Third quarter GNP results: more signs of depression

by Chris White

Third quarter results for the economy, released by the Commerce Department, highlight once again the absurdity of the government's Gross National Product accounting system. Overall, Secretary Baldrige reported, the GNP grew by 2.4%. The story behind this reported increase is raising knowing eyebrows among some of Wall Street's leading "authorities."

Among those types are some who argue that the third quarter results are further evidence portending a slide into recession by the spring of next year. On the contrary, the results just issued from Baldrige's Commerce Department, are further evidence that the U.S. economy has been, and is, sliding ever deeper into the trough of economic depression.

Consumer debt

In summary, three quarters of the total reported increase in the GNP can be accounted for by consumers going into debt to finance the purchase of automobiles, sold out of inventory, rather than current production, under manufacturers' reduced interest rate incentive programs. The largest of the producers, General Motors, ran up a loss in the quarter of about $330 million as a direct result of the inventory-clearing incentive sales. The loss is being papered over by borrowing, to the tune of about $12 billion, against securitized instruments of GM Acceptance Corporation. Meanwhile GM has announced plans to shut down a number of production facilities in the state of Michigan early next year, reorganize its subsidiary in Australia, and pull out of South Africa. Ford maintained its earnings in the black, by selling off its non-automotive assets.

The increase of outstanding debt to purchase out of stockpiled inventory, combined with the further phase-out of production facilities, is thus what characterizes the Commerce Department's announcement that the economy *grew* at a 2.4% annual rate over the third quarter of the year.

The official pundits outside the administration, like Lawrence Chimerine, from Chase Econometrics, or the Wharton School's forecasting unit, speak of a "sluggish," or "do nothing" economy. Baldrige, and his buddies inside the administration, had they any shame left, ought to be red-faced with embarrassment. Their announced third-quarter results complete the discrediting of the forecast which the administration has been working from all year. To meet their projected 3.4% growth rate for the year, the Commerce Department's statisticians will have to turn in results showing 6% annual growth at least for the fourth quarter. That might even be too much for the likes of Baldrige and his friends.

This is all total nonsense, of course, and it must be assumed that those, like Baldrige, whose function within government dictates the part they play in such charades, know that it is all nonsense, too. GNP accounting methods calculate a net so-called value added for the economy as a whole, by summing the difference in value between accumulated sales and purchase transactions. In this approach to national income accounting, liabilities are actually treated as income, on the same footing as actual income. Thus, this time around, the expansion of debt to finance the sale of previous production out of inventories is accounted an increase in national wealth.

It doesn't take much to see that the people who organize economies on the basis of that kind of approach are incapable of coming up with any kind of useful conception of what national wealth is, and how it is produced. Nor does it take much to figure out that an economy which is run that way over any extended period of time is surely headed for certain disaster, at some not-too-distant point down the road.

That's what has happened to the United States. More than four-fifths of the total current dollar valuation of Gross National Product of over $4 trillion represents liabilities drawn against that part of the economy as a whole which is actually productive: agriculture, manufacture, mining, construction, and so forth.

But it is still worse. Beyond the current liabilities of overhead, there are the claims of one or another form of debt. Total debt outstanding in the United States, including the bankers' perversity known as off-balance sheet liabilities, is estimated at about $12 trillion. If an overall interest rate of about 12% is assumed for that total mass of debt, then this year the claims of interest will be almost twice the approximately $700 billion of investment and wages that is the investment input of the productive sector. The depression collapse the government is concealing with its GNP figures is also the principal cause of destabilization of bankrupt financial structures and institutions worldwide.

At the beginning of the year *EIR* forecast a collapse potential of between 15% and 25% relative to 1967 based market basket standards of output of producers' and consumers' physical goods. As results came in for primary sectors of industry in June and July, the mid-year 1985 to mid-year 1986 results conformed to the lower range of the collapse potentials *EIR* had identified at the beginning of the year.

Getting worse

Nothing has happened since then to change that estimate for the better. Much has happened to change it for the worse. The cited third-quarter results of the auto industry are exemplary. Beyond that, for two-thirds of the same quarter, the nation's largest steel producer, the former U.S. Steel Corporation, now known as USX, has been shut down in a lockout. LTV, one of the countries top steel producers, applied for Chapter XI bankruptcy protection. The USX lockout is to prepare the ground for what could conservatively be projected as a further 30% reduction of U.S. steelmaking capacity over the months ahead.

The auto industry, and its sources of supply, like the steel industry, is one of the major pillars of what the U.S. economy has become under Donald Regan's so-called economic recovery. Residential housing construction and defense are the two other major remaining supports for economic activity. The inventory pull-down under auto's financial incentive plans may well mark the beginning of the end of auto's such role. As GM's plant closure plans indicate, autos bought under the frenetic 2.9% financing binge are autos subtracted from upcoming production, and thus also from future sales. Housing construction has been in retreat since the early summer, and even with reduced interest rates for mortgage financing, is back at the levels of Volcker's heyday of usurious interest rates. Ten percent of the President's requested defense budget has been cut by Congress.

Performance over the year to date in these marker sectors of economic performance indicates that two interrelated kinds of limits are being encountered in the economy's present mode of functioning. On the one hand, the reduced cost of credit automobile incentive programs, and the collapse of new home construction and purchases, indicate that limits are being reached for the continued growth of consumer indebtedness. On the other hand, the continued collapse of internal production capacity indicates that limits are also being reached for the U.S. economy's continued ability to absorb the imported production of trading partners such as Japan, the Republic of Korea, Taiwan, Western Europe, and Ibero-America. The combination of the two will mean significant further reductions in internal U.S. household living standards, combined with a chain-reaction type spillover into the export-oriented economies of America's principal trading partners.

That which will arguably accelerate convergence on the limits of those features of the economy's functioning which have characterized Donald Regan's recovery since 1982-83, is the tax reform bill which the President has just signed into law. During the fourth quarter of 1986 many corporations will have to adjust their book results downward to take account of the retrospective elimination of the investment tax credit. For many corporations, and it is unclear exactly how many, the law specifies that the loss of the investment tax credit be taken in one go, in the accounting period which ends Dec. 31, and not be spread out over the year as a whole.

The loss of the investment tax credit was already a disaster. The accounting provisions that go with the loss will probably begin another shake-out in the remainder of American industry by the end of the year, and must be added to the foreseeable related consequences of the tax bill, such as the elimination of tax breaks on various classes of construction activity.

The President's rhetoric on signing the tax bill into law can safely be ignored, as reflecting political obsessions rather than reality. Otherwise, it is well known that the administration's prime concern over the past weeks of the summer and into fall has been how to avoid the outbreak of a financial crisis in the period immediately before the elections. James Baker at Treasury and Paul Volcker at the Federal Reserve have been deployed to arm-twist allies in Europe and Japan into accepting a package that would delay the moment of reckoning, once again into the spring of 1987.

However, the continued erosion of U.S. overall economic capabilities, indicated by what's behind the third-quarter GNP figures, emphasizes that while such efforts may well, for political reasons, succeed in the short run, over the longer time-frame, in the sense of months, not weeks, they are simply building up the potentials for a deeper crises to come. Unless that policy commitment is reversed, it is almost guaranteed that at some point in the upcoming future, one trigger or another will set off the collapse of the institutions associated with the bankrupt credit system. The fraud of GNP accounting methods has brought the world to that kind of pass.