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EIR Special Report

LaRouche-Riemann model: unsurpassed economic record

by David Goldman, Economics Editor

If economics is a science and not a branch of astrology, there must be some relationship between the predictive power of an economic theory and the policy recommendations that ensue from it. The public has come, with justification, to regard economists as a notch below astrologers, after years of hearing recovery predictions while the economy continued to collapse around them. There has, however, been one economic theory and an associated computer-based econometric model which has successfully forecast not only the important turns of the economy, but the quantity of those turns, since 1979: the LaRouche-Riemann economic model, with which readers of *EIR* are familiar.

In preface to the release of our most recent projections for the next year's economic behavior, we have the resulting obligation to insist on the soundness of the policy recommendations which have accompanied our previous, accurate, forecasts. Our analysis has proved correct not because Lyndon H. LaRouche, Jr., the model's designer, possesses a better crystal ball than the Wharton School, but because the model examines rather than suppresses the features of economic activity that tell whether man will continue to exist in the physical universe or not.

Contending models treat indifferently expansion of white-collar and blue-collar employment, video games and machine tools, gambling casinos and steel mills, urban renewal and infrastructure building. Their bottom-line is constant-dollar final sales or Gross National Product, whether or not such sales reflect activity which makes more likely continued existence of the underlying, physical economy. It is no surprise that their predictions have been nonsense in a period in which the principal economic development has been an upheaval in the productive base of the economy.

Equally incompetent have been the principal policy recommendations of the authors of such predictions, including the suggestion that tight money will cure inflation. Tight money has merely destroyed productive capacity and lowered productivity, while leaving virtually untouched the actual

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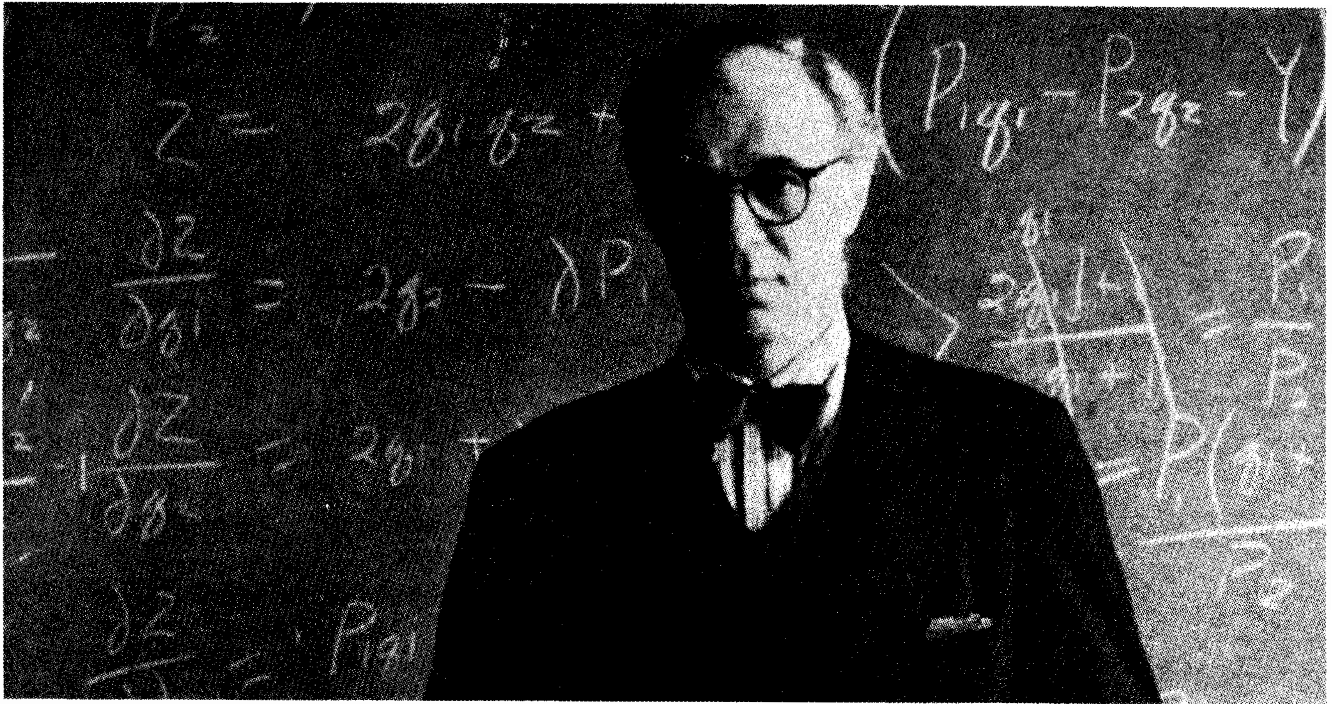

Nobel Prize winner Lawrence Klein, whose forecasts of U.S. economic performance for the past four years have been as accurate as those of the other U.S. econometricians: dead wrong.

sources of inflation in the economy, principal among which is the higher rate of interest—which now comprises 10 percent of Gross National Product. Equally absurd was the notion that tax cuts would revive the economy, under monetary conditions that prohibit capital investment and, in many cases, even operation of the existing productive capacity.

To the extent that the administration and the Congress continue to act according to advice which has failed without exception during the past several years, no better results can be anticipated. Both in our quarterly forecasts and in our frequent development studies of the United States and foreign economies, we have demonstrated that the criteria of economic growth are improvements in the physical economy, especially those that lower the base of social cost of production, e.g. energy, transportation, and water. Shifts in investment in favor of overhead functions, e.g. administration and associated electronic equipment, do not represent an economic "sunrise," but a fundamental deterioration.

It must be added, in all fairness, that the Wharton, Data Resources, and Chase Econometrics forecasts are not meant to be accurate: they are meant to intersect with and shape the prejudices of the policymaker, as executives of the relevant forecasting firms say frequently in private discussion. Data Resources notoriously carves out the "middle of the road" forecast, i.e. seeks to be wrong with the greatest justification, while Chase Econometrics deploys itself either to the optimistic or pessimistic flanks of the "consensus" analysis.

Nor should the policy recommendations be taken at face value. As we have repeated in this publication, the underlying prejudice of all such econometrics favors zero economic growth, and treats all technological improvement as an unwanted disturbance of "equilibrium." The administration has bought, in deceptive packaging, a frankly Malthusian economic theory, and should not be surprised that it has obtained Malthusian results.

Therefore, we restate once again what steps must be taken to revive the economy:

1) Federal Reserve Chairman Paul Volcker must be shown the nearest door, and the Federal Reserve must immediately discount credits to goods-producing industries at low interest rates, preferably on a participation basis with private banks. This policy will suffice until the Federal Reserve can be replaced with a better institution modeled on the old Bank of the United States.

2) The United States must remonetize its gold reserves and employ them, at $500 per ounce, as backing for an international bond issue at interest rates of approximately 2 percent, to recapture the base of the Eurodollar market, and assemble a fund for low-interest credits for trade and development. This action approximates what Third World leaders have proposed under the name, "New World Economic Order."

3) The administration must immediately undertake a crash program of nuclear plant-building and improvements in water and transportation infrastructure, which will pay for themselves several times over in enhanced productivity.