Eye on Washington by Nicholas F. Benton

Sprinkel's optimism veils deep fears

Beryl Sprinkel, the man who tried to jump ship after the Oct. 19 crash, but was pulled back on board to finish his term as the head of the President's Council of Economic Advisers, spewed forth the official administration economic forecast for 1988 to the White House press corps Dec. 23.

Needless to say, the forecast ignored one important factor—reality. Pretending last fall's stock market crash never happened, Sprinkel rattled off a set of projected parameters for the coming year which have about as much chance of coming true as my wish that a Mercedes-Benz appear in my Christmas stocking last month.

He projected a slight slowdown of the "Reagan recovery," from a 3.5% projected growth of the Gross National Product to 2.5% in 1988. Otherwise, however, he said that unemployment would remain the same (5.5%), interest rates would drop, and inflation would be a modest 5%.

Sprinkel was qualifying all of these optimistic projections very carefully. He did admit, "There are three things that could do us in." "Do us in" is a reference to the all-out economic collapse that no amount of optimistic talk is going to prevent from hitting in the new year, if current administration policies persist.

Sprinkel conditioned all his promises of continued "good times" on the triple premise that: 1) the federal budget deficit continues to come down, 2) there is an economic growth boom abroad, and 3) the Federal Reserve keeps interest rates down and the printing presses rolling out the liquidity required to paper over a huge amount of non-performing debt.

Three false assumptions

These three qualifiers require a level of cooperation from all quarters that no amount of wishful thinking could actually produce.

- First, further deep cuts in the federal deficit cannot be counted on during an election year. The much-touted "budget summit" that followed the Oct. 19 crash could only shave a fraction off the deficit, satisfying neither the congressmen's constituencies nor the deficit limits set by Gramm-Rudman. The blood is already flowing in the streets of America from the deep cuts made in Medicare and other vital programs in the 1987 budget, and no congressman seeking reelection is going to dare go on record for even more draconian cuts before next November.

The size of the deficit is going to balloon as a delayed reaction to the loss of trillions of dollars Oct. 19. The diminished tax revenues in the first four months of 1988 will reflect not only capital gains losses, but the layoffs resulting from the business slowdown provoked by the crash. Sprinkel wouldn't admit to this in his briefing, but he knows it's a short-fused time bomb that will make any effort at meaningful deficit reduction seem ludicrous.

The effect of this has already been seen in the deficit for the first two months of the 1988 fiscal year, which is over $56 billion (a rate that would put the deficit at $360 billion). When I asked Sprinkel about this, he grumbled that it was not a "seasonally adjusted" figure, and then refused to concede that the losses in the market last fall would have anything other than a "marginal effect" on tax revenues in 1988.

- Second, Sprinkel bases his 1988 economic assumptions on the willingness of the Japanese and European economies to self-destruct. He projects that lowered interest rates and looser money in those countries, combined with a continued drop in the dollar's value, will stimulate U.S. exports and even out the record trade imbalance.

However, it is far from certain that America's trading allies are willing to explode their domestic economies in this fashion. Three days after Christmas, the White House was forced to make a public pronouncement calling a halt to the slide of the dollar because of its panic-inducing effect on the stock market.

- Third, Sprinkel's assumption that the Fed will provide enough liquidity for the economy stands up only to the extent that his second, unfounded, assumption holds. Any resistance to the free-fall of the dollar to the range of 1.30 German marks, for example, will mean that increasing the U.S. money supply automatically triggers a rise in interest rates and domestic hyperinflation.

If anything, economic trends in this election year will trigger an irreversible push toward protectionism, which, combined with unprecedented domestic and foreign debt defaults and a major drop in federal tax revenues, will leave Mr. Sprinkel with all his assumptions for economic growth hanging down around his ankles.

As for President Reagan, like old King Lear, he prefers to hear things that flatter him, rather than the truth. This will be his great undoing in his last year—and the big question is how many in his entourage will remain loyal under such circumstances.