Government Admits it has been Underplaying How Bad Recessions Are

[This is an article I forwarded to friends on Aug. 1, 2009 together with some initial comments. –S.H.]

Hi everybody,

The government has admitted that its previous statistics were seriously underplaying how bad recessions have been over the past 60 years, and especially how bad the early stages of the present “Great Recession” were. This is something that many of us who keep an eye on the economy have known for a long time. But it is nice to see them finally admit it! (At least to a degree! There are still major systematic distortions, such as their focus of GDP, corporate profits, etc., rather than the economic situation of ordinary people.)

The following sentence is especially noteworthy: “But during the five quarters after that, through the first quarter of 2009, the economy declined at an annual rate of 4.2 percent, much worse than the previously reported 2.8 percent fall.”

Another interesting point is that government statisticians have now separated out a portion of the expenditures of Americans that used to be counted as part of medical and car expenses, etc., and put it into a new category “financial services and insurance”. This does *not* include the value (on average) that people get back from health and insurance plans, but only the part that they *don’t get back!* In other words, it is the huge amounts simply ripped off as tribute by these financial parasites.

You may recall that Lenin, in his 1916 pamphlet *Imperialism—The Highest Stage of Capitalism*, described capitalism in the imperialist era as financialized and parasitic. It is now a bit easier to see some of that financial parasitism in the government statistics. The article notes that this “financial services and insurance” ripoff (of course they don’t *call* it a ripoff!) now accounts for “$823 billion a year at the current rate, or 8.2 percent of personal consumption spending” which is more than people spend on food and beverages at home! No doubt even this greatly understates the real situation. But more than ever it does seem time to get the fucking banks off our backs!

Scott

The New York Times

August 1, 2009

A Do-Over of Economy, for Better and Worse

By Floyd Norris

The government went back and checked its numbers — back, in some cases, 60 years — and on Friday it released the results, with changes big and small as the statisticians tried to calculate how well the economy had done and where Americans were spending their money.

The results? The American economy was a little stronger than we thought when times were good, but worse when times were bad.

The government decided that it should measure the impact of big disasters in a different way to avoid distortions in some statistics and that it had been overestimating the amount of consumer spending that goes to health care.

The result was revisions in economic statistics going all the way back to 1947, when it turns out a downturn was a little deeper than had been thought.

Some of those changes are the result of better data now being available, and a few represent conclusions by government statisticians that they had been making systematic errors — one of which seems to have slightly exaggerated statistics on how much Americans were spending for energy.

But other changes simply reflect changed decisions about how to count things.

The apparent shrinking in medical care spending — from 18.5 percent of personal consumption expenditures to 16 percent for the first quarter of this year — stems from a decision to separate out the money that is paid to health insurers that does not eventually go to paying claims.

The extra money from that, and from similar treatment of car insurance as well as other things, led to the creating of a new category of spending in personal consumption expenditures, for financial services and insurance. Those figures had previously been spread around many other items, and broken out only in a report that comes out on a delayed basis.

In the new treatment, it appears Americans are spending more on financial services and insurance — $823 billion a year at the current rate, or 8.2 percent of personal consumption spending — than they are on food and beverages to be consumed at home — $788 billion, or 7.9 percent.

In early 1995, the earliest date for which revisions were released Friday — more will be coming out later this year — the positions were reversed. Then food and beverages took 9 percent of spending, and financial services drew in 7.2 percent.

The revision to the medical care spending figures did not change the trend. Medical care took up 16.2 percent of spending in the second quarter of this year, up from 14.5 percent in the first quarter of 1995.

Over all, the new figures are in line with a trend often seen when the data is revised: "Benchmark revisions are in the direction of the inflection," said Robert Barbera, the chief economist of ITG. "The expansion was a bit better than they thought, and the recession was substantially worse."

During the period from the end of the 2001 recession to the fourth quarter of 2007, the new figures indicated the economy over all grew at an average annual rate of 2.7 percent, up a bit from the previously reported rate of 2.6 percent. But during the five quarters after that, through the first quarter of 2009, the economy declined at an annual rate of 4.2 percent, much worse than the previously reported 2.8 percent fall.

In general, we now learn that things that seemed bad before were actually worse. Investment in new home construction fell off at an even faster clip than was thought. Consumers cut back more than had been estimated, particularly in durable goods like cars and furniture.

The recession officially began in December 2007, according to the National Bureau of Economic Research, but for much of 2008 many economists disputed that, citing data that showed the economy to be still growing. But the new figures show a decline in the first quarter of 2008, and only a small gain in the second quarter, when the Bush administration's stimulus package of tax rebate checks caused a brief spurt in consumer spending.

Another change in the numbers is the way that the government treats major disasters, like Hurricane Katrina. In the past, much of the losses showed up as reductions to corporate profits, which the government now views as misleading.

As a result of the changes, total corporate profits in the third quarter of 2005, when that hurricane hit, are now reported at an annual rate of $1.2 trillion. That figure is 10.3 percent higher than the number the government had previously used.

In the future, similar adjustments will be made for major disasters — defined as causing damage of at least 0.1 percent of gross domestic product, or around $15 billion now. But smaller disasters will be treated in the old way.

Under the old system, the uninsured value of destroyed assets was effectively subtracted from income, both for companies and for homeowners.

That will still be true in most cases, but in really large disasters the extra costs will be placed in another account, known as consumption of fixed capital. The result will be that overall G.D.P. figures will not be changed, but corporate profits will be raised from what they would have been.

The errors in energy were small, but still distorted the numbers. The government now says it was double-counting a tax paid by some electricity consumers and was estimating too much natural gas use by tenants in apartments where utilities are provided by the landlord.

That cut the annual rate of consumer spending on energy goods and services to $495 billion, from $503 billion, in the first quarter of 2009, bringing the percentage of personal consumption spending down to 5 percent, from 5.1 percent in the old data. In the second quarter, lower gasoline prices helped to bring the percentage down to 4.9 percent, the lowest level since 2004.

According to the revised figures, consumer spending on energy peaked in the third quarter of 2008 at 6.7 percent of total spending.