

Federal Reserve fraud Texas style

by Leif Johnson

EIR's revelation that the Federal Reserve Board's Index of Industrial Production is systematically exaggerating U.S. manufacturing output while the Bureau of Labor Statistics systematically underestimates inflation, has caused concern among trade associations, businessmen, and trade unionists. It turns out that the Washington Fed could learn a few lessons from the Dallas Federal Reserve Board, which publishes its own Texas Industrial Production Index (TIPI).

This year, using the same base year, 1967 = 100, and using the same output data, the Dallas Fed suddenly began reporting much higher values for their TIPI. The Dallas Fed had revamped their TIPI upwards by nearly 75 percent between 1982 and 1983. In December 1982, the overall index stood at 154.5 (1967 = 100). In January 1983, it stood at 268.6 (1967 = 100), an increase of 73.9 percent.

When *EIR* discovered this remarkable transformation in the index values, we called the Dallas Fed for an explanation. Frank Berger, one of the institution's economists, reported that many inquiries had been made, and he had been charged with fielding them.

The reason for the change was simple: the Dallas Fed had decided to revise its old index because it thought that the old index was not high enough. A consultant was hired from Southern Methodist University to use the same data base (kilowatt hours and manhours consumed in Texas industries) to create a new index.

How could such a radical change in the index be justified by the same data base, *EIR* demanded. It all depends on the productivity factors used, Berger explained. *The consultants considered that the productivity figures used in the old TIPI were too low, so they increased them. They changed to productivity data (product per manhour and kilowatt hour) taken from 1967-1972 as a base to 1970-73 as a base which produced the new TIPI.*

"You're not the first person to call and complain about the figures. Many think the new series is too high. We are in the process of making another index altogether that will be lower than the new series but will preserve all the business cycle curves."

EIR: "But how can you arbitrarily make such large changes?"

Berger: "You see, you can create an index any way you want. If it seems reasonable, you go with it."

EIR: "Well can you send me the manual that you have used to create the new series?"

Berger: "No, we are in the process of the developing the new series so we can't send anything. But I don't think the document is public, anyway. You can call the Atlanta Fed, they also have an industrial production index."

Gene Sullivan of the statistical sector of the Atlanta Fed was quite willing to send a booklet explaining the industrial index for the Sixth Fed District (Atlanta), but explained that the index had been discontinued several years back.

"It just didn't seem to work. We began the index in 1971 using kilowatt hours as the basic measure of actual production, but our procedure was different from that of the Washington Fed.

"We discontinued the series because the productivity factors never seemed to work. Maybe the impact of energy conservation and new technology distorted the index."

Asked how he knew the index wasn't working, Sullivan replied, "Well, our values always came in under those of the Washington Fed."

Transforming the Industrial Production Index

	Old TIPI*	New TIPI	New TIPI divided by old TIPI
Base Year	1967	1967	
	100.0	100.0	1.0
Month	1979	1979	1979
March	149.0	235.9	1.58
April	148.9	236.9	1.59
May	149.2	238.3	1.60
	1981	1981	1981
March	155.6	273.9	1.76
April	155.6	277.9	1.79
May	155.4	283.6	1.82
	1982	1982	1982
March	160.8	283.1	1.76
April	160.8	282.9	1.76
May	156.9	279.9	1.78

Both the old and the new TIPI are constructed by the Dallas Federal Reserve Board. Both series use 1967 = 100 as the base year. Not only are the values divergent, they are becoming more so, as the month-to-month ratio shows.

*Texas Industrial Production Index
