The BLS market basket and the new depression

by Chris White

The Bureau of Labor Statistics, at a cost of $45 million, has just completed a revision of the market basket of household consumption, used to compile the government's monthly Consumer Price Index. This is the first revision of the components of the index since 1978, but it is the market basket of 1972-73 that has been overhauled.

The revision is of life-and-death significance for many Americans and their households. Thirty-eight million social security beneficiaries, 20 million food stamp recipients, 4 million workers covered by contracts with cost-of-living escalator clauses, and millions of federal retirees, depend on the index for changes in payments. Income tax brackets and the cost of school lunches for children are also affected by the revision of the government's index.

The CPI does not establish levels for consumption of goods and services by households, or what the government calls "consumer units." Rather, households are reviewed in light of their average composition, and the average number of employed workers comprising a so-called "census unit." The CPI looks at the average levels of money expenditure for the items that are taken to comprise the market basket. That's pretty much a fatal flaw in the $45 million the government spent to do the job, but even so, it dispels some of the prevailing illusions about what is supposed to have happened since Paul Volcker began his rampage against the U.S. economy in 1979. The BLS revision at least admits that the trend is downward.

Heading into depression

Contrary to the so-called "good news" that has been pumped out of government departments, pretty much on a monthly basis over the last years, this latest revision, inadequate though it might be, should give rise to some useful reflection. Though it is not said, openly, the revision provides a profile of an economy heading into a deepening depression.

Press commentary attributes the changes in household consumption expenditure profiles to changes in tastes. People now prefer to eat bananas rather than oranges, according to the *Washington Post,* and poultry rather than red meat like beef.

The criteria employed reflect reality to the extent they emphasize, first, that the size of the "consumer unit" has declined, from 2.8 people in 1978, down to 2.6 in 1986, and that, second, each household now has more earners, 1.4 compared to 1.3 in 1978. The smaller households are supported by more earners at a level 14% below that of 1978, according to the BLS.

These households are spending less for food and drink by nearly 22%. They are spending less, it is said, in money terms for their housing, but housing now accounts for 42.6% of the market basket, as opposed to 37.7% in 1978-79. Their spending on health care has dropped by over 30%, though it is said that health plan payments are not accounted for by the index. And their spending for transportation has dropped by more than 25%. In this case, spending on new vehicles has increased, while spending on used vehicles has collapsed by 75%.

It is to be noted that the period of revision, 1978-79 to 1986, covers the period from the implementation of Paul Volcker's high interest rate policy, through the last five years of the Reagan revolution, masterminded by Donald Regan and Paul Volcker.

The review of consumer expenditure is completely at odds with the everyday picture ground out through the administration's propaganda mills, of ever-increasing prosperity and employment opportunities, supported by the strongest surge of economic growth in the postwar period.

As said above, the picture still does not reflect the oppressive depression reality, which is grinding down families and households across the country. The money-expenditure measure of market basket standards is indicative. But, it is, as *EIR* has documented the case in its *Quarterly Economic Report* series, a fundamentally incompetent measure.

That means concretely that tens of millions of people will still be gypped out of what is rightfully theirs, even after this revision.

Declining physical composition

What is the level of physical goods output, both in regards to quantity and quality, that is purchased by the money expenditures of households? What is the level of physical goods output that is required to support the reproductive capacity of households, both with respect to consumption, and with respect to the maintenance of services, such as health and education, on which households depend? Such can be determined, to make it possible to see what the monetary expenditures measures may actually mean, if anything.

In 1985, *EIR* produced its own index which demonstrated that in terms of the cited physical goods parameters, the composition of the market baskets households spend their money on, had declined to about 64% of its 1967 level. The year 1967 was taken as representative of how the economy should function. It was the fag-end of the policy impetus for technological progress.

By 1985, the monetary expenditure to purchase that shrunken basket had increased 400% from the level that bought the market basket of 1967. It ought to be clear that if the "consumer unit's" expenditures were increased by the monetary margin that covered the difference between 1967 and 1985 levels, up to 544% of the 1967 level, that would not solve the problem. There would be nothing to buy with the so-called increase in income. On that basis, the BLS is underestimating the corrosive effects of inflation over the 20-year period by about 200%. For the BLS, 330 "consumer unit" dollars buys what $100 bought in 1967. Moreover, the agency does not even consider the 36% decline in actual household consumption, which was already proceeding apace when the 1972-73 revision of the CPI was accomplished.

Industry shutting down

EIR's 1985 review of the physical content of the consumer market basket, combined with a similar analysis of the market basket of producers' goods, provided the basis for the forecast made in early 1986 that the economy would ratchet downward during the course of 1986 by between 15 and 25% from the levels of consumption of 1967. The Bureau of Labor Statistics may have adjusted for what they consider the monetary side of the decline unleashed by Paul Volcker, in 1979, but the cited incompetence of their approach makes the revision completely meaningless relative to the collapse that was set into motion during the course of 1986.

In real, physical terms, that forecast warned that by now, household consumption would be heading for a level of 50%, and less, of what it was in 1967. The government, and others may not have caught up with it yet, but that did happen during the course of 1986. The projection was confirmed by the mid-year reports of basic industrial producers, steel and aluminum industries, along with construction. It was reconfirmed by the wave of layoffs and plant shutdowns that was implemented following the November elections. It has been reconfirmed by early results for January and February 1987.

January's 33% decline in automobile sales from the year before has been followed by a 22% decline in February. Durable goods shipments, exclusive of defense production, are down by almost 10%, the biggest single monthly drop since records were kept for this measure of the output of basic industry. The professional economists and their friends are still debating the question, whether or not, perhaps, the economy may or may not go into what they call "a recession" during the course of 1987. What fools they are! The proverbial bottom already did drop out.

So now the BLS does at least identify the reality that the economy has been going in a downward direction. Now they are pointing in the right direction, maybe others will cotton on, too. But meanwhile, the United States is effectively reduced, in terms of per capita valuations of physical output, to one-half of the economic power that it was back in 1967.

This is part of the crucial background to the crisis unfolding around Brazil's debt moratorium that is the subject of this week's cover story. The United States economy is in no shape to withstand the kind of shocks that have been delivered, and will be delivered over the next weeks.

The collapsing capacity that is reflected in the decline of household consumption, and in the inflation of monetary values, has eroded the innards of what was once the most powerful economic engine the world had ever seen. Financial reorganization will be necessary. That will only work with the kind of recovery policy that is implied by what it would take to reverse the decline from the levels of the late 1960s.

Physical output in per capita terms has to be more than doubled. That can be done, by putting the unemployed, and the underemployed back to work in productive wealth-creating jobs, and reversing the drift into the favored service industries. That will have to be done, over the next few weeks. If it is not done, the BLS's new revised Consumer Price Index will very quickly be rendered as obsolescent as their early 1970s version was, by the full depression impact of the collapse that already occurred in 1986. Then, their next market basket revision will probably end up being written in Russian.