# Positive GDP number is encouraging, but doesn't tell the whole story

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— Last month's Gross Domestic Product advance report showing positive productivity of 3.5 percent was certainly one piece of good news in this time of financial strife, the first positive GDP figure in over a year. Those who believe that the recession has ended are emboldened by this figure, since one measure of the end of a recession is two consecutive quarters of positive growth.

Another positive sign is the performance of the stock market, which has gained back about 45 percent of its losses since the financial crisis began. A recovery in the stock market, economists tell us, precedes the general economic recovery by six months to a year.

One not-so-good number, however, is the unemployment figure, which has risen again, and now sits above 10 percent for the first time in 26 years.

In selling his economic stimulus package to the nation President Barack Obama said that it would keep the unemployment rate at about 7 percent, whereas without the stimulus, unemployment would hit 8.8 percent by the last fiscal quarter of 2010.

Obviously, the stimulus failed to stop job loss. And, when you look beneath the surface of the GDP figure, the stimulus has produced little if any significant improvement in productivity.

Economic writer Mike Shedlock wrote about "how bad this all looks once you break down the numbers. The government sloshed trillions around and yet disposable income is down, jobs are horrendously weak, and the only reason GDP rose is wasteful government spending, cash-for-clunkers and extremely unaffordable housing tax credits whose effect is soon going to start diminishing even though the program was just extended."

Almost half of the 3.5 percent positive GDP number (1.66 percent) came from the Cash-for-Clunkers program, which used stimulus money to incentivize car buying decisions and moved purchases that normally would occur over several months forward to an earlier time period. Consequently, since that initial surge, auto sales have dropped off.

Without the auto sales effect, GDP was still positive, although a more modest 1.9 percent, and some of that was due to the increase in government spending of 7.9 percent. So, the positive figure is far less impressive than it seems. And, the GDP advance report will be revised: a second report will follow at the end of November and the final report at the end of December. It may go up, but it might go down.

Looking ahead, the economic activity that was shifted forward by the stimulus program has prompted some economists to predict a return to negative GDP in the fourth quarter, which would reset the calculation for when the recession is over.

Something to think about is the similarity of what is going on today to what happened after the 1929 stock market crash. It is commonly thought and sometimes reported that the cause of the Great Depression of the 1930s was the market crash in October of 1929. Walter Williams, columnist and professor of economics at George Mason University, asks: "How could that be? By April 1930, the stock market had recovered to its pre-crash level. What is not taught in history books is the Great Depression was caused by a massive government failure," he states.

Dr. Williams goes on to blame actions by the Federal Reserve Bank that led to the contraction of the money supply by 25 percent, the passage of the Smoot-Hawley Act in June 1930 in the name of saving jobs, which increased U.S. tariffs by more than 50 percent, causing a collapse of world trade when other nations retaliated against the U.S. action.

He cites other missteps that include the imposition of the largest tax increase in U.S. history (at the time) that

raised the top tax rate on income from 25 percent to 63 percent, and then the New Deal legislation that heavily regulated the economy and extended the Great Depression to after World War II.

“Have today’s politicians and their economic advisers learned anything from yesteryear’s policy that turned what would have been a short, sharp downturn in the economy into a 16-year affair?” Dr. Williams asks. His answer: They have learned very little.

Dr. Williams echoes Johns Hopkins University economics professor and Cato Institute Fellow Steve Hanke’s belief that the chief enabler of both the Great Depression and our latest economic downturn is the Federal Reserve Bank. Dr. Hanke believes the Fed views itself as America’s “systemic risk regulator,” but he sees this as exactly backward: The Federal Reserve is the systemic risk.

Today we see obscene levels of government spending, with the stimulus bill and other spending measures increasing the deficit by one trillion dollars. We watch helplessly as the Democrat-controlled Congress works overtime to jam through highly controversial and largely unpopular measures like health care reform and cap and trade. That means even more government spending; raising taxes on businesses that will stymie job creation; and skyrocketing energy costs, which will raise the cost of goods and services for everyone. And the Fed goes merrily along unchecked.

It’s déjà vu all over again, folks. Can we make the same mistakes as our predecessors and expect a different result?

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