The world's best econometric record

by Richard Freeman

Executive Intelligence Review's LaRouche-Riemann econometric model forecast for 1982 predicted the present development in the U.S. economy with great precision, *EIR* editors announced recently.

A comparison of the model's forecasts for the physical output of the American economy with the indices of industrial production issued by the Federal Reserve Board and related indices for transportation and other activities not covered by the Federal index shows that the LaRouche-Riemann model was exactly on target. Against a 6.4 percent decline in the 1982 rate of physical goods output compared with 1981, the LaRouche-Riemann model had forecast a 7 percent decline.

In the last three years, the *EIR* has twice correctly predicted the destructive impact that Fed Chairman Paul Volcker's high interest rates would necessarily have on the U.S. economy. The *EIR*'s record stands in sharp contrast to the record of the major brand name econometric forecasters, such as Chase, Wharton, and Merrill Lynch, who have stubbornly retailed the myth that high interest rates would only have a minor impact on the economy.

Volcker's mayhem predicted

Immediately after Paul Volcker shifted monetary policy into an austerity mode on Oct. 12, 1979, *EIR* predicted a major economic downturn for early the next year, and followed this prediction with a multi-sector forecast of the American economy showing rates of drop of greater than 10 percent in auto, steel, and housing output. *EIR* stated at the time that the then Carter administration might take an erratic step in monetary policy. In March, 1980, President Carter and Fed Chairman Volcker invoked credit controls. During the next four months, industrial production fell an absolute 8 percent.

By comparison, Michael K. Evans of Evans Econometrics, who founded Chase Econometrics, announced in March 1980, just as the downslide got underway: "I've called off the recession." He gave the no-recession scenario a "better than 50 percent chance." Chase Econometrics predicted a 3.7 percent drop for the second quarter of 1980 as of November 1979. In March, Chase Econometrics threw out its old forecast and predicted that the second quarter would be virtually unchanged, with a slight decline during the third quarter.

Data Resources, the nation's largest computer consulting firm, foresaw a mere 2.5 percent drop in output during the second quarter of 1980, followed by a rapid improvement during the third quarter.

As mentioned, *EIR* predicted in October 1981, a sharp fall in industrial output for the year 1982 of 7.0 percent. While the year is not yet over, consider the 1982 full-year predictions once again of *EIR*'s reputed competitors. Merrill Lynch predicted a 2.7 percent increase in industrial production—a level that will not be achieved. Chase Econometrics predicted a 3.8 percent increase; Wharton Economic Forecasting a 3.9 percent rate of increase; and Evans Econometrics a 6.3 percent rate of increase. To reach the latter value, the U.S. industrial output would have to grow between 6 and 9 percent in the second half of 1982.

In approximately half of the 29 sectors analyzed by the LaRouche-Riemann model for 1982, sectoral results also corresponded precisely to the actual economic performance.

"The model run presented as a base forecast for 1982 assumed the continuation of the Federal Reserve's monetary policy. As costs to the corporate sector of the additional interest burden were calculated in, the model showed that continued depression was inevitable. The model exercise also took into account the administration's tax and budget policies, in particular the impact of the present military procurement budget. Slower-than-expected defense investment produced lower results for transportation equipment than we expected, while vehicles and iron and steel production fell more sharply than we had predicted," commented *EIR* Economics Editor David Goldman.

EIR will soon release a LaRouche-Riemann third-quarter forecast for the U.S. economy. The *EIR* staff has already conducted computer-based econometric studies of other countries, including Mexico, Korea, the Soviet Union, India and most recently Colombia, showing alternate paths of development. Now, the *EIR* is in the process of developing a global model, which will establish scientific causal relations among energy, population size, and skill development of the labor force.