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# Message from the Dean

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



Marvin G. DeVries

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 \$39 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.

With the overall slowdown in the economy, personal income of the household sector is rising at only about half last year's rate—5 percent annually so far in 1985. With the exception of farm proprietors' income, which was down sharply to rock bottom levels at mid-year, all categories of personal income were above their year-end 1984 levels. Rising household income means more buying power in stores, and retail sales have grown irregularly so far this year.

With economic activity barely growing, the labor market stagnated in the first half. Civilian employment stayed at virtually 106.3 million, and the overall unemployment rate has stayed at 7.3 percent since January. The last two months have seen noticeable improvement, however. Civilian employment rose to over 107 million and the unemployment rate dropped to 7.1 percent. Although the percentage of the civilian non-institutional population that is employed is at near record level, the slow growth of economic activity and the continued growth in the labor force have combined to keep the number of the jobless at about 8.6 million.

A side benefit of the continued rush to buy imported goods and services, the rising slack in productive capacity, and the general slow growth in total demand is that inflationary pressures are minimal. Although inflation is still with us, there has been no acceleration in the Consumer Price Index in three and a half years and in the "general" price index (the deflator index for GNP) in two and a half years. In those periods, the inflation rate on both has stayed at slightly below 4 percent. Indeed, 1985 could see the lowest inflation on the CPI in almost 20 years. Also, the lid has been kept on producer's (wholesale) prices even more tightly. They have risen at annual rates of less than 1.8 percent for the last two and a half years. One must wonder, however, how long this era of stable inflation will last with our massive Federal deficits, rampant money growth, and rising protectionism.

### Fiscal Policy and the Deficit

Much of the behavior of the economy over the last several years can be explained by the economic policies of the Federal government. At issue are the fiscal policy, or lack thereof, of the Congress and the Administration and the monetary policy of the Federal Reserve. Fiscal policy is the use of Federal tax rates and expenditures to influence (supposedly to stabilize) the course of economic activity. However, with the President having one policy and the House of Representatives a different one, the Federal government overall has only an unintended *de facto* fiscal policy of running massive deficits. Moreover, the deficits are high because of structural reasons and not because the economy is running too slowly. Not only that, if and where inflation does heat up, tax collections will be little affected (as things stand now) because of indexation of the personal tax system, while many Federal expenditures, such as Social Security benefits, will grow

apace with inflation. Thus, a worsening of inflation will actually increase the deficits. The Federal deficit for fiscal 1985 is currently projected at \$213 billion, the highest on record. The fiscal 1986 deficit is projected at only \$177 billion.

The growth of the Treasury's debt has flooded the financial markets with securities and has kept interest rates higher than they otherwise would have been. The rise of Federal debt to over \$1.8 trillion has driven the ratio of outstanding domestic debt from its almost historical 140 percent to over 160 percent of GNP, probably the highest ratio in history. This has occurred since mid-1981 right along with the rise in the Federal deficit, and it has contributed to our interest rate problem.

The role of the deficit in unbalancing the economy comes from the massive issue of Treasury securities that finance the excess of Federal expenditures over tax revenue. This adds to the demand for funds in the financial markets and drives up interest rates. The high interest rates, in turn, attract foreign funds in search of high returns. Since foreigners must buy dollars in order to buy U.S. securities, they drive up the exchange rate on the dollar. An expensive dollar, while making foreign goods and services cheaper and encouraging imports and foreign travel, hurts American companies that produce here and sell abroad along with our import-competing industries. If foreigners can't afford the dollar, they can't afford our goods and services.

Reducing the Federal deficit requires either increased tax revenue or reduced Federal expenditures. Since it is extremely doubtful that the economy can grow rapidly enough to raise tax revenue sufficiently, either tax rates must be increased or Federal expenditures reduced to bring the deficit down to more sustainable levels. This will be politically more difficult but economically more sound than raising barriers to foreign goods.

The slowdown we have seen for the last 12 months is also partly due to Federal Reserve

actions last year. In mid-1984, the Fed caused or allowed the growth of the basic stock of money ( $M_1$ ) to stop dead in its tracks after two years of excessively strong growth. This stalling of  $M_1$  in the summer of 1984 helped slow the growth of the economy to a crawl. Since late 1984, however, the Fed has reversed itself and stepped on the gas again, and  $M_1$  has grown over 11 percent since October. In recent months it has appeared that this policy is working. Interest rates dropped sharply in the latter part of 1984 and now appear to have bottomed out. For these and other reasons, the recovery is resuming a stronger upward trend.

### The Outlook

The U.S. economy appears ready to resume healthier growth, at least over the near term. Plenty of new money has been pumped into the economy to build up demand—if that demand doesn't all flood out into the foreign market. There are several signs, though, indicating that a pickup in growth is imminent. Consumer confidence remains high, and the index of consumer buying plans remains in the range of readings of the past two years. The index of leading indicators has improved for four straight months after stagnating for over a year. Also, the Purchasing Managers' Index and the Leading Employment Index are up. In addition, employment and industrial production have spurted recently. As a pleasant surprise for the State of Michigan, auto sales leaped in the latter part of August and in September as the auto makers fought expanded imports with rebates and lower financing rates. It's quite possible, then, that we could see four plus percent real growth during the rest of this year. Indeed, the "flash" estimate on GNP for the third quarter shows a rise of almost 3 percent, and this is often revised upward.

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## International CAD Tri-Conference

The Seidman School of Business, in conjunction with the Operations Management Education and Research Foundation (OMER) and Integrand-the Institute, sponsored the First Annual International CAD Tri-Conference, held September 30 through October 4, in Grand Rapids.

The conference focused on CAD (Computer Aided Design) applications in manufacturing and robotics, facilities management, and architecture and design. Teams of industry professionals and faculty made presentations in the morning sessions and responded to specific problems, issues, and concerns submitted by the attendees in the afternoon. Some of the educational institutions involved were Grand Valley State, Michigan State University, Michi-

gan Technological University, University of Pennsylvania, Rice University, UCLA, the University of Illinois, Vanderbilt, and Utah State. Industry presenters included representatives from Prince Corporation, IBM, Amprotech, Arango Systems Inc., U.S. Army Construction Research Lab, Computervision, Computer Aided Design Corporation, Mega-CAD, Inc., and Precision Visuals.

The Tri-Conference was advertised as a "total educational" event and involved many students from a variety of business and non-business disciplines. These students assisted in planning and operating the various sessions and had the opportunity to interact with faculty and industry professionals throughout the conference.