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Stimulus Plan in Hindsight: Did Obama's Agenda Hobble Economic Recovery?

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[Jill Lawrence](#)
Senior Correspondent
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America can't shake its recession blues, even if the recession is officially over. The painfully slow recovery is typical in the wake of a financial crisis like the Wall Street collapse, economists say. Still, the hard times are so persistent that I have been feeling twinges of guilt about President Obama's stimulus package.

Many of Obama's ideas for [a new economic foundation](#) ended up in that package: expanded broadband coverage, competitive grants for innovative schools, computerized medical records, more science research, more investment in clean energy. I wanted all that, and the stimulus would miraculously make it possible. Using it as a vehicle, we could lay those foundations for growth in the second month of the Obama administration. But lately I've been second-guessing that rush to turn campaign pledges into reality. The jobless rate has been so high for so long. Was it a mistake to shoehorn Obama's longer-range economic plans into a package intended to jump-start the economy? If that money had been applied to more traditional stimulus, with shorter-term impact, would more people have jobs? Would economists be less concerned about the potential for a double-dip recession?



After talking to five economists, I can give you the bottom line: Spending the money differently probably wouldn't have changed our circumstances much. But the economists took diverse paths to that conclusion, and they have varying opinions about where to go from here.

The \$787 billion stimulus package, passed in February 2009, was about one-third tax cuts to people and businesses, one-third aid to states and localities, and one-third Obama's domestic agenda. Many economists and the nonpartisan Congressional Budget Office credit the stimulus with ending the recession last year. Some say the unemployment rate would have been up to 2 points higher without it. But the rate is still high – 9.5 percent in July and the August number, due Friday, may edge higher.

What might have been

A bigger stimulus would have been better, several economists told me. "If there was an obvious problem with it, it was sheer size," said Josh Bivens, an economist at the labor-backed Economic Policy Institute. As for the allocation of the money, he said that given the need for speed and tough negotiations for 60 votes in the Senate, "it was hard to be too disappointed in how it was structured."

Other economists offered wish lists for what might have been. David Madland, director of the American Worker Project at the liberal Center for American Progress, would have liked to see the administration "pour money" into Americorps, Teach for America and caregiver jobs. "The moment for that kind of major investment was right at the beginning," Madland said. "If they had pushed for much greater public service and direct care jobs, I feel pretty certain they would have gotten them."

Mark Zandi, chief economist at Moody's Analytics, said he would have added money for more temporary tax cuts, probably a payroll tax holiday. "We have it now but it's so small it's not very effective. That would have given us a bigger kick," said Zandi, who advised Republican presidential nominee John McCain in 2008.

Zandi called it a mistake to put infrastructure spending into the stimulus bill. "It's good policy and we can use the jobs, but it's not an effective way of getting money into the economy quickly," he said. Nor was spending on Obama priorities such as education and broadband "particularly helpful" in putting money into the economy fast, he told me. "You could make strong cases" that they are good long-term policy, he added, but they aren't effective stimulus and "they also confuse people with respect to what stimulus really is."

Douglas Holtz-Eakin, a former McCain adviser and former CBO director, said the country could have gotten the same economic results from a \$300 billion to \$400 billion stimulus centered on payroll tax cuts. He agreed that Obama's domestic policy agenda was inappropriate in the stimulus bill. Those programs have to do with "what we want to look like as a nation" down the road, he said, and their merits and costs should have been debated after the financial crisis passed.

Economist Rob Shapiro, a former Commerce undersecretary who advises Democrats, was an architect of the stimulus. He said the Obama campaign asked him what an innovation-driven stimulus package would look like and he outlined pretty much what we got. Does he regret the domestic-policy component? "Absolutely not," Shapiro told me. "Those are still going to be productive long-term investments."

He does regret, however, that the initial stimulus "wasted" money on small-business tax cuts that he says don't work in bad times, and did not include a loan program for homeowners facing foreclosure. The administration instead gave incentives to banks to rewrite mortgages, but Shapiro said very few homeowners were creditworthy enough to get the new loans. Some 1 million foreclosures are anticipated this year and housing prices are expected to continue to decline into 2011. By one estimate, [20 percent of homeowners](#) are underwater – their homes are worth less than their mortgages.

Little change in impact

It's impossible to know whose version of the stimulus would have worked best, but the imperfect one that passed did get the economy growing again, however anemically. The [CBO reached that conclusion](#), as did a [Goldman, Sachs analysis](#) and another by [Zandi and Princeton economist Alan Blinder](#). The question is whether a different size or shape of stimulus would have provided a big enough kick to generate a self-sustaining recovery. The answer is probably not. First of all, most of the stimulus money went out the door quickly, as it was supposed to. Some of the slower starters, such as [home weatherization](#), have caught up. Now the worry is what will happen in the next few months when the stream of federal stimulus slows to a trickle and then stops.

Then there are the external and unforeseeable developments that would have affected a stimulus of any shape or size. This past spring alone, Zandi said, the European debt crisis knocked the wind out of consumer confidence; the Senate struggled over extending unemployment benefits (leaving up to 400,000 people without money to spend for several crucial weeks), and home sales dropped more steeply than expected following the expiration of a homebuyer tax credit.

The overriding problem, Bivens said, was that "the non-recovery act economy just continued to stagnate" over the life of the stimulus. Businesses did not hire enough and bankers didn't lend enough. State and local governments cut back spending and so did average Americans. As Shapiro put it, 70 percent of people own homes and home value has declined 20 to 25 percent. "Not only do they feel poor, they are poor," he said. "They are much less likely to spend."

The road ahead

With the Nov. 2 midterm elections in sight, economists don't expect any major developments. But their suggestions do include some steps under consideration by Congress, the Obama administration or both.

Shapiro and Zandi say stabilizing the housing market is crucial in the months ahead. Zandi recommended a program to help homeowners refinance their mortgages at cheaper rates. He said 10 million loans would qualify and people could save an average \$100 a month, which they would then presumably spend. Housing secretary [Shaun Donovan said last month](#) that a refinancing program is planned, along with another one to help

unemployed people stay in their homes.

Other steps the economists recommended were for the Senate to pass a [stalled bill to give tax breaks to small business](#) and make it easier for small business to get bank loans; and for lawmakers and Obama to resolve the fate of expiring Bush-era tax cuts.

Bivens said his no. 1 priority would be more aid to help state and local governments keep their workers. "We lost 48,000 jobs in July alone," he said. "That's an obvious hole that needs to be filled." He would also spend more on infrastructure projects and expand unemployment eligibility – for instance, to graduates who can't find jobs but don't have immediate work histories, as is now required. All of that will be "a really hard sell," given the political landscape, he said.

Congress just recently passed a state and local aid bill and has struggled to extend existing unemployment benefits, much less expanded ones. So Bivens is probably right about those being hard sells. But Obama did say this week that he is considering more spending on infrastructure, "redoubling" investment in clean energy and research and development, extending the Bush-era tax cuts for the middle class, and "further tax cuts to encourage businesses to put their capital to work creating jobs here in the United States."

Anything that happens now, given the political season and partisan stakes, will be "on the margin," as Zandi put it. But that's where a lot of workers and businesses are these days. Every drop of help will help as we await the payoff on Obama's investments in our future.

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- **Mark**

10:24 AM Sep 14, 2010

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Here is a logical economic stimulus plan that will actually work! The "One - Year Mortgage Holiday" 9 Point Stimulus Plan as fully detailed at www.saveoureconomy.com is the silver bullet solution to solve the current housing, credit, banking, financial crises, that will immediately jump start our economy, create millions of new Jobs, stimulate growth and generate long term economic prosperity through out America! The Mortgage Holiday Plan is the bold, ingenious ultimate "Trickle Up" stimulus plan that will help all home owners, renters and small/medium businesses that will actually work to stabilize the housing market and get America's economic wheel of commerce rolling again, which will also help balance the Federal budget and help start reducing the National Debt, which will strengthen the American dollar. The Mortgage Holiday is a fair and balanced legitimate stimulus plan, Of, By and For the People, Main Street that empowers We The People, allowing us to have a well deserved one year time out from making our monthly mortgage payment, so that we can decide how best to save, spend & invest our own money. Renters of apartments, office & retail space will also receive a monthly savings and partial rebate in rent. If you should agree, then we urge you to contact all of your elected Representatives as well as the White House to tell them to support the "One - Year Mortgage Holiday" 9 Point Stimulus Plan, that is supported by a majority of American's across the country, that actually take the time to simply read the Plan at www.saveoureconomy.com! Mark

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- **papabobjack**

4:04 PM Sep 10, 2010

- o [\(2\) vote this comment up](#)
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There isn't I senior in America that will be here long enough to enjoy Obama's down the road future investments payoff. And if he believes if nothing is done with jobs and the creation of new small business and IPO's now..there will nothing at the end of his rainbow for any of our young people as well.. God Bless America.

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• **punnster**

6:25 PM Sep 4, 2010

- o [\(2\) vote this comment up](#)
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How much of our money is being sent south to finance more illegal immigrants?

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• **gm60**

2:17 PM Sep 4, 2010

- o [\(3\) vote this comment up](#)
- o [\(0\) vote this comment down](#)
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\$13,449,202,260,174.02 and growing.

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• **Dalelama**

10:30 AM Sep 4, 2010

- o [\(2\) vote this comment up](#)
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The most cost effective stimulus would be to enforce our immigration laws and to install measures to encourage the illegals amongst us to return to their native land. I would immediately funds as many border control agents as possible to secure our borders. I would immediately fund the technology and infrastructure to help achieve this. Next I would increase the penalty for hiring illegals and really focus on tough enforcement. I would pass laws to ensure that only people here legally could transfer money outside the USA. Next I would end anchor baby policy either through a constitutional amendment or whatever is necessary to reverse the Supreme Court decision of 1982 that allowed The benefits of such policies are three fold: 1) Illegals hold approximately 8M to 12M jobs that would go to Americans, 2) jobs would be created to secure our borders and enforce the law, and 3) social costs associated with illegals such as increased spending on higher education, welfare, law enforcement, and having to maintain a bilingual infrastructure to accommodate two languages could be reduced and the savings used to enhance the safety net for legitimate citizens. It truly is a no brainer.

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• **LakeWitch**

9:29 PM Sep 3, 2010

- o [\(1\) vote this comment up](#)
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May-be our History Books will explain how all of this happened to our Grand Children. I have been terrorized enough by all the bad news.

Can't you people tell us something good for A change, something we can trust and believe in. There is almost no Hope left in this nation and that is very bad. I like Productive so lets kick that around and do something right for A change. The rest of the World is makeing fun of the USA. The Actions in Washington DC. is disgraceful and I am truley ashamed that elected officials can't get along..long enough to do there jobs as expected. And, I might add..U-people stop your attacks on these people also.

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- **punnster**

5:46 PM Sep 3, 2010

- [\(2\) vote this comment up](#)
- [\(0\) vote this comment down](#)
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We didn't need a long range plan for economic recovery. We needed a plan that would have the soonest results.

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- **m1775**

2:07 PM Sep 3, 2010

- [\(6\) vote this comment up](#)
- [\(0\) vote this comment down](#)
-

The question seems to have been answered. The ARRA was not a recovery bill but a cover for a wish lists of programs, good, bad or indifferent. All well and good except for "recovery" part which has not materialized and how it was sold to congress, with and wink, and the American people. A bigger bill would not have helped because it was either not spent (almost 50% remains to be spent as of August) or was not intended to help. Now American's are very unhappy at the broken promise of recovery and will hammer the offenders in November.

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- **paul**

12:34 PM Sep 3, 2010

- [\(7\) vote this comment up](#)
- [\(0\) vote this comment down](#)
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The Recession is Officially Over???? By whose estimation? Certainly not the average American. Certainly not the unemployed. Certainly not anyone trying to refinance a Mortgage. My Credit Score is 799 / 802 / 804, at the 3 Credit Companies and I am being made to Jump through Hoops trying to refinance. Where did all the money to the banks Go? Oh Yeah, they used it to Buy other Banks, not to LOAN... go into a local Restaurant or retailer and tell Him/Her the Recession is Over...just make sure your Health Insurance is in Force...You might get Hit...

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- **barney2022**

6:48 PM Sep 3, 2010

- [\(3\) vote this comment up](#)
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Paul...i did the same thing 3 months ago. However, my neighbor who was in foreclosure for 14 months, which means he did make a payment for that time period was notified last December that they would lower his interest rate to keep him in the house. First 5 years at 0% and the next 5 years at 2% (part of obamas recovery). He bought his house with no down payment. So, I keep making my payments, get an interest rate of 5.25 and I originally put 20% down on my house, but that money has evaporated. Just doesnt seem fair... I know life isnt fair, but when the government is controlling the fairness with my tax money its a little disheartening.

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- **barney2022**

12:17 PM Sep 3, 2010

- [\(6\) vote this comment up](#)
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If someone loses their home, they lose should lose their home. If a bank fails, it should go out of business. If you lose your job, you should regroup. If the government would stop intervening in these areas people would actually be forced to help themselves and even help each other. Churches would be more busy. Families would become important again. People would become self-reliant instead of govt reliant. I know it sounds heartless but until we stop relying on the govt to fix everything we will continue to tread water until we eventually drown.

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- **willisearlray**

12:09 PM Sep 3, 2010

- [\(6\) vote this comment up](#)
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mbc18650 wrote: YOUR KIDDING RIGHT...WHERE WOULD THE ECONOMY BE IF MILLIONS DID NOT RECEIVE UNEMPLOYMENT OR STATES LAYED OFF TEACHERS, COPS AND FIREFIGHTERS...ALL THE BUSINESSES THEY FREQUENT WOULD LAY OFF, SINCE THEY HAVE NO INCOME TO SPEND...AND TAX REVENUE WOULD LIKELIKE PLUMET....You are so close to getting it don't turn back now. This is almost Reaganomics except Reagan thought it was better to cut taxes to let people have more of their own money to frequent businesses so more permanent jobs were created and it would grow the tax base. This is growth. Taking more from working people so they can't frequent businesses as much and giving it to those who don't work so they can frequent businesses more is stagnation and redistribution of wealth. All that's needed for the Reagan plan to continue is to get out of the way. The cycle created by your plan is unbreakable therefor creating dependence on government. This concept is deeper than the surface but you are so close. You can get it.

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- **11:16 AM Sep 3, 2010**

- [\(7\) vote this comment up](#)
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Jill seems to fall into that group that has "decided" that the recession is OVER. By whose definition? Seems there is a very active debate as to WHEN the recession will end. We ALL hope it will end soon. I also notice that she seems to give a megaphone to those who still do not understand why we need to reduce (permanently) or better yet eliminate, the payroll tax. Both the employee and employer side of it. This IS a tax on production and we NEED production. We can never "consume" our way out of the mess our economy is in. Could go on to explain, but this is supposed to be a comment, not an essay.

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- **Mike**

11:03 AM Sep 3, 2010

- [\(0\) vote this comment up](#)
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I don't know the answer to this mess we got ourselves into. Life as we knew it changed shortly after the Bin Ladden attack. Apparently, Bin Ladden fed off of our greed. None of the stimulus has worked for me. I'm one of the majority it never applies to. Oh well...guess I just got to rough it. Don't know if Obama knows exactly what he's doing. However, he did inherit a crap situation from day 1 and I do believe he's doing what he thinks is good for the country unlike many of his predecessors and I'm not even a democrat. I'm a tax paying american that wants our country to be a leader again. An "in God we trust" country once again.

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- **Jim Guy**

11:02 AM Sep 3, 2010

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Lets put common sense into "some" area of our lives. We really do live in a country were you can become anything you want to be and as rich as you want to be, BUT., you must put in the time to get there... That is where we lose each other...If you want to get mad at Paris Hilton for being rich, hey, I'm right there beside you, but for every snot nosed little rich kid that never earns a day's pay there are a hundred AMERICANS that had a dream, Worked like Hell to make the dream into reality, Long hours, risking whatever they had, then taking on the resopnsibility to GROW, which means employees..which means that in addition to being responsible to make ends meet, they also are responsible for their employees actions... These people are not your enemy. They just worked longer, harder and smarter than you did.....So either put up or shut up, you have the chioice, you always did.

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• **integritylrc**

10:07 AM Sep 3, 2010

- [\(6\) vote this comment up](#)
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Senior Correspondent? It's sad that this type of article is penned by someone identified as a "Senior Correspondent." Three liberal sources and two advisors to the Senator from AZ who just had to spend \$20,000,000 to fend off an inept challenger in a primary race! Reminds me of the lower Manhattan "reporter" who didn't understand how W got elected; "nobody I know voted for him." Seems that "Senior Correspondent" carries all the weight of a branch bank Vice- President and all the balance of MSNBC.

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• **skullzblood64**

9:38 AM Sep 3, 2010

- [\(10\) vote this comment up](#)
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The auto industry is back to it's trickery again, last year we saw photos of 2010 vehicles back up on the docks, to be shipped back to their destinations. All of a sudden the auto dealers ads on t.v. are offering brand new 2010's and 2011 autos at the same prices. Normally at this time of year the 2012 models are rolling into car lots. If you want to get a 2010 model, be adamant about the fact that the model is in fact 2 years old, and if they check their Kelley Blue Books, you can't charge the same price for a brand new car as you would of one that is technically 2 years old,and God only knows where and what these vehicles have been or gone through

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• **WCFAIR4102**

9:22 AM Sep 3, 2010

- [\(12\) vote this comment up](#)
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Reading some of the comments and concerns here have sparked me to write again. I am a Retired Air Force master sergeant who was born and raised in my younger years in an area if this country that I thought had the largest steel mill in the world, at least it looked that way to me as a kid. Weirton, West Virginia had a steel industry nestled in Hancock county that sat on the Ohio River and pumped out more steel than you could imagine. US STEEL Corp was a group of mills consisting of Weirton Steel, Wheeling Steel, Pittsburgh Steel, Bethlehem Steel, and others in close proximity to each other. My back door was the backyard view to the coke ovens and the ladle pots where the slag was poured off and taken away. I remember the coal yard where the pile was ten stories high and the ore pile was just as big. Over the years the industry declined and was sold off or traded off to Japan, Germany, China and others. That area of the country today is DEAD!!! The mill was sold off to Lakshimi Mittal's family who owned 88% of the company. MITTAL Steel was based in Rotterdam but managed from London. (see Wikipedia- Mittal Steel). My point here is, this country's industry has been sold to the highest bidder and somehow slipped under the fence and went somewhere else because of special interest, underhanded deals and big foreign money that can make decisions in this country. By the way, I have been living in Maryland rather close to Bethlehem Steel Corp and have watched a large majority of family members who worked

in both Weirton Steel and Bethlehem Steel. loose their jobs because of poor decision making on the owners of these mills. Sad to not be able to see hot molten steel slide down the rollers to be turned into a car or grill. What has this country done to itself??? I go back to Weirton W.VA every couple years to visit relatives and drive by the rusted remains of Weirton Steel and physically cry because I feel I'm walking past a grave yard of thousands of heroic steel workers,including my father, who worked like slaves to build an industry that is rusting away on the Ohio River.

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• **willisearlray**

10:58 AM Sep 3, 2010

- o [\(1\) vote this comment up](#)
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wcfair4102..I know the area well. What you and so many others fail to own up to is this: The unions who fought, struck and extorted these companies because they wanted to have a bigger share of the pie now refuse to accept any blame for their own greed. When companies decide they must ship their products back and forth across the ocean to be competitive in a global market, the unions may have shot too high. Maybe the answer is to close our borders (imports and exports) to competition and then workers can be paid whatever Americans are willing to support. The only problem is that we would then need to become an empire to capture the necessary natural resources we need or submit to extortion by those countries that possess them. CAUSE and EFFECT.

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• **jforgit9**

11:19 AM Sep 3, 2010

- o [\(1\) vote this comment up](#)
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Very well written.....hard to pin that one on Obama isn't it ? This all began when he was still in high school.

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• **willisearlray**

9:14 AM Sep 3, 2010

- o [\(11\) vote this comment up](#)
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Mr. Biven loses all credibility when he frets about 48,000 state and local government employees losing their jobs. I could take someone, who never heard the word economics, to just about any state or local government (and certainly federal)in the country and they could identify waste, fraud and abuse in no time. This is also true for public education and higher education both of which I worked in for over 12 years. Don't come in to that good old boys club with practical/applied knowledge and try to make cost saving changes.

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• **jbjsurf**

9:12 AM Sep 3, 2010

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Had the 187 billion +++ the banks took from the citizens to bail themselves out, been used to refinance the the criminal ballon payments and interest the banks charged their clients on home loans,to a fair interest rate, the housing market would not have collapsed and the recession would not have occurred. But the banks who were bailed out with these same citizens/clients tax dollars. These same banks now refused to refinance or loan money to their mortgage holders, instead forcing families into bankruptcy. Justifying stealing their homes by saying,they were considered a bad risk and didn't qualify for a loan through their credit score and credit report. How dare you say we are a bad risk, and don't qualify for a refinance or a loan. When you lost 187 billion dollars +++ and came to us for a loan. I wonder, what would your credit score be? If, we had the chance to judge your risk level for a loan. Would your credit score have qualified you for a 187 billion dollar loan or should you

have been turned down? You who through your greed created a worldwide recession..

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• **willisearlray**

11:20 AM Sep 3, 2010

- [\(2\) vote this comment up](#)
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Most if not all banks have repaid the bailouts. So they must have been good risks. When you buy a house you are presented with many financing OPTIONS it is your choice which OPTION you choose or to choose none and remain a non-homeowner. 4% to 6% interest rates were not the problem. The difference between giving the mortgages originally, and not refinancing now, is that the Government is no longer telling banks "don't worry we will cover all the bad loans". Banks fell for that the first time and when everything came crashing down the Government stepped back and said you mean greedy banks. Now they know they can't trust the government as a partner.

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• **zeoli**

8:59 AM Sep 3, 2010

- [\(14\) vote this comment up](#)
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JJM942 The problem with the discussion of the "so called" stimulus is that it is myopic. The focus needs to be on Obama's entire body of work. that includes health care, cap and trade, tax policy, and business bashing. Bill Clinton was smart enough to realize that business investment (in people and capital) is the key to economic growth. He also knew that private enterprise invests when there is a perception of future predictability and favorable government policy. The President claims his #1 priority is the economy and jobs, but his policies and anti-business words tell the real story. His #1 priority is to "transform America" and if this means derailing the economy, he is OK with that.

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[jill lawrence](#)

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