

## "A sea of change"

*For 13 years, George W. Cloos, Vice President and Economic Adviser at the Federal Reserve Bank of Chicago, has been logging the economic events of the year for Economic Perspectives and its predecessor publication, Business Conditions. In that time, he has seen a great cumulation of rapid economic change. His 13th chronology, and a few general words of analysis, follow.*

Nineteen Eighty-Five was the third consecutive year of expansion, a duration rarely exceeded in peacetime in the past. However, there was no evidence that the economy was windied by the three-year climb. Employment, retail sales, construction, and factory output all ended the year on the upbeat, and all closed at record highs. Inflation remained moderate. Inventories were generally low and well controlled. Most forecasts called for further growth and continued restrained inflation in 1986.

But all sectors of the economy operated last year in an atmosphere of rapid change unprecedented in history, except in wartime. All evidence suggests that this era of unrest will continue into the twenty-first century. Among the factors making for rapid change were the following:

- Adjustments required by the flood of imported goods, now over 20 percent of all goods purchased.
- Efforts to contain and manage the federal government's \$2 trillion debt.
- Deregulation of financial institutions, communications, and transportation, as required by law and litigation. Although causing painful adjust-

ments for some, deregulation probably has contributed, on balance, to moderation of the inflation spiral.

● The tide of mergers that moved to a new high in 1985. Mergers have caused far-reaching "restructurings" involving layoffs, sales of divisions, and realignments of balance sheets.

● Failures of important businesses and financial institutions, caught by huge losses. These have created a new caution on the part of lenders and trade creditors.

● A new insurance crisis, with most types of coverage much more costly—and some even impossible to get. This is partly a fruit of the vast growth of litigation, which intrudes on all decisionmaking—economic, social, and political.

● Late in 1985, a sharp decline in world oil prices, threatening energy producers, lenders, and the welfare of oil exporting nations.

No sector of industry or finance has escaped the need to reevaluate and restructure. Steel, motor vehicles, machinery and equipment, oil, chemicals, textiles, airlines, truckers, railroads, agriculture, banks, S&Ls, and insurance companies—all are reported in their trade press to be "in transition," "in chaos," and "under reorganization."

Nineteen eighty-six will resemble 1985 in that management and workers will be struggling in a sea of change. Long-accepted watchwords, rules-of-thumb, and "standard operating procedures" will pass into limbo. As in natural evolution, survival and profit will reward those best able to meet existing and emerging challenges.

### Economic Events of 1985—A Chronology

**Jan 1** Social Security tax base rises from \$37,800 to \$39,600. Tax rate rises to 7.05%. (Base rises to \$42,000 and rate to 7.15% on Jan 1, 1986.)

**Jan 1** Regulatory minimum deposits for Super NOW accounts, money market deposit accounts, and 7-to-31-day time deposits fall from \$2,500 to \$1,000. (Minimum eliminated Jan. 1, 1986.)

**Jan 1** Price controls lifted on 60% of natural gas.

**Jan 4** Dow Jones industrial stock average closes at 1185, low for the year. (See Dec 16.)

**Jan 8** Illinois law mandates use of auto seat belts (in front seats).

**Jan 8** Major trading company cancels importation of Argentine wheat after widespread public protest.

**Jan 8** In job switch, James A. Baker becomes Treasury Secretary; Donald Regan becomes White House chief of staff.

**Jan 9** General Motors creates Saturn Corp. to build new small car. (See Jul 27.)

**Jan 15** Prime rate falls from 10.70% to 10.5%. (See May 20, Jun 18.)

**Jan 17** American Airlines cuts fares sharply; other airlines follow suit.

**Jan 20** Freeze hits Florida citrus growers.

**Jan 20** Chicago sets record official low, 27 degrees below zero at O'Hare Field (Exceeds 26 below on Jan 10, 1985.)

**Jan 21** Farmers picket Chicago Board of Trade, protesting low farm prices.



**Jan 25** Major union settlements averaged 2.4% first-year increase in 1984, lowest in series starting in 1968. (In 1985, rise averages 2.3%.)

**Jan 29** Dow Jones Industrial Stock index closes at 1293, tops record 1287 set Nov 29, 1983.

**Jan 29** Air Wisconsin buys Mississippi Airlines.

**Jan 30** Nestle buys Carnation for \$2.9 billion.

**Jan 30** Government announces record merchandise trade deficit of \$123 billion in 1984; predicts larger deficit in 1985. (Deficit was \$148 billion in 1985.)

**Jan 30** OPEC abandons Saudi light crude oil as benchmark; cuts prices.

**Feb 11** Stroh's announces plan to close Detroit brewery.

**Feb 13** Kimberly-Clark announces move of headquarters from Neenah, WI to Texas.

**Feb 20** Rockwell International buys Allen-Bradley for \$1.7 billion.

**Feb 20** Sears Roebuck announces "universal" credit card. (Later named "Discover".)

**Feb 20** Federal Reserve announces monetary growth targets for 1985: M1, 4-7%; M2, 6-9%; M3, 6-9.5%. (See Jul 17.)

**Feb 25** Trade-weighted dollar hits record high of 164.7 (Mar 1973=100). (At year-end index was 123.6, down 25%.)

**Feb 28** Textron buys AVCO for \$1.4 billion.

**Mar 1** Administration will not request extension of Japanese export quotas on autos past April 1, 1985.

**Mar 4** British coal strike ends after 51 weeks.

**Mar 4** Securities and Exchange Commission selects receiver for E.S.M. Government Securities after E.S.M. ceases operations. (See Mar 9.)

**Mar 6** Reagan vetoes farm aid bill. (See Dec 23.)

**Mar 7** Three-month Treasury bills yield 9.13% (coupon equivalent), high for the year. (See Jun 18.)

**Mar 8** Federal Reserve modifies seasonal borrowing program to ease credit to farm banks.

**Mar 9** Home State Savings in Cincinnati closes after run related to E.S.M. closing. (See Mar 15.)

**Mar 11** Soviet Premier Chernenko dies at 73. Mikhail Gorbachev (54) succeeds, youngest since Stalin.

**Mar 12** International Harvester reports negative net worth after sale of farm equipment lines.

**Mar 14** Marine Corp., Milwaukee, buys Independence Bank Group of suburban Wauwatosa. (On Sep 23, Marine buys Firstar Corp. of Appleton.)

**Mar 15** Bucyrus-Erie sells construction equipment division to Northwest Engineering.

**Mar 15** Phillips Petroleum buys 49.8% of its common stock for \$4.6 billion, in debentures and notes.

**March 15** General Motors Acceptance Corp (GMAC) enters mortgage banking, agreeing to acquire mortgage portfolio of Norwest Corp.

**Mar 15** Ohio temporarily closes 71 state-chartered, privately-insured S&Ls due to runs related to E.S.M. failure.

**Mar 18** Yield on 20-year Treasury bonds (constant maturity index) rises to 12.21%, high for the year. (See Dec 27.)

**Mar 21** GMAC offers 8.8% loans on small cars.

**Mar 28** Chesebrough-Ponds buys Stauffer Chemical for \$1.3 billion.

**Mar 29** Allis-Chalmers agrees to sell farm equipment lines to German firm. (West Allis, WI, plant to close.)

**Apr 1** Japan raises quota on car exports to U.S. from 1.84 million to 2.3 million units.

**Apr 1** Teamsters and big truckers agree on 30% lower starting salary. (One of many "two-tier" wage agreements.)

**Apr 4** General Dynamics, largest defense contractor, charged with hiding cost overruns.

**Apr 9** Bevil, Bresler & Schulman, collapsed government securities firm, goes under control of receiver.

**Apr 14** Inland Steel will cut capacity 30% and reduce white collar staff by 20%. (Many other firms made similar decisions in 1985.)

**Apr 17** Wheeling-Pittsburgh Steel files for bankruptcy under Chapter 11. (See Jul 21.)

**Apr 18** Indiana law provides for regional reciprocal interstate banking, effective Jan 1, 1986. (See Nov 25, Dec 5.)

**Apr 23** Regulators close Beverly Hills S&L (CA), biggest thrift failure ever.

**May 3** E.F. Hutton pleads guilty on check overdraft charges.

**May 4** Big steel companies agree to end coordinated bargaining with United Steelworkers.

**May 6** Mobil will sell Montgomery Ward, part of restructure plan.

**May 8** Federal Reserve Board approves daylight overdraft rules for reducing risk on wire transfer systems, effective Mar 27, 1986.

**May 14** Maryland imposes \$1,000 withdrawal limit on privately-insured thrifts to counter run.

**May 15** Coastal Corp. buys American Natural Resources for \$2.5 billion.

**May 15** Government announces \$2 billion subsidy program to boost sagging agricultural exports.

**May 16** International Harvester produces last tractor at huge plant in Rock Island, IL.

**May 16** United Air Lines pilots strike over two-tier pay plan. (Settled Jun 12.)



**May 17** Unocal buys 33.3% of its common stock for \$4.3 billion, in exchange for notes.

**May 20** Federal Reserve discount rate falls from 8 to 7.5%, lowest since Aug 1978. Prime rate falls from 10.5 to 10%. (See Jan 15, Jun 18.)

**May 28** Administration offers detailed tax reform plan, "Treasury II", to lower income tax rates, while limiting credits and deductions. (See Dec 18.)

**May 31** Cooper Industries buys McGraw Edison for \$1.1 billion.

**Jun 7** Royal Dutch Shell buys 30.5% of American Shell Oil for \$5.7 billion.

**Jun 11** Litton Industries buys 35.8% of its own common stock with exchange of \$1.3 billion in debentures and notes.

**June 16** Supreme Court upholds state laws allowing interstate bank purchases on reciprocal basis.

**Jun 18** Prime rate falls from 10 to 9.5%, low for year, and lowest since Sep 1978. (See Jan 15, May 20.)

**Jun 18** Three-month Treasury bills yield 6.87% (coupon equivalent), low for the year. (See Mar 7.)

**Jun 26** Lyle E. Gramley resigns from Federal Reserve Board, effective Sep 1.

**Jul 1** Indiana permits multi-bank holding companies on a statewide basis.

**Jul 2** Judgment orders Exxon to pay federal government \$2 billion fine for over-pricing oil in the 1970s.

**Jul 9** Marshall & Ilsley Corp, Milwaukee bank holding co., buys Heritage Wisconsin Corp of Wauwatosa.

**Jul 9** David Stockman resigns as OMB director, effective Aug 1, 1985. (James C. Miller succeeds.)

**Jul 10** Atlantic Richfield sells \$1.0 billion of bonds and notes.

**Jul 12** Farm Credit Admin. and banks approve \$340 million aid to Omaha Federal Intermediate Credit Bank.

**Jul 12** Mexico cuts oil prices, indicating break with OPEC.

**Jul 17** Federal Reserve announces revised M1 growth target of 3-8% for second half of 1985, and retention of targets for M2 and M3. (See Feb 20.)

**Jul 18** Some production unions strike Chicago Tribune, but publication continues. (Strike unsettled at year-end.)

**Jul 21** United Steelworkers strike Wheeling-Pittsburgh, first big steel strike since 1959. (Strike settled Oct 26.)

**Jul 25** Administration revises GNP growth forecast through fourth quarter from 3.9 to 3%. (Actual was 2.5%.)

**Jul 26** Teamster car haulers' strike begins. (Strike ends Aug 18 after buildup of inventories of finished cars near assembly plants.)

**Jul 27** General Motors announces Saturn plant to be located in Spring Hill, TN, after considering bids from 29 states in nationwide competition.

**Jul 31** CBS buys 21.4% of its own common stock for \$940 million in cash and notes.

**Jul 31** Farley Industries buys Northwest Industries for \$1.2 billion.

**Aug 2** Ford will buy First Nationwide Financial, large S&L, for \$490 million.

**Aug 2** Montgomery Ward announces phaseout of 113-year-old mail order business.

**Aug 6** FNMA announces tighter income and down payment rules for purchased mortgages, to control rising delinquencies.

**Aug 12** Court approves demolition of half of United States Steel's South Works in Chicago.

**Aug 15** Domestic producers offer 7.7% financing on new cars to move inventory buildup from car haulers' strike.

**Aug 19** Maryland halts withdrawals from Community S&L after run caused by disclosure that affiliate Equity Programs Investment Corp (EPIC) had defaulted on mortgages and securities. (See Sep 6.)

**Aug 29** Administration refuses to impose quotas on shoe imports.

**Aug 30** Index of prices received by farmers falls to lowest level since Dec 1978.

**Sep 1** South Africa freezes principal payments on private-sector foreign debt.

**Sep 5** Farm Credit System requests substantial federal aid.

**Sep 6** EPIC files for bankruptcy. Maryland takes over Community S&L. (See Aug 19.)

**Sep 9** Reagan orders limited economic sanctions against South Africa to protest apartheid.

**Sep 10** R.J. Reynolds buys Nabisco for \$4.9 billion.

**Sep 11** Government raises strong corn and soybean crop estimates for 1985.

**Sep 17** Government estimates U.S. became debtor nation in second quarter, first time since 1914, as payments deficit soared.

**Sep 19** Allied and Signal, both conglomerates, merge in \$4.9 billion deal.

**Sep 19, 20** Major earthquakes hit Mexico City area, with heavy loss of life and damage to property.

**Sep 22** Group of Five nations agree to intervene to reduce value of dollar. (Dollar falls sharply Sep 23.)

**Sep 27** Semiconductor industry estimates 17% decline in sales for 1985.

**Sep 27** Hurricane Gloria hits East Coast, causing flooding and damage. New York Stock Exchange closed.



**Oct 1** Monsanto buys G.D. Searle for \$2.7 billion.

**Oct 1** Iowa permits judges to invoke one-year ban on farm mortgage foreclosures.

**Oct 1** National Highway Traffic Safety Admin. reduces Corporate Average Fuel Economy (CAFE) requirements from 27.5 to 26.0 miles per gallon for 1986 passenger cars.

**Oct 6** Diamond-Star (Chrysler Mitsubishi) announces auto assembly plant to be built near Bloomington, IL.

**Oct 7** OPEC fails to agree on production quotas.

**Oct 14** Section of Welland Canal collapses, blocking part of St. Lawrence Seaway. (Reopens Nov 7.)

**Oct 23** American Express sells Fireman's Fund for \$906 million.

**Oct 24** Social Security recipients to get 3.1% raise Jan 1, 1986, smallest rise since changes tied to Consumer Price Index.

**Oct 25** Treasury reports \$212 billion federal deficit for fiscal 1985, exceeding \$185 billion for 1984, and previous record of \$208 billion in 1983.

**Oct 25** London Metal Exchange halts tin trading as International Tin Council discontinues support of tin prices.

**Oct 25** R.H. Macy management announces \$3.5 billion plan to take the department store chain private.

**Oct 28** Chrysler production workers (70,000 in U.S.) return after 12-day strike.

**Oct 31** U.S. Steel agrees to buy Texas Oil and Gas for \$3.5 billion.

**Nov 1** Philip Morris buys General Foods for \$5.6 billion, biggest non-oil merger. (See Dec 13.)

**Nov 1** European Economic Community agrees to limit steel exports to U.S. to 5.5% of U.S. market.

**Nov 5** Comerica Inc, Detroit, applies for hostile takeover of Michigan National Corp.

**Nov 6** General Motors ends cost-of-living adjustments (COLA) for salaried workers.

**Nov 8** Heavy rains in East cause worst flooding in 100 years, especially in Washington, D.C. and West Virginia.

**Nov 13** Procter and Gamble buys Richardson-Vicks for \$1.2 billion.

**Nov 14** Dormant Colombian volcano erupts, killing 20,000 and damaging coffee crop.

**Nov 14** Jury awards Pennzoil \$10.35 billion judgment against Texaco, by far the largest jury award ever. (Upheld by judge Dec 11, under appeal at year-end.

**Nov 15** Chrysler sells \$800 million of 12% debentures.

**Nov 20** VA mortgage rate ceiling falls from 11.5 to 11%, lowest since Sep 1979.

**Nov 21** Electronic data problem forces Bank of New York to borrow record \$22.6 billion from Federal Reserve Bank.

**Nov 22** Reagan and Gorbachev finish two-day meeting in Geneva, first "summit" since 1980.

**Nov 25** Egyptian commandos storm hijacked jet held by Arab terrorists in Malta; 57 die.

**Nov 25** Baxter Travenol buys American Hospital Supply for \$3.7 billion.

**Nov 25** Illinois law provides for regional reciprocal interstate banking, effective Jul 1, 1986. (See Apr 18, Dec 5.)

**Nov 26** National Gypsum's directors offer to take the company private for \$1.1 billion.

**Dec 5** Michigan law provides for regional reciprocal interstate banking, effective Jan 1, 1986. (See Apr 18, Nov 25.)

**Dec 6** Last tractor produced at Allis-Chalmers West Allis plant.

**Dec 8** OPEC meeting ends with announcement that member nations will try to expand market share, abandoning 4-year effort to restrict oil output. (Sharp oil price decline follows.)

**Dec 12** Toyota confirms plan to build Kentucky assembly plant.

**Dec 12** Chartered jet crashes in Newfoundland, killing 258 U.S. servicemen.

**Dec 12** Legislation raises federal debt ceiling from \$1,823.8 to \$2,078.7 billion. Gramm-Rudman Act mandates balancing of the budget by 1991.

**Dec 12** Midcon buys United Energy Resources for \$1.3 billion.

**Dec 12** General Electric announces plan to buy RCA for \$6.8 billion, largest non-oil merger ever.

**Dec 16** Dow Jones industrial stock average closes at 1553, high for the year. (See Jan 4.)

**Dec 17** Reagan vetoes legislation placing additional restrictions on textile and apparel imports.

**Dec 17** Continental Bank announces it has repaid debt to consortium of banks established in May 1984.

**Dec 18** House passes broad tax reform bill. (See May 28.)

**Dec 20** General Motors buys Hughes Aircraft for \$4.7 billion.

**Dec 23** Amendments to Farm Credit Act of 1971 facilitate federal assistance to Farm Credit System. Food Security Act of 1985 significantly alters many farm programs.

**Dec 26** Pantry Pride buys Revlon for \$1.8 billion.

**Dec 27** Yield on 20-year Treasury bonds falls to 9.49%, low for the year. (See Mar 18.)

**Dec 31** U.S. imposes restrictions on imports of semi-finished steel from the European Economic Community.

**Dec 31** FDIC reports 120 insured banks failed in 1985, up from 79 in 1984, which was the highest since FDIC began in 1937. (A record 4,000 banks failed in 1933, before FDIC.)