predicting the OPEC price for oil next year someone simply produced a supply-demand curve for oil use and availability. Well, this is what Fischer does for the U.S. economy.

For example, Fischer argues that the housing market will not collapse. Fischer argues that interest rates will fall, making mortgate lending easier, and inflation will fall, making homes cheaper and easier to buy. Fischer posits at the same time an offsetting tendency for the value of housing assets to rise, thus preserving the net worth of the housing market.

To compensate for any problems, Fischer notes that household debt has risen since World War II to a ratio of 30 percent of disposable income, making people less liquid during a monetary contraction— but household tangible assets, including $1.79 trillion in housing stock and $0.82 trillion in consumer durables, are larger than the financial liabilities of households of $1.33 trillion. The obvious implication is that families can sell off their homes and furniture, if need be, to pay off their debt.

In the corporate sphere, Fischer's all-purpose supply-demand formula is applied to produce the claim that although interest costs have skyrocketed as a percentage of pretax profits, from 4 percent in 1948 to 35 percent in 1979, they are "manageable" under shock therapy.

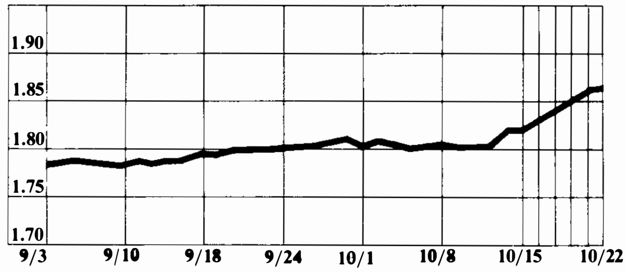
Yet, as both history and common sense show, a shock-therapy regime would decimate companies that have piled up short-term for debt rollover, inventory financing, and so forth; a blow-out in any key corporate sector, such as auto (see Domestic Credit), will devastate the commercial paper market, along with several highly leveraged money center banks—beginning with some in New York. Industry does not conform to neat supply-demand curves, but unravels at an accelerating pace, taking major banks and major chunks of the economy with it.

Fischer himself is intelligent enough to have doubts about his formula, doubts that sprinkle his paper with inconsistencies. At one point, he reassures himself that "The worst potential effects of a debt deflation have already been neutralized by deposit insurance." In the next sentence, he blurts out. "Further adverse effects can be minimized by the Fed's acting decisively as lender of last resort, as it did in the Penn Central and Franklin National cases, to prevent financial collapse." Further on, Fischer repeats: "In the event of a collapse of the housing market, mortgage purchases by the federally sponsored agencies, and quick use of fiscal policy, would make it possible to limit the contractionary effects on aggregate demand and output." In plain English: a massive federal government rescue operation—and an open admission of the "free market" failure of his proposed policy. What he does not admit is that the policy is a oneway ticket to hyperinflation of the present Thatcher variety.

Currency Rates

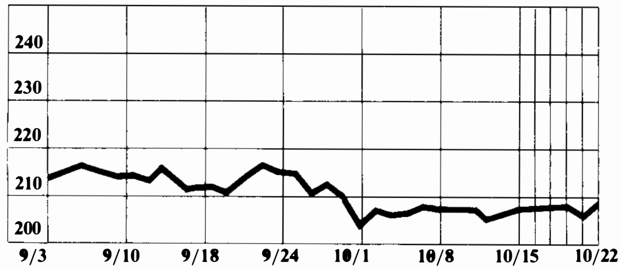
The dollar in deutschemarks

New York late afternoon fixing



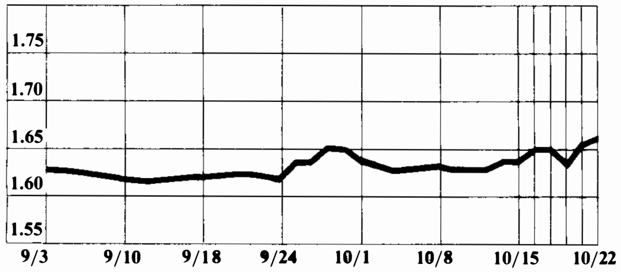
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing