Domestic Credit by Richard Freeman

Wharton calls off the recovery

The influential, and habitually inaccurate, forecasters are bringing their projections closer into line with economic reality.

EIR has received the following brief announcement from Wharton Econometric Forecasting Associates, the commercial forecasting arm of the Wharton School at the University of Pennsylvania, under the title "Wharton Econometrics Predicts High Interest Rates Will Choke off World Economic Recovery":

"Sluggish U.S. economic performance, persistently high real interest rates (particularly in Europe and Canada), and continued pessimism among investors and consumers have combined to virtually choke off world economic recovery this year. Wharton Econometric Forecasting Associates [WEFA], which will be holding a conference in London, England this month to discuss the world economic outlook, is currently projecting a halting recovery in growth during the rest of 1982 and 1983, with lower than normal growth rates for a recovery in late 1984 and beyond. . . .

"There are several major risks to this outlook, however, notes World Service Director Roger Bird. The major risks are as follows:

"1) Unemployment-induced social unrest could lead to further pessimism among investors and consumers;

"2) continued high real commercial U.S. interest rates and an excessively strong dollar could lead to lower investment worldwide, and possibly to higher import costs outside the U.S., and lowered growth internationally;

"and perhaps most importantly,

3) an international financial crisis could be sparked by 'interest holidays' and requests for debt reschedulings from financially troubled LDCs, which would hurt the liquidity of banks in the developed countries.

This in turn could result in a 'flight to quality,' higher commercial interest rates to LDC debtors, reduced LDC borrowing, increased LDC import restrictions, and increased barter-trade. The follow-up effects from this scenario would include lower world trade, investment, and growth."

In the past, *EIR* has covered Wharton's predictions only well after they had failed. Wharton predicted a recovery in December 1979, right before the economy went into its first tailspin following the introduction of the Volcker monetarist policy at the Federal Reserve. Wharton also predicted a 1982 recovery in its forecast published December 1981, whereas the economy (in terms of tangible output) fell by 7 percent over the year to date.

Indeed, *EIR* has criticized Wharton's consistently inaccurate predictions as a dangerous hoax, leading to policy blunders on the part of governments who (especially in the developing sector) use the Wharton report as a principal source of intelligence on the U.S. and world economy ("Wharton Econometrics Tries Forecasting Hoax," by Lyndon H. LaRouche, Jr.; *EIR*, Oct. 5, 1982). Most recently, *EIR* correspondents learned that top officials of one of the developing sector's biggest debtors had used Wharton projections of world economic recovery in 1983 to calculate that their country could manage to pay its debts that year.

Therefore, Wharton's turnabout, which received little attention in the daily press, has more than academic interest, since the forecasting service's international influence is a significant factor in decision making, for good or ill. In the past, *EIR*'s own forecasts for the U.S. and world economy, employing the LaRouche-Riemann economic model, jarred with Wharton's; in the two cited cases of Wharton error, *EIR* grasped the size and direction of economic trends, when Wharton's pointed in the wrong direction entirely. In the present case, the Wharton and *EIR* forecasts point in the same general direction.

Wharton officials were, at deadline, closeted in the London meeting cited in the release, receiving feedback on their present forecast; following the meeting, the forecast might be revised somewhat, according to a spokesman for WEFA.

However, some basic points must be made about the Wharton perspective as presented in the release:

First, it remains cast in terms of Gross National Product, and is hard to pin down in terms of real physical production levels.

Second, points two and three among the "risks" cited are contradictory. Point two, a strong dollar leading to lower investment, is not so much a risk as an assumption embodied in the no-recovery forecast.

That is the current situation; the draining of capital from the rest of the world in favor of a flight-capital bubble in the United States is the status quo. However, the financial crisis mooted in point three would—among other things—start a chaotic collapse of the dollar parity, accompanied by even lower levels of world output.