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TOWARD UNDERSTANDING ECONOMIC FORECASTS AND PROPOSALS FOR GROWTH

If you're confused by analyses you hear or read about what is happening to the economy and what to do about it-join the crowd. Let's see if we can straighten it out a little. Consider a simple model.

Let's start with a society in which people produce goods and the same people consume those goods. Part of the action takes place on the production side. Jobs are divided up. Some produce goods, such as food or other goods. Others produce machines to help production. Still others provide services, whether they fix cars or handle your money for you.

In each of these sectors there are people who have been willing to take some risks and make decisions about what will be produced. In our economy, they are farmers, merchants, industrialists. If they guess right and more than make ends meet they may use some of their gains to build up production by improving facilities. This, in turn, makes their own and others' labor more effective.

People have different needs, and their conditions change. Some find they have enough so they would prefer to keep some of their share of the production until later. They let the banker keep their money for them, or they invest it. A businessman who thinks he sees a new opportunity which appears to be profitable can approach the saver (or his banker) and agree to use some of the savings. He may borrow them and pay interest, or take in the saver as a partner or stockholder and share the gains.

If the businessman is right, every-

one can gain. More goods and services are produced and used; there are more jobs and more wages; more dividends and more interest. The businessman and his new partners earn more income and have more to reinvest.

Things don't always run smoothly, however. Businessmen may see fewer golden opportunities. Consumers may decide to save less and spend more for goods and services. The habit of people to borrow against future earnings to spend for consumption today may increase. If spending increases and production does not increase correspondingly, inflation will result. There will be more money to buy the same amount of goods. A similar situation can develop if workers are able to get an increase in pay without increasing their output. They have more income to spend but no more goods to buy unless someone else takes less.

So much for the private sector of the economy. There is also government. Governments provide us with services, all of which some of us wanted at one time or another. The level of government is part of our level of living. We pay for this as we pay for the rest of our living, only the price is called taxes (sometimes contributions). Mostly this is routine and doesn't bother us too much. But when taxes go up (or down - it does happen) or when government spends more (or less) than it takes in, the results are significant. Deficits create money and add to spending power, which may be inflationary or not. This depends on whether the new spending puts idle resources to work or bids up the price of resources already working. The rarer case of a surplus can also have heady results.

It follows that identical policies under different circumstances produce different results, and we need ways of identifying circumstances to know what we would be getting.

There is also a foreign sector. By and large, our imports help other countries pay for our exports. Changes in levels of exports and imports often reflect previous international investment levels.

Now we have the framework of our model. As with all models, we have glossed over many important considerations. But we can add to it as much as we are capable of thinking about at the same time.

Since the interactions are so complicated, techniques have been developed to provide "indicators" for evaluating the economy. These are like thermometers to give quick readings of economic conditions. One indicator is GNP (Gross National Product) which is the dollar value of all goods and services produced. It is one way to add up horses, apples and peanut butter. The CPI (Consumer Price Index) gives us an idea of how much inflation we are experiencing. We emphasize unemployment because it means lost production and incomes. Productivity measures give us an idea of inflationary or deflationary tendencies when output fails to keep

pace with incomes. Other devices monitor the housing industry, consumer well-being and investor attitudes.

These and other indicators are interpreted by economists and others in the light of their study, knowledge, experience and comprehension. Their outlook or forecasts may be used by consumers in planning purchases or savings; by business in making investment decisions; by government in trying to stimulate employment.

There are two basic approaches to economic policy decisions made by government. One group of policy-makers feels that if any steps are to be taken to encourage growth in the economy, it should be through trying to influence employment of people and thus production and incomes. The other major group thinks that it might be more effective to first provide more incomes for people so that they can buy more, thus encourage business and industry to expand. There are, of course, many who would prefer to combine parts of both programs.

In succeeding Newsletters, we will discuss some of the tools we have developed here for thinking through the problems of the economy.

Robert J. Antonides, Extension Economist

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