The Fiction of Economic Recovery: "Magic Growth Numbers" From the U.S. Government

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Everyone wants good news, so the government makes it up. The latest fiction is that US real GDP grew 4.6% in the second quarter and 5% in the third.

> Where did this growth come from?
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> Not from rising real consumer incomes.
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> Not from rising consumer credit.
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> Not from rising real retail sales.
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> Not from the housing sector.
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> Not from a trade surplus.

The growth came from a Bureau of Economic Analysis survey of consumer spending on services. The BEA found that spending on Obamacare drove the US real GDP growth to 5% in the third quarter. http://www.zerohedge.com/news/2014-12-23/here-reason-surge-q3-gdp

In America, unlike in other countries, a huge chunk of medical spending goes to insurance company profits, not to health care. Another big chunk goes to paperwork, which has a variety of purposes such as collecting personal information on patients and combating fraud (probably the paperwork costs more than fraud). Another chunk goes for tests and procedures in order to justify further procedures. For example, if a doctor thinks a patient's diagnosis requires a MRI, he must often first order an x-ray to establish that a cheaper procedure does not suffice. If a cancerous skin growth needs to come off, first a biopsy must be done to establish that it is a cancer so that a needless removal is not performed. And, of course, medical practicians must order unnecessary tests in order to protect themselves from the liability of relying on their medical judgment.

To regard any of these expenses as economic growth is farfetched.

There are sampling and other problems with the survey of personal consumption, and apparently Obamacare spending was all dumped into the third quarter. Why the third quarter?

The answer is that the illusion of economic recovery must be kept alive.

Real GDP growth of 5% in the third quarter is inconsistent with the sharp fall in key industrial commodity prices. It is not only oil (down 47%) but iron ore prices (down 49%), natural gas (down 30%), copper (down 15%). Pam and Russ Martens show that the fall in the producer price index for industrial commodities in 2014 is sharper than in 2008, the year of the crash. http://wallstreetonparade.com/2014/12/oil-crash-dont-believe-the-happy-clatter/

With 30% of 30-year old Americans and almost 50% of 25-year olds living with parents, with debt-based derivative instruments impacted by falling oil and industrial commodity prices, with the likelihood that the US and EU economic attack on Russia will fail and perhaps produce retaliatory measures that could bring down the European banking system, look for 2015 to be the year that Washington will cease to get away with its economic lies.

The financial media and Wall Street economists by refusing to ask obvious questions have left the American people unprepared for another drop in their living standards and ability to cope.

Dr. Paul Craig Roberts was Assistant Secretary of the Treasury for Economic Policy and associate editor of the Wall Street Journal. He was columnist for Business Week, Scripps Howard News Service, and Creators Syndicate. He has had many university appointments. His internet columns have attracted a worldwide following. Roberts' latest books are The Failure of Laissez Faire Capitalism and Economic Dissolution of the West and How America Was Lost.

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