

# Stars can be seen beyond cloudy fiscal picture

By Corinne Abatt  
staff writer

On cloudy nights, you know the stars are there, but you can't see them.

Dr. Robert Goodman, chief economist with the J. W. Seligman and Company, was in the metropolitan area this month attempting to sweep away some of the clouds of misunderstanding about the economy.

And, according to Goodman, there are a lot of bright stars in the future — for those willing to take the long view.

In his talks in Plymouth, Southfield, Detroit and Bloomfield Hills, all part of series of seminars sponsored by the stock brokerage firm of Manley Bennett McDonald and Co., Goodman gave his listeners a brief, intensive course in contemporary economics before he launched into his optimistic predictions.

Two types of policies affect the country's economy — the monetary policy and the federal fiscal policy.

The monetary policy is controlled by Federal Reserve Board action and the fiscal policy by the Congress.

In the past, he said the Federal Reserve Board always fixed the interest rate which it had pre-determined as appropriate for the economy and let the money supply go wherever it had to to maintain these pre-determined levels.

"Four years ago," he said, "they were holding interest rates too low and the dollar was collapsing."

THE FED (Federal Reserve Board) realized, he said, "that only the marketplace can allocate interest rates in the long run. What we're going to do is manage the money rate in the long run (five, 10, 15 years). What they mean is a flexible approach capable of changing. We know what happened. The interest rate went from a high of 2 1/2% to a low of 10% and now bounced back to 11."

"What did we get? A very volatile credit market. . . And it's going to continue to be the policy of the Federal Reserve Board to allow the marketplace to regulate the interest rates. For the last four years, the Federal Reserve Board has controlled monetary policy — the market has."

He concluded this explanation by saying, "For the investor, you couldn't ask for a better monetary policy."

He told his audiences that if investors really want to know what the future holds as far as fiscal policy is concerned, they should turn to the 1981 tax act.

"As a consequence of the 1981 tax act, we know what the policy is likely to be like in this decade and beyond."

The investor has to be careful to separate perception and fact, he said, because what politicians say and what they do are not necessarily the same.

He said Congress is handling the Social Security system's financial problems by continuing to push the age at which people qualify for payments back until eventually it will correspond with actuarial tables "so they die off before they get returns."

HE SAID as far as the budget deficit is concerned, "They all know in Washington how they are going to deal with it."

He suggested that at the right political moment, President Ronald Reagan is going to address his constituency and make an announcement that reads something like, "We are going through a difficult four-year transition. We have won an incredible battle."

Before the speech is completed he will announce he is reducing military spending by two percent.

Then shortly after, Goodman said Tip O'Neill, speaker of the House, will speak up and say that it is only fair that we look at the entitlement side of the budget.

"In the next several weeks and months, the American people will get a careful look at what the budget is all about. The deficit isn't the problem. It never was."

In explaining monetary policy in the United States, he went back to 1936 and British economist John Maynard Keynes. His policy prescription included active economic planning and intervention by government to control supply and demand in times of distress.

"If you are in a depression or a recession basically when demand is below supply — that's what our economic needs is all about, demand and supply."

"When demand is below supply, Keynes said you

want to increase (government) spending. If the consumer won't do it and if businesses won't do it, the government must get into the system directly and do it for them."

Several things happened in the last decade which illustrate this theory in action, including a tax cut to people who could be counted on to spend it, and the creation of a recession when the economy overheated. But, Goodman added, don't tell people what you've done — if you're a smart politician.

SUPPLY SIDE policies associated with the Reagan administration go back further than the past four years, Goodman said, and the policies which we are seeing now are more long range than seem apparent to the average person.

"You had the first supply side tax cut in 1978 when the capital gains tax was reduced from a maximum of 49 percent to 28 percent. . . Do you cut taxes in your supply side philosophy? You bet you do, but how do you do it?"

To achieve the goal of a healthy economy, he said, the rate of savings flow must increase. Consequently, the bulk of the tax cut must be directed to the "saver," "those people who, on average, save a larger portion of their income — those in the middle and upper end of the income bracket."

Using the term "disinflation" to describe a gradual slowing of the rate of inflation, he said, "We have broken the back of that accelerating rate of inflation," adding that the doubters are going to be proven wrong.

He said the quality of earnings, with the stress on quality, "are dramatically improving."

And while there may still be fluctuation, the investor, with the long-term outlook, is being given a golden opportunity.

He closed by reminding his audiences that "Foreigners have been coming into this market in droves."

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