Message from the Dean

Marvin G. DeVries

Grand Valley State University

Follow this and additional works at: http://scholarworks.gvsu.edu/ssmm

Recommended Citation
Available at: http://scholarworks.gvsu.edu/ssmm/vol6/iss1/2

This Article is brought to you for free and open access by the Seidman College of Business at ScholarWorks@GVSU. It has been accepted for inclusion in Seidman School Management Memo by an authorized administrator of ScholarWorks@GVSU. For more information, please contact scholarworks@gvsu.edu.
The first issue of the Seidman Management Memo was published in 1980. At that time we announced that the purposes of this publication would be to inform readers of the activities and programs of the Seidman School and to comment on economic and business conditions in the West Michigan area. We now need your help. We would like your assessment of what we have been doing in this publication for the last five years and what you would like us to consider doing in the future. The questionnaire enclosed with this issue of the Memo is short and won’t take much time to complete. However, your input is important if we are to publish information and activities of interest to you. In a subsequent issue we will summarize the results of this reader survey.

Enrollment this fall increased 8.2 percent in credit hours in the Seidman School (4.7 percent for Grand Valley State overall). This represents an 11.2 percent decrease in our graduate enrollment and 13.3 percent increase in undergraduate enrollment. The decrease in graduate enrollment is partly explained by a general decrease nationally in M.B.A. enrollments. Furthermore, a change in our policy now requires all prospective graduate students to submit their Graduate Management Admission Test scores before registering for graduate courses. Thus, a number of these students are currently enrolled in undergraduate courses to satisfy background or prerequisite requirements.

We are pleased to announce the establishment of a Minority Business Education Center in the Seidman School of Business. Over a year ago we formed a task force to recommend ways to increase minority enrollment in our business school. Toward the end of the last academic year this committee was preparing its report when we were invited to meet with some members of the Grand Valley Board of Control and the Administration to explore alternative ways to attract minority students. After two brainstorming sessions and several drafts of a proposal, we have developed an approach we believe will be attractive to minority students. (The lead article in this issue of the Memo describes the purposes and activities of the Center.)

The Economy Is About to Get Its Second Wind

By John O. Bornhofen

The recent economic news has been quite mixed, and the layman should be excused for being confused about where the economy is heading. There’s not much confusion about where the economy has been over the past 12 months, however: almost nowhere! After growing very strongly for the first year and a half of the economic recovery, real economic growth almost stopped in the first quarter of this year. Indeed, from the first quarter of 1984 through the second quarter of 1985, real Gross National Product grew at only two percent, slower than our overall long-run growth potential. In recent weeks, however, there are signs that things are beginning to pick up again, and although we won’t advance as fast as we did in 1983 and early 1984, economic growth should be more in line with—and perhaps a bit above—its long-run potential in the second half of this year.

The first six months of this year saw an average annual growth rate of only one percent. But even this modest gain conceals the fact that the economy is very unbalanced, with some sectors growing rapidly while others shrink. Consumption spending by the household sector continues to be strong in relation to the rest of the economy. It was up almost six percent over the last 12 months. This is important because consumption is almost two-thirds of total GNP. Growing at about the same rate are real government expenditures, with Federal expenditures growing a bit faster than state and local government. The only other sector adding strength to the economy is business investment in new plant and equipment (non-residential fixed investment). It grew eight percent over the last 12 months, while investment in new housing grew about the same rate as total economic activity.

Areas of Weakness

So much for the growth areas, and on to the areas of weakness. Two facts stand out. First, the inventory boom is over. While the business sector added almost $25 billion to its inventories in 1984, investment in inventories fell to less than $6 billion in the second quarter. Granted, inventory levels haven’t been falling, as they do in recessions (a $10 billion drop in 1982, for instance), but inventory investment has fallen since the third quarter 1984. This goes hand in hand with a slower growing economy. The slow growth was to some extent the result of the slower inventory buildup and to some extent its cause. When sales growth slows, businesses don’t want to be stuck with unwanted inventories. By trimming back on inventory growth immediately, they reduce the possibility of making larger cuts in inventories and production later on. Since the ratios of inventory to sales are now quite low, additional production and inventory accumulation is likely.

Second, the biggest area of weakness in the economy has been and still is our international trade sector. As a nation, we are importing far more goods and services than we are exporting, by a widening margin. The second quarter saw imports exceed exports by almost $9 billion. What is even more alarming is that this occurred even though our sales of goods and services abroad are falling. Our purchases from abroad keep rising, however. The report of more red ink in our international trade balance has been followed by reports that the U.S. is now a debtor nation for the first time since 1914. Debtor nation status means that the outstanding borrowings by Americans, their government, and their businesses from foreigners now exceed the amount of foreign debt Americans hold. In recent years, foreigners have lent heavily in the U.S. as they purchased Treasury securities to help finance our federal deficit. This occurred at the same time that American banks sharply cut back their lending to Third World countries because of the enormous amount of shaky loans already out there. Debtor status is another indication that, as a nation, we are simply living beyond our means.

There are still other worrisome aspects of the trade deficit. Protectionism is rampant in Congress, and there is the distinct danger that additional tariffs on imported goods and other barriers to trade will be forthcoming. These could raise the prices of some goods considerably and step up our inflation rate, as well as provoking retaliatory measures against the things we are still able to sell. Increased protectionism is not the answer. Cutting the Federal deficit is! Moreover, the President’s recently announced program to reduce the trade deficit by, among other things, having central banks drive the dollar down in the foreign exchange markets runs the risk of not being very effective and, in any event, taking too long to achieve results.

Not surprisingly, the trade deficit is affecting manufacturing and agriculture most heavily. Industrial production in factories has only recently resumed growing, very slowly, after months of stagnation. Overall industrial production, which includes the output of mines and utilities, is also growing again but ever so slowly. Output of mines and utilities had also been stagnant or down for several months. Meanwhile, with continued investment in new plant and equipment, the capacity utilization rate in manufacturing is down, from almost 82 percent in the summer of 1984 to almost 80 percent now.