SAMUELSON PRESENTS HIS MULTI-POINT SOLUTION TO OUR ECONOMIC ILLS

In the October 12 issue of *Newsweek*, Paul Samuelson, the most popular economist in the country, set out his 6 point diagnosis and prognosis as to the world's economic ailments. He states that the Federal Reserve Bank should have reduced the interest rate on overnight loans between banks by at least half a percentage point. Samuelson claims that this would cause all other rates to drop on everything from cars and homes to equity loans to business. He claims that such low interest rates would expand consumer buying power, stimulate the US economy, and allow Americans to buy imports, thus aiding Asia and Latin America. He claims that businesses would then pay less on their debts, so with the boost from consumer spending, there would be fewer layoffs and stabilized stock prices. And finally, Samuelson claims that lower U.S. rates would make investment in troubled economies look better, thus helping those countries stem capital outflows.

Even a cursory look at the economy would expose the Samuelson nostrum as completely worthless. If this theory were true, then we could obtain everlasting economic security merely by cutting the rate on overnight loans to 3% or 2% or even 1%. This is not the same as the prime rate, which is the rate that banks charge their very best clients.

In David Stockman's book, *The Triumph of Politics*, written when he was Reagan's budget director, he describes the discussion of this point by Allan Greenspan to a group of Reagan's closest advisors. Stockman stated "Greenspan's presentation was given in his customary trenchant and succinct manner. It was the questions that were neither trenchant nor succinct. One question was on how the Federal Reserve Board set the prime interest rate charged by the banks. Greenspan patiently explained that the prime rate was set by market forces, not the Fed. . . .This was puzzling new information to those gathered around the table." Evidently, Samuelson shares the general ignorance relative to who sets the prime rate.

In the Samuelson Newsweek article, he stated that the international collapse commenced in July, 1997, when Thai devalued its Baht. Samuelson describes how other Asian countries, South Korea, Indonesia, Malaysia and the Philippines, followed suit, causing foreign investment to flee. ● ● ☞

☞ Samuelson never mentioned the fact that in each of these countries, there had been a tremendous boom in real estate purchases that were based on heavily leveraged loans. Nor does he mention the fact that Thailand's collapse came about when, on the advice of the International Monetary Fund, it doubled the national sales tax.

As to Japan, Samuelson states "that it was hurt because 40% of its trade was with the rest of Asia." Samuelson admits that "the Japanese economy never really recovered from the bubble economy of the late 1980's. Samuelson never mentions that this bubble economy is based on the extraordinary land speculation. Samuelson briefly refers to the Japanese banks being burdened with more than $5 hundred billion in bad loans. He never mentions the fact that most of those bad loans were on real estate and that the total amount was closer to $1 trillion, than 500 billion. Samuelson then refers to economic collapses occurring in domino style in other countries throughout the world, without mentioning the cause of these economic debacles. In addition to the wonderous effects that would be brought about by a reduction of the overnight loan rate, Samuelson proclaims that, "Japan clearly needs to recapitalize its banking system with government funds. The weakest banks need to be closed with their deposits and good loans transferred to surviving institutions. The government would absorb losses from back loans. . . Japanese consumers and businesses also need to raise spending. The government has already announced tax cuts."

In fact, there is no reason why Japanese consumers and business should have to pay more consumer taxes. The same have been unfortunately imposed at the suggestion of American Keynesian economists. Insofar as the tax cuts, applauded by Samuelson, these would apply to taxes on the wealthy and the large landowners.

Samuelson concludes by supporting "Congress's approving IMF funds, and the Feds cutting interest rates." In short, they have the most popular economist in the country coming out with the most absurd solutions, which is as much as can be expected from an economist whose judgement is limited by the blinders that interfere with the vision of every follower of John Maynard Keynes. The Keynesians evidentally also approve the IMF pressure which led to Russia imposing a ruinous 5% sales tax. Yeltsin presided at the reburial of the oppressive Romanoff rulers. He is evidentally, also resurecting their tax policies. ● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ●