Federal Reserve recovery statistics are a cooked-up hoax

by Cinncinatus

Did you ever have the creepy feeling that the spring 1983 U.S. "economic upswing" never happened? So did former management consultant Lyndon H. LaRouche, Jr., *EIR*'s founder and chairman, who was part of discovering many an embezzler's cooking of the accounting records in days of yore.

True, there have been some up-ticks in hiring in a few spots: automobile manufacturing, home-building, and jobs selling sody-pop and blends of horse-and-kangaroo-meat in ye olde faste-foode joint. Otherwise, the official federal government statistics stunk to high heaven of a classical corporate embezzler's stunt. A deeper look into the way the government and Federal Reserve guys say they put their figures together shows how the faking of the reported statistics was cooked up.

The way most folks are fooled by government statistics is that folks just naturally assume that those statistics represent some team of civil servants going out into the nooks and crannies of our grand old national economy, and actually counting things: "One, two, three. . . ." Or, taking a "good statistical sample, at least." Nope, neighbor, it taint done like that, they just plain made the figures up in their head, just like any typical corporate embezzler does.

"But the figures cross-check!" one fella says.

Right enough. That's the first thing that any embezzler thinks of, when he puts his mind on how to fool the company's outside accountants. Cook the figures up until they all cross-check.

The reason many expert accountants have been fooled by a slick inside embezzler, sometimes year after year, is that these accountant fellows like to sit up in the office, and not get their white shirts and nice suits dirty out rummaging around in the inventory or on the factory floor.

In the old management-consulting days, Chairman LaRouche knew that if the payroll records show a certain number of employees, there has to be some track of such employees actually being present and doing some sort of work out in the plant, and that total inventory actually received (and not sold out the back door by someone on the sly) is current inventory plus what has been accounted for by the number of units produced, or that even the slickest construction man around can't put 20 yards of ready-mix concrete into a five-yard hole. Any competent accounting firm knows about such things, and know how to track down figure-faking once they recognize that such a problem exists. Trouble is most accountants and college-trained economists are office boys, who like to keep their distance from the blue-collar social set.

Take the automobile production figures, for example. In some cases, figures showed factory operatives putting out twice as much per man as before the last big layoff-wave, and some of those plants weren't even reopened for production. If a fellow tells you he's just seen a six-legged goat that can count in words up to one hundred and three, a sensible citizen just naturally goes out to take a look at such a critter before taking the fellow's word for it.

The economic-financial research staff at *EIR* knew that there was a lot of faking of statistics going into the report of the big 1983 "upswing." The question was, exactly how much fakery? What statistics were being faked, by what methods, and by how much? *EIR* had them dead to rights on the unemployment figures; they had just plain buried more than a million additional members of the labor force (statistically, that is) to show unemployment as dropping. These government fellows were not exactly demonstrating honest intentions in putting the figures together.

So, *EIR* focused attention on one of the key parts of government statistics which is easiest to check out: the Federal Reserve System's *U.S. Industrial Production Index*. *EIR* came up with proof right off, that somewhere between 0.8 percent and 3.1 percent of the past year's growth in that index was simply fakery by officials down at the Fed. *That means* *roughly an error of beteen 3.2 percent and 12.4 percent in GNP as a whole!*

The Fed's associate research director, Helmut Wendel, admitted that the Fed does not wish anyone to know how it gets its statistics-fudging factor (*Production Adjustment Factors*) because they are making the figures up. "They are all judgmental," he said, "almost entirely our own guesswork." He added that the Fed should not disclose its equations for the factors "because they don't really work; most of what goes into the PAFs is judgmental. We consider the equations as such a preliminary and vague guide to forming a PAF that they don't really work."

What these fellows do is to start with a set of sample figures they don't believe themselves, and then change those figures to work out to whatever upward or downward trend in the economy they decide to put out to President Reagan and the public as their current propaganda line. Then, all of the official statistics are faked to fit that picture. It is exactly what any company's embezzler does to fool the outside accounting firm.

One of the *EIR* research staff has written a 5,500-word report on the history and recent effects of the Fed's fudge factor. It's technical, but to anyone who knows the business, it's a real eye-opener.

The recent hoax began last summer, when some of the boys in the back room in Switzerland, London, and Wall Street were afraid President Reagan might react to the Mexican debt crisis by launching a genuine recovery program. They dreamed up the tactic of convincing him that Fed chairman Volcker's measures had started an economic upswing at last, and that if the President would just listen to Henry Kissinger on how to deal with Latin America, and listen to Paul Volcker on "how to keep the upswing going," everything would be just nice and dandy for the President's 1984 election campaign. So, between the State Department and Treasury, the Federal Reserve, the New York bankers, and a bunch of statistical bureaucrats who knew what was expected of them, the wildest orgy of figure-faking since the middle 1960s was turned loose.

Economic upswing? Never actually happened. *EIR* estimates that what did happen is a slowing of the rate of economic collapse, from about a 12 percent rate during the early part of the last quarter of 1982, to a rate of decline of between 2 percent and 4 percent during the first half of 1983. That half-truth behind the "upswing" story is that the rate of collapse slowed down significantly, temporarily. Now, the rate of collapse is beginning to accelerate again—now that Fed chairman Paul Volcker has just been reconfirmed, as the fellows in the back rooms intended to manipulate President Reagan into doing.

The question is, how long will President Reagan believe that what his re-election campaign advisers wish were true? If he doesn't wake up soon, the voters next fall will be voting *against* Herbert Hoover, not *for* anybody at all.

Staking out the 'fudge Volcker's faked recovery

by Kathy Burdman

A senior official of Paul Volcker's Federal Reserve admitted Aug. 26 that the Fed's figures on U.S. industrial production are "totally unreliable," and that the key U.S. Industrial Production Index, upon which claims of a U.S. economic recovery are based, is "entirely guesswork."

The admissions by Federal Reserve Board Associate Director of Research and Statistics Helmut Wendel in an interview with this author, along with an in-depth investigation by *EIR* of the makeup of the index, show that large parts of the U.S. recovery data *may have been* faked. What is clear is that the Federal Reserve cannot and will not demonstrate the accuracy of the figures published in its Industrial Production Index over the past year and a half, and that within the Fed staff's "guesswork" may be contained a large margin of fakery.

"We make judgmental adjustments to the index which are almost entirely our own guesswork," Wendel stated. Especially the "first release" figures, the newest figures which make press headlines each month from which the financial media has proclaimed the Great Recovery, are "totally unreliable," he stated. "They can mean anything. When we calculate the 'month one' figures, we just arrive at a number and we figure, 'Okay, if it's wrong, we'll correct it the next month—it doesn't matter.' "

The news media does the rest of the job, by publicizing only the first-month estimates, and burying the corrections on the inside page. It is from first-month data that U.S. policy is made.

Any honest American, a category which excludes most statisticians and employees of the Volcker Fed, can see that the U.S. economy continues to collapse around our ears with one look at the unemployment lines, closed factories, and the decay of our cities.

But even Fed officials admitted last month that over the last year, between 0.8 percent and 3.1 percent of the rise in the U.S. Industrial Production Index as published by the Fed, was due to "guesswork." Economist Lyndon LaRouche estimated today that the introduction of such an annual fudge factor in the Industrial Production Index "means roughly an error of between 3.2 and 12.4 percent in GNP as a whole." (See article page 11.)

'Phudge Addition Factor'

In fact, since Volcker began to claim that he has created