

Mitchell's Musings 10-22-12: Playing With Numbers

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An earlier Mitchell's Musings dealt with President Nixon's suspicions that technicians at the Bureau of Labor Statistics (BLS) were somehow diddling the labor market numbers to make him look bad – suspicions reinforced in paranoid taped conversations with Charles Colson of later Watergate ill-fame.¹ These suspicions by the President – reinforced by anti-Semitic notions that it was Jews in the BLS that were conspiring against him – ultimately led to adverse personnel actions for some BLS staff. In any event, my musing turned out to be well timed since it coincided with suggestions by former General Electric CEO Jack Welch that the most recent release of the unemployment rate was rigged. Welch hinted on Twitter that the technicians were diddling the number to help Obama in the upcoming presidential election by making the unemployment rate fall below 8%.²

There was also some email back-and-forth about the Welch episode on the LERA-Dialog server when I posted an item about it. Prof. Sean Flaherty of Franklin and Marshall College sent me an email as a result noting that there is some evidence from behavioral economics that people who cheat are more likely than others to assume that others are also cheating. As one commentator pointed out, financial data released by General Electric under the Welch regime have been questioned as manipulated.³ In addition, a quick Google search found an academic study suggesting that those in positions of high authority are themselves more likely than others to cheat.⁴ They apparently feel entitled by position to do so.

¹ Mitchell's Musings 10-1-12: "Looking Backward at the Supposed BLS Labor Data Conspiracy," <http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%2010-1-12.pdf>.

² In the second presidential debate of October 16, 2012, Mitt Romney did not challenge the validity of the 7.8% unemployment figure and in fact cited it (as still too high).

³ Clyde Prestowitz, "Jack Welch owes us an apology," *Foreign Policy*, October 8, 2012. Available at http://prestowitz.foreignpolicy.com/posts/2012/10/08/jack_welch_owes_us_an_apology. "Maybe Jack's suspicions arise from his own experience with reporting good and bad numbers. His main claim to fame, after all, is that he produced a string of 80 quarters of uninterrupted increases in earnings for GE. This no doubt reflected his genius as a corporate manager, but it also reflected use of off balance sheet vehicles such as those used by Enron before its bankruptcy and other creative accounting techniques linked to GE Capital, the company's finance arm. So, maybe from this experience Jack thinks that happy coincidences just don't occur."

⁴ Joris Lammers, Diederik A. Stapel, Adam D. Galinsky, "Power Increases Hypocrisy: Moralizing in Reasoning, Immorality in Behavior," undated, available at

Which leads to an interesting question: Did President Nixon ever try *himself* to manipulate official government economic statistics? As noted in prior musings, the tapes of “White House” conversations that were uncovered as part of the Watergate affair are gradually being made available online.⁵ However, search options for finding topics on the tapes are limited. Nonetheless, I did find a relevant conversation between then-Office of Management and Budget director George Shultz and President Nixon of May, 12, 1971. You can find it at: <http://www.youtube.com/watch?v=1qV84JmgwVE> Before saying more about that conversation, some economic background is in order.

President Nixon came into office in January 1969 in a period in which the Vietnam War expansion had overheated the economy. Unemployment at the time was down around 3.5%. The inflation rate, measured by the Consumer Price Index (CPI), was up above 6% and seen as likely to rise if nothing were done. Large wage settlements were creating concerns about a “wage-price spiral.” The hope was that a restrictive macro policy, particularly on the part of the Federal Reserve, could engineer a “soft landing,” i.e., a slowdown of the economy just sufficient to cool inflation without causing a full-fledged recession.

As it turned out, however, there was a recession which the National Bureau of Economic Research (NBER) now dates as beginning in December 1969 and ending in November 1970. As a result of the recession, inflation slowed and unemployment – which tends to respond with a lag – rose. The table below shows the basic outcome.

	CPI Inflation Dec. to Dec.	Annual Rate	Unemployment
1967	3.0%		3.8%
1968	4.7		3.6
1969	6.1		3.5
1970	5.6		4.9
1971	3.3		5.9

<http://www.kellogg.northwestern.edu/faculty/galinsky/Power%20Hypocrisy%20Psych%20Science%20in%20press.pdf>

⁵ Not all conversations that were taped occurred in the White House. Some occurred in other venues or were phone calls.

As with all recessions and their aftermaths, in real time, it was hard in the spring of 1971 to judge exactly what was happening to the economy. It is difficult after any recession to identify initially clear signs of a recovery or how robust that recovery is likely to be, even if recovery is detected unambiguously. A sluggish economy in 1971, especially if it were continued into 1972, would not be good presidential politics for the 1972 re-election campaign.

We now know, thanks to NBER, that there was a recovery underway at the time of the May 12, 1971 conversation. But opinions appearing in news items of that period were mixed. The available real GNP figures for the fourth quarter of 1970 didn't look all that good. But they were affected by a strike at General Motors, clouding the interpretation.⁶

In short, there was a mix of economic indicators, some pointing to sluggishness; others pointing to a more optimistic interpretation. In the May 12, 1971 conversation, it is apparent that President Nixon has earlier been told of a new number that might be interpreted optimistically and that might be fed to the news media as proof that a solid recovery was occurring. It is not apparent from the conversation, however, to which of the many economic figures released by government agencies the President is referring. So some detective work was needed.

What we do learn is that the magic number to which Nixon refers is \$30.8 billion. We know from the conversation's date that the President's talk with Shultz occurred on a Friday. We know that the number given to the President was not yet ready for official release and we learn that the release date would normally be on a Friday – so the normal release date would have to be the following Friday, May 19. With some detective work, I was able to find that the February seasonally-adjusted figure for new orders for durable goods that was released on May 19, 1971 was \$30.8 billion. So apparently, that number was the topic of the Nixon-Shultz conversation.

Now the figure on monthly new orders for durable goods is not a high-profile piece of economic information comparable to, say, the unemployment rate or the CPI inflation rate. So why the President was so taken by the figure is not clear. But apparently he was previously told it was a good number and that it would refute naysayers who were writing pessimistic stories about economic trends.

Despite what he might have been told, Nixon had an exaggerated notion of what the impact of the figure, once released, would be. In fact, when it was released, there was no heralding of

⁶ General Motors and the auto industry was a much more important component of the economy in 1970 than it is today. See <http://www.youtube.com/watch?v=DUtgF-XkDXA> , <http://www.youtube.com/watch?v=G83QduYKfgs>, and <http://www.youtube.com/watch?v=9PgG-nmWfo0>.

the information as a sure sign of a strong recovery. Indeed, as the excerpt in the box below from the Los Angeles Times shows, the figure was reported as something of a negative because it was *lower* than the January figure although higher than the year earlier number. And the number appeared on page D9 of the paper; it was hardly front-page news. No one cared all that much about the number.

Whatever the actual impact of the number, on May 12, when he talked with Shultz, the President thought the figure would be a plus and was anxious to make the information public. The problem was that that normally-scheduled timing would mean that it would not be made public for a week. Releasing the number early because the President thought that it would be advantageous politically to do so would have been improper.

Nixon in the taped conversation looks for a rationale for an early release, one way or another.



He says that he is concerned that the figure might leak out before the release date and then would not be interpreted “properly.” He says the official policy of his administration is “never to put out anything in advance” and to treat statistical releases “honestly.” But the President says that if the numbers are available earlier than the normal release date, they shouldn’t be held up “in my opinion.” If the numbers are ready on Tuesday, he says, they shouldn’t wait for release until Friday.

Shultz counters that the scheduled date is the following Friday but says it is “our policy that we don’t sit on numbers.” Shultz reports that he spoke to statistician Julius Shishkin and told him that the numbers should be produced as fast as possible.⁷ Maybe – if the numbers are ready - they could be released Thursday instead of Friday, Shultz tells Nixon. So now the possible irregular speed-up drops from Tuesday to Friday in the conversation. But Shultz then tells Nixon about all the details that have to be worked on apart from just the bottom-line number. He seems to be hinting that even a release

⁷ Shishkin is discussed in the earlier musing cited in footnote 1.

one day earlier than normal might not be possible.

All of the underlying figures have to be prepared that add to the bottom-line total, Shultz points out. The press release has to be written. Shultz then goes into a tangent about inventory figures which he says are bullish and that leads to further discussion of profits and the effects of the General Motors strike. So the conversation begins to be steered away from early release idea of Nixon's to general interpretation of recently-available data by Shultz. My interpretation is that Shultz was trying at that point to divert Nixon from the idea of an early release without flatly saying "no."

However, Nixon was not sufficiently diverted. He then raises the idea of discussing the possibility of an early "inspired leak" with White House speechwriter William Safire. Nixon wants Shultz to do the chatting with Safire. But Shultz shouldn't directly tell Safire to leak anything, Nixon says. And the decision on leaking should be between Shultz and Safire; Nixon says he doesn't want to know about it.

Shultz finally says he thinks the data should be released in "the normal way." It may be that Shultz realized that apart from the virtues of not leaking, the figure was not all that important. "We shouldn't hail" the figure when it comes out, Shultz says; he suggests a low-key approach. Nixon is persuaded by Shultz and now frames his suggested interaction with Safire differently. He just wants the story to get a "good play" when it comes out. Shultz agrees and says maybe the figure might be higher than \$30.8 billion when the release is finally ready.

Nixon wonders whether "honest economists" will pick up on the significance of the figure. He wants someone to help press secretary Ron Ziegler make the right interpretation. Shultz agrees that such assistance would be a good idea. And from what we know, there was no leak and the figure came out on the normal schedule.

Of course, releasing data on a pre-announced official schedule is one important way of avoiding charges that government statistics are being used for political purposes. Nixon's proposal to advance the release of what he thought was a positive number would have undermined that approach. Shultz in various ways resists the idea of a leak or an early release and appears to have killed it, both in the conversation and in actual practice. That interpretation of the May 12 conversation is consistent with Shultz's behavior in another instance in which he – in his later position as Treasury Secretary – was asked to launch improper IRS investigations of supposed Nixon enemies and refused to do so.⁸

⁸ See the brief excerpt on YouTube in which Shultz describes the later IRS incident at http://www.youtube.com/watch?v=FG_TjWN-Mk4. An aide to Shultz reports that White House counsel John Dean

Since President Nixon was willing to play with the timing of what he thought would be a positive official economic statistic, perhaps it is not surprising that he would assume that his assumed enemies in the federal statistical bureaucracy might want to adjust other numbers to be negative. In an interview in 2008, the above-mentioned William Safire refers to Nixon as a multi-layered cake with different personality aspects, one layer being what Safire termed “mild paranoia.”⁹ Nixon didn’t want to think of himself as doing anything wrong early in the May 12 conversation but he then shifts and rationalizes the inconsistencies. The shifting from doing no wrong to strategies for doing wrong all occurs within a conversation lasting four and a half minutes.

Of course, the same personality inconsistencies and contradictions may account for why the administration of the supposedly-conservative Richard Nixon originated modern affirmative action in the workplace. The inconsistencies and contradictions may explain why Nixon signed off on worker safety legislation, on environmental legislation, and why he implemented wage-price controls.¹⁰ They might account for why he advocated (unsuccessfully) for a national health insurance system based on an employer mandate.¹¹ And there was Nixon the anti-communist who became “Nixon in China.”

Nixon went to China literally. But figuratively - with his inconsistencies and contradictions - he went to China more than once. We can thank George Shultz for halting one trip on May 12, 1971.

has come to him with a list of names to be targeted. Shultz tells his aide to refuse and to tell Dean that if he (Dean) has a problem with the refusal, he has a problem with Shultz, not the aide. Shultz reports in the YouTube interview that he never heard anything from Dean but that when the White House tapes became available, he learned that Nixon was angered by the refusal.

⁹ See <http://www.youtube.com/watch?v=yHLsE5nYuGk>.

¹⁰ See <http://www.youtube.com/watch?v=Wv4gpyfLF3s>.

¹¹ See <http://www.youtube.com/watch?v=iGKkPEvD2OM>.