Lies About Inflation Are Being Used To Loot the Population

by Richard Freeman

Official U.S. government lying on the true state of the hyperinflationary price spiral now engulfing the United States and the world, is being used as the basis to loot the U.S. population, to the extent of $150-330 billion per year.

More than 100 million Americans are protected against the ravages of inflation by cost-of-living adjustments (COLAs), in their labor contracts, Social Security benefits, unemployment payments, and so forth. When inflation goes up, the COLA is supposed to increase wages, benefits, etc., by an amount equal to inflation. But, the U.S. government has rigged the U.S. inflation rate downward, so that two-thirds of the increase that the COLA should rise by, is excluded. This is deliberate, and cheats the population of the amount that would offset inflation. This accelerates the disintegration of the population's living standard, and threatens its ability to survive.

The U.S. population is being put through the onset of a Weimar-style hyperinflation, and is being denied even the minimal defense against it.

The U.S. government claims that the Consumer Price Index (CPI), which is the official measure of inflation compiled by the Department of Labor's Bureau of Labor Statistics (BLS), rose by 3.4% over the year ending in August 2000. But, the actual course of events makes a mockery of this claim, as daily headlines blare out that oil, energy, and other commodity prices have gone through the ceiling. Consider just some of the increases in the prices of consumer goods, or of producer goods that go into consumer goods and force up their prices. During the past 12 months, in nine counties in California, the median selling price of an existing home shot up between 15 to 39%; the cost for industrial purchasing managers who use such goods in the production process, of benzene, chlorine, sulphuric acid, and polyvinyl chloride, shot up by 81%, 55%, 37%, and 118%, respectively; the price that California utilities pay to purchase electricity supplies leapt by 480%; the monthly utility bill of a San Diego electricity user doubled, and so forth (see *EIR,* Sept. 15, 2000, Table 1, p. 18). These increases do not reflect a 3.4% inflation rate, but a rate of 8 to 15%. The rate of 10% is an average, which would seem to be a base rate.

Consider, then, the huge difference between 10%, and the BLS's official CPI rate of 3.4%. The 3.4% rate excludes two-thirds of the inflation that has occurred. The COLAs, based on a 3.4% inflation rate, are cheated of two-thirds of the rate of inflation that has occurred.

Fraudulent Methods

The BLS employs fraudulent devices to knock down prices. A prime device is the use of the Quality Adjustment Factor (QAF), which Lyndon LaRouche and *EIR* brought to light in 1984. Through the QAF, for example, the BLS will ascribe half or two-thirds of a price increase of $500 per year in an automobile, to "improved quality," and then will not count the half or two-thirds of the price increase, because of alleged "improved quality." Often, the alleged improvement is no improvement at all, or even a detraction, in quality. The BLS uses QAFs for hundreds of different products, lowering the inflation rate for each product.

In January 1999, the BLS instituted additional changes to further distort the CPI. One is called the "consumer substitution" change. This assumes that, if prices rise, the consumer will strive to make a constant level of expenditures for a certain category of goods. So, if the price of one good goes up, the consumer will substitute another, which is cheaper. This may not be at all what happens in reality—the consumer may not be able to, or wish to, make a substitution. But, the BLS pre-programs in that the consumer would not be paying more for certain categories of goods. A spokesman for the BLS told *EIR* on Sept. 11, that this assumption alone will permanently take 0.2% per year off the CPI rate. By use of dozens of such changes, and of the QAF, the BLS whittles down inflation to a ridiculously small amount.

The lying about inflation has a strategic consideration: It is used to perpetuate the deceit that the United States is in the 115th month of an economic expansion. To perpetuate that, the United States must report a rising GDP rate; in fact, a rising so-called *real* GDP. Real GDP is calculated as GDP in current dollars minus the level of inflation. So, suppose that the GDP rate in current dollars in the United States were 6%. Since the official inflation rate is 3.4%, then real GDP would be 2.6% (that is, 6% minus 3.4%). (In GDP calculations, a GDP Price Deflator is used instead of the CPI, but they are similar in concept.) Now, instead of the fake 3.4% inflation rate, suppose that the real inflation rate of 10% were used. Then the United States would have a negative 4% GDP growth rate (6% minus 10%). This is quite a different situation. This would lead to a withdrawal of foreign investment from the United States, and, given the fact that the United States is running a $420 billion annualized current account deficit in the year 2000, such a withdrawal would cause a sharp dollar crisis, which would puncture the financial system.

We now turn to the manner in which $150-330 billion is being gouged from the U.S. population in the year 2000. This involves two areas: labor contracts, and necessary social programs provided by the budget of the United States.

TABLE 1
Annual Wage under COLAs Pegged to Different Rates of Inflation

	Wage with COLA Pegged to 3.4% Inflation Rate	Wage with COLA Pegged to 10% Inflation Rate	Annual Income Lost
December 1999	$30,175	$30,175	
December 2000	$31,231	$33,193	$1,992
December 2001	$32,262	$36,512	$4,250
December 2002	$33,359	$40,163	$6,804
December 2003	$34,493	$44,179	$9,686
Four-Year Total			$22,7323

Sources: Bureau of Labor Statistics "Employment and Earnings"; *EIR.*

Labor Contracts

Only about 5.5 million workers have cost-of-living adjustments in their contracts. This represents only 4.3% of the labor force, by the BLS's establishment survey, and 3.9% of the labor force, by the BLS's household survey. Nonetheless, these 5.5 million workers are concentrated in heavy industry, and their contracts are often trend-setting for the rest of the labor force.

The effect of the lying about inflation can be seen in what happens to a worker in manufacturing who has a COLA adjustment in his contract. According to BLS figures, in December 1999, a U.S. production worker in manufacturing earned $603.50 per week, or $30,175 per year (hardly enough to support a family). For the purpose of this example, we assume no real wage increase above the level of inflation; we look only at wage increases to keep up with inflation (if we assumed real wage increases above the level of inflation, the outcome would be the same. We are merely simplifying the example).

We examine two options: if a production worker's wage were increased by 3.4% per year, to account for the BLS's officially reported rate of inflation, or if it were increased by 10% per year, to account minimally for the real rate of inflation.

Table 1 depicts the results. In the table's second column, based on BLS figures, we start with a production worker's wage of $30,175 per year in December 1999, and increase it by 3.4% per year. It rises to $31,201 per year by December 2000; $32,262 per year by December 2001, and so forth. In the table's third column, we start with the same worker's wage of $30,175 per year, and increase it by 10% per year. It rises to $33,193 per year by December 2000; $36,512 per year by December 2001, and so forth.

We can now see the effect of the BLS doctoring a 10% annual inflation, to report it as officially only 3.4%. Were a manufacturing production worker's wage to be increased by a COLA adjustment of 10%, to keep up with the true rate of inflation, then by December 2000, his wage would be $33,193. Instead, the BLS has decreed inflation to 3.4%, and the worker will receive a cost-of-living adjustment of only 3.4%. By December 2000, his annual wage will be $31,201. He has lost $1,992 this year, gouged from his standard of living.

But the losses are larger still in each successive year, due to what can be called a cumulative or compounding effect. Were the BLS truthful, each successive year, the base level of a manufacturing production worker's wage would be 10% higher than the previous year; instead, due to the BLS's lying, the base level would be only 3.4% higher, falling further and further behind real inflation. In the second column of Table 1, the starting base level for an annual wage in December 1999 for a manufacturing production worker is $30,175, the same as it is in column three. But by virtue of only a 3.4% COLA increase, the worker's annual wage would be only $31,201 by December 2000. That becomes the new base level, against which a 3.4% COLA increase is applied, so that the worker's annual wage rises to $32,262 by December 2001. Yet, the progression, by a 10% COLA rate, produces a quite different story. If to the $31,175 starting level of an annual manufacturing production worker's wage, a 10% COLA were applied, then the annual wage would rise to $33,193. That becomes the new base level. If against that new base level, there were to be a 10% increase, then the worker's annual wage would rise to $36,512 by December 2001.

So, in the year 2000, the worker lost $1,992 in wages. But, by December 2001, the worker will lose $4,250 in wages for the year. By December 2003, the worker will have lost $9,686 in wages for the year. Compared to the annual wage that the worker would have in December 2003, of $34,493, if it is adjusted by a COLA set to the BLS's inflation rate, the $9,686 in lost wages represents a loss of 28.1% of income to the worker. Thus, the reciprocal action of the BLS's false statement of the level of inflation, being applied through the COLA to the worker's wages, leading to an artificially lowered base level of income, and against this base level a COLA based on the BLS's false statement of inflation being applied, etc., creates year by year, an ever-widening annual income-wage loss. Cumulatively, over the four years from December 1999 through December 2003, the worker will have a total of $22,732 gouged from his wages.

Consider, that this gouging did not start in 2000, but has been going on at least since 1990. That is, by December 1999, the production manufacturing worker had already lost a large amount in wages, due to the BLS standing policy of lying about inflation, in particular, during 1995-99. By 1999, this worker lost more than $1,000 in that year alone. Table 1 reported that in the year 2000, the worker will have lost $1,992 in wages. If one takes into account the full effect of the compounding of lost wages, then this more than $1,000 loss in 1999 should be added to the $1,992 lost in 2000. For the year 2000, the manufacturing production worker will have lost, at minimum, $3,000. *EIR* also estimates that for the year 2000, the average worker who is not employed in the process of manufacturing will have lost $2,000 due to gouging.

Of the approximately 5.5 million American workers who have COLA adjustments in their contracts, about 3 million work in manufacturing, and 2.5 million work in non-manufacturing jobs. Putting all this together, the 5.5 million American workers who have COLAs in their contracts will have lost, during 2000, $14 billion in lost wages due to BLS lying about inflation.

The Broader Workforce

The rest of the labor force, who do not have contracts that contain COLA adjustments, still often key off the wage increases that those 5.5 million workers whose contracts contain COLAs, receive.

We examine the broader effect that the COLA adjustment has on the whole labor force. While the BLS does not provide wage information on the full labor force of more than 136 million, it does provide wage information on the portion of the labor force that is classified as "production workers on private nonfarm payrolls." In June of this year, this portion of the labor force totalled 90.8 million workers.

We have looked at what effect BLS lying about inflation has on the 5.5 million workers who have COLAs, and who are part of the 90.8 million workers who are classified as "production workers on private nonfarm payrolls." If one subtracts them, that leaves 85.3 million workers in that category.

There are two possible courses of action: Were the 85.3 million workers on private nonfarm payrolls strong enough, they would demand the same 10% increase in wages as those with COLAs in their contracts would get. This would net them, in the year 2000, $171 billion. But the following reality affects the second course of action: The BLS claims that the inflation rate is 3.4%, when it really is 10%. The 85.3 million workers, were they informed of the true inflation rate of 10%, would not settle for a wage increase of only 3.4%. What they would be strong enough to get is uncertain, as 85% of these 85.3 million "production workers on nonfarm payrolls" are not unionized. Assuming that they would fight for a wage increase between 3.4% and 10%, let us assume that they were able to secure an increase of 7% (although the level could be a little bit less or a little bit more). That would mean that they would net $120 billion in the year 2000 to compensate in part for the ravages of inflation.

Thus, were the BLS to report inflation accurately, then this 85.3 million part of the workforce would, if they were able to fully offset inflation, receive increases in wages of $171 billion. Thus, by lying on inflation, the BLS gouged the 85.3 million workers, in the year 2000, of between $120 billion and $171 billion in wages. Adding to this the $14 billion gouged from the 5.5 million workers who have COLAs in their contracts, the BLS has gouged the U.S. workforce of between $134 billion and $185 billion in the year 2000.

TABLE 2

Fiscal Year 2000 Budget Expenditures, Based on Different Rates of Inflation

(Billions $)

	CBO Projection Based on GDP Deflator of 2.1%	Programs Adjusted by a COLA Pegged to 10% Inflation Rate
Food Stamps	$18	$19
Supplemental Security Income	$29	$31
Unemployment Insurance	$21	$23
Medicare	$216	$233
Social Security (OASDI)	$405	$436
Federal Retirement: civilian, military	$88	$95
Veterans Benefits	$22	$24
Workmen's Compensation	$41	$44
Subtotal	$840	$905

Sources: Congressional Budget Office, "Budget and Economic Outlook"; *EIR.*

U.S. Government Programs

The BLS lying has also gouged more than $70 billion from Americans in vitally needed services and benefits. More than 100 million Americans are covered by U.S. government programs that contain COLA clauses.

Table 2 shows major U.S. government programs that are covered by cost-of-living adjustments. The second column

The government is cheating the average retiree on Social Security out of an estimated $53 per month, by its fraudulent Consumer Price Index calculation.

shows what the U.S. Congressional Budget Office (CBO) projected would be the level of U.S. government program expenditures in fiscal year 2000. Each one of these programs has a COLA adjustment. The CBO employed as its measure of inflation, the GDP Deflator compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce. The Deflator is similar in concept to the CPI concept of inflation, but it is even more stringent. For 2000, the CBO projected that the Deflator rate of inflation would be only 2.1%.

Column three shows what the level of expenditures should be, were these program's COLAs adjusted by the true rate of inflation of 10%.

Thus, Table 2 shows that in fiscal year 2000, the lying about inflation has cheated the Social Security (Old Age and Survivors Disability Insurance) program out of $31 billion, cheated the Medicare program out of $17 billion, and cheated Food Stamps out of $1 billion. All told, these programs are cheated out of $65 billion.

The cuts in these programs have harsh real-life consequences.

Take the case of Social Security. Some 44.6 million people receive Social Security benefits; most are retired workers, others include those receiving disability benefits. The retired are heavily dependent on Social Security to survive. For 63% of the elderly, Social Security constitutes half or more of all the income they live on. For 30% of the elderly, Social Security constitutes 90% or more of all the income they live on.

A retired person, on average, receives $804 per month from Social Security (these are benefits that the retired person paid for during his or her working life). At the end of the third quarter of each year, the Social Security Administration makes a cost-of-living calculation, to adjust the Social Security benefits upward by the increase in the CPI inflation rate for the preceding 12 months. This year, that would mean adjusting the average Social Security benefit upward by approximately 3.4% (depending on what the CPI inflation rate is for September of this year). That benefit would rise from $804 per month to $831 per month. But, were the Social Security Administration to make a COLA adjustment based on a rate of inflation that were truly reported at 10%, then the average monthly benefit would rise to $884 per month. The BLS lying cheats the retired Social Security recipient, on average, of $53 per month (or $636 per year).

For the retired person struggling to survive in the face of an unfolding hyperinflation, including escalating rent/housing costs, medicine/medical costs, and food costs, that is a huge amount. Many elderly must carefully ration their food expenditures, and even then often end up at the close of the month with insufficient money and must cut back what they eat. The extra $53 per month in benefits, to which they are entitled, could mean the difference between eating dog food or not.

Medicare is the Federal program that provides assistance for a portion of doctor and hospital bills for the elderly and some persons who are disabled. The U.S. Congress makes payments to the Medicare program based on a cost-of-living adjustment, which is calculated on the basis of a rate of inflation heavily weighted to medical costs. As Table 2 shows, BLS lying cheats Medicare of about $17 billion. This is cut back from the payments that Medicare would make to hospitals and doctors. The Balanced Budget Act of 1997 already mandated deep cuts in Medicare. This lying about inflation policy, coupled with the genocidal effects of the Balanced Budget Act and of managed care and health maintenance organizations, is forcing the shutdown of hospitals and nursing homes across the country.

As for Unemployment Insurance, which is adjusted by a COLA, BLS lying is costing the program $2 billion per year. When someone is unemployed, this is the time they most need the full funds they are entitled to, to survive.

As for Food Stamps, the eligibility standards for the program are set at a certain level and adjusted each year by a cost-of-living adjustment based on the inflation rate, heavily weighted to the cost of food. The upshot is that if the COLA is lowered below where it should be, fewer people are allowed to qualify for the food stamp program; those who qualify, are entitled to a lesser share of food stamps. Through this policy of lying about inflation, over the last few years, the government has slashed the number of people eligible for food stamps, even though they legitimately qualify for them—and then has cynically boasted that this is a sign that the economy is growing.

Other U.S. Government Programs

Many Federal government programs have no COLA. U.S. government programs are divided into two categories: mandatory and discretionary. In mandatory programs, if an individual meets the eligibility requirements, that individual should automatically receive whatever benefits are provided under that program. Most, but not all mandatory programs are adjusted by a COLA. All of the programs listed in Table 2 are mandatory programs. Discretionary programs are those in which the funding level for the program is reviewed afresh each year. Based on the decision of the Congress and the White House, the expenditure level for the discretionary programs could be cut by 90%, doubled, and so forth. There are no mandatory benefits that must be paid. Discretionary programs range from defense to education to government infrastructure-building. Almost all discretionary programs have no COLA in them.

Nevertheless, the discretionary programs are very much affected by, and to a significant extent determined by, the rate of inflation. It would be politically very difficult, were the true rate of inflation of 10% to be reflected in the official CPI, for Congress to pass a budget that cut the education budget, or only increased it by 3.4%. A CBO analyst told *EIR* on Sept. 11, that the way that the CBO prepares its base-line budget projections for education, is that it starts with the level of education spending for the last year for which the actual spending on education has been completed, and then increases it by the projected rate of inflation for future years. When Congress is handed the CBO base-line projections of spending for education, they are based on an increase, for each year, for the projected rate of inflation. Congress would then have to make a deliberate decision to cut the CBO base-line projections to thereby lower the spending level for education below the level of inflation. (In principle, the budget prepared by the Office of Management and Budget works exactly the same way.)

Thus, by its very nature, inflation adjustments are built into the budgetary process.

As for the U.S. budget programs which do not have COLAs, which are, by and large, discretionary programs, in fiscal year 2000, they are being cheated out of $72 billion, which is what would be needed to increase them in line with the true rate of inflation of 10%. As indicated, the U.S. budget programs which have COLAs are cheated out of $65 billion. Thus, a combined $137 billion has been cheated from U.S. citizens in the form of Federal programs for vital services as a result of the policy of lying about inflation. This has a real effect, threatening citizens' very ability to survive.

The Full Extent of Looting

In surveying the total picture, in the year 2000, the amount that lying about inflation has gouged from the labor force, counting both the 5.5 million workers who have COLAs, and the 83.5 million workers who do not, is $134-184 billion. The amount that this same policy has cheated from citizens, in the form of vital U.S. government services, is $137 billion. Thus the lying has looted the U.S. population by a combined $271-321 billion. This takes account of those contracts and programs which do have COLAs, and those which do not.

One word about what has been done: We have produced here not a precise calculation, but a broad approximation. The figure may overestimate or underestimate by $100 billion. But at a minimum, $150-200 billion has been extracted this year from the U.S. population, and it could be double that. This shatters the population's ability to reproduce its existence, culturally and materially.

In this work, *EIR* assumed a 10% inflation rate. But as the Weimar-style hyperinflationary-spiral advances, the inflation rate will continue to rise hyperbolically. As in Weimar Germany, it will destroy savings and pensions, and rip to shreds the economic fabric of society.

In light of what this process portends, isn't it time to end the policy that gave rise to it?