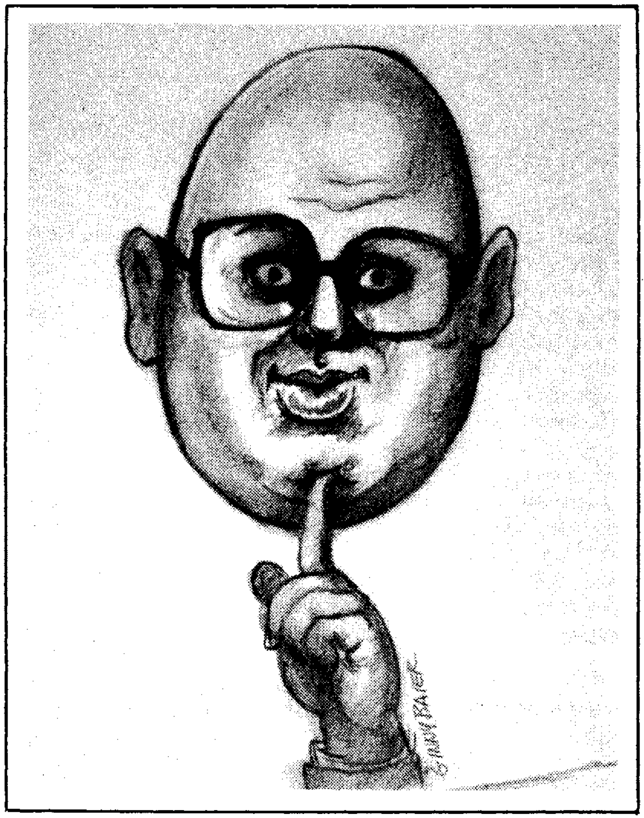
Free-Market Profile



Hoaxter makes good as CEA chairman

by David Goldman, Economics Editor

Council of Economic Advisers chairman Martin Feldstein, who learned to lie from the old pros at Oxford University in England, became the laughingstock of the economics profession—quite an achievement in such a competitive field—when his most famous work was exposed as outright fraud, and this before the entire assembled corps of American economists.

'Elementary error'

Feldstein's computer-based study purporting to show that the Social Security system inhibited capital formation drew all its conclusions from an "elementary programming error," two Labor Department economists demonstrated before the Sept. 7, 1980 session of the American Economic Association's annual convention, held in Denver, Colorado. The economists, Dean R. Leimer and Selig D. Lesnoy of the Social Security Administration, demonstrated before 2,500 assembled economists, at a session chaired by the horrified Dr. Feldstein, that the Harvard economist's own arguments showed the opposite of what he purported to—once the fakery in programming was eliminated.

Feldstein's 1974 study of the Social Security system, the supposed masterwork which won him the presidency of the National Bureau of Economic Research, purported to show that the Social Security system reduced capital formation, by draining funds that people would otherwise save for their retirement, and invest in better fashion than does the Social Security Administration. The rigged results showed a $63 billion loss to the nation's capital stock between the founding of the system and 1974, allegedly due to the slower rate of growth of savings deposits in the nation's banking system due to Social Security taxes.

In fact, the "elementary programming error" corrected, Feldstein's own data would show a modest improvement in capital investment due to Social Security, as a shamefaced Feldstein admitted before his peers. One wonders why the economics profession tolerates such hokery, but, after a second's reflection, understands that the profession is given over to fakery at the profoundest level, such that indiscretions of Feldstein's sort may quickly be forgiven and forgotten.

Clearly the times demand a man of Feldstein's qualifications at the President's side. Who but an expert in faking data could produce a recovery prediction under present conditions?

Arranging depression cycles

Feldstein's professional association, the National Bureau of Economic Research (NBER), is the new Delphic Oracle of a yin-yang cycle between inflation and recession, culminating in periodic busts of world-shaking magnitude. Since the 1920s, it has provided an excuse for the Federal Reserve's destructive practice of aborting economic growth before significant capital investment takes place. The NBER doesn't predict recessions: it arranges them. Business cycles are instigated by "business-cycle theory." Only when wartime or similar considerations overrode the Federal Reserve's throttle, i.e. World War I, World War II, the Korean War, and the 1960s moonshot program, has the United States economy renewed its capital stock.

The President, viewing the nation through the beetle-eyes of the pollsters, sees a nation of individuals grumbling over the impingment of the economic crisis on their individual household budgets, imagining that if the symptoms of our economic decay—taxes and inflation—would stop interfering with their household budgets, the crisis would go away as well. No one in Washington believed the Reagan administration could surpass the recent performance of the Commerce Department, which removed the nation's bankruptcy rate from its index of leading indicators, in order to erase unpleasant proof of economic collapse. As the supreme expression of our national petty-mindedness, we now have a chief economic adviser of the sort we deserve: a faker who exceeded his fellow fakers in zeal. If we are willing to tolerate his sort at the Council of Economic Advisers, we have no right to complain of the consequences.