

Frugality is a key word for 1991

Economy is becoming leaner and meaner as we pay for the '80s

By Rick Gladstone
The Associated Press

Like a party reveler sprawled on the dance floor after too many drinks, the American economy awoke to a sobering skull-thumper in 1990 from the indulgent 1980s.

An addiction to foreign imports, corporate takeovers and debt finally took its toll on the longest peacetime expansion in U.S. history.

The downturn, now official by almost any measurement, has put a million people out of work since June and caused thousands of companies to fail or seek shelter from creditors in bankruptcy court.



Tomorrow: Seattle's biotechnology industry is facing lean financial times.

Home buying and construction have fallen to levels not seen since the last recession eight years ago. Banks are weak, the stock market is sick, car sales are anemic and consumers apparently spent sparingly for Christmas.

"People are postponing the postponable," said Jerry Jordan, chief economist at First Interstate Bancorp in Los Angeles.

"All over the place, people are just sitting on their hands."

The U.S. economy, built on the free enterprise forces of supply and demand, is accustomed to cycles of boom and bust. But this time, things are different. External shocks to the economy — from the Persian Gulf crisis and the savings-and-loan bailout, for example — are exacerbating the slide.

The gulf standoff has added a "war premium" to oil prices and stoked the embers of inflation. The thrift bailout has added to the already enormous debt burdens of the federal government and increased the ultimate bill to taxpayers. Some experts worry that the pressures are too severe for the economy to bounce back quickly. A few expect the worst

Regional Employment: Growth, 1986-2000

Regional compound annual growth rate of total employment

KEY

Actual growth:

1983-1986: [Solid black bar]

1986-1989: [Diagonal lines bar]

Projected growth:

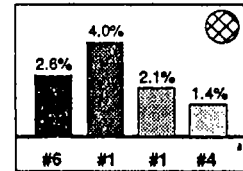
1989-1992: [Horizontal lines bar]

1992-2000: [Dotted bar]

Rank among regions given below bars #0

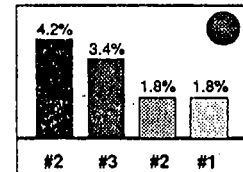
Pacific Northwest

Alaska, Idaho, Mont., Ore., Wash., Wyo.

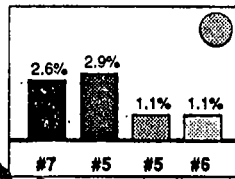


Pacific Southwest

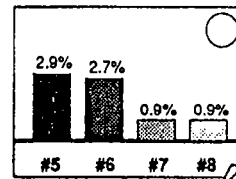
Ariz., Calif., Colo., Hawaii, N.M., Nev., Utah



West North Central
Iowa, Kan., Minn., Mo., Neb., N.D., S.D.

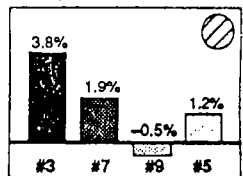


East North Central
Ill., Ind., Mich., Ohio, Wia.



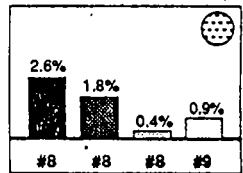
New England

Conn., Mass., N.H., Vt., Maine, R.I.



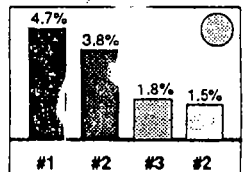
Middle Atlantic

N.J., N.Y., Pa.

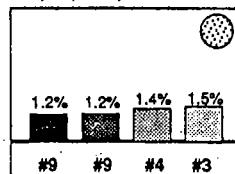


South Atlantic

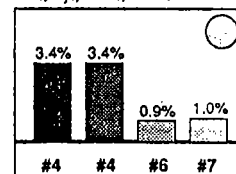
Del., D.C., Fla., Ga., Md., N.C., S.C., Va., W. Va.



West South Central
Ark., La., Okla., Texas



East South Central
Ala., Ky., Miss., Tenn.



Source: American Express Co.

The Associated Press

is yet to come.

"If somebody asked me not too many years ago whether we would have a major downturn similar to the Great Depression of the 1930s, I would have said no," said James Barth, a finance professor at Auburn University in Alabama and a former economist at the government's Office of Thrift Supervision.

"But now it's to the point where people are talking about it," Barth said. "That registers on the economic Richter scale. I'm not willing to say it just won't occur."

The hard times have inspired an aggressive hunt for scapegoats. The highest flyers of the '80s — Donald Trump, Michael Milken and S&L

fraud defendant Charles Keating — have become targets of editorials and the butt of late-night TV monologues. The young baby-boomers on Wall Street have been generally cursed for sapping the productive energies of American businesses by weighing them down with excessive debt.

"There's a fixation on trying to blame some people, some institutions for excesses in which many of us shared," said Jerry Sterner, author of an off-Broadway hit play about a hostile takeover called "Other People's Money."

"I think Trump, Keating and the boys were a reflection of what we were, taken to a much larger level," Sterner said. "It's easier to blame

'them bums.'"

The question for 1991 is not who's to blame, but where will it end. What's going to happen to pull the economy out of its nose dive?

Amid the gloom, some suggest the comparisons to the 1930s are misplaced.

For one thing, the economy is more diversified and efficient than it was 60 years ago, strengthened by an array of systems to transmit goods, services, knowledge and ideas that are the envy of the world.

For another, the Federal Reserve Bank recently has taken steps to loosen credit, rather than tighten as

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Economy: Some say a recession can be averted

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the Fed of the 1930s did. That classic blunder precipitated an avalanche of failures because even healthy businesses couldn't borrow to pay their bills.

"The Fed is keenly aware we're in a recession now," said David Bostian, chief economist at Jesup, Josephthal & Co., a New York investment firm. "The Fed has woken up to the realization that it needs to aggressively ease."

Some studies indicate the present downturn could be shallow and short. The University of Michigan's forecasters predicted at their recent economic outlook conference that growth would show a modest decline in the final quarter of 1990 but revive in early 1991.

The Paris-based Organization of Economic Cooperation and Development released a surprisingly optimistic assessment in late November that said the United States is facing a period of slow growth, but not a downturn.

Some economists suggest the national perception has been skewed by heavy reporting of bad news on the East Coast, where the economy is slowest.

Meanwhile, Texas and its neighbors are rebounding, the West Coast remains relatively healthy and an export boom is strengthening vast parts of the Midwest, notably around the Great Lakes, which could become the catalyst for the next national economic resurgence.

Milwaukee, for example, devastated by a loss of manufacturing jobs during the 1981-82 recession, is thriving because factories have since retrofitted with modern equipment. It is now one of the nation's leading job producers.

In Cleveland, once a recession-scarred industrial hulk and now a model American city, companies learned the hard way to cut costs through automation and smaller work forces during the 1980s.

"Running lean and mean, running scared, has become a way of life," said Adrian Dillon of Eaton Corp., an electrical and automotive component manufacturer that is one of Cleveland's key industries.

A recent study by American Express Co. on the outlook for small and mid-sized businesses, the main generators of new jobs, showed companies in the Pacific states should fare well in a recession, while those in the Northeast and Middle Atlantic regions would be hit hardest.

Some economists have dismissed recession talk altogether and argue that the United States is about to embark on a period of stunning growth. They base this outlook partly on the premise that many U.S. companies are much tougher than they were just a few years ago, battle-hardened by foreign competition and recent cost-cutting.

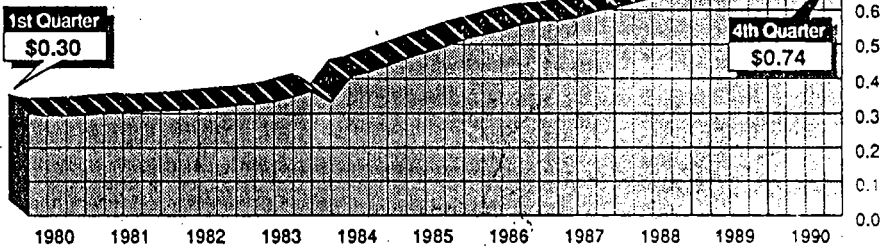
John Rutledge, senior economist at the Claremont Economic Institute, a forecasting concern in Claremont, Calif., contends the yawning trade deficits American manufacturers agonized over last decade masked a critical advantage they enjoyed: the availability of affordable foreign machinery to modernize and get back into the game of making money.

"A lot of turnaround stories of the 1980s were businesses using imported machines to retool," he said. "If you look at what we imported, it wasn't all Hershey bars and Hondas. It was things we used to

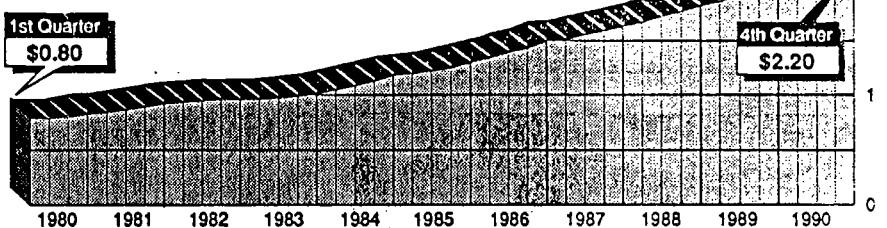
Total Consumer Debt and Corporate Liabilities

Existing debt has expanded during the past decade

Total Consumer Debt
In trillions of current dollars



Total Corporate Liabilities
In trillions of current dollars



Source: DRI/McGraw-Hill

The Associated Press

A very substantial portion of corporate cash flow . . . goes into servicing existing debt. . . . This means there is less money available for new investment.

— Robert Hormats,
Goldman, Sachs & Co.

build other things."

Now, Rutledge said, "We have survivor managers, good managers. The capital stock has been groomed and rebuilt. We're all dressed up and ready for a party, if there's enough money to make that happen."

Whether there's enough money is the key question.

Federal government debt, driven by repeated budget deficits, has risen more than 60 percent in the past five years to \$3.25 trillion, or more than \$13,000 for every American.

Business debt has swollen just as dramatically, largely because of the mergers, buyouts and restructurings of the last decade. DRI-McGraw Hill Inc., an economic forecasting firm in Lexington, Mass., said corporate liabilities totaled \$2.2 trillion in 1990, about double the figure of five years ago and triple the total in 1980.

"A very substantial portion of corporate cash flow, 35 to 45 percent, goes into servicing existing debt, a historic postwar high," said Robert Hormats, chief economist at Goldman, Sachs & Co., a Wall

Street investment bank. "This means there is less money available for new investment. It also means companies are very vulnerable to interest rate increases or declines in earnings."

On the personal level, debts have been inflated by the proliferation of plastic to finance credit-card purchases. By DRI-McGraw Hill's estimate, total consumer debt exceeded \$735 billion in 1990, 42 percent more than the level in 1985 and 146 percent more than the level a decade ago.

But the debt pileup has led to some natural corrections. Businesses are increasingly using bankruptcy court to reorganize. Federal figures show more than 725,000 bankruptcy cases flooded into the system for the year ended June 30, double the number of 1981.

A Morgan Stanley Group analysis of companies that borrowed heavily in the 1980s shows a majority were stable businesses like public utilities and food processors. Cyclical industries like retailers increased their debt only modestly.

That means the United States may be able to battle its debt hangover "much better than the merchants of gloom believe," the Economist magazine recently speculated.

Debt accumulation by consumers also is slowing along with spending, suggesting Americans may be making healthy adjustments in their personal finances.

Major banks, by putting billions of dollars aside as reserves against loan losses, are demonstrating the discipline needed to return to profitability.

Even on Wall Street, which has been mired in a slump since the crash of 1987, some say prices have fallen so far they could be poised for a rebound as investors look for bargains.

A forecast from Jesup, Josephthal & Co. says the Dow Jones industrial average could double to 5,000 as early as mid-decade.