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O stimulus hit 40% of GDP

By John Aidan Byrne – January 26, 2013

According to an analysis by investment firm KKR, an eye-popping $7.7 trillion — nearly five times the amount injected into the US economy just after the Great Depression. KKR went beyond the $780 billion recovery act the administration cites, adding in all the various bailouts and stimulus programs introduced by the Obama administration.

The total now exceeds 40 percent of gross domestic product, though the US still is stuck in a slow-motion economy of high unemployment, dismal business formations, sluggish growth and a stifling lack of bank lending, according to new studies and financial analysis.

The big spending bill, which ranged from auto bailouts to Fannie Mae and Freddie Mac payments, to $700 billion for TARP and trillions in quantitative easing.

The new KKR report describes the aftermath of four years of fiscal and monetary spending. And while KKR sees some bright economic shoots, it also pulls no punches. "The latest round of quantitative easing is tied to unemployment, which we do not see changing quickly, given that new business formation is still running 35 percent below the historical average," the firm says in its 2013 Global Macro Trends report.

One economist dismisses assertions the economy would be in dire straits without Washington's stimulus. "The unemployment rate is just the headline number," said Mark Calabria, director of financial regulation studies at the Cato Institute. "Look at the people who were discouraged and had to leave the labor force. That rivaled the Great Depression."

Calabria added: "One of the reasons the stimulus had so little impact is that the vast majority of it was about taking a dollar from you and giving it to me — and that doesn't increase consumption and spending, and it doesn't increase investment."