

How can we squeeze more food from a **RAINDROP?**

MarketWatch

ECONOMIC REPORT

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How much has the stimulus done?

By **Rex Nutting**, MarketWatch

WASHINGTON (MarketWatch) -- The latest numbers on U.S. gross domestic product show a dramatic improvement in the economy during the third quarter, but they do little to settle the question of how much the government's unprecedented stimulus program helped or hurt the economy.

Nor do the numbers tell us what will happen once the government starts to unwind its support.

The economy grew at a 3.5% annual pace in the quarter, led by increased consumer spending, home building and auto sales, the Commerce Department reported. [See the report.](#)



Gremlins Under the GDP Hood

Steve Ricchiuto explains to Simon Constable there is an underlying weakness in the U.S. economy despite the strong headline figure. (Oct. 29)

would have risen little, if at all, this past quarter."

She expressed hope that government spending could temporarily fill the gap that opened up when the private sector froze its spending and investment plans. Because of the way the program was designed, the maximum thrust came during the third quarter, even though it will continue to provide some stimulus for another year or so.

But critics of the stimulus program were dismissive on Thursday.

Some said the fiscal stimulus was completely ineffective. For example, Rep. Kevin Brady, R-Texas, gave the Fed all the credit for the growth. He compared the Obama administration's claims of success to those of the balloon boy's father.

Others said the stimulus had boosted growth, but only temporarily. Tad DeHaven of the Cato Institute said program such as the cash-for-clunkers subsidy had only altered the timing of auto sales, and hadn't created any new wealth. Economist Peter Schiff said the stimulus was an attempt to blow new unsustainable bubbles.

Republicans continue to mock Obama about the lack of job growth. Although the White House says the stimulus spending has created or saved 1 million jobs, Republicans say the facts show that more than 3 million jobs have been lost since the stimulus was approved.

Those are precisely the areas targeted by the government's stimulus programs, which include not only the Democrats' two-year \$787 billion fiscal stimulus program, but also the Federal Reserve's ultra-loose monetary policy.

The politics

"This recession is abating and the steps we've taken have made a difference," said President Barack Obama, who swiftly added that he won't be satisfied until "we're creating jobs."

Christina Romer, a top White House economist, said the stimulus bill was responsible for most if not all of the growth in the economy during the quarter. "In the absence of the Recovery Act, real GDP

The economics

It's almost impossible to disentangle the impact of the fiscal stimulus, the monetary stimulus and the natural tendency of the economy to grow. We can't go back and run the economy through a different reality in which the government didn't try to prevent a Great Depression.

The Obama administration will never be able to prove to skeptics that what it did was useful, because it will never be able to prove what would have happened if they'd done nothing.

Much of the stimulus was indirect, and doesn't show up in a line item in the GDP accounts.

The government is spending some money directly on goods and services, but most of the stimulus is going to taxpayers, unemployed workers, senior citizens, state and local government, car buyers, and home buyers. The money is mostly being spent.

The Federal Reserve took over the secondary mortgage market, bought more than \$1 trillion in Treasuries and agency bonds to lower interest rates, and created programs to help other credit markets. The TARP program funneled hundreds of billions to banks and quasi-banks.

Clunkers, and houses

A couple of stimulus programs were clearly visible in the GDP reports, however.

The government briefly gave subsidies of up to \$4,500 to people who bought an energy-efficient vehicle and scrapped an older gas guzzler. The cash-for-clunkers program helped boost auto sales in the quarter by \$36 billion at an annual rate, nearly half of the gain in consumer spending.

The government also provided up to \$8,000 to first-time home buyers. Home sales don't figure in directly in GDP, but home building does. In response to the tax credit and to a general improvement in market conditions (low interest rates, lower inventories of unsold new homes and lower prices), home builders increased the number of homes they started.

Investments in residences rose at a 23.4% annual rate, the first increase in nearly five years and the biggest increase since the 1980s.

The cash-for-clunkers and home buyers' credit had an impact, but how much is debatable.

Analysts say the two programs mostly subsidized activity that would have taken place anyway. Some buyers may have bought in the third quarter, instead of later, but we don't really don't know how much of home and auto sales in the third quarter was stolen from the fourth quarter and how much was buying that wouldn't have happened without the subsidy.

The clunkers program ended in August, and sales dropped sharply in September. The automakers will report on October's sales level next week, and analysts will be watching carefully to see what auto sales are like without the distortion of the clunkers program.

The debate over the stimulus is great political theater, of course. And academics will be studying this period for decades, just as they've studied and disagreed about the Depression since the 1930s.

But "these estimates are not an idle academic exercise," Mark Zandi, chief economist for Moody's Economy.com, told Congress on Thursday. "Whether the current fiscal stimulus is deemed successful will determine how policymakers respond if the recovery does not take root, or worse, if the U.S. slides back into recession."

Zandi was a top economic adviser to Republican presidential candidate John McCain last year, but he's become a darling of the Democrats this year because he says what no other Republican will: "It has been money well spent."

The government needs to do more, not less, Zandi said. He presented Congress a check list of 10 more things it should do, including extending the unemployment benefits and the home buyer tax credit. The stimulus hasn't eliminated all the threats to the economy, including stressed credit markets, rising foreclosures, lack of hiring by small

businesses and a coming collapse of commercial real estate.

But there's little appetite in Washington for further stimulus. Other than extending a few programs, nothing more will get done.

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