Investment
Outlook

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IN THE DENTIST'S CHAIR

No one I know has ever liked going to the dentist. Although the tooth may need a filling, there's something about getting to the silver that is extremely uncomfortable and nervewracking. I can never decide which I hate more - the novocaine, the drill, or the endless yards of cotton wadding stuffed in my left cheek. Even the normally welcome chatter of an attractive dental assistant seems out of place and irritating. As a child, not even the prospect of a free toy was enough to comfort me, and as an adult, only the thought of the eventual absence of pain provides any solace. A day or two later, however, when the soreness disappears, the dentist is forgotten for another year and the mouth functions as it should.

Today's economy and financial markets are making an extended visit to the dentist's office. After years of neglect, changes are taking place that are inflicting discomfort - if not pain - to numerous participants, but which promise eventual relief and a more optimistic future. The agony is perhaps most visible in the debt and equity markets, where historically high short and long term interest rates have reduced the current value of stocks and bonds by nearly 15% in the space of several months' time. The reasoning behind these moves is twofold, but has little to do with whether the fiscal '82 budget deficit will come in at $40 or $60 billion. After all, the 1976 budget deficit was financed with stronger economic growth and inflation at 6%. Under those conditions, the prime rate peaked at a paltry 8%. Instead, the explanation rests with a restrictive monetary policy and the ongoing transition from a borrower's to saver's economy.

It should come as only a mild suprise that the Fed has deemed it necessary to stay with tight money for so long. Federal Reserve policy almost invariably is a reflection of the Administration with which it serves. Despite seeming independence, Federal Reserve Chairman and Board members typically have marched to the tune of the President. The problem with the marching for the past decade and a half has been that, for most of that period, the incumbent Presidents have been proponents of easy money and low interest rates. The inevitable result was accelerating inflation and eventual withdrawal pains for the first President and Fed Chairman to draw the line. Even though monetary growth has not produced a dramatic recession, the gradual ratcheting down of annualized increases has prevented an economic surge that almost assuredly would have added to inflationary pressures. The price, however, has been unprecedented rates of interest which have hurt financial intermediaries, small businesses and individuals alike. Almost no sector of the economy has been immune. In past years, the Federal Reserve would back off at