Domestic Credit by Lydia Schulman

The fraud in the unemployment statistics

Behind the government's "good news" about employment is bad news that Volcker is continuing to squeeze industry.

The latest set of unemployment statistics released by the U.S. Department of Labor and which showed a decline in the unemployment rate from 6 percent in October to 5.8 percent last month, are reason enough to warrant a complete overhaul in the government's methods of collecting and analysing economic data. The November statistics were a fraud—for three different reasons.

First, the Bureau of Labor Statistics (BLS) conducted its "scientific" survey of the jobless rate during the Nov. 12-16 period "missing" at least 50,000 layoffs in the steel and auto industries which were announced at the end of the month.

Second, the statistical fraud is being maintained to provide a rationale for more credit tightening and austerity in the economy. An editorial in the Dec. 9 *Washington Post* noted glibly that the numbers were phony, but continued: "The November numbers are very good luck ... The President has the opportunity to speak to the subjects of inflation and energy without that distraction [of a falling unemployment rate]."

The third aspect of the fraud involves the presumably correct report of a 353,000 seasonally adjusted rise in the number of employed workers in November, most of which occurred in the service sector, that more than offset the rise in unemployment among blue-collar workers in the auto and other durable goods industries.

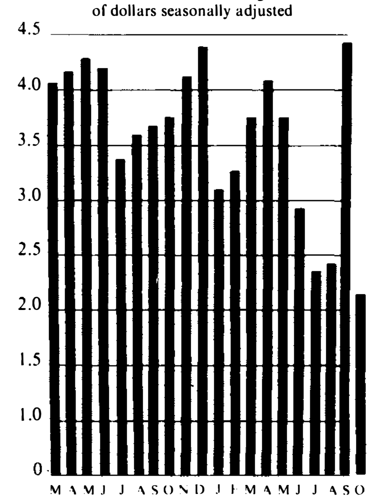
That the government's statistics do not differentiate between blue-collar and service sector employment makes the unemployment rate a useless economic indicator. It does indeed make a difference for future trends in the economy whether employment is in steel production or "paper pushing" activities.

Federal Reserve Chairman Paul Volcker's "tight money" policy has discriminated against the goods-producing industries and promoted the shift of investment into overhead or outright speculative activities. The current record high level of interest rates has ruled out all investment but purchases of high-yielding money market instruments, raw materials speculation, and the like.

The just-released Producer Price Index for November reveals the process at work in the economy as a result of the Volcker policy. The index, which reflects wholesale price movements in the economy, jumped 1.3 percent last month. Wholesale price trends for 1979 to date assure that retail price inflation for the year will hit at least 15 percent, the highest rate since the postwar inflation of 1946. This jump was largely attributed to a surge in food prices. However, on closer inspection, it turns out that the 2.6 percent jump in food prices consisted of a .9 percent "seasonal adjustment" factor that does not make the increase indicative of real trends.

Consumer Installment Credit

Net change in total consumer installment credit outstanding, billions of dollars seasonally adjusted



Food prices are rising. But the real motor of inflation is in the energy and raw materials sectors. Energy price rises of 62.7 percent over the past 12 months are well-known, but are usually attribuOted to "factors beyond our control." But what of the surge in raw materials prices? The Volcker policy is simultaneously promoting speculation in raw materials that are consumed in industrial production—resulting in price increases that get passed on to the consumer. In November, nonfood, nonenergy crude materials prices rose by an adjusted 3.9 percent.

Recent government statistics show equally who is getting hit the hardest by the Volcker credit crunch. The net increase in consumer installment credit fell off precipitously in October, as banks selectively reviewed their loans to the consumer-sector of the economy. And a recent study by the F. W. Dodge unit of McGraw Hill projects an 8 percent decline in volume terms for all building contracts (commercial and industrial construction) in 1980.