the $800B stimulus failed

by Michael Grabell

Vice President Joe Biden was eager to get moving. In office for only a month, the Obama administration had already passed a monumental economic stimulus plan to address the biggest downturn since the Great Depression.

Now, at the first implementation meeting in 2009, Biden — with a smudged Ash Wednesday cross still on his forehead — declared that the stimulus would “literally drop kick us out of the recession.”

Officially called the American Recovery and Reinvestment Act, the $800 billion stimulus was the largest economic recovery program in history. Adjusted for inflation, it was nearly five times more expensive than the Works Progress Administration. It was bigger than the Louisiana Purchase, the Manhattan Project, the moon race and the Marshall Plan.

Economists and nonpartisan forecasting firms estimate that the stimulus created and saved more than 2 million jobs. It generated an unprecedented buzz around clean energy. A relatively small pot of education grants goaded 32 states to enact major reforms, such as tying teacher pay to student performance or lifting caps on charter schools. When the last dime is spent, more than 41,000 miles of roads will be paved, widened and improved; 600,000 low-income homes weatherized; and more than 3,000 rural schools connected to high-speed Internet.

But despite these achievements, the stimulus ultimately failed to do what America expected it to do — bring about a strong, sustainable recovery. The drop kick was shanked.

The stimulus was supposed to work like this: First, a flood of money in tax cuts, food stamps and unemployment checks would get consumers spending. A deluge of education and health-care money would stanch the bleeding in state budgets.

Then, a wave of “shovel-ready” infrastructure projects would kick in, creating new jobs repaving roads and making homes more energy efficient. As the economy got churning again, new investments in wind farms, solar panel factories, electric cars, broadband and high-speed rail would lead America out of the recession and into a 21st century economy competitive with the rest of the world.

But it didn’t happen like that. The White House’s economists, like nearly every forecaster, misread the recession. The state assistance wasn’t enough to plug the budget holes and, in many cases, the school aid merely delayed rather than prevented teacher layoffs. Infrastructure projects took months longer to break ground than the public had been led to believe.

In reporting on the stimulus over three years, I traveled to 15 states, interviewed hundreds of people and read through tens of thousands of government documents and project reports.

What I found is that the stimulus failed to live up to its promise not because it was too small (as those on the left argue) or because Keynesian economics is obsolete (as those on the right argue), but because it was poorly designed. Even advocates for a bigger stimulus need to acknowledge that their argument is really one about design and presentation.

The swing votes in Congress wouldn’t stomach a stimulus over a trillion dollars. So the questions are: Could the administration have sold the stimulus differently or could Congress have designed a more effective stimulus, leaving room for a second, longer-term recovery bill?

INVISIBLE HELPING HAND

One of the biggest problems was that so much of the stimulus was invisible. More than half of the package was in tax cuts and safety net programs.

The largest single item was a $116 billion tax credit for the middle class. Yet rather than handing out checks, as other presidents had done, Obama dribbled it out in paychecks at about $10 a week. The economic team believed that people were more likely to spend it if it felt like an increase in income rather than a bonus.

Perhaps that would have worked if the tax cut had been substantial. But spread out in tiny increments, it did little to overcome the prevailing fear of losing a job, a home and years of retirement savings. Not only did Obama lose the political credit but also the consumer excitement that a large check would have provided.

It was also difficult to imagine the world that might have been if there had been no stimulus. If a teacher was in the classroom, no one gave the administration any credit. Money for Medicaid, unemployment checks and food stamps meant that somewhere down the line, a nurse and a grocery clerk kept their jobs. But it was hard to see the connection.

The administration did little to help, instead showing off infrastructure projects that hadn’t started yet and creating the wrong impression that the stimulus was largely a public-works package.

Even as the stimulus was pumping hundreds of billions of dollars into the economy in its first year, it appeared as if nothing was happening. The jobless rate skyrocketed, easily exceeding the poorly conceived chart Obama’s economic advisers had put together, showing that unemployment would never breach 8%.

MONEY FOR EVERYTHING

Of the parts that were visible, it often seemed that the stimulus was providing money for everything. Instead of investing in a few marquee projects, Congress tried to make the stimulus a cure-all. There was money for every one of society’s ills, from cancer to cogongrass, from ailing infrastructure like bridges and rails to invasive species like Asian carp and Russian olive trees.

And so the stimulus became a collection of amorphous programs, on which critics of all stripes could project their dissatisfaction with government and politics in general. In trying to address nearly every American challenge from education to energy, it absorbed the controversies and battles over how to deal with those issues.

“I’ve always heard that the definition of a giraffe is a racehorse that was assembled by committee,” one Democratic congressional aide told me. “Sometimes, that’s what you end up with when you have a lot of voices working on it.”

As a result, critics seized upon the stimulus for silly-sounding projects: turtle tunnels, electric fish displays and research involving monkeys and cocaine.

While some of the examples may have been overblown, the ability that Republicans had to make the stimulus seem ridiculous exposed a central weakness in its design. With money spread so thinly and going to so many different places, it was difficult for the public to grasp what the stimulus was about. But it was easy for small projects to capture the media coverage day after day and overwhelm the narrative the administration was desperately trying to reclaim.

SHOVELS AND RED TAPE

Obama billed the stimulus as a program that would “immediately jumpstart job creation” with “shovel-ready” projects to rebuild “our crumbling infrastructure.” Such rhetoric conjured New Deal images of blue-collar workers heading out to the heartland with sledgehammers and pickaxes over their shoulders.

Indeed, minutes after the president signed the bill, sparks flew on a rusty Depression-era truss bridge in Tuscumbia, Mo., as construction crews went to work on the nation’s first stimulus project.

But other projects were more like the bridge over the Conodoguinet Creek in central Pennsylvania, which Biden had highlighted, but which was delayed to avoid detouring school buses that depended on the bridge for their routes.

The timing of the stimulus was poor to bring about the flood of construction projects everyone expected in the first year. States had to advertise the project to allow contractors to submit bids. They needed to review those bids and sign the contracts.

Then, they had to go back to the US Department of Transportation for the final OK.

The red tape had noble intentions. But it also delayed the program’s impact and may have even prevented more workers from being hired. Some projects in public housing, waterworks and home insulation remained paralyzed for six months to a year as short-staffed agencies reviewed Buy American waiver requests and calculated prevailing wages for weatherization work in every county in America.

In Michigan, human services officials estimated that 90% of the homes in line for weatherization work would need a historic preservation review. But as of late fall 2009, the office responsible had only two employees.

Public transit advocates expected a windfall for bus companies like New Flyer in St. Cloud, Minn. But the transit money took longer to get out the door because every grant had to be reviewed by the Labor Department to ensure that it wouldn’t have a negative impact on transit unions. And when the Chicago Transit Authority postponed an order because it couldn’t secure state funding, New Flyer announced that it would lay off employees rather than hire more.

By the end of July 2009, only 20% of highway projects had started, according to DOT data. More and more, it appeared that what “shovel ready” really meant was ready for politicians to pose with a shovel for a photo op.

RUSHED INVESTMENTS

One of the little-appreciated aspects of the stimulus is that it was about much more than reining in the Great Recession. It was also about laying the groundwork for a new economy. The second part of the bill's name, "reinvestment," was intended to steer federal money toward long-term projects like clean energy, electric cars and high-speed rail — things that will probably take decades to achieve.

In this way, the stimulus was supposed to be a down payment. But all of these investments were predicated on the administration's optimism that the public would continue to support Obama's plans — and that Congress would pass comprehensive energy and infrastructure bills.

A fundamental argument I heard again and again was that Americans would come to embrace bullet trains as soon as they saw one up and running. This almost-platitude makes it all the more perplexing why the DOT repeated the flaw of other stimulus program and spread the $8 billion fund out like peanut butter.

In all, 31 states had received high-speed rail money in some form or another. Iowa, for example, received $17 million to install track switches in the Ottumwa district.

The Northeast Corridor, which made the most sense, was virtually shut out of the stimulus grants initially.

The urban-planning coalition America 2050 ranked the best routes for high-speed rail. Five of the top six city pairs were in the Northeast Corridor. The Florida corridor, from Tampa to Orlando to Miami, was ranked 100th. Tampa to Orlando, where the administration planned the first bullet train, wasn't even considered. Ultimately, that money was rejected by Florida's governor.

Then, because the stimulus required states to begin construction by 2012, federal railroad officials insisted California build its first segment in the sparsely populated San Joaquin Valley. The high-speed rail authority wouldn't even run trains on it until it connected to a major urban center. Critics quickly dubbed it the "train to nowhere."

As much damage as the Solyndra scandal and the rejection of high-speed rail money did, solar panels and bullet trains are not inherently wasteful ideas. But the administration vastly underestimated the political danger the stimulus package would have on those investments.

AUDACITY TO AUSTERITY

Things could have been different.

The incoming administration could have led more from the outset to ensure the stimulus was quicker, more targeted and written with Republican support. The president and his aides could have tackled criticism head-on instead of letting it fester.

In explaining the stagnant economy, President Obama has said that the recovery was trammeled by the European debt crisis, rising gas prices and the impact of the Japanese earthquake on the supply chain. But if the stimulus had been designed to generate more thrust on the front end, the American economy might have been in stronger shape to withstand these headwinds.

Others say that businesses are scared stiff with uncertainty and a lack of confidence. It might not be this way if the president and congressional leaders had focused on long-term infrastructure and energy bills instead of health-care reform. Health care was one of the few growing sectors during the recession. And by setting Congress down one of the most divisive policy paths, the administration was left with an atmosphere in which everything the president proposed, including ideas that Republicans supported in the past, were now considered radical and corrosive.

The stimulus money wasn't enough to transform American infrastructure, the education system or the energy sector. But it was just enough for Republicans to be able to say, "We tried that already."

Despite the historic investments in the stimulus, there seems little chance landmark bills to continue the programs will pass. Left with only a down payment on his major initiatives, Obama now faces a tough election and may end up like many of the homeowners who ran out of money during the Great Recession.

Michael Grabell is a reporter for ProPublica and author of "Money Well Spent? The Truth Behind the Trillion-Dollar Stimulus, the Biggest Economic Recovery Plan in History" (PublicAffairs), out this week.


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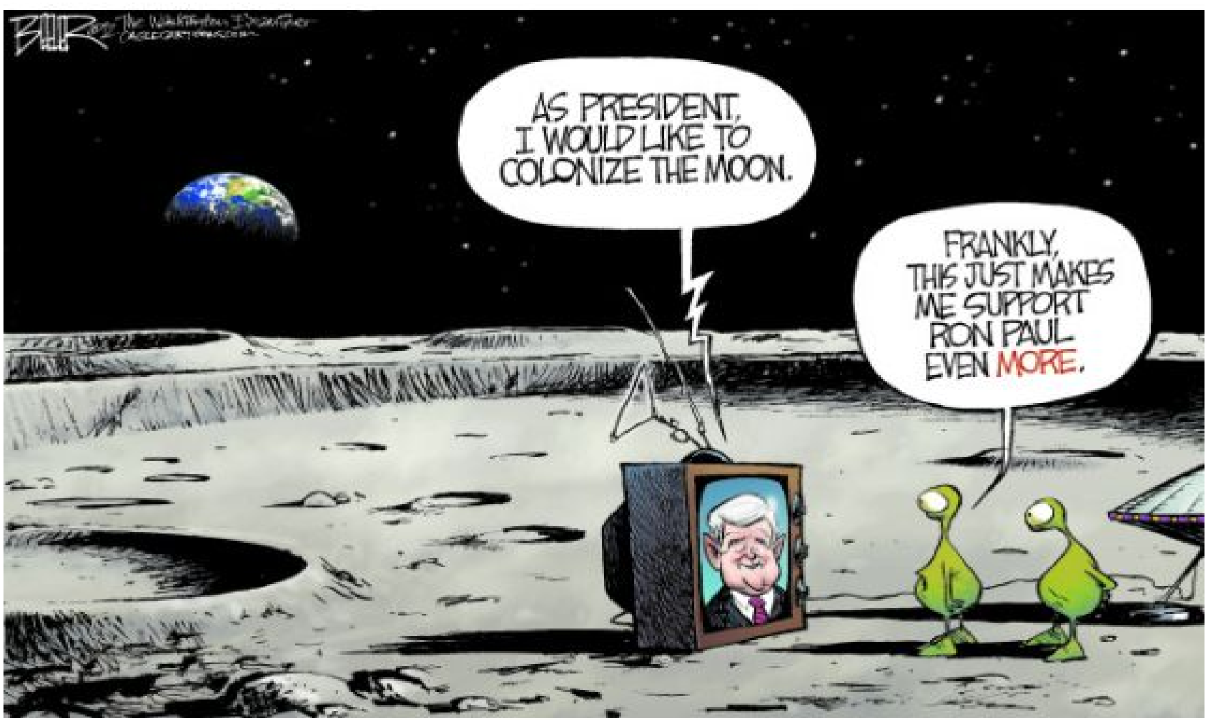
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