The Truth about Economic Data

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I've been wanting to write this blog for a long time. It concerns our incorrect understanding of popular economic data. These are the GDP, the Debt, the Dow, and the unemployment rate.

I'm not trying to brag, but I do know what I'm talking about. I earned a 4.0 GPA in economics from NYU and earned their best thesis award. So, I'm not a schmuck. Okay, I might be a shmuck, but I'm schmuck with an economics background.

GDP

Let's begin by talking about the GDP. What does it really mean? It's a simple formula... GDP = C + I + G - NE. It's supposed to represent economic activity. It does not. It measures spending. Spending is certainly useful to know, but it does not portray the state of our economy. Does the following conversation make sense to you?

You: "Hey neighbor! How's your financial position?"
Barry: "Great! I spent twice as much money than I did last year!"
You: "But I thought you were broke?"
Barry: "That's right, but I took out a 2nd mortgage."
You: "Don't you worry about paying it back?
You: "Why? My kids will pay it back."

The only reason why economic activity is good, is because we're spending money that we don't have! The fastest growing segment of the GDP equation is Government Spending (G), Consumption (C) and investments (I). When we increase the debt, we increase GDP. The whole political system is incentivized to spend money that we don't have. (This is why we are taxed on savings and get tax deductions for borrowing.)

- Savings does not add to GDP.
- Getting healthy does not add to GDP.
- Conserving energy does not add to GDP.
- Peace does not increase GDP.

Also, spending less does not generate campaign contributions. Politicians are incentivized to spend more money to repay the special interests who fund their campaigns. And, as we all know, they would rather get re-elected than make tough decisions which may not be politically popular.

Furthermore, not all spending is the same. There's a big difference between spending $1.00 on defense versus $1.00 on road construction. In economics, there's a concept called the multiplier effect. Let me explain. When $1.00 is spent on infrastructure repair, the money goes to the workers… who pay babysitters… who tip the bartender… who shops at a local store. In this example, the multiplier effect is 4 – in other words, the $1.00 is circulated 4 times. Compare this to defense spending where the money goes to large defense contractors or towards weapons that get blown-up. If you want to spark economic activity, then give tax breaks to working Americans and not the rich whose money merely ends up sitting in bank accounts.

The Debt

Economic activity follows changes in policy by six months to two years. Changes in the money supply, interest rates, and taxes take time to ripple through the economy. Some types of fiscal and monetary policy are quicker and, naturally, some are slower.

The debt is something that we can ignore for a while - maybe even for a decade. But, as soon as it's clear that we can't sell more debt without interest rates rising, then the ramifications will be catastrophic. In the past, the debt was expected to rise when times are tough, but, when the economy is growing, they are expected to pay down the debt. This is not happening.

You would think that no one likes our national debt. But, this is not the case. The rich LOVE DEBT. Why? As the debt increases, so does interest rates. The rich have money to invest. Imagine getting a 10% or greater rate of return… GUARANTEED… EVERY YEAR! The people who get screwed with high inflation are people who need to borrow money.

The Dow Jones Industrial Average

The Dow Jones Industrial Average is a collection of the 40 largest and most successful companies in the US. It does not represent the economy as a whole. Hypothetically, if all the companies in the US went bankrupt - but these 40 companies remained, then the Dow would be at record highs.

What's more, the same companies don't stay on the list. Weaker companies are constantly replaced with stronger, faster growing companies. As a matter of fact, there are NO companies on the list today that were on the original list. In fact, there's only one company from the original list that's still in business at all (US Steel.)

Even more important, these index funds do not reflect the state of small business in the US. Small business has always been the lifeblood of our economy. 80% of employees used to work for a company with less than 10 employees. But this is changing. Now, for the first time in history, these numbers are decreasing. Just as the rich getting richer and the middle class is shrinking, so are our nation's small businesses.

The Unemployment Rate

Lastly, there's my favorite misunderstood term… The Unemployment Rate.

How complicated can this be? It's the unemployment rate. It represents the number of people unemployed. Right? Wrong!

We all know the generally understood problems with this statistic. For example, this number does not reflect people working part-time who are looking for full-time work or people who are under employed (a college grad working at a coffee shop) or people who worked at tribal casinos. But let's put these issues aside for a moment.

First, the unemployment rate does not measure unemployment. Politicians are always changing economic formulas that make-up these statistics in order to make the numbers better than they really are. In fact, if I use the same accounting practices that congress uses, then I'd be in jail for life, right next to Bernie Madoff.

The number of people considered "unemployed" is determined by the number of people who are collecting unemployment benefits. Once the benefits run out, they are no longer considered unemployed. The logic is… if you've been out of work for 9 months, then you're really not looking for work.

As crazy as this sounds, it's true. Hypothetically, if everyone lost their jobs today. Then, in nine months, when everyone's unemployment benefits expire, the unemployment rate would be zero.

Just last week, Trump signed an executive order to prevents people who test positive for marijuana from collecting unemployment benefits. If this order is carried out, which is highly unlikely, the unemployment rate would decrease even more.

Second, we live in a freelance economy. More people than ever are classified as freelance workers. Just consider Google. Out of their 120,000 workers, half (a full 60,000) are hired as freelance workers. Even if all of these people were laid off, none of these people will ever be recorded as being unemployed. This includes people work just a few hours for Uber or Starbucks.

Here's an interesting fact. What percent of Americans do you think are actually employed? 90%? 75%? The answer is under 50%. That's right, less than half the people living in America actually work. So, when I hear that there's a 4% unemployment rate, I try not to vomit.

Why is this covered up… because both parties conspire in power many ways to stay in power. One way is to manipulate data and facts. Some of these illegal and unethical practices are described in my video, "Kiss Freedom Goodbye" (named best short political video for 2006.)

Let's WAKE UP America. Let's change the system and Reset America. I welcome your thoughts and comments. For now, you can reach me on Facebook or my email address below.

Thank you for reading.

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