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Domestic Credit by Lydia Schulman

In acknowledgement of their services

The income of economists may have contributed a record amount to the GNP. Otherwise, they didn't contribute much...

1979 was a record year for the economics industry. More economists and economic predictions were produced than during the previous record year, 1929, and the aggregate income of economists contributed a record amount to Gross National Product. In recognition, the *Exectuive Intelligence Review* has decided to bestow awards for a number of exceptional performances.

Competition for the first award for the "Most Unsuccessful Effort to Fight Inflation" was fierce. The award is shared by former Federal Reserve Chairman G. William Miller and his successor at the helm of the Fed, Paul "Controlled Disintegration" Volcker. Under their successive direction, the central bank of the United States instituted the policy of jacking up interest rates to bring down inflation—and ended up with a 15 percent rate of producer price inflation by year end. Miller and Volcker will also share the "Positive Feedback" award, given to those individuals who, when a policy is proven an utter disaster, follow it with redoubled effort.

The "Masters and Johnson" award for the economics profession goes to those economists and investment advisors who prematurely predicted the peaking of interest rates. As early as last April, when triple-A rated corporate bonds were carrying yields of 9 percent, top-flight investment houses were advising their clients to lock into long-term investments fast, before interest rates started to fall. By year end, the bonds of top-rated industrial corporations were trading at over 11 percent. The investment banking profession suffered a blow to its reputation (and sustained untold financial losses, following the imposition of Volcker's "anti-inflation" measures last Oct. 6. Over the month of October the market value of the nation's portfolio of fixed income securities dropped a sheer 10 percent, as the bond market suffered its most disastrous single loss in financial history.

The "Cost Corporate Treasurers the Most Billions" award goes to those same economists who advised corporations to put off long-term borrowing until the fourth quarter, when interest rates were to have peaked. Thus corporate treasurers borrowed short-term at record rates over the first three quarters of the year, on the expectation that they would be able to shift their short-term debt to long-term borrowings later in the year. Long-term interest rates have yet to peak, and corporate treasurers are paying as much as two percentage points more than they would have in early 1979—if they can get into the bond market at all.

The "Consistency" award goes to those economists who have continued to predict a "mild recession" after the economy has entered depression. It is within the powers of these economists to be unwaivering in the face of such indicators as the long-term layoff of over 125,000 U.S. auto workers; the 23 percent cut in first quarter auto production schedules from last year; the 23 percent drop in machine tool order from October to November, and the across-the-board weakening of new orders, just reported by the National Association of Purchasing Managers.

As for our own 1979 track record, last summer our computerized econometric model predicted a fifteen percent drop in real output over a two year period to be triggered by the Fed's "tight money" policy. The *EIR* also consistently pointed out that high interest rates would fuel, not fight inflation. Higher borrowing costs, passed on by liquidity-strapped corporations, were a major source of inflation over the year. More significantly, the Miller-Volcker high-interest re regime aggravated the trend away from productivity-boosting capital investments into high-yielding, fast-buck ventures—betting against the dollar, commodity speculation, and gambling stocks.

The outlook for the credit markets in 1980 is for more inflation and higher interest rates, thanks to

- the U.S. State Department's support for Islamic fundamentalism and higher world oil prices to foster "conservation."
- a related policy to force "diversification"' out of the U.S. dollar,
- the commodity price indexation schemes launched by the Brandt commission and other supranational bodies
- a continued weakening of corporate liquidity in the U.S. under the weight of inflation and the build up of unsaleable inventories.

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