

The gross fraud of Gross National Product

by Dennis Roland and David Goldman

When the public press makes chopmeat out of the latest Gross National Product figures release, it's hard not to agree. However, the attack on the credibility of the government's first-quarter GNP estimate, released May 20, has restricted itself to the narrowest features of what is, otherwise, a monstrous hoax.

Numerous economists have pointed out that more than the entire reported growth in GNP during the first quarter resulted from inventory accumulation. Where inventories fell by \$6.3 billion during the last quarter of 1984, they rose by \$33 billion during the first quarter, creating a net swing of \$39.3 billion. But the increase in GNP as a whole was only \$32.7 billion.

As various economists pointed out to the financial press, falling retail sales during the first quarter make clear that the rise in inventories was involuntary, reflecting economic weakness, not strength. Uniformly, the economists predicted a compensating decline during the second quarter.

Little noted was the report that non-residential investment reportedly fell from \$486.5 to \$469.8, or a 3.4% annual rate of decline.

Since industrial production declined during February and March, the credibility of a substantial increase in GNP over the period was strained. Every physical index of economic activity, including such basics as railroad and highway freight, electricity consumption, and so forth, was stable or declined during the first quarter.

However, the issue is not merely the hash in the first-quarter data.

The GNP numbers, such as they are, reflect a declining economy. As it is, the government's data are totally unreliable, where not outright fraudulent. *EIR* has, from time to time, dissected the government's data, showing staggering discrepancies; nowhere is this more outrageous than in the case of the inflation data, where so-called quality adjustment factors have produced a 100% divergence between the inflation indices and actual prices paid by consumers during the period since 1967.

However, the broadest failure in Gross National Product is traceable not to the manipulation or incompetence of federal statistical agencies, but, instead, to the

- 7) Interest
- 8) Postal service
- 9) Economic development
- 10) Labor training
- 11) Civilian safety
- 12) Other unallocable

We counted as waste two categories of expenditure. The first is unemployment and related income-support, which reflect the waste of citizens' activity. The second is the excess of interest payments over and above the 1963 level, or 3% of GNP. This is an arbitrary but sound estimate of the volume of usury in the national economy.

How to damage future growth

To show the actual content of GNP, we present these basic categories as a proportion of total GNP for the years 1963, 1967, 1971, 1977, 1978, 1979, 1980, 1981, 1982, 1983, and 1984. The simple use of proportionalities permits us to use current (undeflated) dollars only, eliminating concern over the enormous errors in the inflation data.

What we find is a drastic reduction in the physical-goods component of GNP, in favor of a drastic increase of overhead and waste categories. To the extent that GNP growth is wasteful, or merely adds to excessive corporate or governmental bureaucracy, an increase in GNP—quite apart from side-issues such as the counting of inventories—reflects economic decline rather than growth.

The productive sector's output (in dollars over years stated) went from 43.5% of GNP in 1963, to 37.1% in 1983, to 37.2% in 1984. In other words, the production-content of GNP fell by 6.1% in productive output (**Figure 1**).

Productive costs (graph not shown) went from 19.4% in 1963, to 22.2% in 1981, to 18.8% in 1983, to 20.3% in 1984. The primary cause of the increase in the cost of production was the rise in net imports.

Economic overhead rose from 15.6% to 20% (**Figure 2**).

Meanwhile, administrative overhead rose much faster, i.e., from 56.7% of GNP to 67.9% of GNP, i.e., an increase of 11.2% (**Figure 3**).

Waste was also a growth category, from 2.8% of GNP to 12.3% of GNP (**Figures 4**).

Productive sector wages fell from 13.9% of GNP to 8.9% of GNP (**Figure 5**).

In sum, the various non-productive sectors increased their share of GNP by 24.1%, while the productive sectors of GNP fell by 10.2%.

The increase in government's administrative overhead occurred while defense spending's share of GNP continued to decline. Defense fell from a high in 1967 of 9% of GNP, to a low in 1978 of 4.8%. It then rose to 6.3% of GNP in 1983 and 1984, still far below its 1967 level.

In fact, the largest single component of the increase in government administrative overhead was debt service. This is also true for the private sector. Interest as a proportion of total GNP rose from 6.2% in 1963, to 13.7% in 1982, at

FIGURE 1
Production sectors: gross as a % of GNP

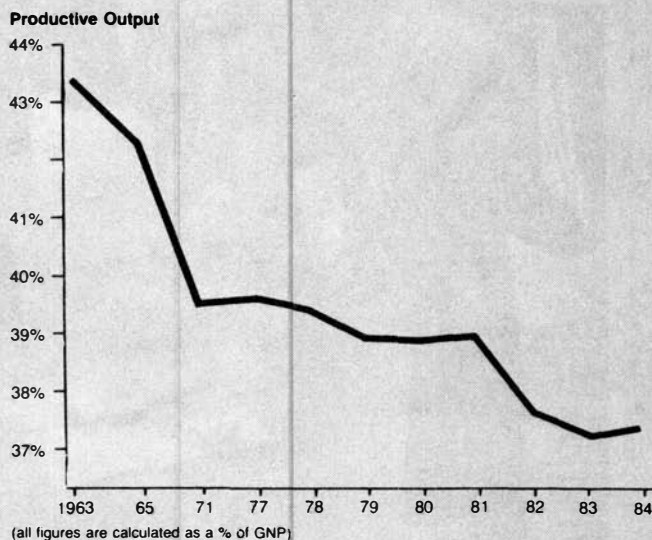
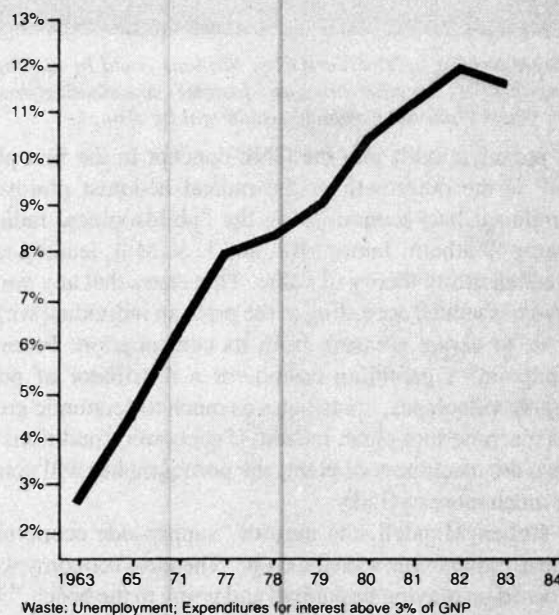


FIGURE 4
Waste as a % of GNP



which level it appears to have stabilized (**Figure 6**).

We have also not included in this analysis the so-called underground economy. By definition, this is not included in GNP, since it is based on unreported transactions. However, it is unquestionably the fastest growing sector of the economy. Narcotics traffic alone rose from about \$100 billion in

FIGURE 2
Economic overhead: science, R&D, health, education

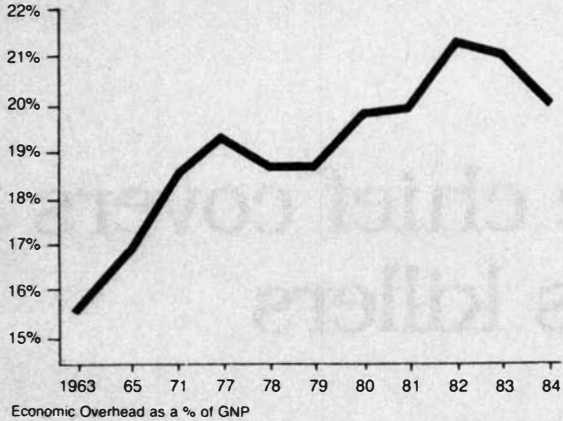


FIGURE 3
Administrative overhead as a % of GNP

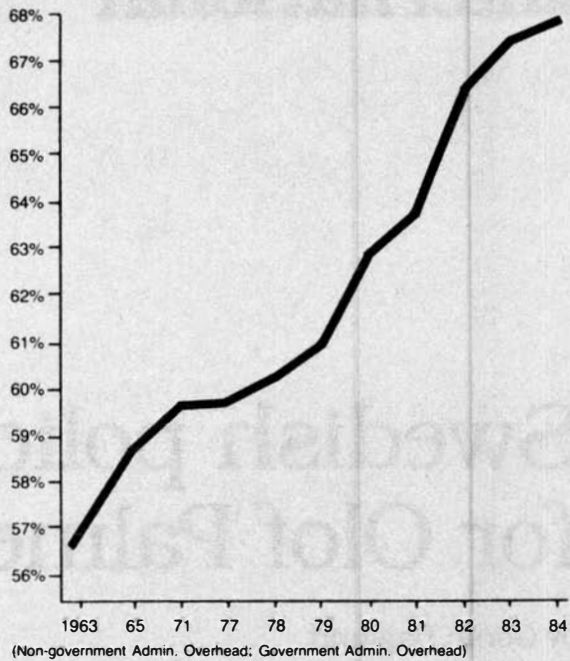


FIGURE 5
Productive sector wages

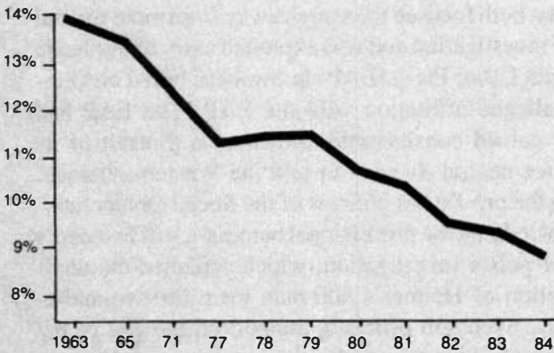
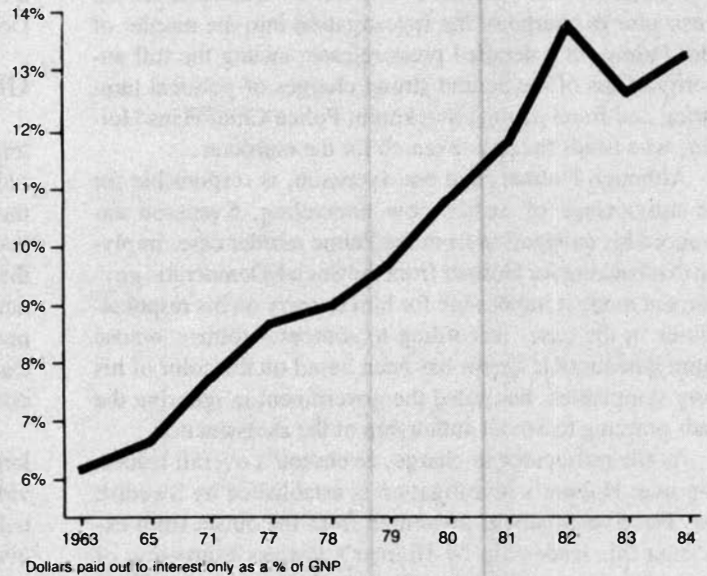


FIGURE 6
Expenditures of GNP to interest



1978 to about \$250 billion in 1986, i.e., much faster than the overall growth of GNP. A good rough guess is that the underground economy comprises \$500 billion in annual transactions, equal to roughly one-seventh of GNP. The proportion of waste in GNP would not be 12%, but 23%.

The 23% of waste—including interest, rent, narcotics,

and other costs which bear neither directly nor indirectly on productive activity—exceeds the 20% of direct production costs. In other words, the United States economy spends more per annum for things that damage our future capacity to grow, than for things that increase our future capacity to grow.