

Fed economist fakes data

by Kathy Burdman

The *Executive Intelligence Review* is pleased to present its 1980 First Annual Piltdown Man Award for the Most Spectacular Hoax in Economics to Martin Feldstein, president of the prestigious National Bureau of Economic Research.

Mr. Feldstein's powers of econometric forecasting were explained at the Sept. 7 annual meeting of the American Economic Association in Denver, Colo., when two U.S. government economists from the Social Security Administration rose to announce that Feldstein had manufactured all the data in his widely-read 1974 Social Security study. Before the packed session of 2,500 economists chaired by Feldstein himself, Feldstein's landmark study was exposed as based on computer fraud. The major finding of the study which has influenced U.S. aged policy ever since, was that Social Security payments harm the U.S. economy.

NBER's Feldstein, trained at Oxford, England, naturally hails from the long line of British science, made famous by the "Piltdown Man" hoax. British anthropologist Charles Dawson in 1911 claimed to have unearthed an "ape-man" skull at Piltdown in England, proving Darwin's theory of evolution. In 1952, however, the skull was shown to be a man's cranium and an ape's jaw, fraudulently buried together by Dawson.

Feldstein and the economic research bureau are the major consultants to Carter's Federal Reserve Board Chairman Volcker on economic policy. In fact, the bureau has been the Fed's official monetary think tank since its founding in the 1920s. But the ties are even closer. Volcker personally is the protégé of, and once ran the New York Fed for, former Fed chairman Arthur Burns, who was the president of the research bureau for 20 years before taking over the Fed in 1970.

Volcker has instituted the monetarist doctrine of setting the rate of rise of U.S. "money supply," or credit to the economy, to a fixed 6 to 7 percent annual rate, which figure is to be religiously observed no matter what the economic consequences. In the real world, with inflation at 14 percent and U.S. corporations deep in short-

term debt, a 6 percent credit target means that any demand for funds—and there is quite a bit—drives interest rates sky-high and sends industry into bankruptcy.

Voters should note that Feldstein, Volcker's close adviser, is also the leading protégé of Reagan's top adviser Milton Friedman. Feldstein is also an official Reagan campaign adviser.

The discreet use of the computer

Feldstein's famous 1974 Social Security tract, exposed last week to the American Economics Association membership by Dean R. Leimer and Selig D. Lesnoy of the Social Security Administration, purported to show that Social Security payments are harmful to economic growth, because such payments discourage individuals from saving for their retirement. This, he claimed, reduces the general rate of savings deposits in banks in the economy, and thus the amount of capital available for economic investment and growth.

U.S. government economists Leimer and Lesnoy ran a check for the first time since 1974 on Feldstein's formidable computer program and quickly discovered an "elementary programming error," as they tactfully called it, which was responsible for all of Feldstein's conclusions. Rather than showing that Social Security caused \$63 billion net loss to the nation's savings and thus to capital investment in 1974 alone, when "corrected" Feldstein's model actually showed a net improvement in capital investment due to Social Security. Feldstein was forced to admit to the error publicly.

Feldstein comes from the same long Oxford line of British scientists as behavioral psychologist Sir Cyril Burt, who experienced a burst of international fame when his racist genetic experiments were exposed as fraudulent some years ago. Sir Cyril's experiments maintained that identical twins raised under radically different cultural and educational advantages would show identical intelligence, thus documenting that intelligence is genetically—that is, racially—inherited. Government ought not to educate inferior races, Burt concluded. Researchers subsequently discovered that the original pairs of twins upon which Burt based his claims were not twins at all or never even existed.

Useless eaters

All this lying does not lack coherent bases in policy. Feldstein's attacks on "over-consumption" by the aged, Burt's attacks on education expenditure, and Volcker's attacks on credit for U.S. industry have a common thread. They twist science in order to confront us once again with the tired corpse of Parson Thomas Malthus and his theory that economic growth is bad because it produces more "useless eaters," a population growth that society cannot possibly support. ■