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New Seidman Professor

growth of Federal spending in early 1981. After growing at 12% per year through the four years of the Carter presidency, Federal spending growth was slowed to 9% by President Reagan in the first half of 1981. Taxes, however, were not cut until later. These actions reduced the actual Federal deficits and the Federal stimulus to the economy so much that the high-employment Federal budget actually showed a surplus in the first half of 1981.

At the same time, the Federal Reserve was implementing a tight money policy to combat inflation. The result was that the basic money stock, M_1, actually declined from April to October, 1981, following a growth rate of 10% from early 1980. This was a significant tightening. But there was still more. The Administration's policy was to slow the rate of growth of Federal taxes as well as the money stock and Federal spending. Accordingly, the Economic Recovery Tax Act (ERTA) was passed in mid-1981, and it called for massive reductions in Federal taxes. Unfortunately, the tax cuts took effect gradually over time, and some of ERTA's major impacts were delayed until future years.

Coupled with the minor slowdown in aggregate Federal spending, the huge tax cuts triggered red flags, warning of skyrocketing Federal deficits in the future. Expecting the deficits to drive up interest rates in later periods, the financial markets responded and rates rose immediately. Coupled with a tight-money policy, the expectation of ballooning out-year deficits drove the high and rising interest rates even higher. Long-term rates reached record levels in late 1981 and early 1982. By then, the recession was on. Real GNP was dropping and unemployment was rising.

In early 1982, it appeared that the economy was about to turn around and resume an expansion, but two more policy developments squelched it. The Fed tightened the monetary screws again, holding the stock of money flat from January, 1982, until August, and Congress passed a new tax act, this time raising taxes. This was TEFRA, the Tax Equity and Fiscal Responsibility Act.

By mid-1982, the recession itself was bringing interest rates down, and TEFRA helped by reducing the deficits expected in future years. Then, in August 1982, the Federal Reserve switched to a very stimulative monetary policy. Subsequently, M_1 grew faster than in almost any comparable period in the past. Interest rates, which had been drifting downward, now broke sharply, the stock and bond markets took off, and in November, 1982, the economy bottomed out. The recession was over.

The Administration's economic policy is now more or less in place, at least as much as the political process will allow. Money growth has been slowed relative to that of the Carter years, but stable growth has yet to be achieved. The growth in Federal taxes has been slowed sharply, but the slowdown in Federal expenditures growth has been much more modest. Hence the huge deficits. In fact, Federal tax collections are now lower than they were in mid-1981, although this is partly due to the depressed level of economic activity. However, even if the economy had been operating at a high-employment level since early 1981, Federal taxes would only have risen about 6% per year, compared to over 13.5% from 1976 through 1980.

But the recent tax reductions were relative to "what would have been" under the then existing tax structure. Because of inflation, "bracket creep," and rising social security taxes, however, Federal average and marginal tax rates on personal income are now essentially the same as before the 1981 Act. There has, in fact, been very little tax relief at the Federal level.

The Outlook

The recovery is now on track and has good strength. This should continue into 1985. Real GNP could rise 6% in the rest of 1983 and perhaps 4% to 4½% in 1984. Incomes and employment should continue to rise smartly and the unemployment rate should drift downward to around 9% by early 1984. Although inflation will speed up, incomes should increase even faster, and people should experience an increase in their standards of living.

In Michigan, this is already evident as the auto industry is bouncing back from the recession. The state should experience higher incomes, production, and employment, along with less unemployment, and an improved state budget in the rest of 1983 and in 1984. This period should stand in marked contrast to the experience of the last three years.

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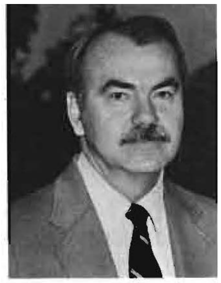

Dr. Ken DeYoung has been appointed Professor of Management. He was a visiting part-time professor in Seidman for the last two years. Dr. DeYoung received his B.A. and M.A. degrees in psychology from Michigan State University and his Ph.D. in psychology from the University of Minnesota. He taught at that university for eight years. From 1969 to 1976 he was with the firm of Rohrer, Hibler and Replogle, Inc., as a management consultant. From 1976 to 1981 he was a partner in Dallis, DeYoung and Student, consultants in organizational development, personal and professional development, and management of people.

Faculty and Staff Notes

Dr. Richard A. Gonce, Professor of Economics, will participate in a seminar entitled "Human Freedom and Social Order: Recurring Themes in the Thought of Frank H. Knight," sponsored by Liberty Fund, Inc., in Indianapolis, on November 10 and 11.

Rita Grant, Associate Professor of Accounting, presented a paper, "Fund Accounting: Uses and Misuses," at the American Society of Women Accountants National Spring Conference on June 10 at Boyne Mountain.

Robert Vrancken, Associate Professor of Management and Director of the Facilities Management Program, was the subject of an interview entitled "A Ride on the Office Horizon," that appeared in the September, 1983, issue of *Construction Dimensions.*