'We were right and they were wrong'

by Richard Freeman

Since 1979, every group of publically acknowledged economics experts, with the sole exception of the *Executive Intelligence Review,* under the guidance of Lyndon H. LaRouche, Jr., has been lost in the woods in its economic predictions. Every economics journal, every bank economist, every economics institute and every econometrics research house has consistently missed what would happen in the economy particularly when it comes to projecting the size of the federal government budget deficit, which these pundits love to jabber about.

The crime is that despite the abysmal track record of the idiot savants of the economics profession, it is their thinking and predictions which guide the investment decisions of most U.S. investors, and worse yet, set the parameters for the economic policy decided by the President of the United States and the Congress. *EIR* believes it is long overdue to perform an act of justice which most people in this country would readily welcome: clean out the Augean stables of these frauds.

The best starting-point is the Congressional Budget Office (CBO) the most-often quoted think tank in Congress on budget matters. In July 1981, the Congressional Budget Office under director Alice Rivlin released its projections for the federal budget deficit of successive fiscal years 1982, 1983 and 1984. Rivlin stated that the deficits would be $43.1 billion, $18.4 billion, and $23.2 billion respectively. Six months later, the projections were shown to be pure nonsense. In January 1982, Rivlin hastily slapped together a set of "corrected" projections which, according to a CBO spokesperson, show that the fiscal 1982 federal budget deficit would be $100 to $110 billion, the fiscal 1983 would be $150 billion and the fiscal 1984 budget deficit in the range of $200 billion.

Compare the July 1981 and the January 1982 budget predictions. In that time, the projected fiscal year 1983 budget deficit rose from $18.4 billion to $150 billion. The latter projection is more than 8 times larger than the earlier, a margin of error of 700 percent.

Data Resources Inc. of Lexington, Massachusetts and Washington, D.C., the econometrics research institution most widely cited and used by corporations with the largest annual sales revenues in its field, predicted as late as September 1981 the federal budget deficit for fiscal year 1982, would be $58.4 billion. In late December 1981, only three months later, Data Resources changed its prediction, and said the fiscal year 1982 budget would be $101 billion, a margin of error of nearly 100 percent.

Fidelity Bank's Econometric Forecasting unit, under the direction of economist Lacey Hunt, one of the most respected and often-quoted forecasters in the United States, projected in late November 1980, that the fiscal year 1981 federal budget deficit would be $23.0 billion. The actual fiscal 1981 federal budget deficit, which ended Sept. 30, 1981, was $57.9 billion, a margin of error greater than 150 percent.

Evans Econometrics, another of the "Big 10" of the economic forecasters, stated in November 1980, "Our forecast for 1981 is now slightly more bearish because of the continuing rise of interest rates, but real GNP is still expected to increase in all four quarters next year [1981]." Those who paid for the Evans Econometric Forecast got their money's worth half the time: in two out of the four quarters, real GNP actually fell in 1981.

Two methodologies

The problem is that the professional economics experts openly disdain reality in making their predictions. A CBO spokesperson told *EIR* Jan. 13 that while the Congressional Budget Office releases to the public its predictions about real GNP, budget deficits, inflation and unemployment rates, it *does not* release any predictions on industrial production. The reason is "we at CBO could change our minds at any time about the industrial production assumptions, and no one would know the difference." That is, their predictions are not based on tangible production. Rather, the CBO begins from such meaningless concepts as GNP, which measures the "output" of casinos and rent increases as real economic activity.

In making its predictions, *EIR* starts with how the underlying infrastructure of the economy is affected by such things as loan-shark interest rates, and then figures how that will affect the federal budget.

The full *EIR* track record will be dealt with next week in depth. As a preview, note that the Feb. 17, 1981 issue of *EIR* predicted that the fiscal 1981 budget deficit would blow out of control. *EIR* then estimated that Volcker would add between an extra $50 to $60 billion to the fiscal 1982 federal budget deficit later in the year. Volcker's high interest rates, the *EIR* said, had to swell the budget deficit through 1) higher interest rate charges on the public debt; 2) loss of tax revenues; and 3) increased counter-cyclical programs, like increased unemployment benefits, due to the Volcker recession. To bring down the deficit, we said, Volcker had to be fired and his policy of monetarism ended.