Behind the falsification of US economic data

By Peter Daniels
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In recent years, it has become increasingly clear to those who follow US economic statistics that there is something dubious about the numbers released by official government agencies and used to guide many aspects of social and public policy.

The details and chronology of the corruption of economic data are presented in a new book by Kevin Phillips, the political commentator and former Republican Party adviser who has become something of a muckraking critic of the "excesses" that he helped set in motion. The book is entitled, Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism Phillips summarizes some of his main conclusions in an article in the current issue of Harper's Magazine.

The article focuses primarily on three measures: the monthly Consumer Price Index (CPI), the quarterly Gross Domestic Product (GDP), and the monthly figure for the unemployment rate. Phillips convincingly demonstrates that the real unemployment rate in the United States is between 9 and 12 percent, not the 5 percent or less that is officially claimed. The real rate of inflation is not 2 or 3 percent, but instead, between 7 and 10 percent. And real economic growth has been about 1 percent, not the 3-4 percent officially claimed during the most recent Wall Street and housing bubble that has burst.

Phillips's background makes his statements all the more significant. He was a prime strategist for Nixon's 1968 presidential campaign and one of the main architects of the notorious "Southern strategy," through which the old Republican Party of Wall Street and Main Street refashioned itself with a right-wing populist appeal, stoking racial antagonisms while above all capitalizing on the bankruptcy of American liberalism to shift the political spectrum sharply to the right.

The corruption of official statistics is not the work of one administration, and Phillips traces it back nearly 50 years. The current occupant of the White House has, in fact, been somewhat less active on this front than his predecessors.

Soon after John F. Kennedy took office in 1961, Phillips points out, he appointed a committee to recommend possible changes in the measurement of official joblessness. What soon followed was the use of the category of "discouraged workers" to exclude all those who had stopped looking for jobs because they weren't available. Many who had lost employment in basic industry, in a trend that was just beginning to pick up steam with automation and the rise of global competitors in such industries as steel and auto production, were no longer counted as unemployed.

During the administration of Lyndon Johnson, the federal government began using the concept of a "unified budget" that combined Social Security with other expenditures, thus allowing the current Social Security surplus to disguise growing budget deficits.

As Phillips reports, Nixon tried to tackle the “problem” of statistics in typically Nixonian fashion: he actually proposed that the Labor Department simply publish whichever was the lower figure between seasonally adjusted and unadjusted unemployment numbers. This was apparently deemed too brazen an attempt at manipulation and was never implemented.

Under Nixon’s Federal Reserve chairman, Arthur Burns, however, the concept of “core inflation” was devised. This became the means of excluding certain areas like food and energy, on grounds of the “volatility” of these sectors. The suggestion was that these prices jumped and then sometimes fell, so that it was best to remove them from the prices surveyed. In fact, food and energy together accounted for an enormous portion of spending for most sections of the working class and, as Phillips also explains, these two sectors are “now verging on another 1970s-style price surge.” As of last January, Phillips writes, the price of imported goods had increased 13.7 percent compared with a year earlier, the biggest jump since these statistics began in 1982. Gasoline prices, meanwhile, have soared by more than 30 percent since just the beginning of this year.

The Reagan administration addressed itself to the pesky problem of housing in the inflation index. An “Owner Equivalent Rent” measurement was dreamed up for the purpose of artificially lowering the cost of housing—from a purely abstract statistical standpoint. Under Reagan, Phillips also points out, the armed forces began to be included in the labor force and among the employed, thus reducing the unemployment rate, even though these same members of the military would in many cases have no employment in civilian life.

George H.W. Bush and his Council of Economic Advisers proposed the recalculation of inflation statistics to give greater weight to the service and retail sectors and, again, reduce the official rate of inflation.

This change was actually implemented during the Clinton administration. Clinton also carried out other changes, including a reduction in the monthly household sampling from 60,000 to 50,000, a decrease that was concentrated in the inner cities and had the effect of reducing official jobless figures among African-Americans.

The Clinton years were an especially active time for imaginative tinkering with economic data. Three other “adjustments” in the Consumer Price Index were implemented under the Democratic administration: product substitution, geometric weighting, and hedonic adjustment.

Product substitution means that, for example, if steak gets too expensive, individuals substitute hamburger. Steak is simply removed from the typical food basket even though it has been used in the past to track price changes.

Geometric weighting is defined as lower weighting in the price index for those goods and services that are rising most rapidly in cost, on the assumption that they are consumed in lower quantities. This may of course be true, but the aim is to reduce the inflation figure, covering up the fact that some items are no longer affordable for tens of millions of people.

Phillips is particularly scathing about “hedonic adjustment,” also implemented during Clinton’s presidency. In this concept, the supposedly improved quality of some products and services is translated into a reduction in their effective cost. This is another obvious attempt to reduce official inflation. “Reversing the theory, however, the declining quality of goods or services should adjust effective prices and therefore add to inflation,” Phillips writes, “but that side of the equation generally goes missing.”

Phillips explains that every single one of the statistical revisions implemented over the past two generations have become permanent. Once initiated by a Democratic or Republican administration, they were carried over to the Bureau of Labor Statistics and other agencies in bipartisan fashion, no matter who the current occupant of the White House was.

To all of the above should be added one other element, which Phillips does not discuss, perhaps because it does not stem from the economic data itself. That is the explosive growth of the US prison population, which has soared over the last 30 years and now stands at 2.3 million, compared to an overall labor force of 153.1 million. This situation, the outcome of the misnamed war on drugs and the overall bipartisan law-and-order hysteria, keeps the official unemployment rate artificially low. Between the army and the prison system, official joblessness is reduced by perhaps 2 percent.

Phillips points out that all of the changes in economic recordkeeping over the past 50 years were not the result of some grand conspiracy. They certainly did not stem from a master plan hatched in the 1960s or 1970s, of course. This does not mean, however, that there is no logic to these developments, no broader economic and political source.

The corruption of economic data corresponds to deepening contradictions of US and world capitalism. These contradictions impelled the bourgeoisie to abandon a general policy of social reform that had lasted for more than three decades, and to embark on what has been termed a “one-sided class war,” in which the services of the pro-capitalist trade unions were utilized to carry out an unprecedented transfer of wealth from the working population to a tiny ruling elite.

There was a step-by-step logic to all of the measures that were taken to misrepresent basic economic statistics. Big business could not have carried out the policies it required without falsifying economic reality. Even though daily life became increasingly difficult for huge sections of the working class, it was necessary to divide and disorient, to intimidate millions with the claim that “there is no alternative,” and that what Reagan referred to as the magic of the marketplace was creating a veritable golden age from which everyone would benefit.

Some of the consequences of the falsification of data can be translated into dollars and cents. If the CPI had not been systematically understated, Phillips explains, Social Security checks would be 70 percent greater than they currently are.

Beyond the direct impact on Social Security and other government expenditures, an artificially low unemployment rate and poverty rate (officially reported as 12 percent, but in fact at least twice that figure) helped the financial and political establishment to reduce living standards and social conditions. How many countless think tank reports and magazine articles, trumpeted by Democratic and Republican politicians and academic figures alike, took as the gospel truth that the “Anglo-American” model of capitalism, compared to its more regulated rivals in France and Germany, meant lower unemployment? This and similar claims were based largely on lies.

American capitalism once prided itself on the accuracy of its economic statistics. An alphabet soup of regulatory agencies carried out this work. During the decades of the Cold

War, the spokesmen for big business always pointed to the mockery of economic data produced by the Stalinist regimes as one more proof of the superiority of the profit system. Today, however, the growing crisis is producing a historic reversal. Where American capitalism once required accurate data, today it requires lies.

Phillips's revelations share something with those of former White House press secretary Scott McClellan. They are not exactly news, but they represent a kind of barometer of the growing crisis that is forcing its way into the open within official and semi-official circles.