

WEEKLY OUTLOOK

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PLANNING FOR ECONOMIC RECOVERY

AS MOST PEOPLE ARE AWARE, the U.S. may be moving into one of the worst recessions since World War Two. In the second quarter of this year, real gross national product (GNP) fell at an annual rate of 9.1 percent. This was slightly larger than the worst quarterly decline of the 1974-75 recession. Economists are now expecting a further decline in GNP during the third quarter, ending September 30. Two consecutive quarters of declining real GNP form a recession as defined by economists.

The picture is not likely to change quickly enough to prevent a true recession from occurring or to prevent it from lasting longer than just two quarters. U.S.-made automobile sales have remained well below year-ago levels through July and August. The new-model cars aren't expected to go on sale until the end of this month. Even then, only limited numbers will be available.

Interest rates are rising again in order to slow down the demand for money. Finally, consumers have returned to their more typical savings and borrowing rates as a result of the rise in interest rates during the spring. The question remains, when will the recession end?

No one knows with any certainty; but all three major candidates (Anderson, Carter, and Reagan) have announced their intention to bring the recession to a speedy end. Their proposals are designed to attack recession from a direction that is different from the past. A large proportion (at least half) of any tax reduction is to be in the form of accelerated depreciation allowances and increased tax credits for new investments. The remainder is to be in the form of personal tax relief, some of which will offset other types of tax increases such as social security.

This shift in emphasis from personal to business tax relief is meant not only to help end the recession, but also ultimately to increase productivity and slow inflation as well.

Can such proposals speed-up the recovery of the economy? The answer depends on two things: (1) when one of the proposals is set in action; and (2) when the results actually show up in the economy. The first opportunity for action would be this fall, before the elections. Congress would have to receive the President's proposal, consider it, modify it if they thought that was necessary, vote on it, and send it to

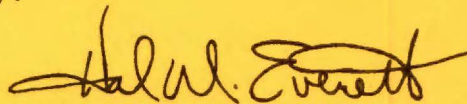
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the President for his signature. Thus, relief is only remotely possible this fall. The earliest actions beyond this fall could come late next spring.

The second consideration is that although a plan might be set in action, several months are likely to pass before any effect on the economy becomes apparent. This is particularly true of actions taken to encourage business investment. Therefore, it may be July or August of 1981 before any plan could help the economy recover.

The usual length of a recession during the post-World War Two period has been about a year. In view of that, are the candidate's proposals necessary? After all, the current recession could be over as early as the end of 1980. The answer is an unequivocal "yes" for at least two reasons: (1) a proposal of economic relief may itself help spur consumer and business confidence, that is it may start helping the economy indirectly even before being implemented because of the expectation of tax relief; (2) if the economy does not recover quickly on its own, the proposal will be ready for action to keep the recession from becoming a depression. The fact that the 1969-70 and 1974-75 recessions lasted six quarters tells us that such actions are necessary and still can be timely.



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