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The Economic Fantasy may be unraveling

By [Lee Russ](#), Section [OpEd](#)

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In order for the White House to keep pushing their "the economy is *robust* fantasy, people have to keep believing the contrary of what their eyes and experience tell them. That requires the cooperation of both (1) the government agencies responsible for caretaking the economy, and (2) a sizable portion of the business press.

The government agencies are starting to fall down on the job and, for whatever reason, some of the business press seem to be getting sick of living in fantasy land.

John Snow's "Whoops!" on Wages

Treasury Secretary John Snow is, by all descriptions, a highly intelligent and educated man. But he works for George W. Bush, so his actual knowledge isn't nearly as important as his willingness to toe the party line, public, embarrassment be damned.

And embarrassed is what Mr. Snow was just a short while back, when Barney Frank caught him mischaracterizing the rate of "real wage" growth by pawning off nominal growth (before taking inflation into account) as real growth (after taking inflation into account). Here's the [Wall Street Journal's blog](#) on the incident:

May 17, 2006, 5:27 pm

Gotcha!

Treasury Secretary John Snow, testifying before a House committee today, boasted in prepared remarks, "Average hourly earnings are picking up. We learned from this month's jobs report that average hourly earnings have risen 3.8% over the past 12 months -- their largest increase in nearly five years."

But Snow's briefers apparently didn't prepare him for questioning by Rep. Barney Frank, the sharp-tongued Massachusetts Democrat who delights at cross examination of administration witnesses.

"Mr. Secretary," Frank said, "I agree with much of your statement, but I confess to some trouble with your citation of the rise in hourly wages. What's the CPI increase over the past 12 months? Do you know?" Replied Snow: "Well, about 5, I think, 5.1."

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To which Frank said: "OK, because you've got hourly earnings going up 3.8%, and I believe... that's not adjusted for inflation. So my understanding is that even in the past 12 months, which are your best 12 months, hourly wages have barely kept up with inflation..... But you would acknowledge that 3.8% increase in wages you're talking about is nominal, not adjusted for inflation, correct?"

Snow, who has a Ph.D. in economics, was a bit flummoxed at first. "I'll have to go back, Congressman, and check these numbers," he said.

"That's not a trick question," Frank insisted.

"I know it's not," replied the Treasury secretary. He then confirmed that the 3.8% was nominal, that is unadjusted for inflation.

The concession didn't satisfy Frank. "I think it's misleading to talk about the 3.8% over 12 months when that doesn't take into account inflation, which was very close to that. I'd ask you to submit to us, what's it been over 24 months, 36 months and 48 months, because, in fact, during this recovery... wages have dropped... compared to inflation." Mr. Snow promised to deliver more numbers, and Frank turned to another subject.

The Economic Policy Institute, meanwhile, noted today that the latest Bureau of Labor Statistics data, released today, show that hourly and weekly earnings of production and non-supervisory workers in April finally returned to levels where they were, adjusted for inflation, in November 2001 when the current economic recovery began.

See Snow's actual remarks to Congress [here Congress](#)

John Snow's "Whoops!" on Breadth of Wage Gains

Back in March, Greg Ip of the [Wall Street Journal](#) took Snow to task for mischaracterizing how widespread the "wage gains" have been during what the White House insists is a recovery:

Treasury Chief Says Many Benefit From Expansion;
Some Data Show Otherwise
By GREG IP
March 20, 2006; Page A3

WASHINGTON -- Confronting criticism of the Bush administration's economic record, Treasury Secretary John Snow said the widening gap between high-paid and low-paid Americans reflects a labor market efficiently rewarding more-productive people. But he insisted Americans are

still broadly sharing in the economic expansion.

"What's been happening in the United States for about 20 years is [a] long-term trend to differentiate compensation," Mr. Snow said in an interview with The Wall Street Journal last week. "Look at the Harvard economics faculty, look at doctors over here at George Washington University...look at baseball players, look at football players. We've moved into a star system for some reason which is not fully understood. Across virtually all professions, there have been growing gaps."

Mr. Snow said the same phenomenon explains why compensation for corporate chief executive officers has climbed so sharply. "In an aggregate sense, it reflects the marginal productivity of CEOs. Do I trust the market for CEOs to work efficiently? Yes. Until we can find a better way to compensate CEOs, I'm going to trust the marketplace."

But Mr. Ip does not believe this wholeheartedly, especially the part about why CEO salaries have gone from 40 times to more than 300 times the average worker's salary:

Mr. Snow distributed a fact sheet that showed after-tax income per person, adjusted for inflation, rose 8.2% from January 2001, when George W. Bush took office as president, through January 2006. The sheet also showed that per-person net worth -- total assets minus debt -- rose 24%, unadjusted for inflation, from early 2001 to the end of 2005. "People have more money in their pocket" and in their bank accounts, he said.

Mr. Snow's case relies on averages, which can be skewed by big gains among the wealthiest. Other data suggest the typical family has seen little advance in income or net worth since Mr. Bush took office. Census Bureau data show median family income -- half of families have income greater than the median, half have less -- fell 3.6% from 2000 through 2004. Incomes for the poorest families fell even further. The only group to gain was the family at the 95th percentile -- that is, richer than 95% of all families. Data for 2005 are unavailable.

Alan Krueger, a labor economist at Princeton University who served in the Clinton administration, cited Labor Department data that showed the real median wage rose 3% from 2000 to 2005. Gains were smallest for the lowest-paid workers and largest for the best-paid. "From the standpoint of the work force, it's been a very weak recovery," he said. Wage data don't incorporate the effects of taxes, investment income or government payments.

As for net worth, a triennial Federal Reserve survey found that the net worth of the median family rose 1.5%, after inflation, from 2001 through 2004. That is far less than the 17% increase from 1995 to 1998 and the 10% increase from 1998 to 2001. The survey wasn't conducted in 2000 or 2005.

Robert Gordon, an economist at Northwestern University, says the past few years represent the continuation of a 35-year trend in which a growing share of all labor income goes to a small group of "superstars: professional athletes, CEOs and top corporate officers." On top of this trend, income on capital -- such as interest, dividends, rent and capital gains -- has taken a growing share of national income from labor, and it "goes mainly to a small slice of the population at the very top."

Bloomberg Takes Bush to Task on Taxes

John Berry of Bloomberg has apparently listened to one too many White House lies/fantasies on the magic of his tax cuts, and one too many congressional semantic games. Here's an excerpt from his May 18 column titled [Make-Believe, Deceit Are Behind Latest Tax-Cut:](#)

...The official title of the bill, which President George W. Bush proudly signed into law yesterday, is ``The Tax Increase Prevention and Reconciliation Act of 2005." It cuts taxes by roughly \$70 billion over the next 10 years.

Nevertheless, Republican Senator Charles Grassley of Iowa, chairman of the Senate Finance Committee, argued the legislation really only extends some parts of the tax code that have expired or would later.

...

The new legislation is really a stop-gap measure that settles nothing for the longer term. Still, it reduces taxes significantly, and that's a tax cut except in the land of make believe.

...

The income thresholds for the AMT have never been adjusted for inflation, so a provision originally intended only to make sure very high income taxpayers didn't escape income taxes altogether is now hitting upper-middle-income households. In 2003, the thresholds were lifted for that year and the next and later for 2005 as well. Now, they have been extended for one more year, 2006, with an estimated revenue loss of \$31 billion.

Low tax rates of 15 percent on stock dividends and capital gains -- and no tax at all in 2008 for taxpayers in the 10- and 15-percent brackets -- were to expire at the end of 2008. Nevertheless, Bush and Republican congressional leaders pushed through a two-year extension, to 2010, at a 10-

year revenue loss of \$51 billion.

...

And now all the other major tax cuts passed since Bush became president in 2001 will expire at the end of 2010, two years after he has left the White House.

That is going to make fiscal policy a key issue for the presidential candidates of both parties. Are any of them going to tell the truth about the terrible fiscal bind the country is in?

Or are they going to pretend, as Bush and more than a few members of Congress have, that tax cuts pay for themselves by generating so much more economic activity that the lower rates yield more revenue than higher rates would have?

That's what Bush strongly implied Feb. 8 in a New Hampshire speech, "You cut taxes and the tax revenues increase."

"See, some people are going to say, well, you cut taxes, you're going to have less revenue," said Bush, setting up his straw man.

...

"No, that's not what happened. What happened was we cut taxes and in 2004, revenues increased 5.5 percent. And last year those revenues increased 14.5 percent, or \$274 billion.

"And the reason why is cutting taxes caused the economy to grow, and as the economy grows there is more revenue generated in the private sector, which yields more revenues," Bush explained.

Notice the assumption that if taxes hadn't been cut, growth wouldn't have accelerated and revenue wouldn't have increased. Neither seems likely.

In last week's debate, Grassley explicitly made that claim.

"In the case of dividend and capital gains tax policy, the tax policy we adopted in 2003 is the reason we have created 5.2 million jobs," he said.

That's ludicrous.

...

Grassley said former Fed Chairman Alan Greenspan said that the 2003 tax policy "is responsible for the economic recovery we have had."

Greenspan approved of the lower rates on dividends and capital gains as a plus for growth. He never came close to saying that the lower rates were responsible for the economic recovery.

Careless language on Grassley's part? No, just part of a long-running effort to deceive the American public.

Inflation Warning

BLS statistics this week indicate that inflation may--surprise--be rearing its head. As described in a [Bloomberg report](#):

Prices paid by U.S. consumers rose more than forecast in April, rekindling inflation concerns that may invite more interest-rate increases from the Federal Reserve.

The 0.6 percent rise in the consumer price index followed a 0.4 percent increase in March, the Labor Department said today in Washington. Not counting food and energy, so-called core prices rose a larger-than-forecast 0.3 percent for a second month.

Strong demand is allowing more companies to pass along higher commodities and wage costs. Today's data will likely dispel any reassurance Fed policy makers took from recent reports on producer and import prices showing limited inflation, economists said.

...

Inflation is also accelerating in Europe. Consumer prices in the dozen nations sharing the euro rose 0.7 percent in April from March, the European Union's Luxembourg statistics office said today. That advance was higher than expected and the fastest since March 2005.

...

The cost of all goods including cars, apparel and food rose 1.1 percent last month after rising 0.6 percent in March. Goods prices are 3.2 percent higher compared with April 2005.

U.S. "Leading Economic Indicators" Fails to Cooperate

In the heart of the White House effort to spin the economy as a major Bush accomplishment, even the economic indicators have failed to cooperate and, in fact, substantiate the price increase shown by the CPI. Just three days ago, [Bloomberg reported](#):

..index of U.S. leading economic indicators unexpectedly declined in April, pointing to a slowdown from the fastest pace of growth in more than two years.

The Conference Board's index, which forecasts the economy for the next three to six months, fell 0.1 percent after rising 0.4 percent in March, the New York-based group said. A separate report showed manufacturers in the Philadelphia area reported

slower growth in orders, sales, employment and hours worked.

"There's softening in the economy, but it's not collapsing," said Anthony Chan, chief economist at JPMorgan Private Client Services in Columbus, Ohio. `` This is what the Federal Reserve has been looking for, to see whether its actions would cool the economy."

The leading index reflected declines in building permits and consumer confidence, evidence that higher interest rates and fuel prices are cooling off the housing market and personal spending, which have been driving the economy. Fed policy makers including Chairman Ben S. Bernanke are watching for signs of moderating growth even as they wrestle with data showing accelerating inflation.

A measure of prices paid by manufacturers in the Philadelphia region rose in May to the highest level since October. Almost 58 percent reported paying higher prices for raw materials including energy.

Today's reports complicate monetary policy for central bankers after a report yesterday showed consumer prices excluding food and energy rose more than forecast in April, fanning inflation worries.

...

Six of 10 indicators had a negative effect on the leading index, today's report showed.

Building permits had the largest negative impact, subtracting 0.15 percentage point from the leading index. Permits declined for a third month in April, dropping 7.4 percent.

Initial jobless claims averaged 314,700 last month and subtracted 0.06 percentage point from the index. While claims have risen, they remain at a level consistent with a firm labor market, economists said.

...

Consumer expectations as measured by the University of Michigan subtracted 0.08 percentage point.

So....

Is it any wonder that Bush's approval ratings are diving, with the business community starting to go public with questions about honesty, while the enormous gap between the top and bottom of society starts to look like a chasm that can never be bridged again?

If the super Christians desert him, look out below.

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Re: The Economic Fantasy may be unraveling ([none / 0](#)) ([#1](#))

by Number Six on Mon May 22, 2006 at 02:45:00 AM EST

That last comment is pretty funny, sir, if you get the joke as I do.

Shlub, well, he's supposed to be a pilot, right? Well, we were always taught, that as you descend below FL180, it's important to:

"High to low, hot to cold, look out below."

And that he is, IMNSHO, less a pilot than I am a starship captain, he don't know that little deal as I do.

With our luck, he won't check the altimeter window. What worries me is how many are gonna suffer along with him.

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