

I hope this information is useful. Please let me know if I can be of further assistance.

Sincerely,  
Donald J. Winn  
Assistant to the Board

## LaRouche: Reply is as incompetent as Fed statistics

The following letter was made available to EIR by Mr. Ed Bradley.

Board of Governors of the Federal Reserve System  
Washington, DC 20551  
October 27, 1983

The Honorable Bill Gradison,  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Gradison:

Thank you for your letter of October 12 regarding an article from the *Executive Intelligence Review* transmitted to you by your constituent, Mr. Ed Bradley. The article is quite misleading and Mr. Bradley may be assured that the allegation that "for years, the Federal Reserve System's index of levels of industrial output in the U.S. economy has been substantially fraudulent" is incorrect. The industrial production index has been published for about 60 years and is very highly regarded by users in private industry, government, and academia. The methods used in compiling the index are widely understood by economists and statisticians and the techniques used are open to professional review.

Moreover, the particular data that are cited in *Executive Intelligence Review* do not substantiate the allegations made. To be sure, the authors include a table that compares Federal Reserve production indexes with various tabulations by trade associations. However, these are different measures; there are good reasons why our industrial production estimates differ from these trade association figures.

For one, our statistics make allowances for differences in the productive resources required in making highly processed goods versus those that are less processed. For instance, more production is embodied in a ton of stainless steel than in a ton of carbon steel and in a Cadillac than in a Chevette. Yet, these products are frequently lumped in a single category in trade statistics, simply under "steel" or "autos." The use of the unrefined trade data, as proposed, would in fact result in distorted production statistics.

In addition, it is not correct to infer production from shipments data alone, as is done in the article, since some production goes into inventory. Moreover, it is highly desirable to adjust raw data for the different number of working days per month, but the article fails to take account of this.

These are just some of the problems with the comparisons presented in the *Executive Intelligence Review* article, and we believe that the criticisms of the Federal Reserve's industrial production index are without substance.

In the above letter, the U.S. Federal Reserve was responding to *EIR's* documented charges that it has enormously inflated its Industrial Production Index to try to prove a "recovery" in the U.S. economy.

After receiving the *EIR* documentation of Fed Index fraud from Ohio Congressman Bill Gradison, who had forwarded it from a constituent, Fed official Donald Winn admitted in a written reply that indeed the Fed figures were significantly different from the actual output figures supplied by the industrial associations. But Winn argued nonetheless, that the Industrial Production Index is "highly regarded by users in private industry, government and academia."

Until now, all press inquiries about the Fed fraud have been met with refusal to comment, as Wall Street's *Weekly Bond Buyer* reported when it carried the fraud story Nov. 14.

Noted economist and *EIR* contributing editor Lyndon LaRouche observed, "The reply is as incompetent as the Fed figures."

Reached for comment, *EIR* staff economist Leif Johnson said, "Donald Winn is undoubtedly a lawyer. Any staff statistician would have responded by trying to find some error in *EIR's* calculation or asserting some proof that the index was in fact correct. But in his effort to explain the divergence between actual industry production figures and the Fed's faked index numbers, Winn came up with two examples which show precisely the opposite of what he intends."

Winn wrote, "More production is embodied in a ton of stainless steel than in a ton of carbon steel, more in a Cadillac than in a Chevette." Johnson responded that an industrial economist would know that stainless steel is less than two percent of steel output, incapable of significantly changing the value of the product mix. "He should also know that the industry produced generally cheaper grades of steel products in 1983 than in 1982, so that the value of shipments for the first six months of 1983 was \$23.1 billion compared to \$29.7 billion shipped in the first six months of 1982.

"The second is the more amusing example," said Johnson. "The Fed keeps inflating its auto output with a 'Quality Adjustment Factor' despite the fact that autos are getting smaller—and indeed embody less steel. In 1967 the industry produced 7.44 million [large] cars and the index stood at 100. In 1983 the industry will have produced about 6.8 million units (mostly small and medium sized) and the index will stand at about 120. Contrary to the implications of Winn's light-minded remark about Cadillacs and Chevettes, the Fed Index accounts 'more production' to the compact or sub-compact of today than to the full-sized car of 1967."

*EIR* economic researchers noted the following reactions to the Fed Index from industry and government economists and statisticians:

"Unreliable."

"A pack of lies."

"Unusable to us."

"Highly suspect and therefore useless."

"My members are very aware of the industry's figures and I never use the Fed index."

"I cannot figure out where they get their figures from."

"I have argued with them for years, but it must be political."

"They don't even have our industry in the right SIC [Standard Industrial Classification Code]."

As LaRouche wrote in the Sept. 11 item to which Winn was responding, "The faking of economic statistics in an effort to mislead the President of the United States on fundamental policy-decisions is a monstrous crime. At the least, the President has the right to fire the whole lot of those Fed and other bureaucrats responsible for cooking up this hoax."