The Expansion Rolls On

John O. Bornhofen

Grand Valley State University

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

Recommended Citation

Available at: http://scholarworks.gvsu.edu/ssmm/vol4/iss2/5

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.
By John O. Bornhofen

As of early March, the U.S. economy was continuing to expand at a healthy clip, and by the time this newsletter is published, the recovery will be a year and a half old. Sales, output, incomes, and orders of almost all kinds continue to increase, and the employment situation continues to improve. The best overall measure of the economy, real Gross National Product, grew over six percent in 1983, a growth that has continued so far in 1984. (Real GNP is the total value of all goods and services produced in the economy, after adjustment for inflation.)

Thus far, the recovery and expansion have been fueled by consumer spending by families and individuals on cars and houses. In addition, business investment demand for new equipment has been very strong for this stage of the business cycle. The areas not contributing to the expansion so far have been government purchases of goods and services and net exports. Net exports, the U.S. sales of goods and services abroad minus our purchases from foreign countries, have been declining sharply as our deficit on merchandise account hit $60 billion in 1983. This deficit reflects rising American incomes, which are prompting people to buy more imported goods, while sluggish economies abroad and the high value of the dollar hold down foreign purchases of U.S. goods. The weakness in our net exports slows down the growth of our output and employment, while holding our inflation rate down.

As the economy has improved, the employment situation has improved even more dramatically. Employment is up and unemployment is down sharply. The number of people with jobs has soared to almost 104 million, a rise of almost five million since December, 1982, when the recovery began. Meanwhile, the unemployment rate has dropped to 7.8 percent. By some measures, the drop in unemployment has been the sharpest in 30 years. In addition, the proportion of the adult population in the labor force is also at near record levels. Together with a slowdown in the growth of the labor force, because of a drop in young adults and adult women entering the work force, these factors indicate that the labor market is tighter than the overall unemployment rate would indicate.

As the economy has bounced back, so has inflation, but the rise is concealed in the annual numbers. The inflation rate on the Consumer Price Index has risen slightly less than four percent in both 1982 and 1983, but that is now behind us. At the beginning of 1983, inflation was almost negligible. Since mid-1983, however, prices have been rising at an annual rate of five percent. Producers' prices (wholesale prices) have been rising even more slowly, up less than one percent in 1983. For the most part, these favorable performances are now over, and inflation will probably accelerate, although slowly, from now on.

Despite the dramatic slowdown in the inflation rate in the last five years, from over 13 percent in 1979 to 3.8 percent in 1983, long-term interest rates have not come down. By almost any measure, interest rates continue to be very high. This reflects the enormous demand for credit due to the massive issue of new Treasury securities to finance the Federal deficits on the one hand and a moderately tight monetary policy on the other. So far in 1984, uncertainty over the deficit and future interest rates has sent the stock market down, with major indexes losing five to 12 percent in January and February.

The huge Federal deficits reflect the current fiscal policy in Washington, which is very stimulative by default, if not design. The deficit was $195 billion in fiscal year 1983 and is currently running about $180 billion. That reduction, of course, is due to the rise in incomes, employment, and tax collections generated by the economic recovery, and not to cost-cutting at the Federal level. Overall, Federal expenditures continue to grow, although at a slightly slower pace than in the past. Federal tax collections are now growing rapidly after no growth from mid-1981 to mid-1983, during which time the deficit expanded from about $60 billion to almost $200 billion. Most categories of Federal spending have continued to increase but at different rates from those in the past, with spending on military and interest increasing rapidly, and domestic spending, mainly transfer payments, growing more slowly.

The monetary policy of the Federal Reserve continues to be moderately tight, although, because of revisions in the money data, not as tight as was previously thought. The M1 money stock, which consists of currency, checking accounts, and other transactions balances at depository financial institutions such as banks and thrift institutions, actually rose about nine percent during 1983. This has continued so far in 1984.

In recent months, monetary policy has been characterized as tight. This was because monetary growth slowed from over 14 percent in the first half of 1983 to 3.7 percent in the second. This reflected the Federal Reserve’s concern, and that of others, that continued rapid growth in the stock of money would bring about an acceleration of inflation in the near future. It is hoped and anticipated that the rest of 1984 will see slightly slower but more stable growth in the money supply measures. This will permit continued growth in the economy without a sharp acceleration in inflation.

One result of the easy Federal fiscal policy, moderately tight monetary policy, and an expanding economy has been high interest rates. The high rates have attracted capital from abroad, which has driven up the exchange rate on the dollar. The high value of the dollar has held down U.S. exports and encouraged imports. This has played havoc with certain industries, such as farm equipment, that count on foreign markets for their sales.

The high rates have also held down real economic investment in the U.S. and abroad, below what it otherwise would have been. This can be seen in the approximately 70 percent of our private net saving that is absorbed by the Federal deficit. Thus, our current Federal policy is in fact encouraging consumption and holding down investment. This will reduce our future stock of capital and will make it difficult to increase our standard of living.

On balance, the outlook for the rest of 1984 is still rosy. Real Gross National Product can be expected to increase about 4½ percent. Employment should rise, although more slowly than in the past, and unemployment should drop, again more slowly. We should be nearing seven percent unemployment by the end of 1984. Inflation and interest rates will probably rise somewhat during the year.

Continued on page 5
Faculty and Staff Notes

Dr. John Bornhofen, Associate Professor of Finance and Chairman of the Finance Department, was a discussant of a paper entitled “Dynamic Adjustment in the Market for Money Market Deposit Accounts” at the annual meeting of the Midwest Finance Association in Chicago, April 4-6.

Dr. Barry Castro, Professor of Management and Economics and Assistant Dean of the Seidman School, presented a paper entitled “Orwell: Praising Famous Men” at a conference on “George Orwell: Unresolved Contradictions,” held on March 23 at Northern Illinois University. Dr. Castro has also had a paper, “Looking for the Real World: Education and the Work Place,” accepted for publication in Change later this year.

Dr. Richard A. Gonce, Professor of Economics, was a participant in a special seminar on “Freedom and Order: Recurring Themes in the Thought of Frank H. Knight,” sponsored by Liberty Fund in Indianapolis in November. Dr. Gonce will present a paper entitled “Alfred Marshall on the Nation of Human Capital” at the annual meeting of the History of Economics Society in Pittsburgh, May 24-26.

Dr. Donald J. Klein, Professor of Accounting and Chairman of the Department of Accounting and Taxation, presented a Professional Development Seminar on “Flexible Budgeting” to a group of business executives in West Palm Beach, Florida, March 5-7. Dr. Klein also presented a Professional Development Seminar on “Direct Costing” to a group of business executives in San Francisco during April. Professors Klein and Rita Grant, also from Seidman School, prepared the material on “Direct Costing.”

Dr. Jitendra Mishra, Professor of Management, will present a paper on “Organizational Stress” at the meeting of the Midwest Institute for Decision Sciences in Indianapolis, May 2-4. Dr. Mishra has had an article on time management abstracted in the October, 1983, publication of the Journal of Accountancy.

Dr. Richard Veazey, Associate Professor of Accounting, presented a paper entitled “A Composite Theory of Foreign Exchange Rate Determination” at the annual meeting of the Midwest Business Administration Association in Chicago, April 4-6.


The Expansion Rolls On

Continued from page 4

The Consumer Price Index could increase six percent in 1984. Interest rates should rise also as large Federal deficits and growing private demands for funds interact with slightly slower monetary growth. All in all, 1984 should be a good year for the U.S. economy and for the Michigan and Grand Rapids economies as well.

Dr. John O. Bornhofen is an Associate Professor of Economics and Finance and Chairman of the Finance Department at the Seidman School of Business.

Executives on Campus

Dr. John M. Albertine, President of the American Business Conference, Washington, D.C., spoke to students, faculty, and staff on Tuesday afternoon, February 7, on “Fiscal Policies for the Eighties.” Earlier, he spoke to our Seidman Affiliates at lunch on the same topic. Dr. Albertine is also a member of the Board and the Executive Committee of the American Council for Capital Formation, the Business Advisory Board of the Bureau of Labor Statistics, the Executive Committee of the Budget Action Group and the Steering Committee of the Tax Action Group.

Mr. Cliff Boyce, Vice President of Community Relations at Steelcase Corporation in Grand Rapids, spent a day on campus meeting with marketing students and faculty. He spoke to several marketing classes on the subject “Preparing for Careers in Marketing.”

Mr. Kenneth W. Gideon, a partner in the Washington Office of Fulbright and Jaworski, spoke to students, faculty, and the local tax community at the Second Annual West Michigan Tax Symposium on December 8. Before rejoining his firm, he served for two years as Chief Counsel for the Internal Revenue Service.

Mr. John Connell, Executive Director of Office Research Technology Group, a member of President Reagan’s National Commission on Productivity, and a member of the Seidman School Advisory Council on Facilities Management, met with faculty and staff February 10 and 11 to discuss further developments in the Seidman School’s educational program on Facilities Management.

Seidman School Management Memo

The Seidman School Management Memo is published twice a year, in the spring and fall, and is sent to all contributors to and friends of the Seidman School of Business. Gifts from these sources enable the Seidman School to sponsor activities and programs designed to increase understanding of our economic system, facilitate exchanges of ideas between students, faculty, and businessmen, and support faculty research and professional development and, in general, enrich the business and academic communities. Persons interested in more information about the Memo or the published articles should contact Dr. Marvin G. DeVries, Dean, F. E. Seidman School of Business, Lake Huron Hall, Grand Valley State, Allendale, Michigan, 49401. Telephone 616-895-3271.