Director William Bryan Discusses Economy, ORER

Professor William R. Bryan assumed the duties of Director of the Office of Real Estate Research on August 15. He also continues to serve as Chairman of the University's Department of Finance. Bryan, a native of Muncie, Indiana, began his career in education as a public school teacher after earning a degree in English and history from Ball State University. He later served as a training officer in the United States Air Force. Following military service, Bryan began his doctoral studies in economics at the University of Wisconsin at Madison. Upon completing the Ph.D. in 1960, he joined the staff of the Federal Reserve Bank of St. Louis, serving eventually as senior economist. Bryan came to the University in 1966 as an Associate Professor of Finance, and has been with the Department of Finance since that time, though he took a leave to spend the 1970-71 academic year in Washington, D.C. as an assistant to the Treasury Department's Director of Debt Analysis. He was promoted to Professor in 1971.

In his capacity as Finance chair, Bryan played an active role in the creation of the Office of Real Estate Research, and he has served for many years on the ORER Advisory Committee. Bryan's research interests cover many areas. He has studied the value of human capital, and has served as a consultant on issues of personal injury and business losses. Another area is the measurement of fiscal policy, particularly through a measure Bryan calls the Balanced Budget GNP. Bryan, who also serves as editor of the Illinois Business Review, views himself as a business economist, who follows economic developments with an eye toward providing useful current information to decision makers. The following interview addresses his views on the current state of the economy and the role of ORER.

We're bombarded with talk of the federal budget deficit. Do you feel that members of the real estate community, as voters and market participants, should pay close attention to this measure? I have not been overly concerned about the federal budget deficit. I'm not concerned either with its actual size or with the fact that it has been persistently large. The reason that these do not worry me is that over the years I have become fascinated by opposites. Some of the first things you learn in economics relate ultimately to a host of truisms. One such truism is that deficits and surpluses across the economy always sum to zero. So an observation that one sector of the economy is in a deficit situation, is at the same time an observation that other sectors are experiencing surplus. Therefore, if there are persistent negative effects on the one hand, there must be just as persistent a set of positive effects on the other.

Which sectors are benefiting? In the current accounts, surplus units are the household sector, which is always in surplus; the business sector, which is sometimes in surplus, sometimes in deficit, but is currently in surplus; and the state and local government sector, which over the past decade has moved heavily into the surplus category. Finally, the international sector has a current account deficit and a funds account surplus. Over the past 3 years or so it has accumulated a heavy surplus in the funds account, which it turns out is the mirror image of the current account deficit. Any time you look at the international sector's funds account position, which is to say its position as a borrower or a lender, you're seeing the mirror image of its current account position, its position as a net importer from, or net exporter to, the U.S.

It's quite another matter to talk about politics. There is the issue of government entities, whether their powers be local, state, or federal in nature, making spending decisions without at the same time considering taxes. That issue is a political matter and not an economic matter. My feeling is that spending and taxation decisions should not be separate. It is necessary for state and local spending decisions to be closely tied to decisions on how projects are going to be paid for. At the federal level, the coordination of spending and taxes is less critical, but it is nonetheless important as a political matter over reasonably long periods, perhaps ten years. We should be concerned if ten years pass and the Administration and Congress continue to undertake expenditures that bear little relationship to the underlying set of receipts.

What about trade deficits? Those concerned with trade as a general issue should actually be asking a different question. I feel we should ask whether people in various countries are doing what they are most capable of doing. If they are, then consumers as a group, worldwide, get the highest amount of output for the given resource use. The world has to allocate its limited productive resources effectively. Since I believe that, I favor trade policies that are based, to the degree possible, on relative efficiency in production. Therefore, I'm willing to accept any resulting deficit or surplus as a natural consequence of optimal policies. But I also believe that nations have to compete on a level playing field, and there are certainly charges that American firms face impediments in reaching markets in some countries, such as Japan. Foreign government intervention in various countries tilts the playing field in ways that encourage their exports and discourage imports of our goods. The U.S. should resist implementing any type of policy that would, in the end, result in a suboptimal allocation of goods, and we should discourage other countries from using such tactics.

I'm not particularly concerned about the current account deficit in the balance of trade, to which you referred. Recall that, in my view, the key to understanding is often to look at the opposite side, and that in this case the opposite is a capital account surplus. But something else is important here. In some sense there are not any real choices. If foreigners decide to build up their holdings of dollar denominated assets, and in the process shift real resources to this country, the mechanism by which that shift occurs is that we import more than we export. It's just like when we shift real resources from the Rust Belt to the Sun Belt in our country; the mechanism by which that shift in real resources occurs is that the Sun Belt imports more than it exports. In a fundamental sense we cannot know what is cause and what is effect. We can't always know whether our deficit in the current account is caused by the surplus in the funds account, or whether the funds account surplus is caused by the current account deficit.

Foreigners are investing in productive capacity that will benefit us in future periods. When the foreigners shift real resources to our part of the world, or, more importantly in terms of the magnitudes involved, when U.S. citizens decide that they want to slow the rate at which they shift resources to other parts of the world, the result is expanded productivity here. It would be a completely different matter if the U.S. were simply profligate, if we were greedy in our use of current account resources. If that were the case the borrowing would represent a foreign bailout. If that were the case, then we might have reason to be concerned about the deficit. But even someone with this belief would be misplacing concern by focusing on the deficit. Of more concern should be our profligate ways.

What should we be following with regard to the money supply and interest rates? One historical issue to consider is how we ought to go about discussing monetary policy. Most of the talk about "monetary policy" is actually talk about interest rate developments. People look at the results, rather than the causes, of monetary policy. Yet even with interest rates, we ought to be looking at a more general question involving the cost of credit.

In my view, monetary policy involves what happens to a collection of financial instruments called "money." In evaluating monetary policy, I tend to pay a lot of attention to what's happening to something called the "monetary base." The monetary base is something the Federal Reserve can actually control over reasonably extended periods of time. The monetary base connects itself to the various M-1's and other monetary aggregates through the applicable multipliers. I'm very traditional in terms of monetary theory, in that I pay so much attention to the money supply. I look at quantities, rather than at interest rates, credit developments, or whether markets are easy, tight, resilient, or cautious.

Real estate people, in the broadest sense, have major concerns about one type of resource use. That involves, of course, the physical building of dwelling structures and workplace structures. This type of resource allocation is a central issue in any economic system. Attached to that important allocative decision are some institutions, some markets, some marketing procedures, and some government regulations. So those of us who are interested in real estate must also have an interest in that whole range of activities: the marketing of final products; the markets within which the allocative decisions are permitted to occur; and the government institutions, laws, and regulations within which activity proceeds; as well as the technical side and the imaginative side of the real resource allocation itself. Real estate market participants qualify as having a pretty broad range of interests.

What general plans do you have in your new role as ORER Director? First, it's important to look at the past. The Office of Real Estate Research has fostered some important real estate research over the past few years, and it's important that the research thrust be continued. However, my chief focus will be, at least initially, on the public information and public service side of our mission. I want to develop ways to communicate with our constituency through such means as conferences, news releases, and increased real estate data development activity, in addition to the type of research conducted in the past. It's important for us to know, for example, the level of housing starts in the state's major metropolitan areas, and the mortgage lending terms available. We should strive for widespread dissemination of our output, with a view toward improving public understanding of real estate issues and developments. We can provide news agencies around Illinois with information such as graphs, charts, and short news stories that they can report locally.

Communities need objective information on what is happening in their real estate markets, and I feel that we can play an important role in providing it. In doing so we can also heighten the public's awareness of the existence of ORER. When any real estate issue arises in Illinois, whether it affects one community only or involves a broader issue such as government regulation of financial institutions, we want people to think of the Office of Real Estate Research as a source of information.

ORER Letter
is published quarterly by the
Office of Real Estate Research
at the University of Illinois
Urbana-Champaign

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