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Economy growing; not sure stimulus is reason

By Seattle Times news services


Council of Economic Advisers Chair-designate Christina Romer

WASHINGTON — The latest numbers on U.S. gross domestic product (GDP) show a dramatic improvement in the economy during the third quarter and are the strongest evidence yet the country has begun to emerge from the deepest downturn in decades.

But they do little to settle the question of how much the government's unprecedented stimulus program helped or hurt. Nor do the numbers say what will happen once government support begins to unwind.

GDP — the total market value of all goods and services — grew at a 3.5 percent annual rate from July through September, fueled by increased consumer spending, home building and auto sales, the Commerce Department report showed.

Those are precisely the areas targeted by the 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.

"We've come a long way since the first three months of 2009, when our economy shrunk by an alarming 6.4 percent," President Obama said. "... This is obviously welcome news, and an affirmation that this recession is abating and the steps we've taken have made a difference."

The 3.5 percent number is the first of three issued by the Commerce Department. A second estimate based on more complete data will be released Nov. 24. A final number will be set about a month later.

In any case, the third-quarter showing will end a string of four negative quarters, the first time that's happened since 1947.

Christina Romer, head of the White House Council of Economic Advisers, said the stimulus bill was responsible for most, if not all, of the third-quarter growth. "In the absence of the Recovery Act, real GDP would have risen little, if at all, this past quarter."

Because of the way the program was designed, the maximum thrust came during the third quarter.

The "cash for clunkers" program stimulated auto sales, a first-time-homebuyer tax credit and other policies buoyed housing, and spending increased with the rollout of federal stimulus.

Economists are wary about what happens as those programs recede. Cash for clunkers has ended, Congress is working on extending the homebuyers tax credit through the first part of next year, and stimulus spending is to taper off over the course of 2010.

As such, stimulus critics were dismissive Thursday.

Credit to Fed

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 father of the Colorado "balloon boy."

Tad DeHaven of the libertarian Cato Institute said programs such as cash for clunkers merely altered the timing of auto sales and hadn't created new wealth. Economist Peter Schiff, president of Euro Pacific Capital, said the stimulus was an attempt to blow new unsustainable bubbles.

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

The U.S. unemployment rate, now 9.8 percent, is likely to remain above 9 percent through next year, Romer acknowledged.

"We've had a technical end to the recession, which is something that economists and bankers like to talk about," said Robert Dye, senior economist at PNC Financial Services Group. "But it's not going to feel like we've had an end to the recession on Main Street until unemployment starts to go down."

It's impossible to disentangle the true impact of the fiscal stimulus, the monetary stimulus and the natural tendency of the economy to grow.

The Obama administration never will prove to skeptics that what it did was useful, because it can't prove what would have happened if nothing had been done.

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 governments, car buyers and home buyers. The money mostly is being spent.

The Fed took over the secondary mortgage market, bought more than $1 trillion in Treasury 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.

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

Cash for clunkers, which gave subsidies of up to $4,500 to people who bought an energy-efficient vehicle and scrapped an older gas guzzler, accounted for nearly half of the gain in consumer spending.

The government also provided up to $8,000 to first-time homebuyers. Home sales don't figure in directly in GDP, but home building does.

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

The debate over the stimulus is great political theater, of course. And academics will study this period for decades, just as they have 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."

"Money well spent"

Zandi was a top economic adviser to Republican presidential candidate John McCain last year, but he's become a darling of Democrats 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 gave Congress a checklist of 10 more things it should do, including extending unemployment benefits and the homebuyer tax credit.

The stimulus hasn't ended all threats to the economy, including stressed credit markets, rising foreclosures, lack of hiring by small businesses and a coming collapse of commercial real estate.

Compiled from MarketWatch, McClatchy Newspapers, The Washington Post and Seattle Times staff