Geithner: Welcome to Reality

Claims that "we are on a path back to growth" by Treasury Secretary Timothy Geithner in an op-ed in the New York Times entitled "Welcome to Recovery" appeared to be based on facts, proof, and hard evidence.

"A review of recent data on the American economy … show that large parts of the private sector continue to strengthen," he said. "Business investment and consumption … are getting stronger, better than last year and better than last quarter." According to Geithner, evidence of growth can be seen because

Exports are booming

Private job growth has returned

Businesses are in a strong financial position

American families are saving more

The auto industry is coming back

Major banks are stronger, and

Those banks have paid back the government TARP "investments"

Furthermore, Geithner refers to a recent report by Alan Blinder and Mark Zandi of *Economy.com* that proved that government interventions and bailouts "helped save 8.5 million jobs and increased gross domestic product by 6.5 percent relative to what would have happened had we done nothing." Geithner then said "We have a long way to go … and Congress should move now … [to make additional] smart, targeted investments in our future … and cut the deficit … [to] make sure that America once again lives within its means…. We suffered a terrible blow, but we are coming back."

Sharp disagreement arose from many quarters. Writers for free-market oriented *The Daily Bell* asked: "Who 'we' are? We haven't noticed that either Geithner, nor the president who is on the golf course or generally on vacation every chance he can get, has 'suffered a terrible blow' that we can see. American business and ingenuity has indeed suffered, but we would argue that *the government has been the proximate cause — not the solution*." (Emphasis added.) American unemployment, the writers added, "according to government figures, hovers around 10 percent. Others think it is more realistically 20 percent — and we think it is actually nearer 30 percent."

Gary North on his members website pointed out another jobs statistic "that keeps getting worse — worse than any other statistic: the median duration of unemployment." That figure measures how long it takes the average unemployed person to get hired again, which now exceeds 25 weeks. North says, "We have not seen anything like this in my lifetime." North is 71. He says bluntly that "it is unlikely that this statistic will head sharply downward over the next year. It will go much higher…. Until this figure returns to [the normal] seven weeks, there is no recovery."

When talking about the recovery in the auto industry, *The Daily Bell* pointed out that GM's new Volt automobile "was unveiled the other day, a $45,000 electric car that can only travel short distances at a time. GM executives admitted the car was costly for its performance [but] then claimed that federal government rebates on the car of up to $10,000 would make [it] competitive": "From our point of view the destruction of GM is complete, metaphorically anyway. It depends on the government for financing and then depends on government largesse to make its uncompetitive autos marketable."

The American Trucking Association's chief economist Bob Costello said that two recent "sequential decreases [in traffic] reflect an economy that is slowing." And since manufacturing constitutes about 12 percent of the US economy, trucking "is the best domestic indicator of the condition of very recent manufacturing," according to North.

The numbers from the National Association of Homebuilders reported that its index of confidence fell to 14 in July. The number 50 is neutral for this index. NAHB Chairman Bob Jones did his best to explain such an awful number: "We continue to see a lull in home buying activity following the expiration of the federal home buyer tax credit program…. Builders are reporting continuing consumer hesitancy regarding home purchases due to uncertainty in the overall economy and job markets." He added, "The pause in sales following expiration of the home buyer tax credits is turning out to be longer than anticipated due to the sluggish pace of improvement in the rest of the economy."

> Each of the HMI [Housing Market Index] component indexes recorded declines in July. The component gauging current sales conditions fell two points to 15, while the component gauging sales expectations in the next six months edged down one point to 21, and the component gauging traffic of prospective buyers fell three points to 10.

This dismal outlook was confirmed by the Discover U.S. Spending Monitor for July as their measure of consumer confidence fell for the third straight month. According to that survey, 58 percent of the 8,200 respondents queried rate the U.S. economy as poor, and only 23 percent see economic conditions improving in the month ahead, the lowest percentage in the past year. Julie Loeger, VP of Discover, said, "In the spring, more consumers felt the economy was improving and that correlated with an overall increase in discretionary spending intentions. [But our] data now suggests consumers' economic confidence is declining, and with that, so are their discretionary spending intentions."

Rasmussen Reports agrees with Discover. Their Consumer Index at 81.1 shows "overall levels of economic confidence … significantly lower than they were in the aftermath of the 9-11 terrorist attacks." And their Employment Index, which measures U.S. worker confidence in the employment market, fell five points in July, marking the lowest level measured this year.

Reuters reported that private employers added just 42,000 jobs in July, showing that "the economy has not gained the job-creating momentum to pull the employment rate down from above nine percent." And they added that Friday's employment report from the Department of Labor is likely to show an increase in the unemployment rate to 9.6 percent. A separate report showed that private employers laid off 41,676 workers in July, marking the third straight month of increased layoffs.

Investors Business Daily explained why U.S. businesses are sitting on so much cash: "They fear the high-tax, anti-wealth, anti-business policies emerging from this administration and don't want to invest if they think it will be taxed or regulated away by Obama's bureaucrats." And as far as the Blinder-Zandi study Geithner used as additional "proof" that recovery was at hand, *IBD* reminded its readers that that study "has come under broad criticism for making up numbers. All the estimated jobs saved and GDP created come from a Keynesian model using highly suspect multipliers. That is, the numbers aren't real-world data measuring real jobs; they exist only in a computer model."

And so it appears that Geithner's efforts to paint a picture of recovery were primarily as a cheerleader for the administration's failed efforts to revive the economy, and to promote additional such efforts. As *IBD* put it, "It's time we left the fantasyland of Keynesian fiscal stimulus and enter the real world of an economy where markets rule and incentives matter. If we don't, the economic pain we'll feel won't be found in an economic model — it will be all too real!"

That pain is already too real.

Photo of Timothy Geithner: AP Images