an artificial inflation of the consumer durable sector due primarily to an easing of interest rates on 5 year auto loans and depletion of worker's savings. There had also been an increase in the consumer light goods industry -- due to Christmas season buying. Industrialist meanwhile looking for any sign that a recovery was indeed here, seized upon these figures. With the expectation that these short-lived trends would continue into the future, production schedules were stepped up.

The December inventory figures released by the Commerce Department yesterday tend to confirm that such psychology was in operation. Retail inventories dropped by $758 million, re lecting Christmas sales. In expectation that such sales would reflect themselves in renewed orders from wholesalers and manufacturers to replenish inventories, the latter increased production. However, the retailers themselves did not take the December rise in retail sales all that seriously. They did not step up orders from wholesalers, the wholesalers proceeded to slash orders from manufacturers. Thus for the second straight month, new orders for manufacturers fell; this in turn reflected a rise in wholesale and manufacturing inventories by $117 million dollars and $115 million, respectively.

While and industry-by-industry breakdown for January industrial production is not yet available, it is likely that the sharpest increases came in the auto and auto related sectors such as steel, aluminum, rubber, and glass. In December, orders for transportation equipment including automobiles had risen by over 5 per cent (without this increase durable good orders for December would have fallen by a whopping 4.4 per cent). Significantly, these orders, mostly from car dealers, were made in anticipation of a continued rise in auto sales, as January auto sales, however, fell by 4.2 per cent. With industrial production in the light goods sector held up by Christmas sales and its expected continuation and the durable goods sector held up almost entirely by auto sales, the .3 per cent drop in retail sales in January shows what's in store for production.

Corporations, of course, have the option to continue their flight into fantasy and to produce for inventory rather than sales for a few more months -- at the expense of their own internal liquidity.

THE UNEMPLOYMENT HOAX

Economists, however, will insist that it is wrong to make such dismal forcasts on the basis of a one month's drop in retail sales.

The head of the President's Council of Economic Advisors told a Feb. 10 National Press Club breakfast that he is looking for "increased consumer demand" to give stimulus to the economy. Greenspan, among others, base such expectations on a rise in personal income; and they base that rise in personal income on the reported drop in unemployment rate. A major flaw, but by no means the only flaw, in this reasoning is the reliance of such "economists" on the Labor Department fraudulent unemployment statistics.

The unemployment rate for January merely illustrates a pattern that has unfolded since the early summer months: the drop in the rate can be explained entirely in terms of the contraction of the workforce. Figures released by the Labor Department on Feb. 6 show a drop in the unemployment rate from 8.3 per cent in December to 7.8 per cent in January. This drop is a complete fraud manufactured by several fairly obvious accounting tricks. First, through the use of a "seasonal adjustment," the Labor Department created 1.7 million non-existent employed workers. While the Labor Department reported that the actual number of employed workers fell from 85.5 million in December 1975 to 86.2 million in January, it then seasonally adjusted the January figure to 86.2 million -- the number it used to calculate the official unemployment rate.

Seasonal adjustment, however, is justified only to compensate for month to month factors, such as summer vacations, the Christmas layoffs and post-Christmas season, etc. It is totally meaningless and a pure falsification to apply the seasonal adjustment factor when employment is constantly falling under current depression conditions.

Moreover, an examination of the Department of Labor statistics themselves also show that the entire drop in the unemployment rate is directly attributable to the contraction of the workforce. For example, between September 1975 and January 1976, the Labor Department reduced the rolls of the unemployed by simply writing 700,000 workers out of existence. While the male population 20 years and over increased by 400,000 over that period, the Labor Department claims that the labor force for this group declined by 300,000. Where did these people go? They became "discouraged" and stopped looking for work the Labor Department claims and could thus be written out of the labor force.

Mere bureacratic honesty would eliminate these two ruses, and bring the official unemployment rate up to 9.5 per cent.

However, there are concrete advantages to maintaining the fraudulently low unemployment figures. According to Federal legislation passed last year, state unemployment funds are compensated for extended benefits programs by the federal government according to the Labor Department unemployment figures on state unemployment. The low unemployment figures will therefore, quickly result in numbers of workers being removed from the unemployment rolls.

It is not surprising that with adjustments for inflation, personal disposable income actually fell during the second half of 1975. If consumer sales rise in the months ahead - which is unlikely -- it can only be at the expense of already depleted workers savings.

NO COMFORT IN SIGHT

Every other potential source of stimulus to the economy is in similar desperate straights. Capital spending is down 10 per cent in real terms. November figures for construction contract awards for industrial plants show a 25 per cent drop indicates that this will continue in the months ahead.