

## Eye on Washington by Nicholas F. Benton

### Kaufman forecasts socio-economic crash

Henry Kaufman, formerly the top economic forecaster for one of Wall Street's most prestigious investment firms, Salomon Brothers, predicted that the United States is headed down the fast track to economic and social ruin, because its corporate sector has become addicted to piling up debt. Kaufman, known as "Dr. Doom," was addressing a National Press Club luncheon here on Jan. 10.

There was more indigestion than usual resulting from the luncheon, as Kaufman described how debt financing of mergers and acquisitions, and leveraged buy-outs (known as "M&As and LBOs") has infected every sector of the U.S. economy, to the point that the first hint of a recession will send the economy into a panic.

Kaufman was introduced as a man who has written on the parallels between the current trends in the U.S. economy and those in Germany which led to the rise of Nazism. He fled Germany with his family as a youth in 1938.

While he did not mention this parallel in his National Press Club speech, he did warn that the effect of the current debt financing frenzy will result in a loss of the political freedoms that are cherished in the United States.

This, he said, will come as a by-product of the government's necessary intervention to bail out the collapsed corporate sector once the "house

of cards" of the trillions in unsecured corporate debt comes crashing down.

Kaufman was particularly pessimistic about the political will of Congress or anyone else to take the necessary steps to remedy the situation until it is too late.

The reason for this, he said, is that there is just too much easy money to be snatched up under the current arrangement. This means that even those corporate institutions historically the most conservative, like commercial banks and "non-cyclical" industries, are jumping feet-first into the business of profiting from unsecured notes ("junk bonds").

The only real losers right now are those holders of existing long-term bonds who watch helplessly as the ratings on their holdings drop. But these people, he said, do not have any organized political lobby, and therefore cannot prompt any real change.

The other factor inhibiting the Congress from making the necessary reforms now is the fact that any effective remedy would result in a short-term downturn for the market.

Efforts to slow the flight of capital out of equity into debt will have the necessary short-term effect of inhibiting investment in equity, he said. Although such a move would prevent a catastrophe in the long term, its short-term impact mitigates against it.

Kaufman said that 26% of the cash flow of major U.S. corporations is now diverted to paying only the interest on debt—a worse interruption of cash flow than during either of the last two recessions.

Although Kaufman did not predict a recession in 1989, he indicated that the preconditions for one will be set. That is because, he projected, the Federal Reserve will not be able to slow the growth of the economy to the 2.4% rate desired. The "overheating" will cause inflation to rise too fast, and the

Fed will compensate by tightening money and raising interest rates.

This is the perfect recipe for a rip-snorter of a collapse, especially when the ingredients of a Third World debt crisis and a contraction of foreign investments are added in.

Yet, the *Washington Post*, in its Jan. 11 edition, said that Kaufman had expressed optimism in his National Press Club speech, in a departure from his reputation for predicting "doom and gloom."

The *Post* reporter explained that the "optimism" was in Kaufman's forecast that the recession would not come this year. One can only assume that the *Post* reporter was asleep or otherwise preoccupied during all but the 30 seconds of Kaufman's hour-long address when he said this.

Either that, or the editors of the *Post* simply did not want their readers to know what Kaufman really said.

### Weinberger appears before foreign press

On Jan. 9, the day President Reagan's largely symbolic budget for Fiscal Year 1990 was announced, former Defense Secretary Caspar Weinberger made a rare appearance before reporters in Washington.

At the Foreign Press Center, Weinberger spoke to 50 foreign journalists about the achievements of the Reagan years in the area of national defense.

Weinberger has almost never come before reporters since retiring over a year ago, but this time he came armed with a fact sheet identifying the milestone achievements of the Reagan defense policy.

It was vintage Weinberger, but it wasn't clear whether this was something of a farewell address (before moving on to *Forbes* magazine), or the start of something new.