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International CAD Tri-Conference

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, Michigan 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.