

# Economists predict pendulum to swing to prosperous future

By Ginger Meek  
Assistant Features Editor

Times are hard. "The whole economy is in disarray," said Larry Sarsoun, the chief executive officer of Wren Financial Services of Hammond, Ind.

"Recession is inevitable, but so is economic expansion when in a recession," said Bill Staton, a nationally recognized expert on the economy and investing.

Staton compared an economic cycle to a menstrual cycle. "A woman usually has a period every 28 days or so, but her cycle can be irregular. The economy goes through waves of optimism in the same way."

The economy follows a cycle that ranges from expansion to contraction. A human tendency to become complacent and over-confident during expansion causes people to make mistakes and triggers contraction that leads to recession, Staton said.

The economic pendulum swings independently and even though situational factors may push or pull, the motion of the pendulum can not be stopped, said Barbara Keating-Edh, president of Consumer Alert, a nationwide membership organization for consumers.

"We Americans are intolerant and demand instant fixing. There is no instant fixing," she said.

The pendulum swings through inflation and deflation, Sarsoun said. During an inflation, such as during the 1970s, prices increase because of an expansion in the money supply. Higher prices result in increased interest rates.

During this time, consumers tend to buy hedge products — necessities — as opposed to vacations and new cars, he said. Not financing large purchases takes money out of the credit market.

At some point, interest rates decrease, making the credit market more attractive. This sparks deflation and prices decrease. "It snowballs both ways," Sarsoun said.

Staton said prior to the 1930s, every downturn in the nation's economy was referred to as a "depression." But because the state of the economy was severely oppressed during those years with one-third of the work force unemployed, that era became known as "The Depression." Since then, every other downturn has been a "recession."

There are a number of factors contributing economically and psychologically to the severity of an economic recession.

Jim Wilde, an associate professor of economics at UNC, said a decline in the amount of consumer investment in the economy sparked the reversal of the economic pendulum last August with the birth of this recession.

"Credit is relatively expensive, real

"There is no instant fixing."

Barbara Keating-Edh  
Consumer Alert President

estate is very soft and the (American) auto industry is soft — people are buying fewer domestically produced cars," he said.

Increased business regulation after several years of de-regulation recessed the economy, according to Scott Patterson, director of Consumer Alert's Washington, D.C., office. "(The government) clamped down on banking, decreasing the amount of capital available.

"Also, the inability of Congress to do something about the budget deficit lowered consumer confidence," Patterson said.

But, according to Wilde, this effect is no longer evident. "We are long past the point where the budget deficit affects spending — the deficit doesn't affect people psychologically when they're wearing their consumer hat," he said.

"Things like the (Persian Gulf) war, what Congress is doing, what the President is doing, the weather; these are things that have psychological effects

on consumers and the economy," Wilde said.

Increased taxation would be absolutely the wrong direction to take when trying to combat recession, Keating-Edh said.

Patterson agreed. "A lot of states are looking at the recession in the wrong way. They are taking money out of the consumers by raising taxes when the economy is run by consumer spending."

Since two-thirds of the country's gross national product (GNP) comes from consumer spending, damaging consumer spending is harmful to the economy, Staton said.

According to Keating-Edh, higher taxes don't counteract the budget deficit. "Any increase in taxes sends a signal to Congress that there is more money to spend."

Consumer Alert recently conducted research suggesting that the average family of four gives nearly half of its yearly income to the government.

With a median annual income of \$34,700 for such a family, 22 percent is spent on obvious taxes — federal, state, local and social security taxes. Another 22 percent is spent on "invisible taxes" — such as occupation and consumer safety regulations, environmental regulations and import tariffs.

Total government cost to this family is over \$15,000, leaving little more than \$19,000 in remaining disposable income. "The family is in its own little depression caused by government action," she said.

"The economy is a pendulum with natural ebbs and flows that gets an extra boost when the government goes too far. The best thing that could happen to the economy would be for the government to stay out of it," Keating-Edh said.

She said: "The best thing the government could do would be a tax break and to cut back in spending across the board. It could happen, but politically, it's not going to."

Wilde said, "If the recession is short and not very deep, there probably won't be any lasting effects."

Pulling the economy out of a recession hinges on the stability of the country's banking structure, Wilde said. "If we can keep more banks from going bad, the economy will pick up. If the financial structure starts to crumble, it could snowball us if it isn't stopped."

Decreased interest rates are an indication of a near end to this recession, Patterson said. He estimated the recession would last another 10 months and recover slowly.

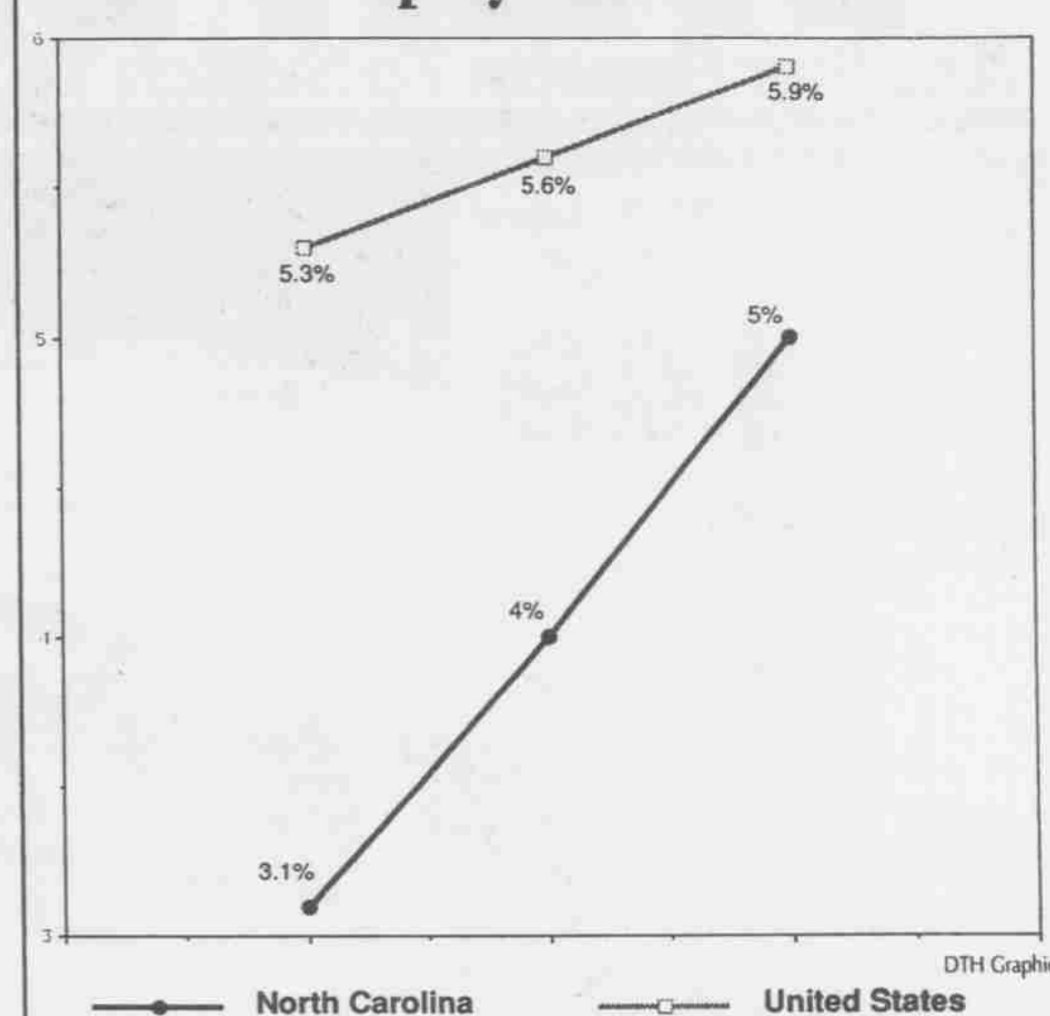
Consumer confidence is increasing, he said. "At least in the Washington area, there is much more optimism than there was in October, especially in the world of real estate. Interestingly, the economy is the same."

Wilde and Sarsoun agreed that even though light may be visible at the end of the tunnel, it is difficult to forecast the end of a recession because of the unpredictable nature of any economic cycle.

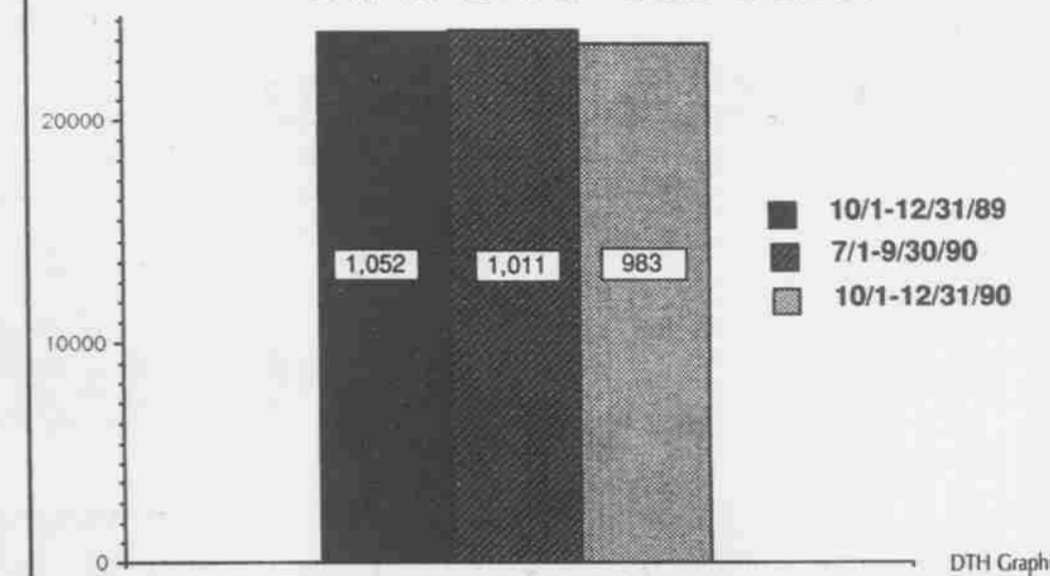
Staton said there were indicators as to the direction of the economic pendulum. "Housing and auto sales have been in a slump for a number of years. Those industries might get worse, but once they get better, the economy will turn around."

So when will times get better? "Who knows?" Sarsoun said.

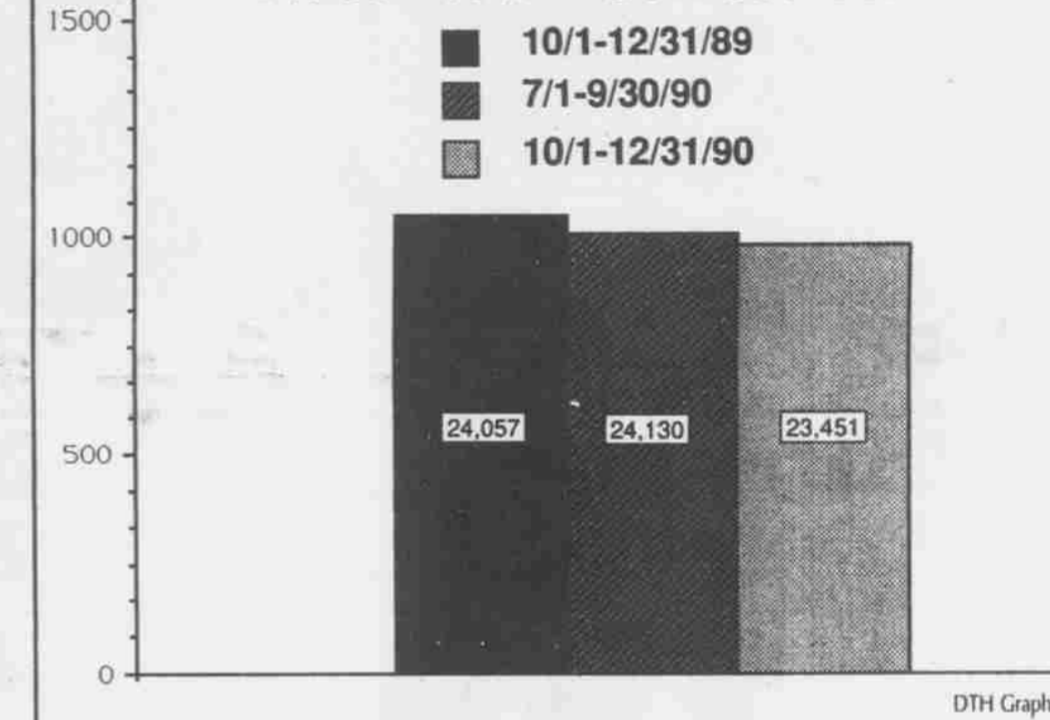
### Unemployment Rates



### N.C. New Car Sales



### N.C. New Business Starts



## Quick Persian Gulf War worsens economic woes

By Beth Tatum  
Staff Writer

War (wor) n. open armed conflict as between nations. Recession (ri'sesh'en) n. 1. a going back; withdrawal 2. temporary falling off of business activity.

War and recession. Does one automatically follow the other?

"It's clear that the impact of the (Persian Gulf) war has been detrimental (to the economy)," said Jim Wilde, a UNC associate economics professor. "But there are pretty strong indications the economy was turning down before August 2. The war just increased the turn down."

UNC economics professor Stanley Black agreed. At the end of the summer, the economy was beginning to show signs of financial strain, he said.

"The S&L crisis was fully on us, banks were having troubles, real estate construction was already declining, and car sales had begun to decline," he said. "This indicates the economy was ready to fall."

The war brought the final shock that dropped consumer spending and led to recession. "The war contributed to the recession in two ways," said Marvin Kosters, director of Economic Policy Studies for American Enterprise. "The first being the big increase in oil prices — that tipped the economy into recession. The second — uncertainties," he said.

But all three said the recession was probably unavoidable, with or without the war. The war simply hurried up the slowdown.

The link between war and economy hasn't always been negative. World War II helped bring the economy out of depression, but the length of the war made the difference.

World War II lasted for a six-year period and in that time a large amount of equipment and supplies were produced, Kosters said. In the Persian Gulf War, the conflict flared up so quickly that the military relied almost completely on stockpiles of equipment and did not need to produce any more, he said.

Black said the war would have had

more of an effect on the economy if it had gone on longer. "It was too short," he said. "It didn't cost all that much, and most of that was spent overseas." Money was spent on textiles and shoes, but that didn't make up for the towns around the military bases that lost business.

The war was good news for long-term defense industries which had been looking at a negative future. Before the war, people had been down on defense spending, Black said. "Now it's bad news for peaceniks."

Overall, the war had a minimal effect on the economy except in consumer attitudes, Black said. "It knocked people's confidence, and I'm not sure when that confidence will be restored," he said.

Because the war pushed the nation into a time of uncertainty, the question of what will happen now that the war is over and the uncertainty has been removed remains.

"If the war was the straw that broke the camel's back, when the war is over, does the camel get back up? Not necessarily," Black said. "All the other (problems in the economy) are still there. When consumer spending picks up, the economy will."

Wilde agreed. "The great uncertainty has been removed. However, there is no strong sector to lead us up," he said. "We're back to where we were and that's still a weak position."

The stock market is up and has continued to go up, following the victorious air war. "But that is only a small segment of the population," Black said. "Joe six-pack is still worried."

Kosters predicts economic recovery by mid-year. He said the monetary policy was expanding at a reasonable rate, and the trend of inflation was coming down. "The slowdown was a gradual reduction in the rate at which money growth occurred," he said. "Lower inflation will give room for growth."

Kosters said many critics had an affinity for thinking a market economy and war go together. "That's erroneous in my opinion," he said. "Everybody does better in the absence of war and not the presence."



## Job market dim for UNC's graduating seniors

By West Lockhart  
Staff Writer

"It is definitely a tight job market," said Marcia Harris, director of University Career Planning and Placement at UNC. Last spring there were fewer students getting jobs by graduation, and this year that number may be even lower, she said.

As a result of this constricted job market, the number of students who have opted for graduate schools has increased. Normally, about 15 percent of the graduating class goes on to graduate school. Last year 18 percent of the students enrolled, and this year should be higher, Harris said.

Leslie Bell, a senior from Supply, said he initially planned to go to graduate school, and the job market situation definitely reinforced his decision.

"The number of recruiters (this year) was not down in any major way," Harris said. The major difference is that they are not hiring the same numbers they used to. The total number of positions available may be down as much as 30 percent.

The students who have tended to have the easiest time getting jobs are those who are interested and qualified in computers, business, finance, accounting, sales and chemistry, Harris said.

This year everybody will be hit across the board. In particular, those students in advertising, publishing, journalism, humanities, arts, RTVMP and speech communications will feel the punch.

Generally, about 50 percent of the students have jobs lined up by graduation, Harris said. This year will probably be more like 35 percent.

Peter Topping, director of graduate placement at the business school said graduates were doing quite well despite the tough job environment.

The graduate business school has done particularly well placing graduates in consulting, operations fields, marketing consumer products and financial positions, Topping said.

The areas that have been the most difficult to get jobs in have been banking and real estate. Both have been particularly hard hit by the recession.

Normally about 25 percent of the students go into banking, but not this year, Topping said. Students have had to broaden their searches to make up for this, he said.

UNC's graduate business program is doing much better than many other programs. About 75 percent of the students already have jobs, and by graduation, about 85 percent will, Topping said. "We are far ahead," he said. At some schools, only 35 percent of the students have found jobs.

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Marcia Harris  
UCPPS director

Even the legal profession, which witnessed an incredible expansion in the number of law firms and young lawyers during the 1980s, has been affected by the crunch, said Amanda Harding, director of career development and services at the UNC School of Law.

"All employers are being cautious ... and that applies to the legal profession also," Harding said.

The stock market crash last October and the dismal real estate market has hurt many law firms, and they are not hiring as much as they were, she said.

Hiring is down nationally, but Harding said that being in the Southeast

had helped because it had not been as hard hit as other regions.

"Students are being forced to think about what they want to do with their law degree," Harding said. Some students at Carolina are thinking about alternatives like public interest groups and non-profit groups, she said.

It is too early to tell just how many education majors will have jobs since most schools do not hire until the summer, said Gary Johnson, placement counselor for education.

"The response (so far) indicates it is going to be a good market, certainly stronger than the employment market as a whole," he said.

Although state budget cuts may reduce the number of teaching positions available, nearly 80 percent of the education majors are projected to have jobs, Johnson said. Most of these jobs will come from within North Carolina.

"Most of the action will take place this summer," said Melanie Lewis, a senior education major from Mooresville. Schools will do their interviewing in May and June, Lewis said. She expected to find out in July about her situation.

Billie Nagelschmidt, placement director at the UNC School of Journalism and Mass Communication, said fewer jobs had been posted than in the last ten years.