

Domestic Credit by Richard Freeman

Commerce announces GNP miracle

Government statisticians have conjured up an economic recovery despite the U.S. industrial collapse.

A little bit of con artistry was practiced by the Commerce Department April 20, when it announced that the nation's Gross National Product (GNP), corrected for inflation, leapt by 6.5 percent in the first quarter of 1981. In response to the ostensible upsurge, the Dow Jones average closed up 10.5 points on the day, and the April 21 *Journal of Commerce* proclaimed, "The economy gave its strongest showing in almost three years."

This upsurge is not visible in the workplaces around America, which have been blitzed by the interest-rate policy of Federal Reserve Board Chairman Paul Volcker. For example, the industrial production index published by the Fed stood in December 1980 at 150.9 and for first quarter of 1981 it averaged 151.4, that is, the index remained absolutely flat. Official unemployment and the unemployment rate have remained constant—about 7.8 million—while housing starts, the gauge for one of the nation's largest industries, sank from a 1.6 million to a 1.2 million units per year level during the first quarter.

Then what accounted for the "upsurge in GNP"? Parenthetically, GNP is a concept that indiscriminately lumps together industrial output, like steel production, with the revenue from gambling casinos, real estate speculation, currency arbitrage, and useless services.

On top of this, the Commerce

Department has exerted itself remarkably to pump up the size of GNP. With a sleight of hand that would make any three-card monte operator jealous, Commerce did the following: it artificially understated the rate of inflation, and thus, by the same means, overstated the GNP.

This is how they did it. First, in calculating inflation, the Commerce Department can use either a fixed-weighted basket of industrial and consumer goods, whose prices rose 9.9 percent in the first quarter, or a "variable weighted basket."

Second, the lowered consumption of energy by the economy, and consumers' substitution of hamburger for more expensive and inflation-prone steak—both of which occurred in the first quarter—changes the market basket on which GNP is based to a lower level of price inflation. By this second method, inflation was only 7.8 percent in the first quarter. By adopting this fraudulent second method, the Commerce Department is saying that a lower level of consumption and energy "decoupling" is a positive development. Extend this reasoning and a population whose living standard is based on bread and water would experience remarkably little inflation.

This contrivance understated the inflation rate by 2.1 percent and artificially raised the GNP by 2.1 percent or one-third of the total 6.5 percent GNP "upsurge."

- In the first quarter, the auto industry applied a heavy two-month rebate program on which auto dealers *lost* money. Nonetheless, because of the rebates, autos sold at a 10 million units plus level, and auto sales rose for the quarter to a \$105.2 billion annualized rate from \$94.6 billion in the fourth quarter of last year. The sales were in large part "borrowed" from the second quarter. When the rebate program ended in April, sales fell to 5.5 million units. The auto sales combined with the feeder production of steel and rubber comprised 1.5 percent of the GNP, and thus, with the inflation scam, accounted for 3.6 percentage points or over half the 6.5 percent GNP "upsurge."

- In the first quarter, rents rose by \$10.6 billion, faster than the rate of inflation. This was one-ninth of the \$96.2 billion increase in the first quarter GNP level to \$2.835 trillion. This helped add to the GNP growth!

- In the area of business spending, the increase from fourth quarter last year to first quarter 1981 was \$12.6 billion, or 4.2 percent. But of that, "soft" purchases included \$500 million for the purchase of computers; \$1.1 billion for the purchase of company cars, and \$2.1 billion for the construction of office buildings, part of the real estate boom. When this \$3.8 billion is deducted, the increase in plant and equipment spending was only \$8.8 billion. After correcting for inflation, the increase in capital spending was only 1.5 percent.

When all is said and done, the GNP boom is a fraud. If you still believe in it, write to me, and I will send you a prospectus with a good buy on the Brooklyn Bridge.