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Editorial

The downfall of the recovery myth

Federal Reserve Chairman Paul A. Volcker's March 10 admonition against "wishful thinking" about the U.S. economy, echoing the remarks of his Swiss counterpart Fritz Leutwiler published in *EIR* (Vol. 10, No. 8, March 1, 1983), has thrown cold water on the prevailing mania in Washington. The downfall of the recovery myth with the publication of data showing three months of declining retail sales resembles less the "abortion of a tentative recovery" than the termination of a hysterical pregnancy.

Earlier, the myth had drawn steam from:

1) unemployment data which conveniently "lost" almost 1 million members of the workforce between December and February, converting an 11.3 percent rate to a 10.2 percent rate;

2) a set of "leading indicators" based on money supply growth, stock market prices, plus whatever prices the Commerce Department chose to include and minus whatever prices (e.g. oil) it chose to exclude, and minus the all-time record bankruptcy rate;

3) inventory accumulation in the auto sector which took production in February to 480,000 units against 400,000 in sales to dealers, and considerably fewer final sales; and

4) positive factory orders data generated by "expectations" of future sales.

The one item that could not be faked indefinitely was the final sales data, which were revealed March 10. It is hard to believe in a "consumer-led recovery" when retail sales (with the downward revision of the January number) fell three months running. The February data, especially for personal income, will also promote a wave of pessimism.

Administration and Federal Reserve officials now warn privately that the President's optimistic statements—pressed upon him by his economic advisors—will turn shortly into an embarrassment, and that more bad news is to be expected.

Virtually alone among the services offering full-dress economic forecasts, *EIR* ignored the economy's hysterical pregnancy. Our job has been to shout, "Fraud!" at the publication of each cooked number. Until the Reagan Administration gets down to fundamentals, there will be no recovery, and those who deceive the President on this subject are certainly not his friends.

The issue is no different from what we presented in January with our most recent forecast, based on the LaRouche-Riemann economic model: the American economy has been cannibalizing itself as a result of structural deformations during the past three years of Paul Volcker's monetary vandalism. With almost one quarter of the normally-available working-age population not working, and three-quarters of the working population producing services rather than goods (against two-thirds in 1979), the overhead of the economy can be supported only by eating away the productive base. The $300 billion Federal borrowing requirement this year, the record trade deficit, still-high and rising interest rates, and the other factors that "might abort the recovery," in the conventional folly, are an expression of the fundamental considerations.

EIR's LaRouche-Riemann model is a device to measure the change in these fundamentals and to calculate the behavior of an economy resting on such fundamentals under different investment policies (as determined by credit, tax, regulatory, and related policy). Our accuracy during the past 13 quarters—and what our competition will soon grudgingly describe as awful prescience during the present period—is based on this superior view.

Nothing short of a frontal attack on the fundamental problems will bring about recovery. The United States must reverse its technological slide with a repetition of the NASA economic success—this time through a crash program to develop high-energy beam anti-missile weapons. It must also re-order its credit system such that the productive sector obtains first call on credit, and stabilize national finances through the remonetization of gold. Recovery is not impossible: It is pushed further off by the combination of lies and self-deluding nonsense shoveled into the Oval Office.

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