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**ECONOMETRICS**

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# Three-fifths of GNP does not exist

by Leif Johnson

The 10 percent drop in U.S. manufacturing output since last August has finally convinced some Americans that they had better learn how an economy is run. No simple solutions like working harder, cutting costs, or better management, are going to sustain either individual enterprises or the economy.

One useful tool is the Gross National Product figure—or more accurately, a *modified* Gross National Product accounting that identifies the real product contained in the official GNP figure. *EIR* has compared the non-product costs with actual product costs in the official GNP figures, that is, the fictitious costs borne by sectors of the economy. We have taken the GNP, which is a national income account, and spent it to see what it would buy. Instead of using the nominal value or the official value of GNP, we have determined the real value in terms of real goods and services bought by the stated amount of GNP.

By deflating the third-quarter 1981 GNP figure by the fictitious costs contained in it—those that do not reflect the actual costs of production of the products purchased—we have found that the real GNP was only two-fifths the official figure of nearly \$3 trillion.

For example, compare the cost of buying a house in 1970 with the cost in 1980. Both houses are basically the same; thus the product received is the same.

But in 1970 the homebuyer paid an average price of \$23,000 while the average price in 1981 was \$80,000. When standard interest costs to the buyer are included the total 1970 price is \$30,590, but the 1981 price is \$192,800, an increase of six-fold.

Granted, production expenses have risen in that period; the cost of labor may have doubled, and the cost of materials may have even tripled, but what accounts for the six-fold escalation? The major fictitious cost—the cost that doesn't stem from production itself—is, as everyone knows, usury in the credit markets. To finance \$60,000 at 16 percent for the 1981 home purchase, the buyer is paying \$172,000.

Usury is not a product at all. But usury is an included component of the official GNP calculations. This accounts for the otherwise singular fact that although industrial production has declined 10 percent since August 1981, the official GNP continues to rise. Similarly, during the 1974-75 deep recession, when industrial production declined 9 percent, -GNP, when adjusted for inflation, declined by only 1 percent. Somehow, somewhere, 8 percent was added to the Gross National Product which in

In the chart, the major income categories used in the GNP calculation are listed. We take the first category, employee compensation, and break it down into what that money is spent for: food, housing, transportation, clothing, medical care, other items, and taxes. From each of these categories we take out fictitious costs contained in the purchase. However, we must first subtract from the total employee compensation portion of GNP the amount spent on drugs, prostitution, gambling, pornography, and the destruction of personal property connected with criminal activity. These are all costs to the “consumer,” including the undetermined billions spent on official lotteries, number rackets, and similar theft from the population, but there is no product.

The annual expenditure on drugs, pornography, and destruction wrought by crime is estimated at \$300 billion. We deduct that amount from the official employee compensation of \$1,790 billion, leaving \$1,490 as spendable employee income.

Now we find the real value of what the buyer purchases, beginning with food, which takes about 20 percent of the family budget. We calculate that the consumer buys only about 50 percent of real value for his food dollar, the rest being fictitious cost. The reader can understand how this is calculated by examining, for

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## Official and actual GNP, third quarter 1981

(billions of dollars)

Category of GNP income	Official GNP	Actual GNP
I. Employee compensation . . . . .	\$1,790	\$715
II. Proprietors' income . . . . .	137	75
III. Rental income (individuals)	34	14
IV. Net interest . . . . .	220	0
V. Corporate profits . . . . .	196	78
VI. Indirect business taxes . . . . .	270	135
VII. Capital consumption . . . . .	327	131
<b>GROSS NATIONAL PRODUCT . . . . .</b>	<b>\$2,965</b>	<b>\$1,148</b>

Source: Official GNP statistics from U.S. Commerce Department, Survey of Current Business, December 1981.

example, the cost of oranges. The grower is paid 4 cents apiece, a sum that must cover all his production costs, plus profit, if any. Transportation and final distribution and handling add another six cents; but the orange sells for 20 cents, or approximately twice the real cost of production.

For housing, the consumer is paying even more fictitious costs, as we demonstrated above. The real value component of housing is approximately 40 percent. Since the family spends about a quarter of its budget for housing, we multiply that quarter of total employee compensation times 40 percent (0.4) to get the portion of real value derived from that nominal expenditure.

Similar, transportation represents at best 50 percent of real value for the consumer. The \$8,000 family auto carries another \$3,300 worth of interest; the production cost of gasoline is 40-50 cents per gallon, but the consumer cost is \$1.30 to \$1.50.

Clothing, which absorbs 8 percent of the family budget and is relatively cheap, nonetheless contains a calculated 50 percent fictitious cost that covers mob-enforced loan sharking and factoring and the gross inefficiency of the production process.

For the last category, taxes (federal, state, and local plus Social Security), which claim about 24 percent of the family income, we take a rough estimate that only 50 percent of that expenditure represents real product—actual services to the citizenry. About 12 percent of government cost is interest payments, and a major portion of education and other social and other services is the cost of the rentier-financier interests both using the government for their own immediate profit and to control the remainder of the population.

Adding the percentages of real values for the employee compensation, we find that real GNP is about 48 percent of official GNP. Thus real employee compensation GNP is \$715 billion rather than the official \$1,490 billion.

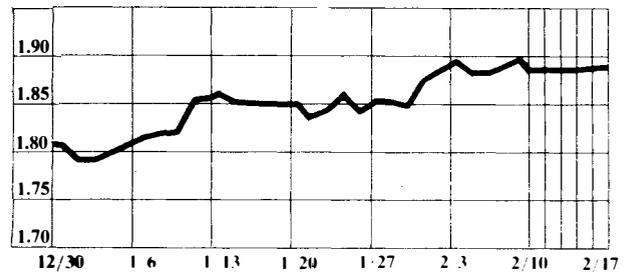
We deflate the value of capital consumption (investment in capital goods) by 60 percent, although one might expect that this is the one category with high real value. We measure the real value of capital investment by comparing the effect on productivity of U.S. investment with Japanese investment. We find that on average, U.S. investment is only 40 percent as efficient as Japanese investment.

We have constructed an index of *real* Gross National Product which we can compare with the official figure to indicate the amount of fictitious “value” in the economy. This fictitious cost, paid by the consumer or manufacturer, is what we generally call inflation. The widening gap between producer costs (real GNP) and price of the products represents the inflation potential in the economy.

## Currency Rates

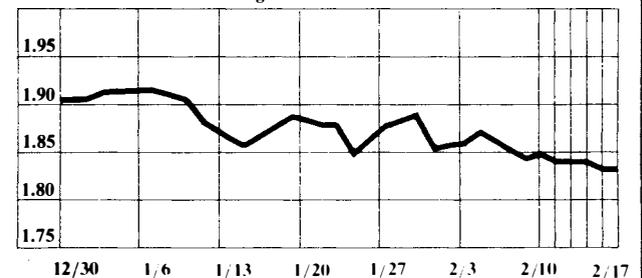
### The dollar in Swiss francs

New York late afternoon fixing



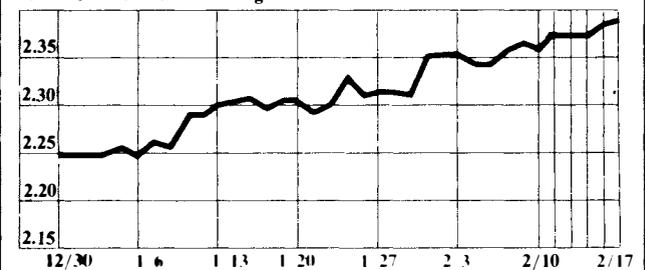
### The British pound in dollars

New York late afternoon fixing



### The dollar in deutschemarks

New York late afternoon fixing



### The dollar in yen

New York late afternoon fixing

