Fed governor 'cautiously optimistic' on '86

By Mary Rodrique
staff writer

Americans can expect moderate economic growth, low inflation and stable interest rates to continue through 1986, predicts national economist Martha Seger.

"Expansion is not especially strong, not stronger than 1985. It could be lower," Seger, a member of the Federal Reserve Board, told an audience of Michigan National Corp. bankers and customers at a luncheon in Dearborn.

"Domestic spending has slowed considerably," she said. "Real domestic spending will continue, but it won't match 1985 levels."

Seger, the lone woman on the dais surrounded by bank officers, recounted her strong Michigan ties. She earned three degrees, including a doctorate in business and finance, from the University of Michigan. She taught at U-M, Central Michigan University, Oakland University and the University of Windsor.

SHE WAS commissioner of Michigan's Financial Institutions Bureau, the state agency that regulates banks, before her appointment to the Federal Reserve Board in 1984. She told the 1,000 persons assembled at the Fairlane Club that she maintains close ties to the area.

"Assessing our prospects for the next year or so, we won't be locked into rising inflation," she said. "The precursors of recession are not evident. There is a high degree of optimism among business and households. Interest rates are below the peaks of a few years ago.

"Things could have turned out much worse. I remain cautiously optimistic for the year ahead."

While expansion will continue for at least the next year, some areas need attention if it's to continue beyond 1986, Seger said.

"Steel production is down. Computer industry growth of the early 1980s is not as rapid. Industrial manufacturing increased only slightly last year," she said.

'Domestic spending has slowed considerably. Real domestic spending will continue, but it won't match 1985 levels.'
— Martha Seger
Federal Reserve Board

REGARDING THE $220-billion federal budget deficit, Seger said not much progress was made in cutting actual spending in 1985.

"What is needed in 1986 is for the government to follow through with actual deficit-reducing actions," she said.

"It will be positive for employment, consumer spending and interest rates if we get the budget solved. Then the Federal Reserve can make decisions more in line with what it would like to do, not what it is forced to do."

The former vice president in charge of economics and investments for Bank of the Commonwealth and chief economist for Detroit Bank & Trust, Seger quipped that she saw a balanced budget once before and that it would be nice to see one again in her lifetime.

Last April at Oakland University, Seger told business and economics students that growth in the nation's basic money supply could support a 4 percent growth in the gross national product, the value of goods and services produced by the nation's economy.

BUT REAL GNP grew by a modest 2.5 percent last year, she said, referring to that figure as "a sluggish rate of growth in real activity."

"Since 1984, real exports have declined," she said. "We have experienced slower demand and heightened foreign competition. Consumer spending can't be maintained at recent levels." "Debt problems continue to hamper developing nations," she said. "Agricultural problems will continue through the year ahead. But this economy still has room to grow. Overall gains will be strong enough to sustain us."

In a brief question/answer period, Seger was asked what impact plummeting world oil prices will have on the U.S. economy and banking.

"ON THE good side, this will be a positive force in keeping the inflation rate down," she said. "It's good news for interest rate development. On the down side for major oil producing countries, this will have a curtailing effect.

"It will have a negative impact on borrowers' ability to repay their loans. There will be rising delinquencies and default."

Asked if she agrees with the administration's 4 percent growth factor prediction for 1986, Seger simply said she would love to see more growth. In an unrelated question, Seger told the audience that she doesn't favor protective tariffs for the U.S. auto industry.

She allowed humor to break through a businesslike veneer when asked what it was like to work for the Federal Reserve, guardian of the nation's money supply.

"IT'S CHALLENGING, exciting: We work 70 or 80 hours a week," she said. "You don't have to be smart for this job — just have a lot of stamina."

Seger was asked to comment on the profile of today's average consumer as a person overloaded with debt.

"I'm concerned about the consumer debt load," she said. "Consumer spending accounts for two-thirds of the gross national product. I think heavy accumulated debts will encourage consumers to curtail spending."

Townships fear federal revenue sharing loss

By Mary Rodrique
staff writer

Townships must make procurement of general revenue sharing funds their number one priority or risk losing a share of the federal pie for good.

So says Jeffrey Schiff, executive director of the National Association of Towns and Townships. Schiff made his remarks to 1,600 delegates during the opening session of the annual education convention of the Michigan Townships Association at the Hyatt Regency Dearborn last Wednesday.

"YOU MUST ELEVATE the issue of revenue sharing," he said. "Make renewal a campaign issue. It can't stop with township officials. Numbers mean everything. We need to mobilize every person in Michigan touched by revenue sharing.

"There is a great need for grass roots support," Schiff said.

"Revenue sharing is the only federal link between Washington and 80 percent of local governments in the country. If it goes, only large urban areas cities will continue to receive federal aid."

Redford Township received $641,102 in general revenue sharing during 1985 and $603,000 in 1984. The money was spent on fire department operations, according to township finance director Larry Williams.

"There is no way we can make up for those losses because our residents are taxed to the maximum," township Supervisor James Kelly told a chamber of commerce luncheon crowd last year.

'You must elevate the issue of revenue sharing.'
— Jeffrey Schiff
National Association of Towns and Townships

Bloomfield Township received $180,400 in federal revenue sharing last year and approximately $120,000 in 1984. The money was used for local road improvements, according to township accountant Ray Perkins.

West Bloomfield Township's $184,086 in federal revenue sharing for 1985 was spent on capital improvements, such as widening of Orchard Lake Road.

The federal program is targeted for demise Sept. 30, 1986 by the Reagan Administration in an overall plan to reduce the staggering national budget deficit.

"From 1979 through 1985 the federal deficit rose from $27 billion to $220 billion," Schiff said. "Defense spending rose from $127 billion to $300 billion. Tax breaks for wealthy Americans and corporations rose from $200 billion to $383 billion,

"Revenue sharing has been frozen since 1977 at $4.56 billion. Inflation has eaten away a good portion of this. We are not asking for more, just for the same amount."

Schiff received degrees in economics from Georgetown and Columbia universities. He was named executive director of the Washington D.C. based NATT last year. Schiff is responsible for overall development and management of the association's programs, including legislative affairs.

"Revenue sharing is an invisible program," he told the MTA delegates. "Mobilize those people touched by it. Congress needs to hear from you. It's working in other parts of the country."

Schiff said that a national general revenue sharing day is being targeted this year. On the as yet unspecified day, new buildings and equipment funded by revenue sharing will be draped in green ribbons.

"Get mobilized or there won't be any money to give out next year. Let Congress know over and over again," Schiff said.

'Revenue sharing is the only federal link between Washington and 80 percent of local governments in the country.'

Japan's car restraints costs us — MSU prof

Michigan State University economics professor Mordechai E. Kreinin has written an article for Worldwide Information Resources in which he argues that Japan's voluntary export restraints of cars costs American consumers $9 billion a year in higher prices.

Kreinin said that one study has shown that the employment gain in the United States from the auto quotas has been about 10,000 workers in the early 1980s, out of total employment of 892,900 in the auto industry.

If the gain by the mid-'80s was as high as 40,000 jobs, it is costing more than $200,000 for each job saved, Kreinin said.

There are cheaper and better ways to create jobs, he said. Trade policies often have far-reaching effects beyond those that are intended, Kreinin noted.

The cost to consumers is high and the employment benefits small. Import quotas, in short, are bad economics, he concluded.

Japan must decide by April 1 whether it will continue limiting exports of cars to the U.S.