The American Economy is “Dead”: The Illusion of Economic Recovery

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Last Friday (January 27) the US Bureau of Economic Analysis announced its advance estimate that in the last quarter of 2011 the economy grew at an annual rate of 2.8% in real inflation-adjusted terms, an increase from the annual rate of growth in the third quarter.

Good news, right?

Wrong. If you want to know what is really happening, you must turn to John Williams at www.shadowstats.com.

What the presstitute media did not tell us is that almost the entire gain In GDP growth was due to “involuntary inventory build-up,” that is, more goods were produced than were sold.

Net of the unsold goods, the annualized real growth rate was eight-tenths of one percent.

And even that tiny growth rate is an exaggeration, because it is deflated with a measure of inflation that understates inflation. The US government’s measure of inflation no longer measures a constant standard of living. Instead, the government’s inflation measure relies on substitution of cheaper goods for those that rise in price. In other words, the government holds the measure of inflation down by measuring a declining standard of living. This permits our rulers to divert cost-of-living-adjustments that should be paid to Social Security recipients to wars of aggression, police state, and banker bailouts.

When the methodology that measures a constant standard of living is used to deflate nominal GDP, the result is a shrinking US economy. It becomes clear that the US economy has had no recovery and has now been in deep recession for four years despite the proclamation by the National Bureau of Economic Research of a recovery based on the rigged official numbers.

A government can always produce the illusion of economic growth by underestimating the rate of inflation. There is no question that a substitution-based measure of inflation understates the inflation that people experience. More proof that there has been no economic recovery is available from those data series that are unaffected by inflation. If the economy were in fact recovering, these date series would be picking up. Instead, they are flat or declining, as John Williams demonstrates.

For example, according to the government’s own data, payroll employment in December 2011 is less than in 2001. Meanwhile, there has been a decade of population growth. The presstitute media calls the alleged economic recovery a “jobless recovery,” which is a contradiction in terms. There can be no recovery without a growth in employment and consumer income.

Real average weekly earnings (deflated by the government's CPI-W) have never recovered their 1973 peak. Real median household income (deflated by the government's CPI-U) has not recovered its 2001 peak and is below the 1969 level. If earnings were deflated by the original methodology instead of by the new substitution-based methodology, the picture would be bleaker.

Consumer confidence shows no recovery and is far below the level of a decade ago. How does an economy recover without a recovery in consumer confidence?

Housing starts have remained flat since 2009 and are below their previous peak.

Retail sales are below the index level of January 2000.

Industrial production remains below the index level of January 2000.

To repeat, the only indicator of economic recovery is the GDP deflated with an understated measure of inflation.

The US economy cannot recover, because the US economy depends on consumer expenditures for more than 70% of its activity. The offshoring of middle class jobs has stopped the rise in middle class income and caused a drop in consumer spending power.

The Federal Reserve under Alan Greenspan compensated for the absence of US consumer income growth with a policy of easy credit and a policy of driving up home prices with low interest rates. This policy allowed people to refinance their homes and to spend the inflated equity in their homes that Greenspan's policy created.

In other words, an increase in consumer indebtedness and dissavings drove the economy in the place of the missing growth in consumer incomes.

Today, consumers are too indebted to borrow, and banks are too insolvent to lend. Therefore, there is no possibility of further debt expansion as a substitute for real income growth. An offshored economy is a dead and exhausted economy.

The consequences of a dead economy when the government is wasting trillions of dollars in wars of naked aggression and in bailouts of fraudulent financial institutions is a government budget that can only be financed by printing money.

The consequence of printing money when jobs have been moved offshore is an inflationary depression. This catastrophe could begin to unfold this year or in 2013. If Europe's problems worsen, flight into dollars could delay sharp rises in US inflation until 2014.

The emperor has no clothes, and sooner or later this will be recognized.

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