

'Inflationary stagnation' in '79, says bank economist

By TIM RICHARD

America's inflationary excesses of 1978 leave the nation vulnerable recession in 1979.

But David Littmann, vice-president of economics for Manufacturers National Bank, said there could be some good economic news next year if inflation is reduced by less federal borrowing and less expansion of the money supply.

In either event, "inflationary stagnation" and little real growth in productivity are in store, Littmann told the Detroit Economic Club Monday.

Littmann gave the overview speech for the club's annual economic forecasting luncheon. Whatever else happens, he foresees a flattening of the boom which in January will enter a record 46th month.

IF FEDERAL monetary and fiscal policies are brought under control, Littmann said, four good things could happen next year:

- "After a period of accelerating prices in the first half of 1979, the U.S. economy could turn the corner on inflation before next year end.

- "Interest rates, after reaching a peak early next year, could descend progressively during the year and into 1980.

- "Capital spending should remain strong; savings and investment, expressed in real terms, could improve.

- "The U.S. net export position could show a dramatic turnaround, ending the year 1979 as a positive figure."

He predicted a one per cent real growth in the gross national product barring major strikes and no mandatory controls or credit allocations by the federal government.

LITTMANN, who has degrees from Massachusetts Institute of Technology, Antioch and the University of Michigan with advanced study at the London School of Economics and Political Science, has developed a monthly index of business activity for the metropolitan area and the state.

He recalled that his forecast for 1978 had been on target:

"If policy-makers continue to stimulate the economy by adopting wider deficits and faster growth rates for money, then 1978 will show dramatic acceleration in prices and interest rates," he predicted a year ago.

"Unfortunately, this is exactly what happened," he told the Economic Club. "Despite the fact that the U.S. economy this year will show a real output gain of at least 3.8 per cent—which exceeds the average 3.5 per cent expansion rate for our economy since World War II—there has been no let-up in policy stimulation.

"Largely as a result of these inflationary excesses, the economy now enters 1979 with considerable vulnerability to recession and great uncertainty regarding even more government-imposed controls," he warned.

REAL GROWTH in 1979 will be lower than in 1978, it is generally agreed, he said.

"In contrast to the outlook presented a year ago, there are now several areas of excesses that will weaken major sectors of the economy," Littmann said, listing two sectors:

"The growth rate of mortgage and consumer installment credit cannot be maintained.

"Incomes will be pinched by inflation, and spending for autos and residential housing will undergo some retrenchment."

Littmann said financial markets, both in the U.S. and the rest of the world, are watching American policy "with extreme anxiety."

He continued: "Less deficit spending is interpreted favorably. Less money and credit expansion now translates into positive responses."

"It is recognized that control programs merely distort the economy and create shortages. Moreover, controls attack consequences, rather than causes, of inflation. Therefore, movement toward such programs would appear as desperate actions."



DAVID LITTMANN
'Inflationary stagnation'

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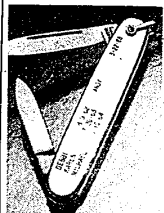
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