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Economic Recovery by Statistical Manipulation

Inside The Numbers

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Facing the prospect of a 2nd quarter GDP report showing economic growth less than 1% (some professional forecasting services predict as low as 0.5%), and a year to year growth of the US economy likely to come in at barely 1%–compared to a 2011-12 already tepid 1.7%–today the Obama administration will announce a major revision of how it calculates GDP which will bump up GDP numbers by as much as 3% according to some estimates. That's one way to make it appear the US economy is finally recovering again, when all other fiscal-monetary policies since 2009 have actually failed to produce a sustained recovery.

Today's GDP definition revisions is not the first time that politicians, failing in their policies, have simply rewritten the numbers to make the failure 'go away'. But this time, the GDP revisions will be made going all the way back to 1929. So watch for the slowing US economy GDP numbers from last October 2012 onward to be significantly revised upward.

Instead of an actual, paltry 0.4% GDP growth rate in the fourth quarter of 2012, a weak 1.6% in the first quarter 2013, and the projected 0.5%-1% for the 2nd quarter 2013—all the numbers will be revised higher in the coming GDP estimate for the 2nd quarter 2013. The true GDP growth rate of the most recent April-June 2013 period, projected as low as 0.5% by some professional macroeconmic forecasters, might not thus get reported.

President Bill Clinton played fast and loose with economic statistics as well at the end of his term, redefining who was uninsured in terms of health care coverage. The total of 50 million uninsured at the end of the 1990s, was reduced to 40 million—after having risen by ten million during his eight years in office. Today, they still claim there are only 50 million without health insurance coverage, despite the ten million more becoming unemployed since the Great Recession began in 2007, tens of millions of population increase in the US, and millions more having left the labor force.

Similarly, under President Reagan in the 1980s a raft of government statistics were 'revised'. Unemployment in particular was revised downward by various means to make it appear fewer were jobless in the wake of the 1981-82 recession. Changes were made to inflation data as well to make it appear lower than it was, and to how manufacturing was defined to make it appear that the mass exodus of manufacturing 'offshoring' of jobs was not as great as it was in fact.

This writer has been forewarning of this radical shift in GDP definition since earlier this year, in a series of analyses on US GDP numbers over the past year, July 2012-June 2013, in which the warning was raised the US economy was slowing significantly—from its already weak historical 2011-2012 annual growth rates of less than 2% to around half at 1% (see my blog entries at jackrasmus.com). The point was raised the Obama administration appears may use the 5 year scheduled GDP revisions to boost the appearance of the slowing US economy.

The government agency, the Bureau of Economic Analysis, responsible for the GDP numbers will explain the GDP methodology changes this week, and this writer will provide a follow up analysis of the revisions. Some initial indications have appeared in the business press as to how and why the changes are being made in GDP.

One explanation is that Gross Domestic Income (GDI) has been running well ahead of GDP (Gross Domestic Product). GDP is supposed to measure the value of goods and services produced in the US, while GDI is a measure of the income generated in the US. They are supposed to be about equal, with some adjustments for capital consumption and foreign net income flows. The idea is whatever is produced in terms of goods and services generates a roughly equivalent income. However, it appears income (GDI) is rising faster than GDP output. The BEA revisions therefore appear aimed at raising GDP to the higher GDI levels.

But income is rising faster because investors, wealthy households (2%), and their corporations are increasing their income at an accelerating pace from financial securities investments—that don't show up in GDP calculations which consider only production of real goods and services and exclude financial securities income like stocks, bonds, and derivatives. So instead of adjusting GDI downward, the BEA will raise GDP. It appears from early press indications it will do this by reducing deductions from GDP due to research and development and by now counting some kinds of financial investments as GDP.

When GDP was developed back in the 1930s, economists purposely left out financial assets' price appreciation in the determination of GDP. Such assets did not reflect real production of goods and services, it was determined. But today in the 21st century, massive gains in capital incomes increasingly come from financial asset appreciation. Even many non-financial corporations now accumulate up to 25% of their total profits from what are called ‘portfolio investments’—i.e. financial asset speculation. Like profits from real production, that gets distributed to shareholders in the form of capital gains, dividends, stock buybacks, etc. That income also ends up in reported ‘Gross Domestic Income’, or GDI. So capital incomes surging to record highs in recent years are showing up in a rising GDI in relation to GDP. The government’s answer is to conveniently revise GDP upward to better track GDI. But that doesn’t represent real economic growth and does represent a false recovery when measured in terms of new GDP revisions.

If GDP is revised upward, a host of other government data will have to revise up as well. That will likely include employment numbers as well. How reliable will be future jobs numbers, not just GDP numbers, is therefore a reasonable question.

Apart from making it appear the US economy is doing better than it in fact is, what are the motivations for the forthcoming redefinition of GDP, one should ask?

For one thing, it will make it appear that US federal spending, as a share of GDP is less than it is and that US federal debt as a share of GDP is less than it is. That adds ammunition to the Obama administration as it heads into a major confrontation with the US House of Representatives, controlled by radical Republicans, over the coming 2014 budget and debt ceiling negotiations again in a couple of months. It also will assist the joint Obama-US House effort to cut corporate taxes by hundreds of billions of dollars more, as legislation for the same now moves rapidly through Congress in time for the budget-debt ceiling negotiations.

Revising GDP also enables the Federal Reserve to justify its plans to slow its $85 billion a month liquidity injections (quantitative easing, QE) into the banks and private investors. This ‘tapering’ was raised as a possibility last June, and set off a firestorm of financial asset price declines in a matter of days, forcing the Fed to quickly retreat. But the Fed and global bankers know QE is starting to destabilize the global economy in serious ways and both, along with the Obama administration, are looking for ways to slow and ‘taper’ its magnitude—i.e. slow the $85 billion. Redefining GDP upward, along with upward revisions to jobs in coming months, will allow the Fed to revisit ‘tapering’ after September, when the budget-debt ceiling-corporate tax cut deals are concluded between Obama and the US House Republicans. (see my lengthy article, ‘Austerity American Style’ , on this).

The Fed has stated it will begin to reduce its QE when the economy shows more growth and unemployment numbers come down to 6.5%, from the current roughly 7.5% low-ball estimate. (Other government data show unemployment at more than 14%, but politicians and the press ignore that number). Revising GDP upward will thus provide the Fed with an argument to start ‘tapering’. Fed Chairman, Ben Bernanke, is quite aware of the usefulness of the projected revisions, moreover. In his recent testimony to Congress he specifically noted that the economy was growing better than (old) GDP numbers indicate if the higher Gross Domestic Income (GDI) is considered.

It is ironic somewhat that what we are about to witness with the GDP revisions is a recognition that the economic recovery since 2009 has been a recovery for corporate profits and capital incomes, stock and bond markets, derivatives and other forms of income from financial speculation—all now at record levels—while weekly earnings for the rest continue to decline for the past four years. What the GDP revisions reflect is an attempt to adjust upward GDP to reflect in various ways the gains on financial side of the economy, the gains in income for the few and their corporations.

When you can’t get the economy going otherwise, just change the definitions and how you calculate it all. Manipulate the statistics—just as Clinton did before and Reagan even before that.