Editorial

Grossly False Domestic Product

As long as two years ago, *EIR* editorialized that it was "time to scrap the fraud of GDP," gross domestic product, that "growth" that occurs, like that of human hair and nails after death, on the corpses of dead economies. GDP has been growing briskly all this year in Argentina's economy, for example, which is so thoroughly devastated by the devaluations and debt looting of the past decade that well over half of all Argentines officially live in poverty—and that percentage is increasing. Exactly one year ago, economics researcher Richard Freeman wrote one of our lead stories about the U.S. economy: "U.S. Third-Quarter GDP Fraud Stands Exposed by Bad October," in our Nov. 15, 2002 issue. It seems that then, just as this year, a sudden spurt of "growth"—at a supposed 3.5% annual rate, later "revised upwards" to 4.2%, had been found to occur in what remains of the broken-down American economy in the third quarter of 2002. Then, a national Congressional election was upon us; now, the Presidential campaign of 2004 is under way.

During the year since that third-quarter 2002 "surge of growth"—which was much-acclaimed at the time as the "recovery at last"—the United States economy as a whole has lost approximately 1 million more jobs, and the manufacturing sector has gone through 12 more consecutive months of job loss. And this month—October 2003—even as the Bureau of Labor Statistics (BLS) was trumpeting "three straight months of job gains," U.S. corporations *announced* 172,000 job cuts, more than twice as many as in September. Shades of October 2002, when 176,000 layoffs were announced after the third quarter's spurt of "growth."

Would it be going too far to say that the Commerce Department and the BLS simply "make these things up" for appropriate political occasions? There were "reasons" for that third-quarter growth a year ago, as Richard Freeman broke them down in his study: 52% of all that growth was accounted for by motor vehicle sales, achieved by massive incentives and by phantom "quality adjustments" by the BLS, which put back in, the sale value which the incentives had given away!; and another 32% of the growth came from an increase in computer equipment sales, actually very small, which was multiplied seven times over by the "hedonic indexing" fraud of the Commerce Department.

There are "reasons" for this third quarter's supposed 7.2% rate of growth, also. All of this "growth" occurred in the service economy; the underlying real economy—the manufacturing and infrastructure sectors—continued to shrink through October. It was being driven by huge increases in Defense-led government spending—the Federal budget deficit for just the first quarter of the new fiscal year will be near $125 billion—and by an even more vast ballooning of consumer indebtedness centered on real estate and mortgage debt, and tax cuts. When that real estate bubble pancakes, consumer "incomes" could be cut by 50% in some income categories of the American population. And then there is the continuing net flow of hundreds of billions of dollars looted into the United States, from a Europe, South America, and Asia most of which are in depression. The UN recently reported the net flow of loot *from the Third World alone* at $200 billion a year, which drew a public protest from Secretary General Kofi Annan.

Such are the kind of "reasons" for this year's electorally convenient third-quarter "burst of growth." None of them are sustainable even in the short term.

The difference between the 2002 and 2003 frauds, is that this year's third-quarter "recovery," though pushed with much greater intensity in the media and government circle's than last year's, is much less credited internationally by those who see the real state of the world's physical economy; and certainly, much less believed by the nearly 20 million Americans who can't find the jobs they're looking for. The only sensible step is to abandon the fraud of GDP entirely, since the "figures" on which it is based have been shown by *EIR* and others to be too blatantly imaginary even to analyze. A LaRouchian physical-economic program of recovery investments in public infrastructure and production is the only thing worth measuring, and will take a revival of honest economic accounting to do so.