

New GNP figures: What is growing?

by Chris White

U.S. Treasury Secretary Nicholas Brady spoke to an audience at Washington College in Easton, Maryland on Oct. 29. It wasn't clear whether the secretary's remarks were part of the administration's preparations for Halloween. He told his listeners, "In the first nine months of this year it [the economy] grew 1.5%. . . . That means very simply that the Gross National Product of the United States was 1.5% greater in 1990 than it was in 1989."

An aide to the Treasury secretary, Assistant Secretary Roger Bolton, later explained what Brady meant: The economy had been growing at a 1.5% rate, and was not in a recession.

Brady was speaking on the eve of the Commerce Department's release of its preliminary estimate of Gross National Product in the third quarter of 1990, the period from the beginning of July through the end of September. GNP grew during those three months by 1.8%, the Commerce Department claimed.

Recession? What recession?

The announcement was the occasion for a new chorus. Bush betook himself to the White House briefing room to tell reporters: "It is clear they were too pessimistic. The acceleration of the third quarter shows the economy has not been in a recession, as some have claimed." Michael Boskin, chairman of the Council of Economic Advisers, projected, "Our best guess is the economy will grow, although the next quarter or two will probably be somewhat weaker." And over at the Commerce Department, the official responsible for the numbers, Undersecretary for Economic Affairs Michael Darby, added: "This contradicts those who believe we are in a recession or are about to enter one. We expect the economy

to continue to expand at a modest pace for the remainder of the year and in 1991."

So, here is the United States, leading the world into the biggest financial and political upheaval of modern times, with its political leadership still blandly insisting, "everything is on course, steady as she goes."

Statistical fakery

The GNP numbers are notoriously subject to fakery, for political reasons. This time, the political reasons are particularly transparent. The numbers were issued on Tuesday, Oct. 30—one week before the mid-term elections. Whether anyone will believe what the government, from the President on down, continues to insist, is another matter entirely.

The political fakery to which the data are subject, is one level of incompetence to be taken into account, but there is another, more significant one. On the first level of fraud, the numbers purport to represent the net of all sales transactions in the economy. For example, oil which is purchased abroad, at say \$40 per barrel, and sold internally at \$45 per barrel, has a \$5 impact on the GNP. But the GNP numbers, as compiled, are something completely different.

The core of the GNP series is the approximately three-fifths of the total—more than \$3 trillion worth of transactions—which are sorted under the heading of "personal expenditure." The whole series will, more or less, follow the path of this, its largest constituent, which encompasses more than half of the transactions accounted for. However, this chunk of the whole has relatively little to do with any sales transaction at all. It is actually derived, by a process of statistical extrapolation, from the Bureau of Labor Statistics (BLS) sample surveying of employment. Total employment is ex-

trapolated from the sample. Wage and salary levels are imputed from the extrapolations of the level of employment. Personal expenditure is then estimated from the estimated wages and salaries which are based on the extrapolated employment numbers.

As became clear with the official revisions of the GNP numbers for the second quarter, released at the end of August, the BLS keeps at least two series on employment—one significantly higher than the other. Numbers published are adjusted by choice of originating series, to produce the results required.

So, this time we had GNP growth of 1.8%, compared with 0.4% for the second quarter, led by a more than \$23 billion surge in personal expenditure. The second quarter numbers were inflated by using the larger employment estimate rather than the smaller. Bearing in mind that the composition of the numbers bears little or no relation to events that are actually taking place in the real world, but more to the political demand for “credible” or “realistic” data, it’s not so difficult to conceive how such a series can be so out of line with the economic catastrophe which is otherwise so apparent.

Thus for example, while the GNP, spurred by consumers’ personal expenditure, grew, the Conference Board reports a 24% drop in its index of “consumer confidence.” The index fell from 85.6 to 61.3, the biggest drop since it began measuring in 1970. The index, which reflects the activity of corporate purchasing managers, shows a drop of 1%, to 43.3%, the lowest level since 1982, and a drop which reflects a reduction in actual GNP. For this index, 50% is the dividing line between growth and no-growth.

Construction spending has just registered its sharpest decline since January 1982. Sales of new single-family housing units registered their ninth straight month of decline in the month of September, and are at the lowest level since September 1982. A representative of K-Mart, one of the retail chains where personal expenditure might be expected to take place, called the GNP numbers “a mathematical fluke.” Someone over at J.C. Penny simply said, “I’m surprised.” Retail sales collapsed over the summer.

This type of report reflects the reality: The economy is and has been, not in a recession, but in a depression. On that score, it is irrelevant what the government decides to make the numbers say.

Cancerous ‘growth’ takes over

There is another level of incompetence in the composition of the numbers which is more deadly and corrosive. This leads to the kind of circumstance which might have been found in a badly run hospital, where for example, the growth of cancerous tissue might have been presumed to be an indicator of health. Such a hospital would eventually be hard put to justify the results of its treatments for cancer.

The Gross National Product does not distinguish between

healthy tissue and cancer. Take the employment series which the government uses for its GNP numbers. Divide the employed labor force into two broad categories, each to be associated with a grouping of consumers. The one category is made up of those workers who are involved in physical production, in transportation, and in services vital to the functioning of the economy, such as health, education, and scientific research. The other category is made up of workers who are involved in activities such as administration or sales, or who are unemployed, or involved in criminal types of rackets. While each individual member of such broad divisions, because he or she is human, is potentially capable of making a productive contribution to society as a whole, only the members of the first category are permitted to do so.

At the end of World War II, the U.S. economy maintained rather more than 50% of the employed in productive activity—higher still if teachers and health workers and other productive ancillaries are included. Now, less than 20% of the total employed labor force is involved in productive activity, or in the ancillary activities which support production.

Compare one dollar of Gross National Product then and now. It was less than 50% overhead at the end of the war, against more than 80% overhead now; for only the wealth producers contribute to the production of wealth, by increasing the productive powers of labor. Let us say, then, that out of the body of the whole, roughly less than 20% consists of healthy tissue, and more than 80% is unhealthy tissue or cancerous growth.

Then, compare that division with the growth of debt and speculation, and with the interest claims of debt and speculation. Overhead ought to be subtracted from GNP, as did the direct and indirect feedthrough effects of debt and debt service, the growth of both representing parasitism and cancer, against healthy tissue. Since the combination of debt and speculation grew to more than \$22 trillion over the course of the 1980s, claiming in interest and service more in each quarter than is actually produced in a year, it can readily be shown that the part of GNP which does represent productive activity is on the verge of being taken over by the cancer.

This is what Brady and company call “growth.” But, also in the domain of total insanity, it is likewise called growth by most of those who say that we have already entered a recession.

Brady and company have lied, as part of a commitment to maintain appearances, through crisis management, until after the Nov. 6 mid-term elections. And then what? The banking system is on the verge of collapse. Municipal and state governments are going over the brink. Whole industries—auto, airlines, and construction—are being destroyed. People are increasingly unable to find the means they need to survive. Brady and the other liars will surely be among the first to carry the can for the devastation that they presided over in the name of continuing “growth.” Sanity would dictate that their GNP system be junked along with them.