Wharton Econometrics tries forecasting hoax

by Lyndon H. LaRouche, Jr.

Spokesmen for the *Executive Intelligence Review* may have lessened the danger of international financial chaos Sept. 23, by discovering and exposing a hoax circulated by the U.S. forecasting service, Wharton Econometrics, Inc.

Through parallel, high-level meetings with officials of several nations Sept. 23, *EIR* executives simultaneously uncovered the conduiting of dangerous financial-economic disinformation by Wharton. If such disinformation were to influence policies of debtor nations' financial planning and creditor financial institutions, an added degree of chaos would inevitably be introduced to the present international financial crisis.

Discovery of the widespread Wharton hoax come in reactions obtained to the latest data on the rising, double-digit-percentile rate of collapse of U.S. investment in goods-production. Wharton's widely circulated recommendations to various developing-sector-nation clients and to others, had willfully falsified U.S. data, to show a reported "slight economic recovery."

On this basis, Wharton had indicated to developing-sector-nation clients a rate of export earnings from primary-commodities sales far above the actual levels consistent with present, worsening U.S. and Western Europe trends. If such lies had continued to be believed by such nations and their foreign bankers, a dangerously aggravated situation in international financial markets would have been caused.

The exact nature of this danger is highlighted by the content of other discussions, background discussions which *EIR* executives have been holding with Swiss and other financial spokesmen during the recent days.

Excepting fanatics, such as the "Chicago School" variety of monetarists, and such as Fabian Society spokesman Friedrich von Hayek's Mont Pelerin Society, it is generally understood that it is now physically impossible to save the International Monetary Fund and World Bank in their present form. It is agreed, in the overwhelming majority of leading financier circles, that there is no possibility that "IMF conditionalities" and related measures could "roll over" approximately $1 trillion worth of international debt threatened with default during the months immediately ahead.

It is also the consensus among competent financial authorities, that the only alternative to a general collapse of the world's financial structures would be a comprehensive debt reorganization. This, it is understood, would have to be an "across-the-board" rescheduling of outstanding debt—especially Third World debt—at interest rates of approximately 2 percent per annum.

Lies such as the Wharton hoax have the practical effect of encouraging governments and lower-level banking circles in the delusion that the recent financial crisis might be successfully managed with a combination of "increased IMF authorities" and "case-by-case" negotiation of "IMF conditionalities" with key debtor nations. Fostering such delusions means that it becomes more difficult, if not impossible, to undertake the kind of "across-the-board" debt reorganization needed to forestall an imminent general financial collapse.

More narrowly, if debtor nations and their bankers were to be hoodwinked into accepting Wharton's lies about "on-

Brazilian sugar-cane harvest: Third World policy-makers are being lied to about commodity-export prospects.

going U.S. economic recovery," those bankers and debtors would be encouraged to enter into the kind of agreements which would catch both parties unprepared for unexpected, but inevitable major defaults during as early as the coming weeks.

The continuing U.S. depression

In December 1981, the quarterly forecast I and my associates issue warned of a 7 percent rate of decline of tangible-goods output in the U.S. economy during 1982; since December, the industrial production index for the U.S. economy has fallen at a 6.7 percent annual rate. All other computer-based forecasts foresaw a several-percentage-point rise in industrial output. This highly-accurate forecast was premised on the continuing effects of the insane Volcker monetary policy on U.S. industry.

However, we also warned that a general financial crisis would ultimately follow upon the Volcker policy, resulting in much faster rates of economic decline. Present indications are that the rate of economic decline stands to accelerate, not recover. The 4 percent drop in durable-goods orders in August, and the thirteenth consecutive fall in the order backlog of industry, brought to public attention what was obvious from close scrutiny of the data: the entire capital-goods sector of industry has collapsed, led by the machine-tools sector, whose present order backlog is half of last year's, and steel, whose capacity utilization rate in September was 39.8 percent, the lowest since 1936, and half of that of September 1981. Consumption of steel by the heavy-equipment sector is now 30 percent below last year's, indicating that capital goods manufacturers are working off their final orders, without renewing raw materials orders.

What rules out any prospect of recovery is that interest rates paid by manufacturing corporations and farms have not declined, despite the sharp drop in the ultimate investment of flight capital, U.S. short-term Treasury securities. Fear of a general banking crisis has dried up normal sources of banks' funds, and American banks now must pay Eurodollar interest rates 6 percent higher than the Treasury bill rate to obtain funds; with a prime rate still at 13½ percent, barely higher than the banks' own real cost of funds, the effective borrowing charge for most U.S. credit users is over 15 percent. Since the depression has wiped out corporations' ability to raise prices to compensate for debt-service cost, the interest burden remains the highest since Volcker took office.

Wharton forecasts generally

Wharton users generally are somewhat like the fellow who discovered that his wife was really an orangutan after 25 years of happily married life. Finally convinced of the fact by experts, the husband shook his head slowly, "She may not be a real woman, but I'm sort of used to her. What you say is probably right, but I'd rather just keep the marriage the way it is."

Since U.S. Federal Reserve Chairman Paul A. Volcker first introduced what he labeled "controlled disintegration of the economy," during October 1979, Wharton Econometrics, Chase Econometrics, Data Resources, and U.S. governmental forecasting agencies have consistently produced absurd forecasts for the U.S. economy, each and every quarter. Nonetheless, these forecasts continue to be widely accepted, on the apparent assumption that they "may be incompetent, but we still view them as authoritative."

Intensive studies of all these econometric forecasts by a team of scientists and economists has shown why econometrics is intrinsically incompetent for dealing with anything but very short-term, limited-scope applications. Even those conditional successes demand relatively stable trends in the economy and markets generally. Under high rates of economic growth, or rapid economic contraction, econometric methods become worse than useless.

The complicating factor in published private and governmental econometric forecasts is the fact that all such reports are heavily doctored. Dr. Lawrence F. Klein, the "father" of the Wharton model, describes the massive doctoring of computer print-outs as "tender loving care," in his book on the subject. The only significant difference among the Wharton, Chase and Data Resources forecasts is the slight difference in emphasis in the manner the producers "doctor" the computer output for publication.

In the recent case, Wharton Econometrics went way beyond the usual degree of "doctoring" of data output. It has resorted to massive, politically motivated fraud, and has been just caught red-handed by several governments in the act.