

Economic Review



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Conference Highlights

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GROWTH INDUSTRIES

FEDERAL RESERVE BANK OF PHILADELPHIA

Tracking the '80s

BANKS

Purchase Accounting and Bank Earnings

OFF-BUDGET

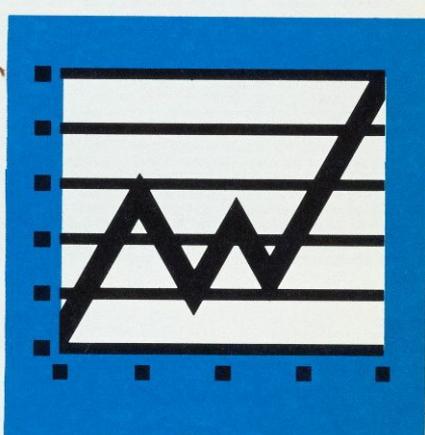
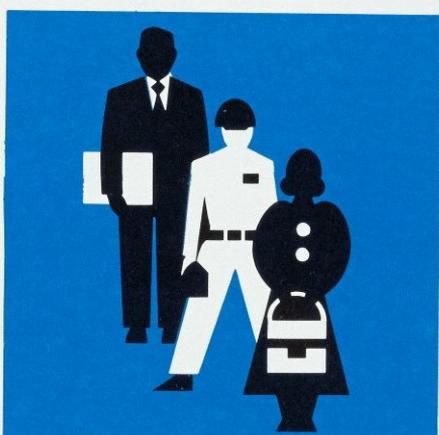
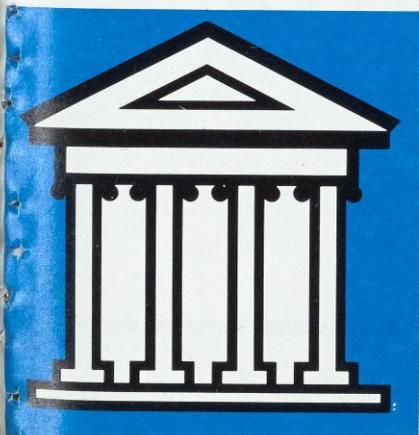
Federal Spending Booms

REGULATION

Can Small Businesses Cope?

HOUSING

Manufactured Homes Surge in South



Economic Review



FEDERAL RESERVE BANK OF ATLANTA

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**Growth Industries
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What will determine which industries achieve strong growth in the '80s? Can excellence in management overcome a lack of other competitive advantages? Highlights of a recent Atlanta Fed conference.

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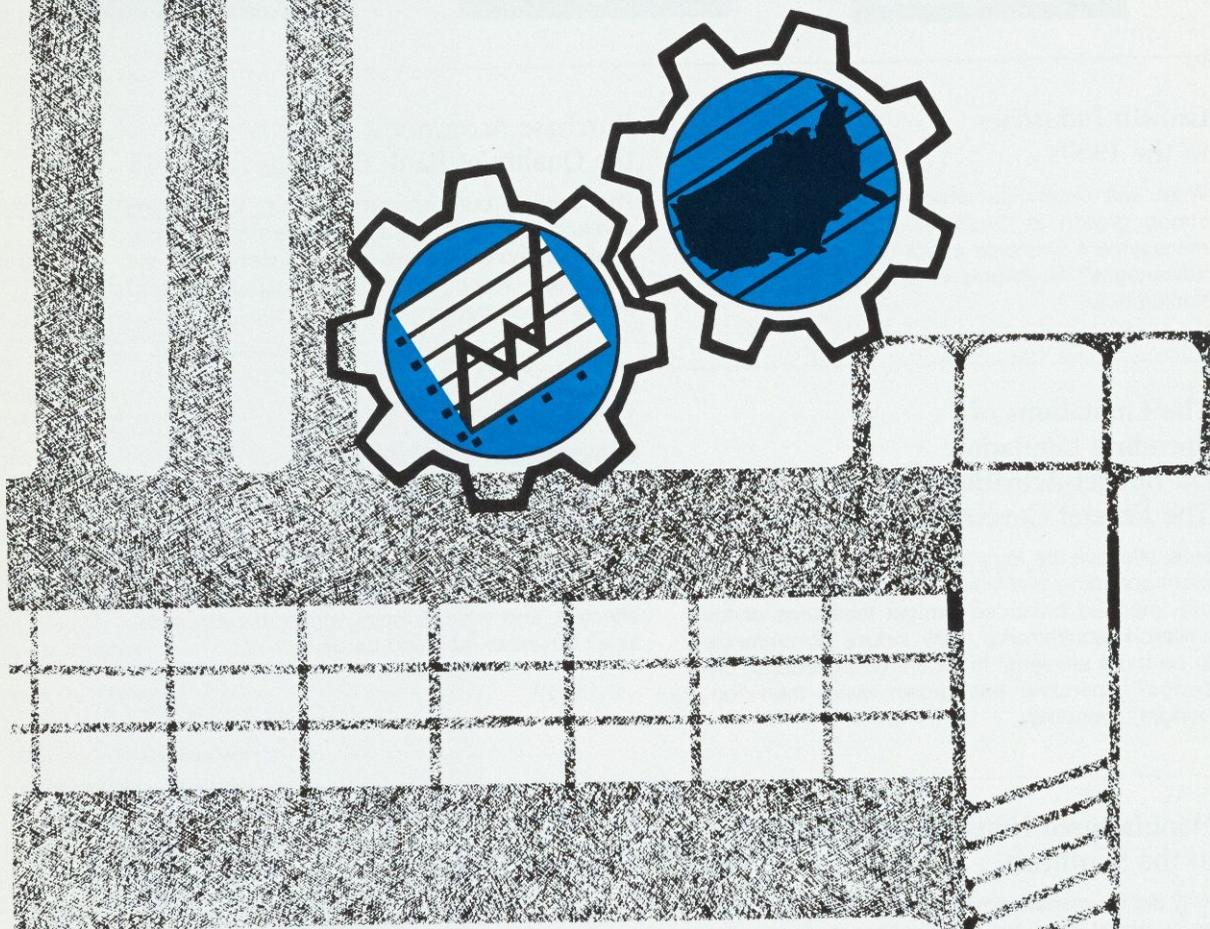
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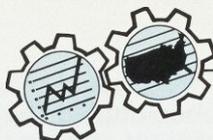
Why did the manufactured housing industry emerge as a bright spot for the Southeast during the recent recession? What are the industry's prospects for expansion in the region and beyond?

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Growth Industries in the 1980s



How do some companies manage to grow and prosper even during recessions that leave their competitors struggling to survive? The Federal Reserve Bank of Atlanta recently invited some of the nation's most respected corporate thinkers to share their ideas on how growth companies are able to transform opportunities into bottom-line profits. Here's a look at what they had to say.



Session I: Key Growth Characteristics

Welcoming Remarks

William A. Fickling, Jr.
Chairman, Board of Directors
Federal Reserve Bank of Atlanta

Moderator:

Donald L. Koch
Senior Vice President and
Director of Research
Federal Reserve Bank of Atlanta

The Ideal Environment for Nurturing Growth

Mancur Olson
Professor of Economics
of Maryland

Why Growth is Important

Arthur Levitt, Jr.
Chairman
American Stock Exchange

Conference Purpose and Overview

William F. Ford
President
Federal Reserve Bank of Atlanta

What the Investor Looks For A Panel Discussion with:

Tom Griffin
Chairman
C.T. Management Ltd.

Stephen Lieber
President
The Evergreen Fund

Edward Mathias
President
T. Rowe Price

Management Excellence and Growth

Robert H. Waterman, Jr.
Author
"In Search of Excellence"

What's the secret to corporate growth?

Business people came from as far away as California seeking insight into that question as the Federal Reserve Bank of Atlanta sponsored a March conference on "Growth Industries in the 1980s."

Encouraged by an economy that appeared to be gaining strength after a trying recession, more than 200 chief executive officers, corporate planners, financial executives and journalists turned out for the two-day session at the Atlanta Hilton. Although most hailed from the Southeast, some signed in from as far away as Los Angeles, Chicago and New York.

The conference, the Atlanta Fed's fourth on major economic issues, challenged registrants with the question of how to achieve growth in a world of dramatically changing markets.

How is it, questioned Atlanta Fed President William F. Ford, that some firms manage to achieve growth even during recessions when their less fortunate competitors are struggling for survival? What is the alchemy that permits some firms to transform dross into gold—or, to put it into business terms, how do they capitalize on opportunities and convert them into corporate success?

"Some people used to say that all it took was a location in the booming Sunbelt" to achieve growth, Ford noted. "Tell that to some of the steel companies around Birmingham, or to the homebuilders in South Florida—or to some of the hard-pressed textile and forest products firms right here in Georgia."

Atlanta Fed Board Chairman William A. Fickling, Jr. explained that the central bank considers itself a logical forum for such significant economic questions of concern to the businesses within its Sixth Federal Reserve District.

He noted that the Bank had sponsored conferences on the future of the financial services industry and of the U.S. payments system in June 1981, then followed with a conference in March 1982 on "Supply-Side Economics in the 1980s."

The growth industries conference, he added, "should prove a worthy successor to the supply-side gathering."

Donald L. Koch, the Atlanta Fed's director of research, characterized the conference's central questions as critical ones for a nation whose economy is growing at only marginal rates.

"At such a time, it is vital in terms of national policy that we learn to identify and to stimulate

the sectors of our economy with the potential to provide the largest share of jobs and make the greatest contribution to GNP," Koch said. "How

"How do we, as a nation, identify and encourage the high-performance sectors likely to make significant contributions to our national economic health?"

—Donald L. Koch

do we, as a nation, identify and encourage the high-performance sectors likely to make significant contributions to our national economic health?"

To address such issues, the two-day event brought together some of the nation's leading thinkers on the subject of growth and corporate success.

Leading off the first panel—on "key growth characteristics"—was Mancur Olson, a professor

of economics at the University of Maryland and author of a recently published book called **The Rise and Decline of Nations**. According to his premise, mature institutions— as well as mature industries and geographic areas of our own nation—find themselves at a surprising disadvantage in competing against less experienced nations, companies and regions.

Olson cited the emergence of aggressive new industrial nations such as Japan, Korea and Taiwan and the contrasting economic stagnation of Great Britain.

He attributed that malaise to the fact that stable and mature nations such as Great Britain have had time to accumulate a host of special-interest groups—ranging from trade associations to labor unions—whose lobbying or “cartelizing” efforts to help their own constituencies dampen national efficiency.

“As the group gets a larger slice of the social pie, the pie will get smaller,” declared Olson. He said special-interest groups have an incentive

approach to its industrial policy, one in which government provides the climate and incentives for growth while leaving the mechanics to the marketplace.

Levitt said government “should not plan everything for us, or abandon everything to us, but rather should practice a kind of ‘climate control’ to create the best possible conditions for real growth.”

Noting that it is tempting to oppose any industrial policy at all, Levitt pointed out that “it is also futile, because America already has a policy of sorts.” That policy, he explained, is the product of thousands of government interventions every day—“in agriculture, in shipbuilding, in defense, in regulation, in trigger pricing, even in such things as labeling and pollution standards.”

He urged that the government define its central direction but, like several other speakers, warned against any attempt to create a Japanese-style bureaucracy dedicated to encouraging industrial “winners” and discouraging “losers.”

“Let us target our growth,” he said. “Instead of either trying to pick winners or attacking government intervention for ideological reasons, let us try to give interventions in the economy a theme

Special-interest groups have an incentive “not to produce but to engage and persevere in distributional struggles even if the social costs are a gigantic multiple of the amount they win.”

—Mancur Olson

“not to produce but to engage and persevere in distributional struggles even if the social costs are a gigantic multiple of the amount they win.”

Newer industrial nations—or emerging industries—either haven’t had time to accumulate the baggage of such special-interest groups or else those groups haven’t had time to mobilize political power. In the case of nations defeated in war—or of the South after the Civil War—special-interest groups were neutralized, permitting governments and industries to start with a clean slate.

Another major conference speaker was Arthur Levitt Jr., chairman of the American Stock Exchange and a leading spokesman for growth companies as head of the American Business Conference.

From his strategic vantage point, Levitt emphasized that the United States must take a balanced

“Instead of either trying to pick winners or attacking government intervention for ideological reasons, let us try to give interventions in the economy a theme and a purpose—planning for growth by removing the obstacles to growth.”

—Arthur Levitt, Jr.

and a purpose—planning for growth by removing the obstacles to growth.”

Government could help, he said, by eliminating bias against savings and investment in the tax system, by increasing tax incentives to encourage long-term investment and high risks, and by supporting vocational training and worker retraining.

Levitt appeared in a session that also featured a panel of securities experts who outlined what they look for in assessing a firm’s potential for investment opportunities. Panelists, chosen for

their investment track records, were Edward Mathias, president of the T. Rowe Price New Horizons Funds; Stephen Lieber, president of the Evergreen Fund, and W. Thomas J. Griffin, of London's G.T. Management, Ltd.

"It seems to us that the key and the main driving force is the need for productivity," said Griffin, offering the global perspective of his international investment firm. "The desperate need for productivity is driving both companies and governments into hard decisions."

Many industries, he said, are either in decline or, at best, static—a dilemma he blamed largely on over-expansion in the 1960s and 1970s.

"All have a desperate need for productivity," said Griffin, "some to compete and some just to stay alive." For many of these industries, he added, the threat of Japanese competition has forced change. He described Japanese businesses as "ruthlessly competitive" both among themselves and with foreign competitors.

Another powerful force affecting the growth of high-technology industries, he said, is a shortage of engineers that, among other things, "will force the major companies to locate where the engineers want to live."

Despite such challenges facing growth industries, many speakers expressed optimism over the new opportunities that often accompany those challenges. Mathias, for instance, observed that most people focus too exclusively on America's industrial problems—what they deplore as economic stagnation, a slipping competitive posture in world markets and other structural problems.

"When we delve beneath the surface, we see a different picture," he said. That picture, he said, includes the emergence of a second-tier industrial structure of largely technical new firms, oriented toward service, information processing and knowledge.

Lieber said the Evergreen Fund looks for simplicity in identifying companies likely to show strong growth. "The opportunity for consistent growth performance is greatest in the simplest, freshest areas," in his view.

Lieber said he and his colleagues analyze an investment opportunity by looking at five basic stages of corporate growth.

First, they look for "easy, straightforward growth," often characterized by a rapidly growing market or by high penetration of an incompletely exploited market.

The second key area would include companies that have added on to their product or service

and "are able to consistently do that without a great variation in their service."

Lieber's third category of growth companies includes firms that broaden their field by introducing entirely new products and taking larger risks.

The fourth group encompasses companies that are able to make a large jump across fields to become leaders in more than one kind of business. Fewer succeed in this endeavor, Lieber said, but "we look at them."

Finally, Lieber examined companies faced with obsolescence, but which have achieved "diversity, breadth, and leadership." He cited Sears, Roebuck as a company that has revitalized itself from "a great, broad, and in many ways immobile entity."

Lieber said he focuses on "the risk factors," the "conceptual opportunities." The key component in a company's ability to seize those opportunities is the vitality of management. He characterized

The key component in a company's ability to seize those opportunities is. . . "an athletic kind of competitive, unrelenting, well-trained, dedicated mind able to sustain excitement."

—Stephen Lieber

that vitality as "an athletic kind of competitive, unrelenting, well-trained, dedicated mind able to sustain excitement."

Lieber cited banking as a particular industry where forward-looking management and a deregulating environment have combined to create exciting growth opportunities. The Evergreen Fund, he said, has participated with both parent companies and smaller banks in what Evergreen sees as an industry move toward interstate banking.

The conference featured two best-selling authors whose books have prompted readers to rethink their views of corporate success, or their outlook toward the broader societies in which corporations operate.

Robert H. Waterman Jr., a leading expert in business management, discussed the similarities

that he and research partner Thomas J. Peters found in a study of 42 successful American corporations. Waterman spoke of the common elements—such as an emphasis on people and a willingness to take corporate risks—that he found in successful firms as diverse as IBM, Procter & Gamble, 3M and Delta Airlines.

Waterman's book outlining his conclusions, **In Search of Excellence**, has proven a major best-seller, with 250,000 copies in print. Waterman collaborated with Peters on the book. That book "has reminded us that the best-managed American firms don't have to take a back seat to anyone," noted John H. Weitnauer, the Atlanta Fed's deputy chairman, in introducing Waterman. "That's a timely reminder we can all take to heart."

Many successful corporations exhibit what Waterman called "a funny combination" of centralized and decentralized management. They are centralized around their corporate values, and "very decentralized around everything else." Discovering the proper dimensions of this combination is where the "artfulness" of management lies, according to Waterman.

Calling his book a "study of ambiguity," Waterman described how large companies stimulate innovation by creating small working divisions. These small units also promote internal competition and what Waterman called "action devices" to "get around the bureaucratic weed patch."

Another way successful businesses short-circuit bureaucracy is by forming "adhocracies"—short-term task forces assigned to solve problems by cutting across organizational lines.

Waterman's research also found that experimentation was a common thread among top corporations. In fast-growing or emerging technologies, good market data is not always available. Innovative companies respond—just as scientists do—by experimenting, Waterman said. The development of the "zoom" lens for cameras offers an example of a product where the potential market was at first thought to be small. Experimentation showed the market to be large enough to justify further development.

Moving from the mechanisms of growth to the underlying values that sustain a corporation, Waterman noted that most companies profess to maintain some sort of central values, but only a few practice them.

"It's the fanaticism, the persistence and the high energy with which these companies pursue their values that is astonishing," he said. This

persistence invariably keeps the company close to the customer, which in turn stimulates more innovation. One study showed that, of the major improvements in the scientific instrument industry, 80 percent had come from the customer.

Waterman closed his presentation by emphasizing how important people—rather than systems or machines—were to the top companies he studied. "These companies believe that productivity originates with people," he said, "and they treat individuals with respect." He cited IBM as a corporation where respect for the individual occupies a major portion of management time.

Reinforcing this conclusion were the findings from Waterman's interviews within the corporations he studied. Those companies that described their goals in terms of people and personal

Those companies that described their goals in terms of people and personal values performed much better in the marketplace than did those that expressed their goals in terms of earnings.

—Robert Waterman

values performed much better in the marketplace than did those that expressed their goals in terms of earnings.

Another prominent author appearing at the conference was Alvin Toffler, the futurist and social critic best known for his analyses of contemporary social change. Toffler, the author of **Future Shock** and **The Third Wave**, spoke of the implications for corporate growth that he foresees in his vision of the future. In that future, he projects an information-based Third-Wave society will supplant our Second-Wave industrial society just as Toffler says the Industrial Revolution displaced the agrarian First Wave civilization.

Toffler noted that some forces—certain labor unions, companies and policies—are resisting the transition, fighting to preserve the traditional industrial economy through protectionist tariffs, government regulations, even, in some countries, actual nationalization. "There are people," as he put it, "who would really love to recreate the 1950s."

According to Toffler, those holdouts fail to see that the old ways cannot be—in fact, should not be—preserved in the face of the irresistible change he believes is already beginning to take place in societies around the globe. He urged business and political leaders not to obstruct the sweeping movement toward a Third-Wave society that he contends offers greater promise for civilization than did the Industrial Revolution.

“Rather than fighting to preserve the past, we need to face new realities,” he said, declaring: “What is emerging is not an extension of the old industrial society, but a new system—indeed, a

“What is emerging is not an extension of the old industrial society, but a new system—indeed, a new civilization—based on principles that sometimes contradict those that we have lived with for the past 300 years.”

—Alvin Toffler

new civilization—based on principles that sometimes contradict those that we have lived with for the past 300 years.” He said those changes are affecting not just America but industrial nations around the globe. What’s more, he added, the transformation is not limited to economics, but includes social, political and cultural change as well.

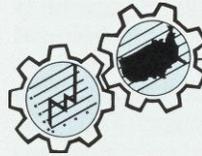
In Toffler’s vision of global economics, the world is moving from a Second-Wave manufacturing economy based on automobiles, steel, textiles, apparel and rubber to a Third-Wave economy based on communications, genetics, aerospace, environmental technologies and similar high-tech activities. As the transformation takes place, he said, giant, successful Second-Wave corporations will find themselves struggling to restructure in response to their changing environment.

He cited American Telephone and Telegraph and General Motors as two corporate giants already attempting “to come to grips with new pressures and new realities.” Such corporations, he noted, may face internal as well as external pressures to change their time-tested way of doing business.

What happens to employees displaced in the transition away from a blue-collar economy based on heavy manufacturing? Toffler said the problem can be dealt with, but he disputed those who say that nature should be allowed to take its course—that “an invisible hand will solve the crisis for us and all those displaced workers will get jobs in Silicon Valley.” He called that a myth because the problems of unemployment are qualitative as well as quantitative.

“It’s a question,” he said, “of matching and changing skill requirements with a population that has to be continually retrained. Therefore, while encouraging a greater emphasis on industries of the future—optics, lasers, bio-technologies, software, video, telecommunications—he pointed out that training could prove to be the crucial factor in determining how well nations deal with the transformation.

“Above all”, he said, “we must nurture new forms of education because you can’t have a Third-Wave economy with a Second-Wave education system.”



Session II: Industries to Accommodate An Expanding Population

Moderator:
Gene D. Sullivan
Research Officer and
Senior Economist
Federal Reserve Bank of Atlanta

**Construction:
Changing Family Residences**
Howard Katz
President
Ocilla Industries

**Retailing: The Impact of
Computerized Shopping**
Walter A. Forbes
Vice-Chairman and CEO
Comp-U-Card

**The Office
of the Future**
Donald L. Koch
Senior Vice President and
Director of Research
Federal Reserve Bank of Atlanta

**Medical Services:
Contributions to Growth**
Ray Stevenson
President
Charter Medical Corporation

Even as traditional employers have had to fight for their lives, other firms have sprung up, or have expanded, to serve the needs of a growing population as the World War II “baby boomers” move into their most productive years of earning—and consuming.

“When you start looking at the ingredients that go into growth, you quickly find that the human element is the critical one,” explained economist

Gene D. Sullivan, who heads the Atlanta Fed's regional research team and who helped organize the growth conference.

"Growth opportunities can be rare in a stagnating region where the population is holding stable, or even declining," he said. "On the other hand, the Sunbelt states of the South and Southwest have been fueled by a steady stream of migrants from less temperate climates."

Sullivan introduced a panel that included Walter A. Forbes, vice chairman and CEO of Comp-U-Card of America in Stamford, Connecticut; Ray Stevenson, president of Charter Medical Corporation, a \$400 million health care services company based in Macon, Georgia, and Howard Katz, president of Ocilla Industries, a modular homes manufacturer with headquarters in New York and manufacturing operations in Georgia.

Forbes, who heads a mail-order retailing firm that enables consumers to shop via an experimental interactive sales system, said two million computer and telephone subscribers already use the service, for which they pay a fee. Those subscribers can tap into various computerized data bases that permit them to review products being offered for sale without going shopping at a retail establishment.

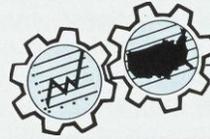
Through a computer terminal at home or in an office, potential customers can get up-to-the-minute information on prices and specifications covering more than 50,000 name-brand products. In just the week before the conference, Forbes said, Comp-U-Card sold via computer items ranging from stereos and refrigerators to microwaves, automobiles, crystal, silver and china.

"Within a few months, we'll begin to introduce financial services, pharmaceuticals, certain food items, travel and insurance," he said. "We're on the way, and I think it will take us only a couple of years to increase our basic products to over 200,000."

Stevenson cited the success of the health care management industry as evidence that, for organizations willing to take risks and look at old problems in fresh ways, "the opportunities still exist to combine worthwhile public service with exceptional rewards."

Stevenson noted that his industry had been relatively slow to apply sound business principles, but that the adoption of solid management tactics has inspired the industry's growth in recent years. That, according to Stevenson, has done more to revolutionize the hospital business than any amount of new technology.

"Every other growth industry is talking about its technology," he noted. "Our technology is just good management applied to what was a far flung, dispersed and relatively poorly managed cottage industry."



Session III: Emerging Growth Industries

Moderator:

Donald L. Koch
Senior Vice President and
Director of Research
Federal Reserve Bank of Atlanta

**Automated Office Equipment:
Will Rapid Growth Continue?**

James L. Bast
President and CEO
Dictaphone Corporation

**Electronics: High Technology
is the Wave of the Future**

John T. Hartley, Jr.
President and CEO
Harris Corporation

Growth in a Changing Future

Speaker: *Alvin Toffler*
Author
"The Third Wave"
"Future Shock"

**Microcomputer Enhancement:
Challenges in an
Exploding Industry**

J. Leland Strange
CEO, Quadram Corporation and
Director, Intelligent Systems
Corporation

A panel on "Management Excellence and Emerging Growth Industries" featured three chief executive officers of fast-growing firms: John T. Hartley Jr., president of Harris Corporation in Melbourne, Florida; Leland Strange, vice president and director of marketing for Quadram Corporation of Norcross, Georgia, and James L. Bast, president of Dictaphone Corporation, a wholly owned subsidiary of Pitney Bowes Inc.

Hartley, whose firm manufactures high-technology communication and information-processing equipment, discussed electronics; Strange focused on mini-computers and telecommunications, while Bast reviewed the rapid growth of automated office equipment.

Hartley pointed out that much of the rise to prominence of the service industries was made possible by technological developments, especially in electronics.

He singled out six particular technologies he believes will be the most significant in the '80s and '90s. VLSI (very large scale integrated circuits), computer aided design, digital communications, high level software, satellite communications and light wave systems.

Hartley noted that "it takes unusual organizational techniques and organizational flexibility to manage these technology based companies." The rapid rate of change in technologies places "great stress on management techniques and means that . . . we must be very flexible in terms of our planning process and our direction." He cited the need for increased quality in math and science education in our primary and secondary education system as a key to America's ability to keep up with foreign competition in the "high-tech future."

Bast provided an interesting parallel to Waterman's findings. Even though his company specializes in office automation products, he said the secret of his success has been a focus on

Even though his company specializes in office automation products, he said the secret of his success has been a focus on "workers themselves, and what they are doing and the problems they are confronted with, rather than actual hardware or products."

—James L. Bast

"workers themselves, and what they are doing and the problems they are confronted with, rather than actual hardware or products."

The office automation industry is undergoing a transition, Bast said, from single function products (like word processors) to multiple function products and greater interconnection of devices.

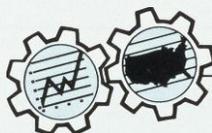
A driving force behind both the people focus and the multiple use products, in Bast's view, is the changing nature of the nation's work force. Within the rapidly expanding white-collar portion of the work force, there are now about five million secretaries, 11 million managers, and 16 million professionals. Office automation is just beginning to reach the latter two groups.

Bast predicted that the office automation industry "will quickly move everyone to multi-function work stations that will combine word processing, personal computing, data processing and even voice processing." It is possible,

he added, that business may see a machine capable of producing hard copy or screen copy directly from speech within five to ten years.

In spite of all the attention given to office automation, Bast said the penetration by such devices of the work environment remains low. Only 3 percent of managers today have display-based work stations; by 1986 it is anticipated that this will have increased to only 8 percent. Therefore, Bast predicted continued strong growth for the office automation industry.

Bast said he also expects that American willingness to innovate will help lead an "American resurgence" over foreign products. All of the ingredients for rapid growth are in place, he concluded, and increased efficiency, productivity, and profitability should result.



Session IV: Growth Prospects for Traditional Industries

Moderator:
William N. Cox
Vice President and
Associate Director of Research
Federal Reserve Bank of Atlanta

**Apparel: Innovations
That Will Lead to Growth**
Thomas N. Roboz
Chairman
Stanwood Corporation

Other conference panelists spoke of the implications of growth and change to corporations at both ends of the spectrum— not only to emerging and expanding industries such as telecommunications, health care and automated office equipment, but to the traditional industries that have provided jobs and payrolls in America for generations—industries such as steel, autos, textiles and apparel.

"This era has also posed problems for our traditional industries, including those that have provided jobs and profits since the dawning of the Industrial Revolution," said William N. Cox, the Atlanta Fed's associate director of research.

"We have witnessed the traumatic market changes that have jolted such industries as auto manufacturing. And we have seen the trials of traditional 'smokestack' companies that once provided the muscle for national economic growth."

Thomas N. Roboz, a Charlotte, N.C. apparel executive who has headed major industry trade

organizations, spoke of the dilemmas facing one traditional southeastern employer that has found itself besieged by imports from lower-wage competitors overseas.

To fight back, he said, U.S. textile and apparel firms will need to automate, diversify, create export trading companies and become more market oriented. The industry can survive, Roboz

To fight back,...U.S. textile and apparel firms will need to automate, diversify, create export trading companies and become more market oriented

—Thomas N. Roboz

said, "but it will require a blood revolution, with a lot of casualties along the way."

The conference concluded with a panel of leading business journalists, who offered their perspectives on the subject of growth and technology. Appropriately, one panelist—science and technology editor Richard Shaffer of **The Wall Street Journal**—delivered his speech from notes he had typed on a portable computer flying from New York to Atlanta.

Shaffer spoke as part of a panel that also featured Malcolm (Steve) Forbes Jr., president of **Forbes** magazine; James Russell, financial editor of **The Miami Herald**; and David Cook, Washington economics correspondent for **The Christian Science Monitor**.

Despite his enthusiasm for high technology, Shaffer brought a measure of skepticism with him from his New York office, warning against excessive optimism that technology can solve all economic problems. Noting that computer manufacturers haven't been immune to the recession, he observed that "high tech is as subject to the laws of economics as anything else." He questioned whether a shakeout isn't likely in portions of the computer industry, considering that 150 brands of desk-top models are now contending for buyers in a crowded marketplace.

Just the same, Cook quoted an unpublished Cabinet study that underscores the importance of the nation's high-tech industries. He said

"High tech is as subject to the laws of economics as anything else."

—Richard Shaffer

that study, dated October 1982, concluded that high-tech firms:

1. Boast a growth rate twice that of the national economy as a whole, with high-tech industries accounting for nine of the ten fastest growing industries in recent years.

2. Enjoy labor productivity growth six times as great as the overall business population.

3. Showed price increases only a third as high as the nation's inflation rate over the 1970-1980 period.

Finally, he said high-tech firms since 1975 have produced a cumulative balance-of-trade surplus totaling \$128 billion, while the nation as a whole was experiencing a cumulative \$148 billion deficit in merchandise trade. "Even in the play-money land of Congress, we are talking big stakes," Cook observed.

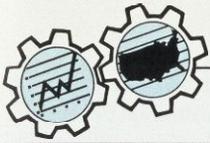
Forbes noted with amazement that some politicians and editorialists have "begun to mythologize the blue-collar worker" and to lobby in favor of protection for smokestack industries just as an earlier generation sought to protect a legendary "yeoman farmer" from industrialization.

"If we resort to protectionism trying to turn back the clock, it can have serious repercussions," Forbes admonished.

"If we resort to protectionism trying to turn back the clock, it can have serious repercussions."

—Malcolm Forbes, Jr.

Russell, whose financial column is carried by some 100 newspapers around the nation, described business journalism as a "growth industry" that most daily newspapers were slow to recognize.



Session V: Press Perspective

Moderator:

William N. Cox
Vice President and
Associate Director of Research
Federal Reserve Bank of Atlanta

James Russell
Financial Editor
The Miami Herald

Malcolm S. Forbes, Jr.
President
Forbes

David T. Cook
Washington Correspondent
The Christian Science Monitor

Richard Shaffer
Science and Technology Editor
The Wall Street Journal

"The traditional American press, the daily newspaper, did not recognize it until others had exploited it," he said. "Now they are trying to play catch-up by frantically expanding their business sections."

Newspapers began to shore up their business sections eight or nine years ago, he said, when it became obvious that the economy had become a major continuing news story in the country. The economy emerged as a major

story, he added, because inflation forced businesses and the American public alike to learn more about economics and financial choices.

"People had to make complex economic choices," according to Russell, "or get run over by the wave of inflation and high rates."

Atlanta Fed Chairman Fickling, who welcomed visitors to the conference, expressed hope that the interest in corporate growth that they had demonstrated by attending would be rewarded by a cooperative economy.

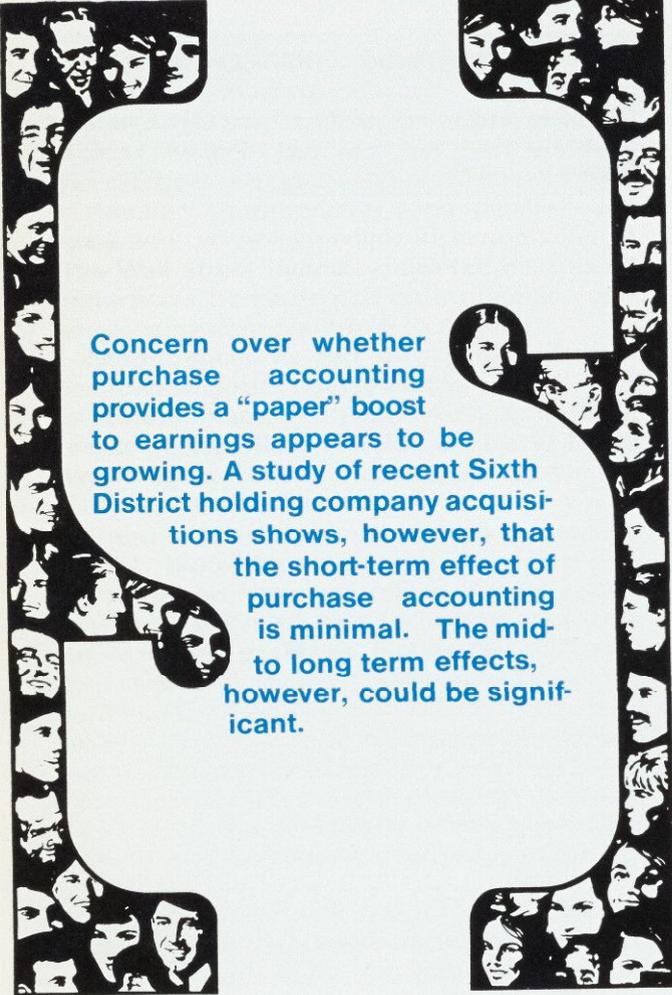
"Let's hope," he said, "that we are convening this conference at a time when our economy is moving into a more upbeat phase—a phase that will bring greater prosperity for the firms within our Sixth Federal Reserve District and across the nation."

—**Donald E. Bedwell**
and **Gary W. Tapp**

PROCEEDINGS FORTHCOMING

*Complete proceedings of the entire conference will be available later in the year. See future issues of the **Review** for details.*

Purchase Accounting and the Quality of Bank Earnings



Concern over whether purchase accounting provides a “paper” boost to earnings appears to be growing. A study of recent Sixth District holding company acquisitions shows, however, that the short-term effect of purchase accounting is minimal. The mid-to long term effects, however, could be significant.

Investors, creditors, regulators and others interested in the financial condition of a banking firm rely heavily on its financial statements. To be useful, those statements must present the firm’s condition fairly, accurately, and consistently. In spite of close monitoring of large banks by security analysts, however, we believe the effects of one accounting area—called “purchase accounting”—often are not fully understood. In particular, this method’s treatment of “goodwill” in business acquisitions has proven somewhat controversial.

Purchase accounting, which deals with mergers or acquisitions, can have dramatic effects on a banking firm’s reported income. If rising interest rates reduce the market value of some of a bank’s fixed-rate assets, for example, purchase accounting could actually produce a temporary increase in earnings. On the other hand, when a company ends an aggressive acquisition policy, earnings growth might show a significant decline. If such changes reflected actual economic values, there would be no need for concern. But if they were attributable to arbitrary accounting decisions, investors, regulators and the general populace would be very interested.

Recently, some accountants have expressed concern over the “paper” boost to earnings arising from purchase accounting involving financial institutions. To address this problem the Financial Accounting Standards Board issued statement No. 72 “Accounting for Certain Acquisitions of Banking or Thrift Institutions.” The changes in this statement would lessen the boost

to earnings in certain acquisitions after September 30, 1982; however, there would still exist the possibility of enhanced earnings. Interestingly, we found that this "paper" boost to earnings was not significant in recent holding company acquisitions in the Sixth District. FASB No. 72 would appear to be more applicable to the ailing savings and loan industry where substantial write-downs of the mortgage portfolio often result in liabilities exceeding the fair market value of assets by a large margin. The new accounting statement requires that if, and to the extent that, the fair value of liabilities assumed exceeds the fair value of identifiable assets acquired, the goodwill recognized should be written-off over a period no longer than the average life of long-term interest bearing assets. In effect, this reduces the paper boost to earnings but has no effect on the amount or method of amortization of existing goodwill on financial statements involving acquisitions prior to September 30, 1982. When looking at bank acquisitions we found this to be a more significant issue.

In this article, we explain what purchase accounting is and how it differs from the other method of accounting for mergers and acquisitions—"pooling-of-interests" accounting. We also examine how purchase accounting is being used and how it is affecting the earnings of bank holding companies that acquire banks in the Southeast.

To answer these questions, we recently surveyed bank holding companies in the Sixth Federal Reserve District. The results indicate that, in the short run, the accounting treatment of bank

"The accounting treatment of bank acquisitions in this District generally does not produce significant changes in a firm's net income."

acquisitions in this District generally does not produce significant changes in a firm's net income. Under the right circumstances, the potential exists for temporarily enhancing net income

substantially. Yet, apparently that has occurred infrequently because positive effects of asset write-downs are counteracted by write-offs of large purchase price premiums. We found that the average net effect of purchase accounting on consolidated income was only 0.6 percent of total consolidated income in the year of acquisition. However, looking at the long-run effects, once the purchase accounting adjustment runs out, the remaining write-offs of goodwill can have a significant negative impact on reported earnings. If this is the case, it may affect management's future acquisition policies and change the way outsiders analyze a firm's earnings performance.

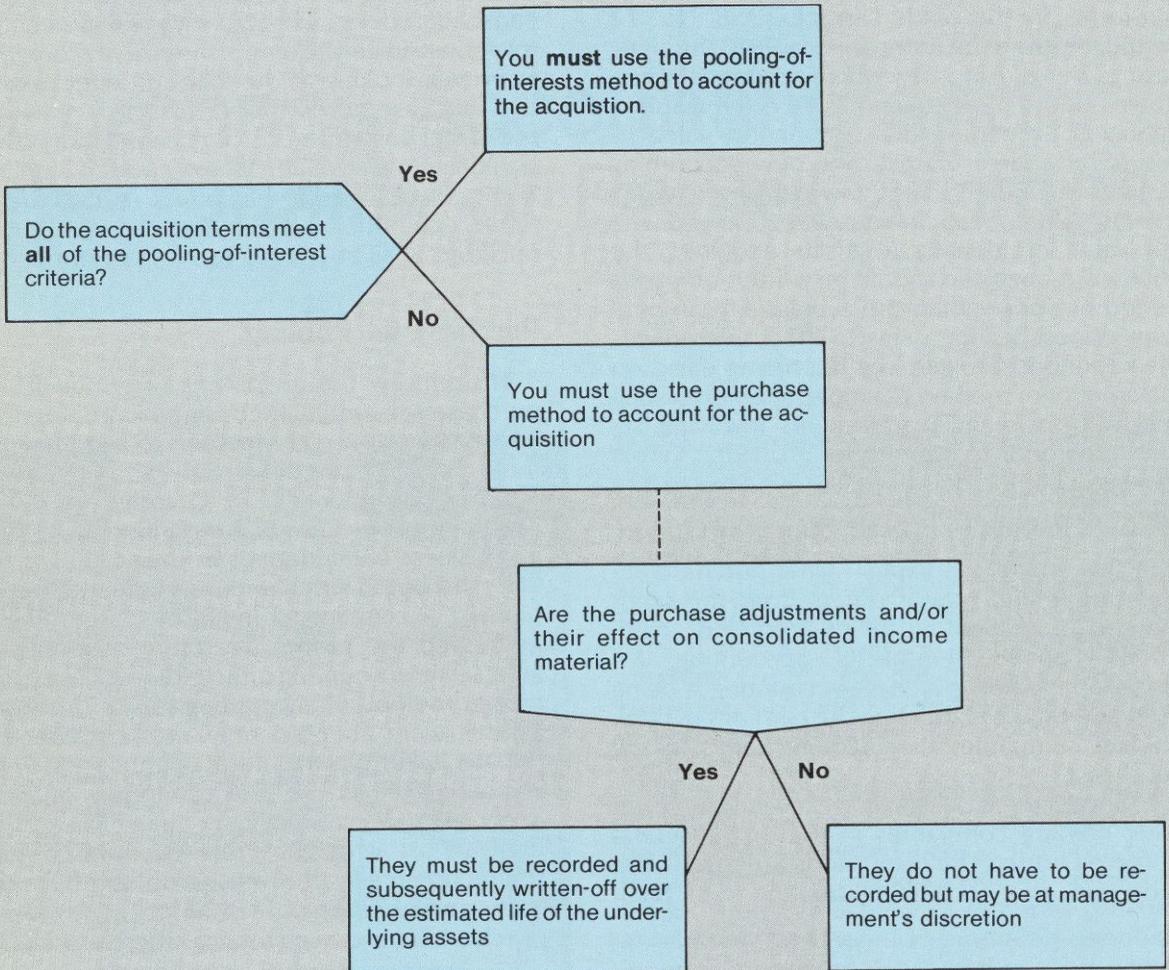
Purchase vs. Pooling

Historically, the treatment of goodwill and purchase accounting for business combinations has been controversial. Members of the accounting profession have long debated the appropriateness of recording goodwill. In October 1970, the Accounting Principles Board clarified its position on business combinations in their Opinion No. 16.¹ The board simultaneously issued Opinion No. 17, "Accounting for Intangible Assets," which addressed the proper treatment of intangible assets. The accounting principles that govern the proper method of accounting for various transactions were adopted only after considerable debate. It is crucial that the accounting principles accurately reflect the true economics of transactions. Understandably, in many cases it is unclear just what the "true economics" of a transaction really are. Thus, some of the controversy surrounding the treatment of goodwill and purchase accounting remains with us today.

There are two distinct methods of accounting for business combinations: pooling-of-interests—which does not revalue assets or liabilities—and purchase. To better understand how purchase accounting affects income, it is necessary to look at both approaches. These two methods of acquisition accounting are not alternatives with respect to any particular business combination, nor is the method used an elective of management. Detailed rules specify conditions under which the pooling-of-interests method must be used. If those conditions do not exist, the purchase method is appropriate (see Exhibit 1).

¹The Accounting Principles Board was the rulemaking body of the accounting profession from 1959 to 1973. The APB was succeeded by the Financial Accounting Standards Board (FASB).

Exhibit 1
Accounting Decision Flow Chart
for Business Combinations



A number of conditions must be met to use the pooling-of-interests method (Box 1). The conditions are designed to assure that the combining companies are independent and autonomous, that relative rights and risks of ownership are combined proportionally, and that transactions are not contemplated after the combination that would be inconsistent with the concept of combining the existing interests of independent stockholder groups.

The pooling-of-interests method recognizes that two separate businesses are being combined

and future operating results are based on original amounts of assets and liabilities. No revaluation of assets or liabilities takes place. Assets, liabilities, stockholders' equity, and net income for the entire year of the acquisition of the respective companies are combined. Because the basis of valuation in a pooling is the book value of net assets on the books of the acquired company, goodwill cannot be created at the date of combination. If an acquisition qualifies under the pooling criteria, the exchange of ownership of bank stock for holding company stock is eligible

POOLING OF INTERESTS - CRITERIA

Conditions for Pooling of Interest Method—(All must be met or it is a "Purchase")

A. Combining Companies Criteria:

1. Subsidiaries or divisions of another corporation (if within two years before the plan of combination is initiated) are not allowed.
2. Each of the combining companies is **independent** of the other combining companies.
 - a. Thus no more than 10 percent of any company can be held as intercorporate investments prior to the initiation of the plan of combination.

B. Combining of Interests Criteria:

1. The combination must be completed within one year after the plan is initiated.
2. After the date the plan of combination is initiated, the issuing corporation issues **voting common stock** in exchange for at least 90 percent of the **voting common stock** of another combining company.
3. Ratio of interest or predecessor owners must remain the same.
4. "Voting rights" must remain the same, thus no "voting trusts" are allowed.
5. "Contingent buy outs" not allowed (e.g., based on future earnings of either parent or sub, etc.).

C. Absence of "Planned Transactions" Criteria:

1. No future "buy out" agreements allowed (for example, through treasury stock, to dissident shareholders).
2. The combined corporation cannot guarantee loans on stock issued in the combination, thus allowing some previous stock owners to get cash (in effect "sell") from their stock.
3. The combined corporation does not intend to plan or dispose of a significant part of the assets of the combining companies within two years after combination, except for disposals of duplicated facilities.

for a tax-free exchange. The owner of bank stock merely exchanges his shares for stock of the holding company and would retain the same ownership percentage in the holding company as he had in the bank.²

Unlike a pooling, the purchase method is similar to the accounting treatment used in the acquisition of any asset group (Box 2). The fair market value of the consideration (cash, stock, debt securities) given by the acquiring firm is used as the valuation basis of the combination. Assets and liabilities of the acquired firm are

²This is generally true for one-bank holding companies, however, multibank holding companies cannot usually meet the strict pooling-of-interests criteria and thus a tax-free exchange is more difficult to structure and would be handled differently.

PURCHASE VS. POOLING-OF INTERESTS

The fundamental differences between the pooling and purchase methods are:

1. In a "purchase," the net income of a newly acquired subsidiary will be included in consolidated net income **from the date of acquisition**. In a "pooling," net income of the subsidiary for the **entire year** is added to consolidated net income regardless of the date of "pooling."
2. In a "purchase," only retained earnings from the date of acquisition are included in consolidated retained earnings. In a "pooling" **all** acquired retained earnings of the subsidiary are added to consolidated retained earnings.
3. In a "purchase," net book values of a newly acquired company are adjusted to acquisition date fair values. In a "pooling" net book values of the "pooled" companies remain the same.
4. In a "purchase," any difference between the amount paid for the subsidiary and the fair value of assets acquired would result in positive and negative goodwill which should be amortized over a period not to exceed 40 years. In a "pooling" no consolidated goodwill is created.
5. In a "purchase" where newly issued stock was exchanged for a newly purchased company, the shareholders' equity would be increased by the **fair market value** of the stock issued. In a pooling when new stock is issued for a newly acquired "pooled corporation," the shareholders' equity is increased by the total **net book value** of the newly pooled corporation.

revalued to their respective fair market values at the date of combination.³ Any difference between the value of the consideration given and the book value of net assets obtained is known as the "differential" of net assets acquired.

This differential has two components: (1) an amount representing an adjustment of the book values of the net assets up (or down) to their respective fair market values (the purchase adjustment) and (2) an amount representing intangible assets. Some rules guide the accounting treatment of the differential, but there is considerable room for subjectivity in the valuation of intangibles. Depending on management decisions, treatment of the differential can produce varying results in the firm's income statement.

An important judgment in the accounting treatment of business combinations is the treatment

³Book values often differ from market values because accounting rules require assets to be recorded at "historical cost." Generally, acquired assets are recorded at their market value at the acquisition date. This value (now called "book value") remains constant and is not adjusted with temporary fluctuations in market value.

of intangible assets. There are two types of intangible assets: identifiable and unidentifiable. The unidentifiable intangible asset is more commonly known as goodwill. It can be defined as the differential ability of one business, in comparison with another or an assumed average firm,

“There is considerable room for subjectivity in the valuation of intangibles.”

to make a profit.⁴ The amount assigned to goodwill is usually capitalized as an asset and written off over a period of time. The write-off period should correlate with the anticipated length of benefit from the goodwill but in any case cannot exceed 40 years. Amortization of goodwill reduces net income but is not tax deductible.

The other intangible assets, known as identifiable intangibles, represent expected future benefits from identifiable assets. Patents, franchises and trademarks are examples of identifiable intangibles. An identifiable intangible gaining popularity among financial institutions is “deposit base valuation” (see Box 3.) If an intangible asset is identifiable, it may qualify as a tax-deductible item and is thus preferable over the non-deductible goodwill (unidentifiable).⁵ For this reason, most financial institutions would benefit from allocating a portion of the premium paid in a bank acquisition to identifiable intangibles instead of allocating the premium totally to goodwill.

To understand how the differential can actually affect reported income, let’s discuss the specific accounting treatment of the purchase adjustment, identifiable and unidentifiable intangible assets. All three elements of the differential play an important role in the ultimate effect of purchase accounting on bank earnings (Exhibit 2).

⁴Goodwill in Accounting: A History of the Issues and Problems. Hugh P. Hughes, Research Monograph No.80, 1982, p. 7.

⁵Officially the Internal Revenue Service has been silent on the deductibility of “deposit base.” It is not addressed in the current code, but many financial institutions across the country have been treating it as a deductible item.

DEPOSIT BASE VALUATION

Deposit base valuation is an intangible asset which seems to be gaining popularity with financial institutions. Its popularity is due principally to the tax advantages it offers. Unlike goodwill, deposit base valuation is an identifiable intangible asset whose underlying tangible asset is a bank’s low-cost deposit base. If purchase accounting is used, the low cost deposit base can be discounted to yield the prevailing interest rates for similar deposits at the time of acquisition. This discounted value becomes known as the deposit base valuation and is written off over a period which reflects the pattern of expected run-off of the related deposits. As an identifiable intangible asset, the deposit base valuation’s amortization has been treated as a tax deductible item by many financial institutions.

Depending on the underlying assets and current market conditions, the purchase adjustment may have varying effects on income. If the fair market value of assets is less than their book value (a likely condition for a financial institution in a period of high interest rates), the adjustment would be accreted over time to consolidated income. If fair market values are greater than book values, however, the purchase adjustment would be written-off over time as an expense item and have a reverse effect on income.

The write-off period for the purchase adjustment should correspond to the estimated life of the underlying assets. For investment securities, we might use the average maturity of the investment portfolio (which may range from several months to many years depending on the maturity structure of the portfolio); for premises and equipment we most likely would use the estimated remaining useful life of the property. Obviously, the shorter the estimated life of the underlying assets the larger the annual write-off of the purchase adjustment.

The estimated life of underlying assets is generally easy to quantify and thus the purchase adjustment write-off is based on a somewhat objective judgment of the economic value of assets. However, the accounting treatment of intangible assets requires more subjective judgment. Identifiable intangible assets are required to be written off over the expected life of the underlying assets. Identifying an amount and subsequent write-off period is more difficult than for the purchase adjustments. The valuation

EXHIBIT 2

Income Statement Effects of the Write-off of Goodwill and Purchase Adjustments

Item	Effect on Income	
	Positive	Negative
Goodwill		X
Purchase Adjustments		
Asset Accounts:		
Write-Up		X
Write-Down	X	
Liability Accounts		
Write-Up	X	
Write Down		X

of a deposit base again serves as a good example here. The intangible value of possessing a low cost deposit base is written-off to match the estimated run-off of the deposits. The anticipated run-off period then becomes a subjective decision influenced by anticipated behavior of depositors. Even though this write-off period is slightly subjective, management can monitor the actual deposit run-offs and adjust the write-off period accordingly.

The ability to monitor the "activity" of underlying assets is not present when dealing with unidentifiable assets and therefore the accounting treatment of goodwill is considerably more

"Since goodwill represents the value assigned to future earnings from somewhat ambiguous sources such as market presence and name association, the precise period of benefit is clearly in doubt."

difficult and really quite subjective. Since goodwill represents the value assigned to future earnings from somewhat ambiguous sources such as market

presence and name association, the precise period of benefit is clearly in doubt. This makes the goodwill amortization period mostly a subjective management decision. Generally accepted accounting principles call for the amortization to equal the expected period of benefit but not to exceed 40 years. The elusive nature of goodwill forces many firms to write it off over the maximum period allowed. Only recently, FASB No. 72 removed some (but by no means all) of the subjectivity in choosing the appropriate write-off period. It provided limited guidelines for only that portion of goodwill represented by the excess of the fair market value of liabilities over fair market value of identifiable assets. In our survey this situation existed in 14 out of 21 cases and averaged 26 percent of total goodwill created in the acquisitions.

To determine purchase accounting's total effect on the income of a consolidated organization, you must net the write-off of the purchase adjustment against the write-off of intangible assets. This is then adjusted for taxes, if any, and compared to the consolidated organization's net income. Potentially, this impact can prove significant if: (1) the purchase adjustment is a large net write-down of assets, (2) it is written to income over a relatively short time and (3) intangible assets are small in relation to the purchase adjustment and are written off over a much longer period of time. These conditions could create a significant, positive effect on earnings—possibly not reflecting the true underlining value of the transaction.

Earnings Quality

Many people feel that purchase accounting and its treatment of intangible assets can affect a firm's earnings quality. The concept of earnings quality is somewhat elusive. At first glance a company's reported net income may look good compared to past performance, but this can be deceiving. Were there any unusual or one-time adjustments that temporarily enhanced income? If there were, we might determine that reported earnings are of "poor quality." This means the income that is reported does not reflect a firm's earnings potential from ongoing operations. In most cases earnings quality is a matter of subjective determination.

A recent survey of accountants, security analysts, and financial managers uncovered certain earnings characteristics those people felt resulted in poor

quality earnings.⁶ For example, a company using the cost method to account for its investee would have poor quality earnings if it received an unusually large cash dividend from the investee in one year. Also, if a significant increase in earnings is due to the sale of land, most of those surveyed believed earnings quality would deteriorate. The gain from selling the land was a result of profits accumulated over a number of years. Realizing the whole gain in one year makes earnings unrealistically high.

One of many other characteristics cited in the survey as exaggerating earnings was a significant increase in intangible assets. The amount recorded as intangible assets may overstate future income-producing potential. It can also effect earnings quality if the intangible should have been expensed rather than capitalized as an asset. This is a consideration of earnings quality that should be analyzed closely when looking at a bank holding company going through an aggressive acquisition period. The effects of intangible assets on the quality of earnings usually arise in the use of purchase accounting.

Survey Results

To determine the extent of purchase accounting being used in bank acquisitions and its impact on reported income, we surveyed 180 of the most recent holding company acquisitions in the Sixth District.⁷ One hundred thirty-nine (77.2 percent) of the holding companies responded to our questionnaire. The majority of respondents (54 percent) used pooling-of-interests, while 64 (46 percent) used the purchase method (Table 1). Most respondents using the pooling method had formed a new holding company through the purchase of a bank. This is not surprising since the recent popularity of one-bank holding company formations is partly attributable to the ability to use the pooling method and transfer ownership from the bank to the holding company without the stockholders incurring any tax liability.

If the purchase method is appropriate in accounting for an acquisition, the acquiring firm must decide on the issue of "materiality" of the purchase adjustments. If the dollar amount of

Table: Selected Survey Results

	Number	Percent
Survey respondents	139	77.2
Method of accounting used for acquisitions:		
Pooling-of-Interests	75	54.0
Purchase	64	46.0
Number of institutions recording a purchase adjustment	21	15.1
Average size of the purchase adjustment as a percentage of average:		
Consolidates assets	0.3	
Acquired bank's assets	2.2	
Acquired bank's stockholders equity	31.6	
Net income of consolidated organization	0.6	
Average write-off period for purchase adjustments (years):		
Loans	9.2	
Investment securities	5.9	
Premises and equipment	25.7	
Other	4.0	
Average write-off period for intangibles (years):		
Identifiable	12.74	
Unidentifiable	30.88	

the adjustments and the effect on current and future income is small when compared to the consolidated organization, generally accepted accounting principles say it is acceptable not to book the adjustment. However, if the purchase adjustment is determined to be material it must be recorded and subsequently written off over time. Unfortunately, there are no hard and fast measures of what is material. Most survey respondents cited the fair value of acquired assets compared to book values. Others cited criteria such as the impact of the purchase adjustments on the financial statements of the acquired bank; size of the purchase adjustment in relation to expected earnings and its effect on consolidated net worth-to-assets ratio; and purchase price as a percentage of consolidated assets. Several respondents recorded the adjustment even though they did not feel it was a material amount.

Thirty-three percent of the institutions using purchase accounting either considered it material or recorded the adjustment regardless of materiality. Goodwill was recorded at 81 percent of these banking firms. Write-off periods for goodwill ranged from as little as 10 years to 40 years, with an average of 31 years.

The most common purchase adjustments are made to the loan portfolio, investment securities, and premises and equipment. The survey indicated

⁶Joel G. Siegel, "The Quality of Earnings Concept—A Survey," *Financial Analysts Journal*, March/April 1982, p. 60+.

⁷The survey included acquisitions consummated between June 1980 and September 1982.

that not all banks had adjusted the carrying value of their loan portfolios. Forty-three percent of the banks felt that adjusting their loan portfolios would be immaterial. Seven of the 12 banks making the adjustment are using the straight line method of write-off. The other five are using the interest method. (The interest method differs from straight line in that annual write-offs are adjusted to provide a constant yield.) Write-off periods ranged from 2.5 to 20 years with an average of 9.2 years.

The largest write-down of assets was found in the securities portfolio. Eighteen of the 21 banks using the purchase adjustment adjusted securities to market value. The average write-down amounted to 33.8 percent of the acquired banks' stockholders equity.

The typical adjustment to premises and equipment is a net write-up of book value to market value. Appreciating values in the real estate market have caused this adjustment to be quite large. In fact, at banks answering our survey it was large enough on the average to negate write-downs in the loan portfolios. At seven banks it was large enough to negate all other write-downs and resulted in a positive (net write-up) purchase adjustment.

The price paid for an acquisition generally was substantially above the adjusted book value of the bank being acquired. The purchase price to book value ratio ran from 95.7 percent to 244 percent with an average of 156.75 percent. These substantial purchase price premiums were allocated to intangible assets and primarily unidentified intangibles (goodwill). However, seven of the 21 respondents who booked the purchase adjustment capitalized a portion of the purchase price as the identifiable intangible "deposit base." The use of deposit base valuation seemed to be most prevalent in Florida.

The average net effect of purchase accounting on consolidated earnings in the year of acquisition was a positive 0.6 percent of total consolidated income. Any improvement in earnings generally decreased fairly quickly after the year of acquisition and in most cases disappeared by the third or fourth year. This is explained by the short write-off periods for adjustments to assets that required write-downs such as loans and securities. Once these adjustments are written off, the remaining purchase adjustment typically would be to premises and equipment for which write-offs flow through the income statement as an expense.

Therefore, once adjustments that represent net write-downs of assets are written off, remaining adjustments representing net write-ups of assets become expense items.

The long-term effect of writing off goodwill after offsetting purchase adjustments are gone is, in some cases, significant. We found that earnings at the particularly large holding companies, over \$1 billion in assets, could be affected significantly by write-offs of accumulated goodwill from prior acquisitions. If acquisitions were to slow or stop, some institutions would be left with write-offs of goodwill amounting to as much as 12.6 percent of 1982 consolidated income.

“We found that earnings at the particularly large holding companies, over \$1 billion in assets, could be affected significantly by write-offs of accumulated goodwill from prior acquisitions.”

To estimate the real impact on future earnings, we applied a compounded annual earnings growth rate of 11.25 percent to current consolidated income.⁸ Looking 10 years into the future (after all the positive effects of purchase accounting have worn off), goodwill amortization at these large holding companies could represent from as much as 4.35 percent of consolidated earnings to 0.61 percent, with an average of 2.09 percent. The analysis of goodwill amortization only illustrates the potential future impact on earnings. Because of the small sample size, incomplete information, and uncertainty about the future, this data can only serve to illustrate possible income effects. Our survey did not include all acquisitions of Sixth District holding companies but rather only a few of the most recent acquisitions. It is also important to note that for any

⁸This is the 10-year average earnings growth rate for all insured commercial banks. Source: FDIC Bank Operating Statistics, 1970-1980.

particular holding company, we requested information on not more than two of their recent acquisitions. Many of these holding companies negotiated more than two recent acquisitions and therefore the effect of goodwill write-offs is probably conservatively stated.

Conclusion

In the short run, the overall effect of the write-off of the large purchase price premiums netted against the accretion of much smaller purchase adjustments was minimal. The ability to write off intangibles over such a long period of time versus accretion of the purchase adjustment over a much shorter time frame minimized the net effect on income. Purchase accounting has the potential to increase net income significantly in the early years after an acquisition under the right circumstances, but if our survey is indicative of all small to medium bank acquisitions, such windfalls would be rare.

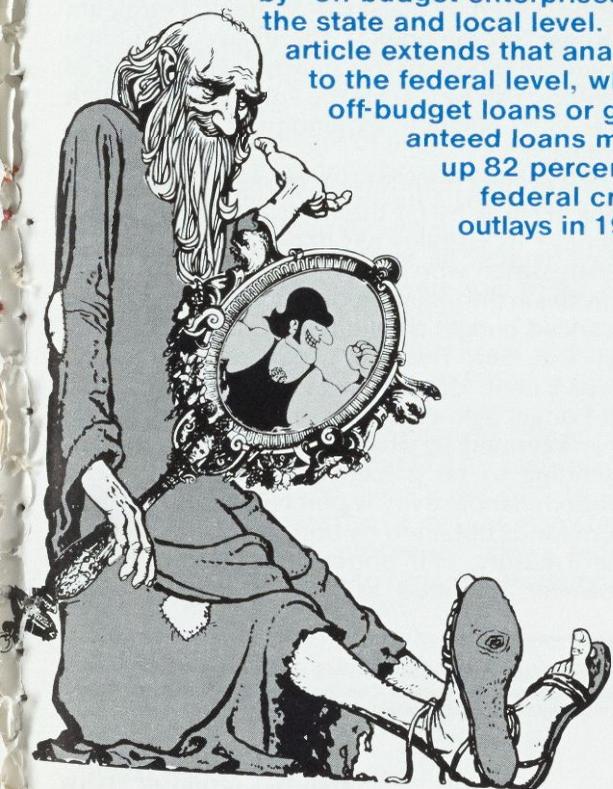
The mid- to long-term effects on income after purchase adjustments to assets and liabilities are written-off can be significant. We found that many large holding companies, especially in Florida and Georgia, that have been going through a period of aggressive acquisitions have accumulated significant amounts of goodwill on their books. If these banking firms slow or halt their acquisitions, producing no new offsetting purchase adjustments, the future amortization of goodwill may affect their consolidated earnings significantly. The accounting treatment of acquisitions then may play an important role in future management decisions over corporate acquisition policies. A banking firm that has been acquiring aggressively might have to look for ways to offset the future effects of goodwill amortization. This may force such an institution to seek more acquisitions with large purchase adjustments or to plan for other means to smooth otherwise slightly irregular earnings.

—Donald L. Koch
and Robert M. Baker

The Limitations of Spending Limitation

Off-Budget Activities and the Federal Government

Part One of this article (December 1982) examined the illusion of fiscal health created by "off-budget enterprises" at the state and local level. This article extends that analysis to the federal level, where off-budget loans or guaranteed loans made up 82 percent of federal credit outlays in 1980.



Can constitutional spending and taxing limitations induce governments to be more efficient and responsive? In a previous issue of this **Review** we discussed the shortcomings of such measures at the state and local levels.¹ In that article we described how, for nearly a century, billions of dollars of spending and borrowing have been placed "off-the-books" in off-budget enterprises (OBEs).

Constitutional spending limitations may represent a first step toward fiscal responsibility, but, unless strictly enforced, not a long one. In a sense, state and local government spending and borrowing, instead of being reduced, have simply "gone underground."

At the federal level of government, off-budget operations have grown more rapidly than on-budget spending in recent years. As pressures for a balanced budget mount, they can be expected to play a major role in the drive for a fiscally responsible federal government. In this article, we will examine the off-budget activities of the federal government and discuss the implications of off-the-books governmental activity for recent attempts to constrain a burgeoning federal budget through constitutionally imposed balanced budget and tax limitation requirements.

There are three basic ways in which, through the credit markets, federal spending is kept off the budget. First, numerous agencies simply have been deleted from the budget. Second, government control over resource allocation is extended by guaranteeing loans made to privileged individuals, businesses, and governments. Third, several privately owned, but federally sponsored and controlled, enterprises such as the Federal National Mortgage Association are also off-the-books borrowers.

¹James T. Bennett and Thomas J. DiLorenzo, "The Limitations of Spending Limitation I: The Off-Budget State and Local Public Sector," Federal Reserve Bank of Atlanta **Economic Review**, December 1982.

In addition to expanding their credit market activities, federal legislators and officials increasingly have recognized that, in principle, anything that can be accomplished through taxing and spending can also be accomplished by regulation. All of these activities must be taken into account to assess accurately the federal government's role in the economy.

Budget Reform and the Form of the Budget

The Congressional Budget and Impoundment Control Act of 1974 has been praised by **U. S. News and World Report** as a "revolutionary budget reform intended to give Congress a tighter grip on the nation's purse strings."² The "Budget Reform Act" emerged from a recognition that existing budgetary procedures generated a bias toward overspending and budget deficits. Prior to 1974, federal spending was the product of many individual appropriation decisions; no limit was ever placed on the total amount of public expenditure. Each congressman had then, as he does now, a strong incentive to maximize spending on his own voting constituency, while limiting the extent to which he must pay for the spending. Yet no congressman was required to take responsibility for the total federal spending that resulted from the appropriations process. The Budget Reform Act created a budget committee for each house responsible for setting overall targets for revenues, expenditures, and the resultant deficits (or surpluses). The Congressional Budget Office was created to assist in this process.

The main impact of the Budget Act is to make taxing, spending, and deficit levels explicit and to hold Congress accountable for them; the act itself does nothing to curb spending. The relatively mild budgetary discipline set forth in the Budget Act elicited considerable off-budget activity at the federal level. In the wake of the Budget Act, many agencies have been and continue to be placed off-budget and beyond the purview of any appropriations process. Most recently, for instance, the Synthetic Fuels Corporation, which began operations in 1981, was also placed off-budget. Congress had previously authorized \$20 billion for the development of this "industry."

Thus, while the Congress was publicly proclaiming a need for fiscal discipline in federal budget matters and enacting legislation to deal with the problem of "uncontrollable" spending, it simultaneously was establishing mechanisms through which spending could be placed off-budget. Off-budget federal outlays since 1973,

"The estimated \$21 billion in off-budget outlays in 1982 was about 2.4 percent of the federal budget."

by agency, are shown in Table 1. The estimated \$21 billion in off-budget outlays in 1982 was about 2.4 percent of the federal budget.

The penchant for off-budget federal spending is obviously non-partisan. Both the Democratic-controlled House and the Republican-controlled Senate, at the insistence of the Reagan administration, voted to place the Strategic Petroleum Reserve "off the books." There have even been bipartisan proposals for "dealing" with the Social Security crisis by placing the entire program, with over \$220 billion in expenditures in 1982, off-budget.

As is evident from Table 1, the Federal Financing Bank (FFB) is by far the most active off-budget agency.³ Its visibility has drawn the attention of congressmen who have proposed to include its activities in the federal budget under the suggested balanced budget amendment to the constitution (S.J. Res. 58). The FFB, a part of the Treasury Department, does business with both on- and off-budget agencies. In essence, the FFB serves as an intermediary which permits federal agencies' spending to be placed off-budget. The FFB's predominant activity is purchasing agency debt from funds obtained by borrowing directly from the Treasury. FFB borrowing currently is not, however, included as part of the Treasury's

²As quoted in James M. Buchanan and Richard E. Wagner, **Democracy in Deficit: The Political Legacy of Lord Keynes** (New York: Academic Press, 1977), p. 156.

³For background information on the FFB see Congressional Budget Office, **Loan Guarantees: Current Concerns and Alternatives for Control** (Washington, D.C.: U.S. Government Printing Office, 1979).

Table 1. Off-Budget Outlays by Agency
(\$ Billions)

	1973	1974	1975	1976	TQ	1977	1978	1979	1980	1981	1982
Federal Financing Bank (1974)		.1	6.	5.9	2.6	8.2	10.6	13.2	14.5	21.0	14.1
Rural Electrification and Telephone Revolving Fund (1973)	.1	.5	.5	.2	.1	.4	.1				
Rural Telephone Bank (1973)	*	.1	.1	.1	*	.1	.1	.1	.2	.1	.1
Pension Benefit Guaranty Corporation (1974)		*	*	*	*	*	*				
United States Postal Service Fund (1974)	.8	1.1	1.1	.7		.2	.5	.9	.4	.1	-.6
United States Railway Association (1973)		*	*	.1	*	.2	.1	.1	*	-.3	-*
Total Off-Budget Outlays	0.1	1.4	8.1	7.3		8.7	10.3	12.4	14.3	21.0	17.3

* less than \$50 million.

TQ = Transition Quarter

Source: **Budget of the United States Government**, Office of Management and Budget, 1983.

budget outlays; interest payments from the FFB to the Treasury are, nevertheless, counted as **deductions from** Treasury outlays. Consequently, FFB borrowing actually results in a reduction in outlays reported by the Treasury Department.

A second type of FFB activity is purchasing agency loans or loan assets. When a federal agency sells a loan to a private entity, the loan is considered repaid for budgetary purposes. Loans made by federal agencies are afforded the same treatment when the FFB is the purchaser. Proceeds from the sale are counted as loan repayments rather than as a means of financing and thus are an offset to the agency's gross expenditures. An agency can therefore convert an on-budget loan to an off-budget loan by selling it to the FFB. In 1981, about 90 percent of all federal agency loans and loan asset sales were sold to the FFB, resulting in off-budget financing.

Rather than selling individual loans, an agency sometimes can pool its loans and issue securities backed by the pooled loans. These securities, known as "certificates of beneficial ownership," are then turned over to the FFB for cash, placing them off-budget. The agency has cash to lend again and can repeat the process as many times as it chooses. This procedure allows federal agencies to make loans to certain customers with virtually no budgetary limit.

Another type of FFB activity is the granting of off-budget loans to guaranteed borrowers. Typically, a loan guarantee occurs when a federal

agency sanctions a loan between a private lender and a private borrower. The result is an interest subsidy to the borrower at no **explicit** cost to the Treasury unless a borrower defaults. Frequently, however, an agency will ask the FFB to act as the private lender and purchase the borrower's note. In this case the loan guarantee becomes, in effect, a direct loan from the government not reflected in the budget. In 1981, the FFB purchased over \$10 billion worth of loan guarantees.

Economic Implications of FFB Loan Guarantees

Many critics objected when Congress granted New York City and the Chrysler Corporation several billion dollars in highly publicized loan guarantees. Yet, the Chrysler and New York loans are relatively small in comparison with the off-budget guaranteed loans administered by the FFB. Whereas these two loan guarantees were subjected to Congressional oversight, FFB decisions are made by employees at the Treasury Department.⁴ That this system provides for more opportunities for "social engineering" than does the Chrysler loan can be seen from the example of \$2 billion in off-budget loans recently extended by the FFB to the Tennessee Valley Authority, a federally sponsored off-budget enterprise.⁵

⁴The FFB is neither listed in the District of Columbia phone book nor in the current listings of federal agencies.

In 1979 the TVA decided that its nuclear fuel inventory had become excessive due to nuclear power plant construction delays. To remove from its books the burden of excessive inventories, the TVA created a wholly owned subsidiary—the Seven States Energy Corporation—with which TVA could enter into a leaseback arrangement. Seven States would purchase TVA's nuclear fuel inventory, and then lease it back as needed. To finance the arrangement, TVA originally approached a private investment banking firm which suggested a \$1 billion line of credit. Before the agreement was completed, however, the Treasury Department suggested that the FFB could provide the credit, and would increase the loan to \$2 billion. Thus the TVA, in effect, extended a \$2 billion line of credit to itself.

This has far-reaching implications for the future role of the federal government in allocating credit. According to the FFB Act, **any** entity wholly owned by the federal government enjoys

“According to the FFB Act, any entity wholly owned by the federal government enjoys this access to off-budget federal financing.”

this access to off-budget federal financing. Several such entities have the legal authority to order the FFB to lend money to anyone, provided they guarantee the loan.⁶

⁵TVA is a regional OBE, obtaining most of its revenue from the sale of revenue bonds. It does, however, receive federal aid in the form of appropriations, grants, and guaranteed loans. The following example is found in C. Hardin and A. Denzau, *The Unrestrained Growth of Federal Credit Programs* (St. Louis: Washington University Center for the Study of American Business, December 1981).

⁶There are at least 20 such agencies, including the Commodity Credit Corporation, the Export-Import Bank, Corporation for Public Broadcasting, Government National Mortgage Association, Community Development Corporation, U.S. Railway Association, Pension Benefit Guarantee Corporation, and the Legal Services Corporation.

In addition to diminishing the more efficient market allocation of capital, the FFB also **increases** the federal government's borrowing costs, despite the argument that, by pooling agency borrowing, financing costs are reduced. The increased interest rate on federal debt resulting from FFB borrowing from the Treasury is far more expensive than the minimal savings to federal agencies. Agency debt appeals to a different market than does Treasury debt, as the difference in interest rates attests. When the Treasury issues more debt to finance the FFB, it crowds the market segment to which its issues appeal, forcing up rates on Treasury debt. This would seem to undermine the economic rationale for the FFB.⁷

Loan Guarantees and the Allocation of Credit

In addition to the FFB's functions, over 150 other federal loan guarantee programs are administered by federal agencies which comprise yet another category of off-budget operations. Loan guarantees to individuals, businesses, state and local governments, or foreign governments are reflected in the budget only if the borrower, dealing through a private bank, defaults. In that case, the federal government is liable for part or all of the principal and interest. Although not reflected in the budget document, loan guarantees serve the same purpose as direct, tax-financed appropriations: They provide transfer payments to certain groups at the expense of the general public. The major difference between tax-financed subsidies and loan guarantees, of course, is that the latter are far less visible and arouse less taxpayer resistance than would the former, in many instances. For example, a tax-financed subsidy to a college student whose parents earn \$100,000 a year might meet more resistance than a guaranteed loan not considered to entail a subsidy.

Because of the low profile of these “interest subsidies,” loan guarantees have become the largest component of federal credit activity. That is shown in Table 2, which lists the growth of federal loan guarantees, as well as on- and off-budget direct loans, from 1974 to 1982. Loan guarantees are by far the largest component of federal credit activity, comprising over 65 percent of all credit activity and about four times the

⁷This point was brought to our attention by Professor Yale Brozen of the University of Chicago in personal correspondence.

Table 2. Annual Federal Credit Outlays
Fiscal Years 1974-1982
(\$ Billions)

Year	Loan Category		
	Direct Loans, On Budget	Direct Loans, Off Budget	Guaranteed Loans
1974	\$12.3	\$3.5	\$31.8
1975	12.9	10.8	31.1
1976	18.8	10.2	31.8
1977	14.7	13.6	43.3
1978	23.5	16.4	45.5
1979	21.0	17.3	60.5
1980	25.7	23.6	68.7
1981a	24.6	32.2	90.5
1982a	28.1	26.2	101.5

a=estimates

Source: Budget of the U.S. Government, Special Analyses, various years.

volume of direct, on-budget loans. They are also the fastest-growing type of federal credit activity, having increased by 320 percent since 1974.

The major costs of federal loan guarantee programs, like the benefits, are indirect. A major difference, however, is that the benefits accrue to well-organized interest groups, while the costs are widely dispersed among the general public. The predominant indirect cost of federal loan guarantees is borne by less-favored borrowers who are crowded out of the credit market or who must pay higher interest rates on the loans they do obtain. Loan guarantees tend to increase the overall demand for credit while reducing the supply of credit available to nonguaranteed borrowers. The effect is to increase the rates charged to nonguaranteed borrowers, crowding out much private borrowing by businesses, individuals, and state and local governments. This distorts the market process whereby unregulated markets allocate credit to their most highly valued uses, thus enhancing economic growth.

Credit markets serve the role of evaluating the riskiness of alternative projects, and those with higher probabilities of failure (to meet consumer demands) are charged higher borrowing costs. In this way, the credit markets provide consumers and producers with invaluable information regarding the most productive uses of resources. Loan guarantees, by socializing risk, make it impossible for consumers and producers to make accurate benefit-cost calculations, and resources are directed toward lower-valued uses. At times when high interest rates force private firms to

invest in only the most productive projects promising very high yields, federally assisted borrowers may continue to invest in projects yielding only a fraction of the nonguaranteed investments. Thus, the federal government may indirectly subsidize inefficient investments which

“Thus, the federal government may indirectly subsidize inefficient investments which reduce the productivity of the nation’s capital stock”

reduce the productivity of the nation’s capital stock and consequently weaken its economic growth.

It is difficult, if not impossible, to gauge the extent of crowding out caused by federal loan guarantees, but some preliminary estimates have been made. Economist Herbert M. Kaufman of Arizona State University studied federal loan guarantees and estimated that, for every \$1 billion in loan guarantees, between \$736 million and \$1.32 billion in private investment is crowded out.⁸ These rough estimates indicate that loan guarantees, which are being extended at a rate of over \$100 billion a year, are likely to have a negative impact on economic growth, employment, and inflation. The effect on inflation is unlikely to be significant, however, since changes in aggregate output occur relatively slowly as private investment spending is reduced.

Equity Aspects of Federal Loan Guarantees

In addition to fostering a less-efficient allocation of resources and hindering economic growth, critics say many loan guarantee programs appear to be inequitable. An extreme example is the student loan program which, with few eligibility

(continued on p. 30)

⁸Herbert M. Kaufman, “Loan Guarantees and Crowding Out” in Congressional Budget Office, **Economics of Federal Credit Activity** (Washington, D.C.: CBO, April 1980), pp. 35-39.



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requirements, creates generous subsidies for benefitting households. With such loans available to students and their parents at 7 percent interest regardless of financial need, the high market interest rates of the late 1970s and early 1980s have created investment opportunities for some families. As the spread between interest rates on student loans and market rates widened, new student loans rose from \$2.7 billion in 1979 to \$7.2 billion in 1981. Some families may have been able to borrow at 7 percent and invest the proceeds in long-term bonds or money market funds paying 14-16 percent.⁹ Furthermore, hundreds of millions of dollars in student loans are now in default.

In sum, many federal loan guarantee programs provide subsidies to individuals not generally considered to be financially disadvantaged. Eliminating many, if not all, loan guarantees would inflict short-term losses on privileged groups, but would increase the productivity of the nation's capital stock. It also would limit the negative-sum transfers of wealth to higher-income groups at the expense of the general public.

Debt Collection, Default, and Debudgeting the Budget

The huge indirect costs of federal loan guarantees and off-budget lending are accompanied by billions of dollars of direct costs from loan defaults. When a borrower defaults, the loan or loan guarantee becomes a gift to the borrower.

It is difficult, if not impossible, to obtain an accurate account of loan defaults, for federal agencies are reluctant to make such data available. The General Accounting Office (GAO) in 1979 conducted a limited survey of debts owed the federal government and found that as of the end of 1978 over \$140 billion in overdue loans were outstanding, a \$22 billion increase from the previous year.¹⁰

GAO surveyed 12 federal agencies and found that many of their debts are not collected. Nine major agencies simply wrote off \$428 million in

uncollected debts in 1978, and many agencies don't even report their "uncollectibles" at all. Among the agencies failing to collect debts were the Small Business Administration, the Veterans Administration, and the Farmers Home Administration, which together wrote off \$274 million in bad debts in 1978, a 66 percent increase from 1976. The Small Business Administration has a particularly high default rate, partly because a borrower is eligible for a direct SBA loan only if he can prove he was turned down by at least two banks and that his loan is too risky for SBA's loan guarantee program. The SBA direct loan program wrote off \$166 million in loans in 1980, topped by the SBA's \$368 million in guaranteed loan defaults during that year.¹¹

The Office of Education in the Department of Health, Education, and Welfare was another agency surveyed by GAO with severe debt-collection problems. Defaulted guaranteed student loans soared from \$52 million in 1974 to \$1.7 billion in 1982, a 3,300 percent increase in just eight years. The Office of Education also has a collection problem with direct loans. As of last July, an estimated 1.2 million students had defaulted on direct loans amounting to about \$600 million. What's more, the Congress recently passed legislation making it illegal for personal credit checks to make any mention of student loan defaults.

In sum, billions of dollars of loans and loan guarantees which distribute indirect off-budget subsidies are being turned into direct gifts because federal entities do not enforce terms of the loan.

Federally Sponsored Off-Budget Enterprises

A third category of federal off-budget operations consists of "government-sponsored enterprises," of which there are many. The major federally sponsored OBEs are those that engage in credit activity. Included among them are the Federal National Mortgage Association (FNMA), the Farm Credit Administration (FCA), the Federal Home Loan Bank (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), and the Student Loan Marketing Association (SLMA). These agencies were at one time on-budget, but their large

⁹Budget of the U.S. Government, *Special Analyses*, various years.

¹⁰General Accounting Office, *The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices* (Washington, D.C.: Government Printing Office, February 23, 1979). GAO recently reported that the number of foreign governments in default for loan guarantees to purchase military supplies increased from two in 1978 to 13 as of February 1982. This type of guarantee permits Congress to extend military aid to selected countries without going through the appropriations process and being subjected to wide publicity. See D. Morgan, "13 Arms Buyers in Default Interest to U.S.," *Washington Post*, July 17, 1982, p. 1.

¹¹C. Harden and A. Degan, *The Unrestrained Growth of Federal Credit Programs*, p. 25.

and rapidly expanding borrowings became an embarrassment and they were omitted from the budget in 1968.¹² Originally chartered by the federal government they are now privately owned. They are, however, subject to governmental supervision and by law must consult with the Treasury Department in planning the marketing of their debt. In addition, many of their board members are presidential appointees and various decisions must be cleared by other government agencies as well as the Treasury. For example, many of the FNMA's decisions must be approved by the secretary of Housing and Urban Development. These agencies also are granted special preferences and certain tax exemptions. Such attributes permit federally sponsored OBEs to borrow funds for governmentally authorized purposes at rates only slightly above the Treasury's own rates and then lend the money to specified groups.

Thus, federally sponsored enterprises are private in name only. They are yet another way in which the federal government directs the allocation of billions of dollars of credit without being subject to the budget review process. Furthermore, the special assistance granted federally sponsored enterprises hinders the development of private firms which might perform these same tasks more efficiently. A case in point is the FNMA, which in 1980 owned \$56 billion of mortgages with an average life of over 14 years and an average yield of about 9.5 percent.¹³ While betting on long-term rates to drop, "Fannie Mae" relied heavily on short-term financing, accumulating \$17 billion in short-term debt that must be rolled over within a year. About half of that \$17 billion was costing Fannie Mae 17 percent. The remainder was costing only around 9.7 percent, but that would have to be refinanced at about 17 percent. Consequently, Fannie Mae lost \$146 million in the first half of 1981.

Despite these huge losses, Fannie Mae has had no trouble in rolling over its debt, which has been trading at less than a percentage point above short-term Treasury bills. The reason, of course, is the guarantee of the federal government. Unlike a private firm, Fannie Mae has the right, by law, to ask the Treasury to purchase \$2.5 billion of its debt to provide it with liquidity. Unlike a private firm, which bears the brunt of

hundreds of millions of dollars in losses, Fannie Mae and the other federally sponsored OBEs are protected from such losses by law, and therefore have less incentive to reduce them.

The total estimated borrowing by federally sponsored enterprises during 1980-1983 is shown in Table 3. Estimated borrowing is expected to nearly double in 1983, to over \$52 billion, with \$315 billion in debt outstanding at that time. This would continue the recent expansion in borrowing by federally sponsored enterprises which, up until 1974, had never borrowed more than \$14.9 billion in a year. This amount increased sharply to \$24.1 billion by 1978, to \$27.5 billion in 1980, and exceeded \$38 billion in 1981. Thus, during periods of high and rising interest rates which crowded out many private-sector borrowers, federally sponsored and controlled borrowing expanded at a rapid pace. Nearly three-fourths of all federally sponsored borrowing during the

“Nearly three-fourths of all federally sponsored borrowing during the 1981-1983 period will be used to support the mortgage market.”

1981-83 period will be used to support the mortgage market.

Numerous other federally sponsored enterprises across the country provide various services to federally specified constituent groups but bypass the federal appropriations process. Two of the best-known are the TVA and the Bonneville Power Administration, both federally chartered OBEs that obtain most of their funds by issuing revenue bonds but are also the recipients of federal grants and appropriations.

Fiscal Discipline and Government Regulation

Off-budget activities are by no means the only way in which fiscal discipline can be undermined.

¹²Budget of the U.S. Government, *Special Analyses*, Appendix E, "Borrowing and Debt," 1982.

¹³A Sloan, "Saving Fannie," *Forbes*, October 26, 1981, pp. 54-55.

Table 3. Borrowing by Federally Sponsored Enterprises
(\$ Millions)

Description	Borrowing or repayment (-)				Debt outstanding at end of 1983 estimate
	1980 actual	1981 actual	1982 estimate	1983 estimate	
Housing and Urban Development: Federal Nat'l Mortgage Assoc.	6,347	4,342	11,646	11,657	79,991
Farm Credit Administration: ¹					
Banks for Cooperatives	1,542	737	1,093	1,126	11,351
Federal Intermediate Credit Banks	3,536	1,921	2,882	3,502	27,666
Federal Land Banks	7,076	6,819	6,842	7,494	55,411
Federal Home Loan Bank Board:					
Federal Home Loan Banks	6,454	21,029	3,662	4,075	65,365
Federal Home Loan Mortgage Corporation	3,141	1,847	20,948	23,460	67,752
Foundation for Education Assistance: Student Loan Marketing Association	1,070	2,223	1,603	1,543	7,713
Total	29,165	38,917	48,676	52,867	315,249
Less increase in holdings of debt issued by Government-sponsored enterprises	1,691	230	-882	-500	3,170
Total borrowing by Government-sponsored enterprises	27,473	38,687	49,558	53,367	312,079

¹The debt represented by consolidated bonds is attributed to the respective Farm Credit Banks.
Source: **Budget of the U.S. Government, Special Analyses** Appendix E, "Borrowing and Debt," 1982.

Government regulatory actions often are not subject to the appropriations process. For example, import quotas on automobiles would restrict the supply of automobiles, increasing the prices paid by consumers and the industry's profits. The effect is the same as a tax-financed subsidy—a special interest benefit at the expense of the general public.

A second type of regulation that entails significant non-budgeted costs is the direct regulation of industry by various agencies such as the Interstate Commerce Commission (ICC), the Federal Trade Commission (FTC), and the Federal Communications Commission (FCC). For example, trucking firms have been able to exert considerable force in setting their rates. Representatives of the regulated firms meet periodically to set freight rates. These rate bureaus have been exempted specifically from the antitrust laws regarding price fixing. The Teamsters union has also benefitted from the ICC's policies of entry

restriction, because such restrictions prevent nonunion firms from entering the industry and competing for traffic carried by unionized firms.¹⁴

Regulation of this sort imposes added costs on taxpayers and consumers even though there are no budget entries to reflect such costs. In addition, industry groups spend millions of dollars each year lobbying for their causes; such expenses represent an additional cost to society since the resources could have been used to produce additional goods and services, rather than merely redistributing income.¹⁵

¹⁴Rayburn M. Williams, **Inflation: Money, Jobs, and Politicians** (Arlington Heights, IL: AHM Publishers, 1980), p. 105.

¹⁵These lobbying activities, termed "rent-seeking," are discussed in detail in James Buchanan, Robert Tollison, and Gordon Tullock, editors **Toward a Theory of the Rent-Seeking Society** (College Station: Texas A&M Press, 1980).

A third way in which government conducts its business without explicitly taxing or spending is by regulating the day-to-day activities of businesses regarding working conditions, finances, consumer safety, the environment, hiring practices, and so on. Economist Murray Weidenbaum has conservatively estimated that the direct, measurable cost of federal business regulation was \$102.7 billion in 1979, of which only \$4.8 billion or approximately 5 percent was budgeted as administrative costs; the remaining \$97.9 billion was the cost of compliance, largely paid by consumers.¹⁶

Regulation and Labor

Government regulation has major allocative and distributive effects not only on product markets, but also on labor markets.¹⁷ Occupational licensing requirements, for example, offer a means of subsidizing special interest groups without resorting to explicit taxation. One visible example—on the local level—of licensing's effects is the taxicab business. To own and operate a cab in New York City, an applicant must purchase a license costing \$65,000. Consequently, the supply of taxi services is severely restricted, increasing cab fares to the benefit of existing owners at the expense of potential operators and customers. Across the nation, more than 3,000 statutory provisions require occupational licenses for various practices from fortune telling to funeral directing.¹⁸

A second way government regulation of labor markets redistributes wealth is through enforcement of the minimum wage law. Regardless of good intentions, the effect of the minimum wage law apparently is to hurt precisely the group that the law is supposed to help—those with the least skills, seniority, and income.¹⁹ For example, if an unskilled worker can contribute \$2.50 per hour to a firm's profits, and the law mandates a \$3.50 per hour minimum wage, it will be more profitable for the firm not to hire the unskilled worker. Thus, increases in the minimum wage may increase unemployment of unskilled workers, predominantly teenagers.

"Equal employment opportunity" regulation is another way in which the government can affect

the allocation of labor resources without explicit taxing or spending. One example is the "equal pay for equal work" rule, which we may argue **increases** employment discrimination. If an employer discriminates by paying male workers \$10 an hour and equally qualified female workers \$5 an hour, in a competitive labor market the firm's female workers will be bid away at wages greater than \$5 an hour. Eventually, all of the firm's female labor may be bid away, leaving the firm at a competitive disadvantage, reducing its profits.

Equal pay for equal work rules lower the costs of discrimination in employment since an employer's profits are no longer lowered by passing over equally qualified women to hire men. Therefore, enforcement of such laws actually may lead to more discrimination, not less. American labor unions comprised mostly of white males are among the most vocal advocates of laws dictating equal pay for equal work.

Finally, government influences labor markets by enhancing the market power of labor unions via actions of the National Labor Relations Board. A recent study has shown that the NLRB's regulation of collective bargaining has tended to favor labor unions and may have contributed to reduced economic efficiency and higher inflation.²⁰

"In addition to off-budget activities, regulatory mechanisms permit the allocation of hundreds of billions of dollars of resources without taxing or spending."

In summary, it is important to recognize that **in addition** to off-budget activities, regulatory mechanisms permit the allocation of hundreds of billions of dollars of resources without taxing or spending.

¹⁶Murray Weidenbaum, *The Future of Business Regulation* (New York: American Management Association, 1979).

¹⁷For a discussion of labor market regulation see James T. Bennett, Dan C. Heldman, and Manuel H. Johnson, *Deregulating Labor Relations* (Dallas: The Fisher Institute, 1981).

¹⁸Walter E. Williams, "Government Sanctioned Restraints that Reduce Economic Opportunities for Minorities," *Policy Review*, Fall 1977, pp. 1-29.

¹⁹Bennett, et al., *Deregulating Labor Relations*, pp. 86-98.

²⁰Bennett, et al., pp. 112-19.

Some Concluding Observations

Following precedents established at the state and local levels, the federal government has broadened the range of its spending and taxing activities. It has accomplished this largely through credit market activity conducted via off-budget agencies such as the Federal Financing Bank, through the issuance of hundreds of billions of dollars in loan guarantees, and through the activities of privately owned but governmentally controlled enterprises such as Fannie Mae.

The Budget Reform Act of 1974 and the taxpayer revolt of the 1970s have been accompanied by a tremendous expansion in off-budget activities, so that of total federal credit outlays of \$155.8 billion in 1982, fully 82 percent (\$127.7 billion) was in the form of either off-budget loans or guaranteed loans, neither fully reflected in the budget or subject to budgetary review by the Congress. In addition, borrowing by "government sponsored enterprises" was estimated at about \$50 billion for 1982, meaning that the federal government was responsible for over 40 percent of all credit advanced in U. S. credit markets in that year compared to 11 percent in 1969.²¹ The

crowding out of the private sector and the subsidization of economically inefficient investment projects will probably lead to slower economic growth, higher unemployment, and, possibly, higher inflation.

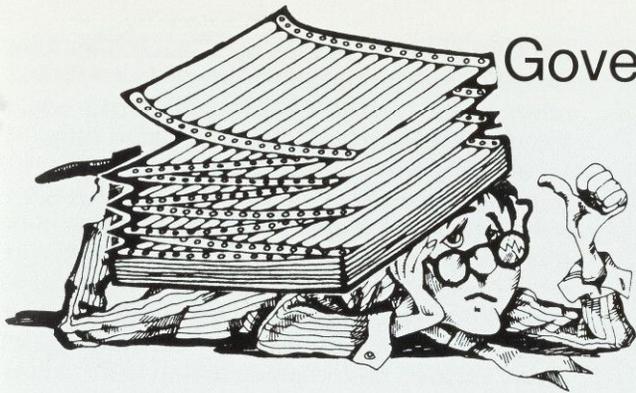
In addition to off-budget credit activities, government regulation entails another way of directing resources without appropriating funds. In principle, virtually anything that can be accomplished through the taxing and spending aspects of the budget can be accomplished instead through government regulation.

In sum, as pressures for a balanced budget and restrictions on federal spending mount, we may expect an accelerated use of the federal government's off-budget mechanisms. The proposed balanced budget amendment does take into consideration the FFB's activities and proposes to include them within the budget. The proposed amendment does not, however, address the larger problems created by loan guarantees, federally sponsored enterprises, and regulation.

—James T. Bennett
and Thomas J. DiLorenzo*

*George Mason University

²¹Budget of The U.S. Government, Special Analyses, Appendix F., "Federal Credit Programs," 1982, p. 6.



Government Requirements: How Burdensome to Small Business?

Despite the frequently noble motivation behind business reporting requirements, the cost is high—with the average small business spending \$1,270 annually to comply. This drain on revenues has proven painful to the many small businesses concentrated in the Southeast. But governments at all levels are beginning to take steps to reduce the regulatory burden when they can ease requirements without compromising the public benefits sought through the reports.

As the once rural Southeast has been transformed into a rapidly growing commercial and industrial area, government regulation is taking on added importance. That is especially true for the region's many small businesses as they seek to comply with costly regulations even though those regulations may have been imposed to achieve worthwhile public benefits ranging from combating discrimination to alleviating pollution. Increasingly, government officials appear to be recognizing that regulations designed to control the behavior of large firms can work unusual hardships on small businesses in the same industry. At the same time, regulators are sensitive to the fact that the goals sought through reporting requirements often transcend corporate size; that some restrictions, for instance, were legislated specifically to protect all workers notwithstanding the size or social responsibility of their employers. The dilemma, then, is to lighten the regulatory burden without compromising legislative and regulatory goals.

Why are Small Businesses a Special Case?

All firms, large and small, are affected to some degree by the costs associated with government regulation. In fact, the visibility of a large firm can

make it an obvious target for regulations. However, the special characteristics of a small firm often make compliance difficult. Large businesses are usually able to absorb the added burden by spreading the fixed cost of compliance over a larger number of productive units. On the other hand, for the small firm, the costs per dollar of revenue are higher.

It can be difficult for a small business to pass on its costs to its customers without pricing itself out of the market. A recent National Federation of Independent Business (NFIB) survey ranked government regulation and red tape (excluding taxes) as the fifth most important problem facing their highly diversified small business survey group.¹ The top four rankings went to interest rates and financing, inadequate product demand, taxes, and inflation respectively.

The costs of regulation are hard to quantify. The number of pages of a report, the percent of accounting time used in its preparation, the number of staff days devoted to fulfilling regulatory requirements, or measurement on a case-by-case basis are typical methods of accounting for regulatory costs. A U. S. Senate study group

¹NFIB Quarterly Economic Report for Small Business, October 1982.

The nature of regulatory agencies has been changing recently, according to an interesting study done for the Small Business Administration by Puyear and Wiggins.* They argue that, in the past, an agency like the Civil Aeronautics Board attempted to promote the welfare of an industry. Now, the relatively new agencies such as the Environmental Protection Agency, Occupational Safety and Health Administration, and Equal Employment Opportunity Commission affect all sizes and types of businesses appealing to wider ranging social goals such as air pollution, working conditions, and equal opportunity.

Issues today have become complex. While most businessmen recognize the right of government to regulate business for the public good, an equitable balance between economic and social values is difficult to attain in the fast-changing business environment.

***Impact of Federal Regulation on Small Business**, Alvin Puyear and Catherine Wiggins, Small Business Administration, 1980.

estimates that it costs the average small business \$1,270 annually to comply with federal, state, and local government reporting requirements.² The first-time expense to design, develop, and implement a system to furnish information required by the government can be excessive for a small business.

Regulation's impact on small business is especially evident in its demands on an owner/manager's valuable time. The owner of a small business must make most of the decisions for the firm. Keeping records and submitting reports are only part of the cost of complying with government requirements. Costs in learning what the requirements are and deciding how to respond to them—often at the expense of the owner/manager's time—also play a major role. These indirect costs—opportunity costs—can divert capital and time from productive operations, a cost that many small businesses cannot afford.

Unlike a large business, small firms usually do not have the administrative apparatus to deal with the "paperwork" involved. Without a legal department or technical expertise, a small firm must often hire expensive consultants to figure taxes, make reports, or interpret regulations that may initiate a change in product mix, plant location, work routine, or capital equipment. The cost of such assistance is greater proportionately

²31st Annual Report of Select Committee on Small Business, U.S. Senate, p. 134.

for a small business than for a large one. Also, small firms that typically produce one or a few products can feel the regulatory pinch of product standards more than larger, diversified firms.

Small businesses are also disadvantaged by the rule making process. Manpower and resource restraints make appearing in Washington prohibitive. The trade and industry associations that small businesses often rely on for representation sometimes represent the viewpoints of their larger members. It is also time consuming and costly for small businessmen to turn to the courts to settle disputes with an agency.

What are These Requirements?

To manage and evaluate their programs, federal, state, and local governments require many types of reporting. A beginning business must obtain from the local government the appropriate business licenses and permits allowing it to operate. It must file an application for a federal employer I.D. number with the IRS. The business must, in most states, apply for a state sales tax license. Employers must maintain on file up-to-date federal and state Employee's Withholding Exemption Certificates. Taxes are frequent sources of paperwork requests at the federal, state and local level.

Labor issues also generate paperwork at all levels of government, with reports on employee safety and health, statistics on employment levels, wages, equal opportunity, Social Security, and unemployment. Under general trade and commerce fall reports on plant equipment, census, and business licenses. Finally, there are environmental reports on matters such as air and water pollution, waste, and energy use. An excellent source of government requirements for Tennessee has been compiled by the Tennessee Department of Economic and Community Development (see Table 2). The small businessman not only needs to be aware of what is required of him but also has to be knowledgeable in many fields to be able to comply with requirements for the best interest of his firm.

How are Firms in the Southeast Affected?

Table 1 shows that employment per company is considerably lower in the region than in the nation as a whole. Differences in each District state are reflected partly in their industry composition. Concentrations of a particular industry have important regulatory implications. Areas

Table 1. Companies, Employees, Employment Per Company and Relative Concentration Per State* - 1980

	Companies	Percent of U.S.	Employment	Employment per Company	Percent of U.S.	Relative Concentration Col. 4/Col. 2
United States	4,543,167	100.0	74,835,525	16.5	100.0	1.00
Alabama	65,880	1.5	1,073,006	16.3	1.4	.93
Georgia	104,216	2.3	1,717,602	16.5	2.3	1.00
Florida	217,609	4.8	2,975,177	13.7	4.0	.83
Louisiana	77,352	1.7	1,266,337	16.4	1.7	.99
Mississippi	43,122	.9	612,256	14.2	0.8	.86
Tennessee	83,256	1.8	1,440,865	17.3	1.9	1.1
District	591,435	13.0	9,085,243	15.4	12.1	.93

Relative concentration is defined as the percentage of employees in a state relative to the percentage of companies in that state.

Source: County Business Patterns, U.S. Department of Commerce, May 1982.

Table 2. General Business Operating Requirements in Tennessee*

I. Regulations and Permits to comply with:

Federal

- A. Occupational Safety and Health Act
- B. Social Security
- C. Employees Federal Identification Number Application
- D. Federal Minimum Wage - Hour Law
- E. Child Labor Provision

State

- A. Tennessee Application for Employer Account Number
- B. Worker's Compensation Insurance
- C. Sales and Tax Certificates of Registration
- D. Corporate License Application
- E. Commercial Driver's Licenses
- F. Certification for businesses that deal with or transport plants
- G. Pollution Control Permits
- H. Licensing requirements for businesses and professionals such as contractors

Local

- A. Zoning Ordinances
- B. Building Codes
- C. Licenses for eating places
- D. City Business License
- E. County Business License
- F. Fire Ordinance
- G. Permit for use of city street, sidewalk

II. Taxes

- A. Corporate Filing Fees
- B. Excise and Franchise Tax
- C. Business Tax
- D. Sales and Use Tax
- E. Property Tax

Employer Tax Requirements

- A. Form W-2 - Wage and Tax Statement
- B. Form W-3 - Reconciliation of Withheld Income Tax
- C. Form 941 - Federal Tax Return
- D. Form 940 - Federal Unemployment Tax Return
- E. Form 220.5 - Employer's Contribution Report
- F. Form 220.1a - Employer's Wage Report
- G. Other Taxes - pertaining to a specific product such as gasoline

*Source "A guide to doing business in Tennessee," Tennessee Department of Economic and Community Development, October 1981.

composed mainly of smaller firms may have unusual problems adhering to policies designed for a different type of region, such as one with larger industries.

The type of business predetermines the paperwork of the firm. Any company dealing in a heavily regulated product or service (e.g., chemical waste or construction) will bear a heavier-than-normal reporting burden. The small business that

expands into another state or enters a foreign market assumes additional reporting requirements. Entering the procurement market incurs complex reporting forms. The special reporting cases mentioned above are applicable to various areas of the region.

Because Louisiana is rich in natural resources, firms with energy-intensive production processes have located there. Small (as well as large)

chemical and oil companies in the state have come under increasing pressure from environmental agencies because of the hazardous nature of the industry. Small business owners feel that purchases of required pollution control devices are especially burdensome because they do not add to production, they cost a lot, and they are hard to finance.³

Barriers that prohibit small business participation in foreign trade also powerfully affect the region. Over one-fourth of U.S. waterborne exports are now shipped from southeastern ports, and that share is expanding.⁴ Exportation of certain products is governed by trade agreements that are difficult to interpret without skills in international law. The U.S. Customs Bureau administers complex regulations that must be followed to import products. Assistance from the government is available but involves time-consuming bureaucratic procedures.

Regulation of government purchases of goods and services also is important to small business in the Southeast. The existing procurement system has become exceedingly complex, discouraging participation by small contractors. The Department of Defense estimates that about half of its prime contract dollars for major hard goods are subcontracted by prime contractors mainly to small firms. In fiscal year 1981, each of the southeastern states ranked among the top five nationally in at least one of the 25 major procurement programs.⁵

The Southeast claims a large number of small, labor-intensive firms such as apparel producers, textile manufacturers, construction contractors and food processing plants. This makes them especially susceptible to labor regulations.

A survey of a broad spectrum of small and large firms in Georgia conducted by the Battelle Research Center reveals the perceived level of impact by level of government.⁶ Financial reports (taxes) are high on the impact list at both the federal and state level for both small and large businesses, and labor reports such as statistics on employment, wages, and equal opportunity lead state level impact. Finally, business licensing leads the local impact list for small businesses.

³"Small Firms Hurt by Changes on Pollution-Control Bonds." *Wall Street Journal*, October 4, 1982.

⁴*Economic Review*, May 1982. "Southeast's Ships Come In: Bright Outlook for Exports."

⁵*Economic Review*, December 1982. "Southern Fireworks: Will Defense Spending Light Up the South?"

⁶"Complying with Government Requirements." Battelle Research Center, September 1981.

States and localities have significant licensing authority with the power to administer examinations and issue complex requirements including a requirement to complete detailed forms. License fees and reporting requirements tend to be the same for every firm regardless of size.

Rules and regulations for construction licensing are especially interesting. Contractors must typically either hold a registered or certified license issued by a state licensing board before engaging in construction and comply with city or county local licensing requirements. Examinations in the contractor's field are required to be taken before state licensing. In Florida, a contractor is required to subcontract the electrical, mechanical, plumbing, roofing, sheet metal, and air conditioning work for which a local examination or a certificate of competency is required unless the contractor holds a state license of the respective trade category. Mississippi lists 67 specialty contractors from acoustical treatment, fencing, and painting to industrial pipe work and insulation. This seems to favor a large organization with a large number of "specialties" under one roof to deal with an entire project.

Recent Developments are Putting Small Businesses on a More Equal Footing with Larger Firms

By establishing small business assistance offices, ombudsmen, statewide small business conferences, standing legislative committees, and governors advisory councils (see Table 3), many states are encouraging small businesses by providing reliable information that can save business operators time and money.

Requirements for reporting on hazardous wastes have caused many small firms to turn to computerized systems as a more cost-effective method of handling the paperwork required. The systems can save money by cutting the time required to get reports to environmental protection agencies. Information can be stored, processed, and reported, giving managers necessary input for control. Similarly, computer technology is helping small financial institutions prepare numerous reports required by regulators and helping them remain flexible as the environment changes. The required withholding of interest and dividends to reduce noncompliance (under the Tax Equity and Fiscal Responsibility Act of 1982) will most likely test the paperwork handling abilities of small banks.

Table 3. District Small Business Assistance

Alabama	OM	SC	PS		
Florida	AO	OM	LC	SC	PS
Georgia	AO	OM	AC	LC	
Louisiana	AO				
Mississippi	AO	OM	AC	LC	SC
Tennessee	AO	OM	AC	SC	PS

AO = Advisory Office
OM = Ombudsman
AC = Advisory Council
LC = Legislative Committee
SC = Statewide Conference
PC = Procurement

Source: U.S. Small Business Administration

At the national level, a need to ease the regulatory burden has recently been recognized and several programs have been instituted; however, the results have yet to be measured. The Paperwork Reduction Act, for example, is significant in that it attempts to impose uniform standards, eliminate overlapping agency collection requirements, and set goals for the reduction of paperwork burdens. The Regulatory Flexibility Act ("Reg. Flex.") requires agencies to consider paperwork burdens of proposed regulations before issuing the rules.

The U.S. Labor Department has initiated an experimental program that excludes 12.3 million people from normal Occupational Safety and Health Administration (OSHA) inspections in Georgia and six other southern states. The program provides that in order to get a waiver from OSHA's "general schedule" inspections, an employer must first undergo a comprehensive consultation.

Are Regulatory Roles Changing?

A major shift appears to be taking place in areas of regulatory responsibility. The federal government, as previously noted, has made efforts

to reduce "paperwork" emanating from Washington; however, state and local governments appear to be assuming a greater role in the regulatory process. As John Naisbitt says in his **Megatrends**, smaller political units are taking responsibility for issues that hit hard at the local level, and "bottom up" approaches to policymaking, especially for environmental issues, are going to be the wave of the future as society moves toward decentralization. More frequently, standards may be based on local conditions instead of national requirements set in Washington.

The upshot of these changing roles may be that, on balance, there may not be fewer rules for small business but that rule making and enforcement agencies will be more aware of local and regional conditions and firms. Also, the small businessman could more easily have close contact with the regulatory agencies and therefore participate more in the rule making process. Local requirements may well be more acceptable to firms than requirements emanating from a more distant state or federal government.⁷

Conclusion

Government regulation of business can benefit society and individual firms, but often government regulations produce heavy costs. The fact that a small business with severely limited resources of time and money (especially if it is just starting up) must usually go through the same regulatory process as a large firm demonstrates the regressive nature of the regulatory burden. With its flexibility reduced, a small firm is at a competitive disadvantage compared to large resource-rich firms. The disproportionate share of small firms in the Southeast adds to the importance of this issue for the region.

—David Avery
and Gene D. Sullivan

⁷"Complying with Government Requirements," *op. cit.*

Manufactured Housing: A Bright Spot for the Southeast

The manufactured housing industry in the Southeast weathered the recession fairly well. Mobile home producers, in particular, have parlayed higher-quality construction and a refurbished image into strong growth in the region.



For the United States, privately owned housing starts and new one-family houses sold fell 47 and 50 percent, respectively, from 1977 to 1982. On the other hand, mobile home shipments in the United States and the Southeast showed considerable strength over this period. Mobile home shipments have shown greater relative strength during the recent recession than have new one-family houses sold (see Chart 1).

During the past two years, some companies in manufactured housing have performed extremely well compared to the "recession-sensitive" auto industry (see Table 1). In fact, some of the producers have substantially increased sales in absolute dollar terms during the last two years. This article examines why the manufactured housing industry emerged as a bright spot for the Southeast during the recent recession.

The size of the manufactured housing industry is impressive; partially or completely manufactured housing (mobile homes, conventional with components, modular/sectional, and pre-cut) accounted for 90 percent of all residential housing units produced in the United States during 1981. Mobile homes accounted for 26 percent of all residential units produced.¹ What is even more significant for industrial growth in the Southeast is that this region in recent years has consistently been increasing its share of overall manufactured housing produced in the United States. Manufactured housing is a growing industry in the region, but it is propelled almost entirely by

¹The '82 Red Book of Housing Manufacturers, South Edition, CMR Associates, Inc., 1982, Crofton, Maryland.

Table 1. Manufactured Housing Sales and Net Income Compared with Recession-Sensitive Industries (Millions of Dollars)

	Sales				Net Income			
	1980	1981	1982	% Change 1980-1982	1980	1981	1982	% Change 1980-1982
Manufactured Housing *	1,638.2	1,861.7	1,991.8	21.6	15.9	22.1	25.0	57.2
Automotive	132,445.3	142,254.3	128,147.3	-3.2	-4,020.3	-1,210.4	-1,070.3	N.M.
Chemicals	95,202.3	108,015.6	105,226.9	10.5	5,440.4	5,890.2	3,742.8	-31.2
Paper and Forest Products	49,967.4	52,640.7	48,482.6	-3.0	2,847.2	2,771.3	1,088.9	-61.8
Steel	45,247.7	49,711.5	44,954.3	-0.6	1,399.1	1,801.6	-3,102.3	N.M.
Textiles and Apparel	28,500.9	31,592.3	28,999.2	1.7	1,025.9	1,073.8	865.3	-15.7
Tire and Rubber	22,975.1	23,231.8	21,462.7	-6.5	247.1	650.5	375.1	51.8

Sources: All data except for manufacturing housing were obtained from **BusinessWeek's** "Corporate Scoreboard" from the March 16, 1981, March 15, 1982, and March 14, 1983, issues. Data for manufactured housing were obtained for selected public firms from Standard and Poor's Compustat Services, Inc.

N.M. Not Meaningful

*Sales and net income figures for manufactured housing in 1982 are estimated from data through the third quarter of 1982.

mobile home production. This industry not only provides an increasingly popular alternative to custom-built—or "stick-built"²—housing but also provides support to the economic base of the Southeast.

The Rise of Manufactured Housing in the U. S. and the Southeast

The American public is becoming more receptive to manufactured housing for several reasons, one of which is quality improvement. Construction in a factory environment is more conducive to quality control than on-site construction. Landmark improvement in the quality and safety of mobile homes in particular began in 1976 when Congress passed the Manufactured Home Construction and Safety Standards Act. Since it took effect, only mobile homes that have been inspected by the U.S. Department of Housing and Urban Development can be sold for residential use.

Improvement in style has raised the visual quality of manufactured housing. All varieties of manufactured housing—pre-cut, modular, mobile homes, and others—offer a greater choice of options to the home buyer than in the past. Exteriors look more like stick-built exteriors.

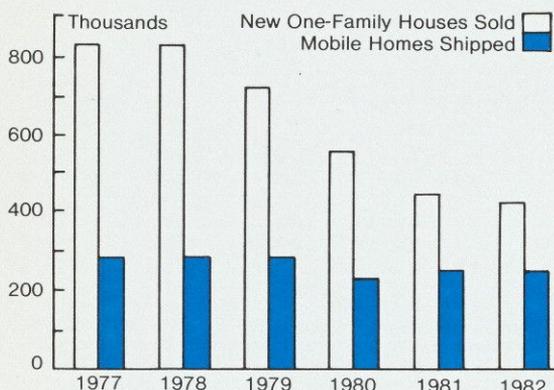
What is Manufactured Housing?

Manufactured housing is not what it used to be. The old-fashioned metal box known as a mobile home is no longer the typical manufactured house. Today, manufactured housing comes in many varieties: panelized, pre-cut, and modular/sectional, as well as mobile homes. Furthermore, mobile homes have changed dramatically in recent years. The standard, low-cost, box-like mobile home is still available, but the industry now makes many styles of both single-wide and multiwide mobile homes. Modern versions of the mobile home look more like stick-built homes—the siding is more appealing, windows are dressed better, and the roofing appears more like that of the conventional home.

Newer varieties of manufactured housing differ considerably in the "degree" to which the individual unit is "manufactured"—some are only partially built under factory conditions while others are almost entirely manufactured. The complete range of manufactured housing includes custom-built housing that contains some manufactured components, pre-cut housing, panelized homes, modular housing, and mobile homes. Of course, stick-built homes can be entirely built on site. However, many custom-built homes do contain some manufactured components such as trusses. Pre-cut homes are built from parts cut to size under factory controlled conditions and then are assembled on the home site. Likewise, panelized homes are assembled on site but not from pre-cut parts. Instead, entire walls, floors, and roofs are built at the factory and shipped as "panels" to the construction site. Modular homes are assembled on site from whole rooms that are delivered to the site from the factory. Finally, mobile homes are almost entirely assembled in the factory. Often, even furniture is included in the finished mobile home.

²Housing that is built piece by piece on site is referred to as "stick-built" because the frame of the house is built with one "stick" of lumber at a time.

Chart 1. New One-Family Houses Sold versus Mobile Homes Shipped in the U.S.



Source: U.S. Department of Commerce

Inside, the customer can choose between many options such as kitchen cabinets, bath fixtures, and the color of the carpet. With the purchase of a mobile home, there is often a choice in the style of furniture.

Another change that has boosted the popularity of mobile homes is the increased availability of financing. Before 1969, the financing of mobile homes was not easy. While fabricated housing (such as pre-cut and modular) could be financed on the same basis as conventionally built homes, mobile homes had to be financed almost the same as automobiles. More than a decade of concerted action by mobile home manufacturers and savings and loan officials finally has brought mobile home financing close to par with financing for site-built homes. Only in 1969 did the Federal Home Loan Bank Board allow thrifts to make mortgage loans on mobile homes. Even then, mortgage maturities could be no more than 12 years for new mobile homes and no more than 8 years for used mobile homes. The amount of available funds was severely restricted—a thrift association was not allowed to invest more than 5 percent of its total assets into these mortgages.

The Department of Housing and Urban Development began insuring mobile home mortgages under specific FHA plans in 1970. The Veterans Administration began guaranteeing loans for mobile home mortgages later in 1970. Only in 1973 did the FHLBB allow thrifts to make FHA/VA loans for mobile homes. Other restrictions were eased

throughout the 1970s and early 1980s. In particular, the dollar limit on financing for an individual home has continually risen.

In early 1983, a mobile home—new or used—could be financed for a term of up to 30 years. The maximum loan amount is equal to 90 percent of the buyer's total costs (excluding a few costs such as credit life insurance). Furthermore, there are no limits on the percentage of assets that savings and loan associations can put into mobile home mortgages. Still, many restrictions do apply to mortgage lending on these homes by thrifts. Among others, the home must be owner occupied and the home must have "an intended permanency." To meet intended permanency requirements, the home must have the wheels removed, be permanently attached to a foundation, be taxed as realty, meet zoning regulations, and must meet the same real estate regulations of thrifts that apply for one-to-four family conventional units.

Today's mobile homes do qualify for conventional loans in addition to FHA/VA home financing. Additional funds were made available for loans when, in 1981, the Federal National Mortgage Association ("Fannie Mae") announced a change in policy agreeing to purchase these mortgages in the secondary market.

Finally, today's economic environment has played no small role in increasing demand for manufactured housing. Until the current recession slowed inflation, housing costs had been rising rapidly—more so than changes in the overall consumer price index. In the third quarter of 1982, the average sales price of a new single-family house had risen to \$83,900. In contrast, the average sales price of a new mobile home was \$19,600.³ A typical monthly payment for this average conventional home is estimated to have been \$1,076 versus \$300 for the mobile home.⁴

The relative affordability of mobile homes has increased their popularity. Affordability and the availability of financing have played key roles in helping mobile home sales to fare better during

³Source: U.S. Department of Commerce. Unlike new stick-built single-family houses, the sales price of mobile homes does not include the cost of land. On the average, the price of a new single-family house is estimated to consist of 18 to 20 percent land cost and the rest for the actual construction costs.

⁴For both the conventional home and the mobile home, the monthly payment estimates are based on a typical term of 30 years, a down payment of 5 percent, and a mortgage rate of 16 percent (which was the "going rate" during the third quarter of 1982). The sales price of the mobile home is adjusted upward by 20 percent to take into account land costs. Neither figure includes insurance or property tax expenses.

Table 2. 1982 Estimated Production and Shipments of Manufactured Housing in the Southeast

State	Factory-Built Housing Units*	Percent of U.S.	Mobile Home Units	Percent of U.S.	Total Manufactured Units	Percent of U.S.
Alabama	1,310	1.1	18,757	7.9	20,067	5.6
Florida	2,390	1.2	18,950	8.0	21,340	5.9
Georgia	4,430	3.7	34,010	14.2	38,440	10.7
Louisiana	2,720	2.3	3,269	1.4	5,989	1.7
Mississippi	670	0.6	6,031	2.5	6,701	1.9
Tennessee	660	0.6	7,584	3.2	8,244	2.3
Southeast	12,180	10.1	88,601	37.1	100,781	28.0
U.S. Total	121,000	100.0	239,000	100.0	360,000	100.0

*Factory-built housing units include panelized, pre-cut, and modular/sectional housing units.

Source: **The '83 Red Book of Housing Manufacturers**, South Edition, CMR Associates, Inc., 1983, Crofton, Maryland. The six states in the FRB-Atlanta District represent part of **Red Book's** South Region.

Table 3. 1978 Estimated Production and Shipments of Manufactured Housing in the Southeast

State	Factory-Built Housing Units*	Percent of U.S.	Mobile Home Units	Percent of U.S.	Total Manufactured Units	Percent of U.S.
Alabama	5,160	1.6	17,390	6.0	22,550	3.7
Florida	10,000	3.1	17,360	6.0	27,360	4.5
Georgia	7,880	2.5	24,270	8.4	32,150	5.3
Louisiana	5,440	1.7	3,830	1.3	9,270	1.5
Mississippi	1,900	0.6	5,070	1.7	6,970	1.1
Tennessee	4,100	1.3	6,760	2.3	10,860	1.8
Southeast	34,480	10.8	74,680	25.8	109,160	17.9
U.S. Total	320,420	100.0	290,000	100.0	610,420	100.0

*Factory-built housing units include panelized, pre-cut, and modular/sectional housing units.

Source: **The '79 Red Book of Housing Manufacturers**, South Edition CMR Associates, Inc., 1979, Crofton, Maryland. The six states in the FRB-Atlanta District represent part of **Red Book's** South Region.

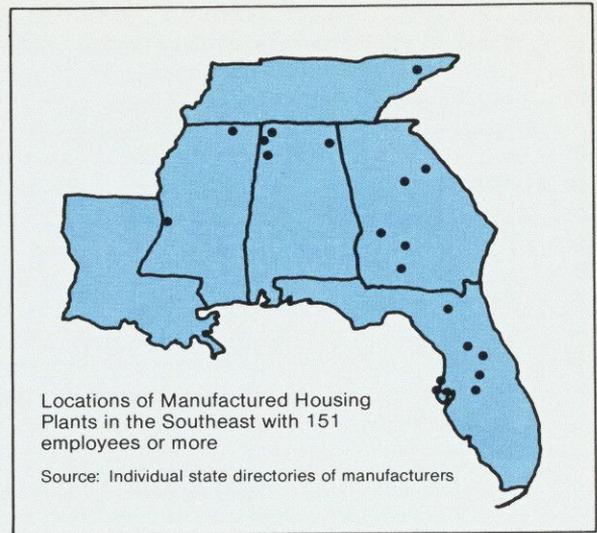
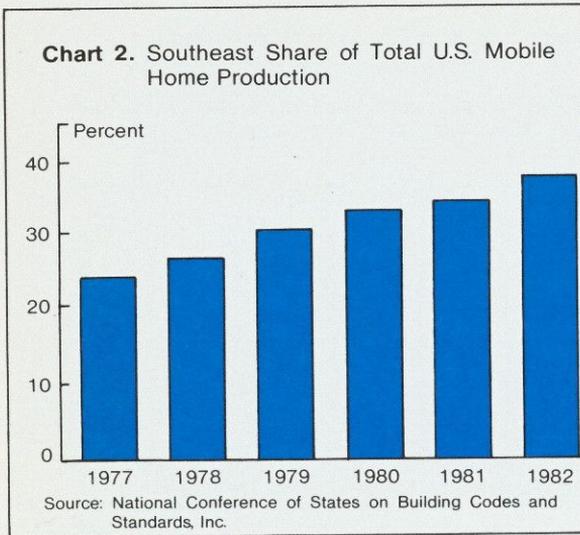
the recession than sales of new one-family houses (Chart 1). Other types of manufactured housing also offer savings to consumers. Depending on the variety of manufactured housing chosen by the consumer, savings can run anywhere from 5 to 25 percent of the cost of a conventionally built house.

Why Manufactured Housing Firms Are Moving Into the Southeast

The Southeast's share of total manufactured housing output is on the rise (Tables 2 and 3). Firms

are moving into the region from elsewhere in the country; many existing southeastern plants are expanding capacity, and others have plans for expansion. In particular, the Southeast has rapidly been improving its share of U.S. mobile home production (see Chart 2). On the other hand, the Southeast's share of "factory built housing units" (not of the mobile home variety) has remained fairly constant over the last few years. But why is the Southeast making such inroads into manufactured housing markets overall?

Of all factors affecting long-term growth, the region's demographics has to be the most



important. An increasing population is attracting new plants for factory-built housing and is encouraging expansion at existing plants. This trend is not just a southeastern phenomenon—it is occurring throughout the “Sunbelt.” During the 1970s the South⁵ attracted more than 350,000 people each year compared to only 130,000 annually in the late 1960s.⁶ Overall, the South’s population increased by 22 percent from 1970 to 1980.⁷ Though the population increase slowed during the recession, the long-term trend is for the population growth rate to remain relatively strong compared to the rest of the nation. What this trend spells out is an increase in the demand for housing. Throughout the Sunbelt, home builders are being attracted on a long-term basis in order to build this housing. Just like any other home builders, companies that build manufactured housing are moving to where the markets are.

In addition to population growth, some economic factors do affect the southward movement of industrial housing plants. Among these

are “economies of agglomeration,” labor costs, and weather factors. In plain English, economies of agglomeration means that production of a good is cheaper when all of the firms producing the inputs for the final product are located near the plant using these inputs. Their proximity helps production flow more smoothly and at a lower cost. For the producers of manufactured housing, production is cheaper when plants are

“What this trend spells out is an increase in the demand for housing.”

located near suppliers. Supplier industries include lumber, plywood, furniture, appliances, and fabricated metal among others.

Many of these supplier industries are locating in the Southeast and the rest of the Sunbelt for reasons independent of the manufactured housing industry, while others are relocating for the specific purpose of supplying firms that produce industrial housing. In the Southeast, furniture, appliance, and plywood are major industries that relocated for general economic reasons, whereas producers of components for industrial housing

⁵For the discussion of demographics, the “South” refers to the South Census Region as defined by the Department of the Census. The region includes Delaware, Maryland, Washington, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas.

⁶William J. Kahley, “Migration: Changing Faces of the South,” *Economic Review*, Federal Reserve Bank of Atlanta, June 1982.

⁷James W. Clay and Alfred W. Stuart, “Uneven Growth: Southern Population Change at the County Level,” *Economic Review*, Federal Reserve Bank of Atlanta, June 1982.

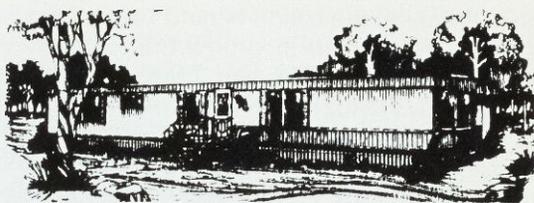
(such as trusses, some fabricated metal, and mobile home furniture) relocated for the specific purpose of serving the manufactured housing industry.

Once supplier firms became more concentrated in the Southeast and the rest of the Sunbelt, producers of manufactured housing found moving to the area to be advantageous. As one producer states, "It's a lot easier to make the product when 95 percent of your suppliers can be found within a 250 to 300 mile radius. You just don't have that kind of situation in places like Montana." The existence of satellite industries plays a major role in plant location.

"Tradition has much to do with the success of manufactured housing in the southeastern housing markets."

The location of raw material such as lumber and plywood does not play a significant role in attracting firms. Lumber comes primarily from the Northwest and from Canada. For lumber, producers prefer the tall hemlock fir and spruce which are not found in the Southeast. On the other hand, the fast-growing pine—which is used in plywood—is grown primarily in the Southeast. However, transportation costs of plywood are relatively low compared to the transportation costs of a finished manufactured house. Firms prefer to locate close to the markets for the final product because of the considerably higher transportation costs of the actual home. But once a decision to locate in the region has been made, firms often do select a site near sources of plywood or timber. Still, the dominant factor in the location decision is the nearness of consumer markets.

The warmer climate in the Southeast has provided incentive for some firms to locate here. Air-powered tools are frequently used in the production of the housing units. Below-freezing temperatures frequently freeze air-driven tools because the moisture in the tools freezes. Exposure to the weather is less of a problem in the Southeast. However, some northern companies



report that cold weather is not that significant a problem when production facilities are built to the proper size and then heated. Still, warmer weather does allow more days for transporting finished homes. This reduces inventory costs for Sunbelt firms.

Finally, traditional acceptance of manufactured housing in the Southeast encourages firms to locate here. The region still has a greater percentage of lower income families than the rest of the nation. These families have been the backbone of the market for manufactured housing—in particular, for the mobile home market. Manufactured housing has long been accepted by lower income families as an alternative to conventionally built homes. Though income levels in the Southeast have risen, the region is still very receptive to manufactured housing as an alternative to custom-built housing. Tradition has much to do with the success of manufactured housing in southeastern housing markets.

Demographics is the key reason for the growth of industrial housing in the Southeast; a growing population means an increasing demand for housing—whether for conventionally built homes or for manufactured homes. Other factors affecting location of firms and plants are lower labor costs, relocation of suppliers, a warmer climate, and a traditional market for the products.

Characteristics of Manufactured Housing Producers in the Southeast

Producers of the entire range of manufactured housing types are located in the Southeast. Mobile home producers far outnumber producers of factory-built houses. In terms of output, southeastern-produced mobile homes in 1981 are estimated to have been 80,440 versus 9,910 factory-built housing units (see Table 2). Georgia leads the Southeast in production of both. In fact, Georgia is the second largest producer of

mobile homes in the nation behind Texas. Georgia also leads the region in production of factory-built housing units with over 3,000 units being built in 1981. Florida—with its heavy in-migration and large retirement community—is second in the region in both mobile home production and in the number of factory-built housing units produced.

The number of employees in mobile home firms varies widely. A typical firm employs 51 to 100 employees (see Chart 3).

In contrast, about 70 percent of the producers of prefabricated wood homes and components have 50 or fewer workers. Approximately 20 percent of the firms have from 51 to 100 workers. Only around 10 percent of these firms have over 100 workers. There is considerably less variety in the firm sizes of these types of manufactured housing producers.

In 1982, the output per worker (in terms of sales revenue) in the mobile home industry generally ranged from \$85,000 to \$130,000. Industry spokespersons indicate that the “rule of thumb” for management is that most firms try to “run a 10 percent labor factor.” Out of total expenses, 10 percent of the cost should be for labor, 70 percent for materials, 10 percent for overhead, and 10 percent (hopefully) for profit.

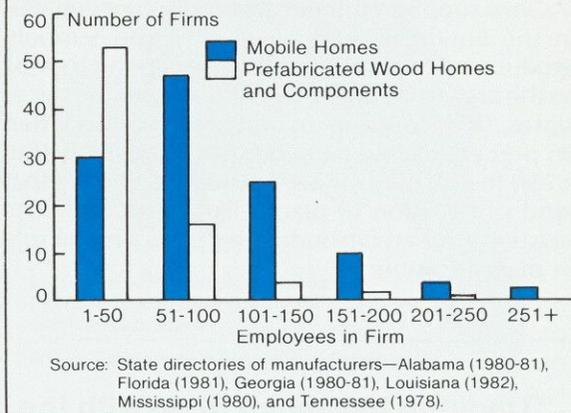
The fabricated housing component of manufactured housing is more labor intensive. The sales revenue per employee ranged from \$60,000 to \$86,000 in 1982. Most of the variation in worker output—in both the mobile home component and the prefabricated housing component—was a result of different approaches by firms in adjusting to reductions in demand. Some reduced the size of the labor force, while others concentrated on reducing hours worked. Variations in firm size did not appear to be related to differences in sales revenue per employee.

Who Are Some of the Producers in the Region?

We have seen where the firms are distributed in the Southeast and how the firm size varies, but who are some of the individual firms, what were their experiences during the recession and what are their plans for the future?

In many ways, Guerdon Industries (based in Louisville, Kentucky) is typical of the “mobile home” portion of the manufactured housing industry. Perhaps not so typical is the geographic

Chart 3. Number of Producers in Southeast by Employment



extent of the company—14 plants are scattered throughout the Southeast and other parts of the United States.⁸

The company only partially “planned” on taking advantage of the Sunbelt’s rapidly growing population—most plants were acquired through merger before 1967 (before most in-migration really began). However, Guerdon did view the Southeast and the rest of the Sunbelt as a traditional market for manufactured housing. Southeastern plant locations were chosen also because of the region’s labor supply being basically non-union yet equally productive.

One characteristic that this company does share with others in its sector of manufactured housing is that Guerdon produces a full line of mobile homes—from the low-cost mobile home to the higher priced, luxury, “not-so-mobile” home. How did the company’s products sell during the recession? As was the case with others, sales have shifted considerably to smaller, single-wide homes away from the more luxurious multiwide homes.⁹ Sales very much became a function of the monthly payment required for each product. Those who formerly could afford a

⁸Three of Guerdon’s plants are in Georgia, two each are in Florida and Arkansas, and one each is in Alabama, Mississippi, Kansas, Nebraska, Idaho, Oregon, and California.

⁹“Single-wide, double-wide, and multiwide” refer to the number of rooms across the width of a mobile home. A single-wide is one room in width; a double-wide or other multiwide has two or more rooms. Most multiwide homes are produced in single-wide sections that are joined on site.

double-wide may have recently been able to afford only a single-wide. Profit margins were squeezed as a result of a tighter market.

During the worst of the recession, this firm did not have a significant inventory problem. Carrying costs (interest charges) were manageable because Guerdon (like most in the industry)¹⁰ "builds on order." Only when a sales contract is signed, does a home to fill that order go into production. The company expects 1983 to be better than 1982. They have already seen a pickup in sales. The company also believes that the second half of the year will be stronger than the first half.

Cardinal Industries (based in Columbus, Ohio) is one of the newcomers to the region. The company also is in one of the more novel branches of manufactured housing—the firm primarily manufactures apartments for full developments and

"Georgia leads the region in production of factory-built housing units."

for motels. The market strategy of the firm exemplifies those in the industry who moved to the Southeast in order to follow population flows. The company's first plant in the Southeast was built in Columbus, Georgia in 1954. Originally, this plant produced manufactured building components—in 1970 it was converted to produce modular housing. Following population movements, Cardinal expanded into Orlando in 1976 and into Atlanta in 1982. A second plant was also built in Columbus (Georgia) in 1982. As one company official stated, the company likes to enter existing markets in densely populated areas where demand is strong, labor is readily available, and transportation networks are "completed."

The company's production philosophy is partially indicative of the industry's desire to make a high-quality, low-cost product. It also shows a new trend in the management and marketing of company products. Cardinal Industries follows the philosophy of developing the product first and then marketing the product rather than the reverse philosophy of "chasing the market." By specializing in a limited number of products, resources can be shifted to managing the "environment" of the products. By managing land, setting up the operation of apartments and motels, and arranging financing, for example, Cardinal is better able to service its customers.

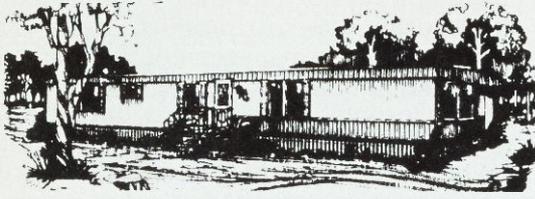
Cardinal Industries has fared well over the past decade. For the past 13 years, the company's revenue has grown at a 30 percent compounded rate. Some of this can be attributed to its preparation for the latest recession by placing more emphasis on expanding into the apartment market. Cardinal Industries expects an upturn in the overall economy to improve business in 1983.

Though not all builders of fabricated housing have fared well during the recession, Malone Homes (based in Dothan, Alabama) is an example of one that has. The company also provides an example of how fabricated producers can maintain business during recession. Malone Homes is very diversified in its field—products range from small single-family dwellings of less than one thousand square feet to multi-million dollar apartment complexes. However, most of its houses are selling in the \$60,000 to \$90,000 range.

"About 70 percent of the producers of prefabricated wood homes and components have 50 or fewer workers."

Since 1958, Malone Homes has been a producer of panelized homes. This company started in conventional home building in the 1940s and began organizing materials in an efficient manner just by bundling materials together before going on site. Eventually, this system was expanded into

¹⁰In December 1982, mobile home dealers in the United States had less than a one month's supply of homes on dealer lots whereas the supply of new one-family houses was enough to last approximately six months based on the sales rate for that month.



manufacturing various component parts. This finally led to the decision to produce panelized housing. Today, the company loads panels onto a flat-bed truck and, after getting to the construction site, can have a house basically completed after only three days. The interior and siding are finished by a local builder.

Like other home builders, this company is marketing according to where the population is growing—50 percent of the company's business is in Florida. Malone—in contrast to some firms—finds that the supplies of lumber and plywood around Dothan play a significant role in determining plant location. Plywood is used for roof sheathing and lumber is used for roof trusses. However, timber for studs does come from the Northwest and Canada.

During the recession, Malone placed more emphasis on multifamily housing. The company's multifamily apartments are based on multiples of duplex units. Most of its apartments are relatively small—either duplex or quadruplex units—though the developments may contain many such units.

During the recession, Malone decided to concentrate more on the small investor. Local sales representatives would convince local builders that the multifamily market would be stronger than the single-family market. In turn, builders and sales representatives sought out “small” local investors such as doctors, lawyers, and other professionals in the local community to invest in developments using Malone's products. Furthermore, sales representatives worked with local banks in order to obtain the necessary financing to go with investors' funds. Malone's strategy was successful—a company spokesperson indicated that the shift to multifamily housing together with a full-fledged marketing approach was primarily responsible for an increase in revenue in 1982 over 1981. For this fabricated housing producer, marketing is a key component in sales strategy.

The Special Problems of Factory-Built Housing

Although the production of mobile homes held up remarkably well during the recent recession, factory-built housing (panelized, pre-cut, and modular) did not do as well. Units produced fell by 62 percent in the nation from 1978 to 1982 compared with a more modest decline of 18 percent for shipments of mobile homes. Much of the decline can be attributed to an undeveloped marketing structure; the remainder is primarily a result of overhead cost problems.

Factory-produced housing is a very close substitute for stick-built housing. Theoretically, this portion of the manufactured housing sector should hold up better during recession than

“Factory-built housing did not fare as well as mobile homes during the recession.”

conventional housing since the per unit cost can be cheaper. However, there must be sufficient demand for the homes in order to maintain an efficient level of production in the plants. Unfortunately, many producers depend on conventional builders to erect the homes instead of developing their own system of retailers and builders. In boom times, conventional builders will use factory-produced housing so as to keep up with demand. In times of slack demand, these builders will do all—or as much as possible—of the construction work.

Another reason that factory-produced housing declines more in recession than conventional housing is that these producers have larger overhead costs than conventional builders. While conventional builders “operate out of a pick-up truck,” factory producers must pay the expense of operating a plant. If sales are too few to pay these operational costs, then closing the plant is a rational decision. Factory producers must have a larger minimum amount of sales in order for unit costs to be low enough to leave a profit.

Some factory producers during recession do manage to switch from building entire houses to becoming a supplier of components for (partially

and completely) manufactured housing. This reduces output numbers for factory-produced housing units but does still aid employment in the factory-produced housing industry.

Although the future of factory-built housing is promising, the industry must overcome several problems. This sector needs to mature in its marketing techniques. Producers must tie output more to their own builders in order to remain stable during recession. Also, these producers must develop ties with the financial community similar to those of mobile home producers. The fact that mobile homes can now qualify for conventional, FHA, or VA loans for 30-year terms indicates the cohesiveness and marketing "savvy" of the mobile home industry as a whole. While factory-built homes can qualify for these same mortgages (and did so before mobile homes could), these producers overall have not acted as far-sighted in their marketing and financing strategies as have mobile home producers.

New Trends in Manufactured Housing

Competition and consumer demands are bringing about a variety of new trends in the manufactured housing industry. In the "mobile home" component of this industry, a greater number of firms are becoming more self-sufficient. Producers are responding to the quality-conscious consumers by developing homes that look very "conventional." Developers are responding to the demand for quality by introducing "developments for manufactured housing" as a replacement for "mobile home parks."

"A few innovative developers are introducing 'developments for manufactured housing' . . . with paved, winding roads, more trees, and even clubhouses."

Mobile home manufacturers are becoming more self-sufficient. This cost-cutting trend has been encouraged partially by recession. The firms that are producing some of their supplies

are primarily producing input products that do not require a lot of capital or technology. Many such input products typically include furniture, cabinets, and draperies. Some firms have even begun fabricating metal for some parts. One other approach taken by some producers to reduce supply costs is to act as broker for their own supplies rather than go through a "middle man."

Mobile home producers continue to compete in product quality. Styling will be very much a part of further quality improvement in the future. As mobile homes look more like conventional homes, so do consumers demand a life-style that more closely resembles conventional housing neighborhoods. In response to this demand, a few innovative developers are introducing "developments for manufactured housing." The traditional "mobile home park" may give way to developments with paved, winding roads, more trees, more stylish housing units, and even clubhouses and shared recreation facilities.

Manufacturers of multifamily housing are also seeing some new innovations. The recession has made multifamily housing a more attractive market; still the market has been tight. In order to ease the entry of investors into the market for multifamily developments, producers of this type of housing are paying more attention to the "environment" of their product. The physical production of housing units is fine-tuned and "routinized" so that management resources can be shifted to managing the environment of multifamily developments. Maintenance of this environment includes helping developers with site preparation plans, landscaping before and after completion of construction, planning traffic flow, helping to set up the management plans for the development, and arranging financing.



A recent innovation of a few firms working with multifamily markets is to set up a financial subsidiary to sell securities to interested investors in real estate developments using the parent company's products. Some of the incentive for this approach was a product of recession. A broader market base was needed to raise the level of investment. In order to attract more (including smaller) investors, a method of setting up developments financed through marketable securities led to the use of financial subsidiaries.

Many producers of manufactured housing are increasing the amount of marketing for their products. In the past, these companies would act as a "jobbing service." Each housing unit—or job—would only be produced after receipt of the order. Of course, the order would include the various options chosen by the purchaser. Even today, most producers of manufactured housing only produce "on order." In contrast, some firms are shifting strategy. More firms are marketing their products "as is" and selling only the homes as designed. This approach reduces construction costs. Still, producers are pushing more luxurious models and do have a large variety of choice. However, the emphasis is more on marketing fewer total products in greater quantity to meet consumer wants.

Exports of Manufactured Housing

The export market appears to offer some potential for producers of manufactured houses. Although the volume of exports thus far is extremely limited, sales of mobile homes have been made in areas where construction labor is scarce. Oil field areas and government sponsored housing developments in the Middle East and in Latin America have accounted for most of the market.

Some of the problems that need to be solved before export markets can be expanded significantly are, first, the lack of market development

by producers. No firms are known to have an "export division." Sales abroad are made through export agents who first contact an individual company. Since foreign buyers usually know little about manufactured housing, they often seek business with the large national firms. Even when approached by an agent for a foreign sale, firms sometimes decline the contract because of various production problems. Second, units produced for export must meet foreign building standards. In particular, the wiring and plumbing are often completely different from U.S. regulations. Third, transportation costs are expensive. Manufactured houses are easily damaged during transport and must be specially "stacked" into cargo ships. By the time the housing units reach their final destination, the cost is often double the cost leaving the factory. Some feel that these obstacles can be overcome; that when economies abroad improve, there is potential for export development, particularly in the Middle East and Latin America.

Summary

The manufactured housing industry is growing (primarily in mobile home production) in the Southeast. The chief factors causing this growth are a growing population, movement of supplier industries to the region and, to a lesser degree, a warmer climate. Mobile home production has held fairly steady during the recession as a result of the product's affordability and improved quality. Other types of manufactured housing have not fared as well because of producer reliance on local builders to "sell" the homes to the consumer. Also, the mobile home industry's marketing efforts (including the arranging of financing) generally have been more effective than those of fabricated housing producers.

**—Gene D. Sullivan
and R. Mark Rogers**



FINANCE

STATISTICAL SUPPLEMENT

\$ millions	FEB 1983	JAN 1983	FEB 1982	ANN. % CHG.		FEB 1983	JAN 1983	FEB 1982	ANN. % CHG.
UNITED STATES									
Commercial Bank Deposits	1,232,493	1,245,791	1,099,303	+ 12	Savings & Loans				
Demand	292,126	323,014	289,113	+ 1	Total Deposits	571,306	556,603	521,441	+ 10
NOW	69,832	68,433	53,777	+ 30	NOW Deposits	15,417	13,454	8,377	+ 84
Savings	277,506	219,770	148,282	+ 87	Savings	157,114	124,374	92,743	+ 69
Time	622,295	663,834	634,123	- 2	Time	401,389	421,051	420,811	- 5
Credit Union Deposits	52,092	52,276	41,552	+ 25	DEC	475,696	479,934	509,133	- 7
Share Drafts	4,312	4,192	2,685	+ 61	NOV	17,730	19,563	15,163	+ 17
Savings & Time	42,752	43,436	36,283	+ 18	Mortgages Outstanding				
					Mortgage Commitments				
SOUTHEAST									
Commercial Bank Deposits	136,863	136,742	118,491	+ 16	Savings & Loans				
Demand	34,153	37,361	34,162	- 1	Total Deposits	82,691	81,267	76,565	+ 8
NOW	9,365	8,951	7,030	+ 33	NOW Deposits	2,636	2,342	1,371	+ 92
Savings	30,085	23,731	14,713	+104	Savings	19,841	15,679	11,750	+ 69
Time	65,990	69,905	65,409	+ 1	Time	60,818	63,859	63,470	- 4
Credit Union Deposits	4,979	4,992	4,088	+ 22	DEC	67,971	68,199	74,633	- 9
Share Drafts	363	369	278	+ 31	NOV	2,908	2,980	3,487	-17
Savings & Time	4,248	4,262	3,487	+ 22	Mortgages Outstanding				
					Mortgage Commitments				
ALABAMA									
Commercial Bank Deposits	14,571	14,914	13,409	+ 9	Savings & Loans				
Demand	3,527	3,897	3,504	+ 1	Total Deposits	4,564	4,559	4,404	+ 4
NOW	836	802	612	+ 37	NOW Deposits	178	147	71	+151
Savings	2,583	2,080	1,530	+ 69	Savings	649	594	579	+ 12
Time	8,032	8,534	8,190	- 2	Time	3,784	3,847	3,782	+ 0
Credit Union Deposits	852	857	717	+ 19	DEC	3,684	3,695	4,003	- 8
Share Drafts	69	72	55	+ 25	NOV	49	49	50	- 2
Savings & Time	723	734	617	+ 17	Mortgages Outstanding				
					Mortgage Commitments				
FLORIDA									
Commercial Bank Deposits	46,676	45,582	39,219	+ 19	Savings & Loans				
Demand	12,122	13,216	12,174	- 1	Total Deposits	50,183	49,137	46,371	+ 8
NOW	4,018	3,923	3,107	+ 29	NOW Deposits	1,787	1,600	962	+ 86
Savings	13,432	10,263	6,374	+111	Savings	13,498	10,524	7,893	+ 71
Time	17,924	19,257	18,152	- 1	Time	35,181	37,282	37,444	- 7
Credit Union Deposits	2,247	2,255	1,845	+ 22	DEC	39,968	40,135	45,702	- 13
Share Drafts	193	197	156	+ 24	NOV	2,248	2,319	3,059	- 27
Savings & Time	1,787	1,789	1,431	+ 25	Mortgages Outstanding				
					Mortgage Commitments				
GEORGIA									
Commercial Bank Deposits	19,525	20,234	16,151	+ 21	Savings & Loans				
Demand	6,178	6,696	5,877	+ 5	Total Deposits	10,256	10,240	9,720	+ 6
NOW	1,256	1,206	997	+ 26	NOW Deposits	250	245	143	+ 75
Savings	4,089	3,916	1,573	+160	Savings	2,154	1,834	1,183	+ 82
Time	8,841	9,253	8,634	+ 2	Time	8,022	8,314	8,430	- 5
Credit Union Deposits	934	923	755	+ 24	DEC	8,760	8,809	9,349	- 6
Share Drafts	39	41	23	+ 70	NOV	201	227	111	+ 81
Savings & Time	836	828	703	+ 19	Mortgages Outstanding				
					Mortgage Commitments				
LOUISIANA									
Commercial Bank Deposits	24,166	24,179	21,511	+ 12	Savings & Loans				
Demand	5,927	6,469	6,227	- 5	Total Deposits	8,432	8,176	7,519	+ 12
NOW	1,240	1,213	941	+ 32	NOW Deposits	174	139	83	+110
Savings	4,094	3,185	2,380	+ 72	Savings	1,841	1,488	1,216	+ 51
Time	13,322	13,829	12,493	+ 7	Time	6,470	6,603	6,238	+ 4
Credit Union Deposits	162	164	114	+ 42	DEC	7,541	7,476	7,141	+ 6
Share Drafts	12	11	8	+ 50	NOV	223	215	208	+ 7
Savings & Time	153	154	106	+ 44	Mortgages Outstanding				
					Mortgage Commitments				
MISSISSIPPI									
Commercial Bank Deposits	11,022	10,898	9,799	+ 12	Savings & Loans				
Demand	2,346	2,487	2,336	+ 0	Total Deposits	2,508	2,508	2,378	+ 5
NOW	714	654	521	+ 37	NOW Deposits	86	75	37	+132
Savings	1,723	1,197	731	+136	Savings	417	336	222	+ 88
Time	6,473	6,779	6,449	+ 0	Time	2,028	2,124	2,131	- 5
Credit Union Deposits	N.A.	N.A.	N.A.		DEC	2,055	2,067	2,205	- 7
Share Drafts	N.A.	N.A.	N.A.		NOV	22	21	17	+ 29
Savings & Time	N.A.	N.A.	N.A.		Mortgages Outstanding				
					Mortgage Commitments				
TENNESSEE									
Commercial Bank Deposits	20,903	20,935	18,402	+ 14	Savings & Loans				
Demand	4,053	4,596	4,044	+ 0	Total Deposits	6,748	6,667	6,173	+ 9
NOW	1,301	1,153	852	+ 53	NOW Deposits	161	136	75	+115
Savings	4,164	3,090	2,125	+ 96	Savings	1,282	903	657	+ 95
Time	11,398	12,253	11,491	- 1	Time	5,333	5,689	5,445	- 2
Credit Union Deposits	784	793	657	+ 19	DEC	5,963	6,017	6,234	- 4
Share Drafts	50	48	36	+ 39	NOV	165	149	42	+293
Savings & Time	749	757	630	+ 19	Mortgages Outstanding				
					Mortgage Commitments				

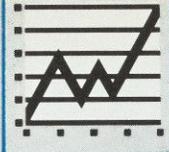
Notes: All deposit data are extracted from the Federal Reserve Report of Transaction Accounts, other Deposits and Vault Cash (FR2900), and are reported for the average of the week ending the 1st Wednesday of the month. This data, reported by institutions with over \$15 million in deposits as of December 31, 1979, represents 95% of deposits in the six state area. The major differences between this report and the "call report" are size, the treatment of interbank deposits, and the treatment of float. The data generated from the Report of Transaction Accounts is for banks over \$15 million in deposits as of December 31, 1979. The total deposit data generated from the Report of Transaction Accounts eliminates interbank deposits by reporting the net of deposits "due to" and "due from" other depository institutions. The Report of Transaction Accounts subtracts cash in process of collection from demand deposits, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total. N.A. = fewer than four institutions reporting.



EMPLOYMENT

	JAN 1983	DEC 1982	JAN 1982	ANN. % CHG.		JAN 1983	DEC 1982	JAN 1982	ANN. % CHG.
UNITED STATES									
Civilian Labor Force - thous.	109,779	110,477	108,014	+ 2	Nonfarm Employment- thous.	87,681	89,327	89,269	- 2
Total Employed - thous.	97,262	98,849	97,831	- 1	Manufacturing	17,995	18,156	19,353	- 7
Total Unemployed - thous.	12,517	11,628	10,183	+23	Construction	3,546	3,797	3,576	- 1
Unemployment Rate - % SA	10.4	10.8	8.6		Trade	20,334	20,941	20,417	- 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	15,654	15,949	15,862	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	18,863	19,084	18,523	+ 2
Mfg. Avg. Wkly. Hours	39.1	39.7	37.1	+ 5	Fin., Ins., & Real Est.	5,303	5,357	5,290	+ 0
Mfg. Avg. Wkly. Earn. - \$	312	345	312	0	Trans. Com. & Pub. Util.	4,913	5,014	5,065	- 3
SOUTHEAST									
Civilian Labor Force - thous.	14,088	14,207	13,732	+ 3	Nonfarm Employment- thous.	11,326	11,440	11,327	+ 0
Total Employed - thous.	12,470	12,668	12,386	+ 1	Manufacturing	2,123	2,135	2,214	- 4
Total Unemployed - thous.	1,619	1,539	1,346	+20	Construction	607	629	635	- 4
Unemployment Rate - % SA	11.0	11.0	9.4		Trade	2,712	2,758	2,662	+ 2
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,144	2,155	2,146	- 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,259	2,259	2,170	+ 3
Mfg. Avg. Wkly. Hours	40.0	40.7	32.8	+22	Fin., Ins., & Real Est.	651	652	640	+ 2
Mfg. Avg. Wkly. Earn. - \$	300	306	244	+23	Trans. Com. & Pub. Util.	683	702	698	- 2
ALABAMA									
Civilian Labor Force - thous.	1,729	1,720	1,653	+ 5	Nonfarm Employment- thous.	1,302	1,310	1,304	- 0
Total Employed - thous.	1,442	1,453	1,428	+ 1	Manufacturing	324	326	342	- 1
Total Unemployed - thous.	287	267	225	+28	Construction	57	58	51	+12
Unemployment Rate - % SA	16.1	15.7	14.0		Trade	268	273	265	+ 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	291	291	289	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	217	218	210	+ 3
Mfg. Avg. Wkly. Hours	39.7	39.6	29.2	+36	Fin., Ins., & Real Est.	59	59	58	+ 0
Mfg. Avg. Wkly. Earn. - \$	297	294	228	+30	Trans. Com. & Pub. Util.	70	70	72	- 3
FLORIDA									
Civilian Labor Force - thous.	4,783	4,798	4,482	+ 7	Nonfarm Employment- thous.	3,822	3,834	3,772	+ 1
Total Employed - thous.	4,285	4,343	4,138	+ 4	Manufacturing	464	461	470	- 1
Total Unemployed - thous.	499	455	344	+45	Construction	237	242	264	- 10
Unemployment Rate - % SA	10.2	9.5	7.4		Trade	1,036	1,034	1,002	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	631	638	630	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	935	927	889	+ 5
Mfg. Avg. Wkly. Hours	39.8	41.4	40.0	- 1	Fin., Ins., & Real Est.	283	284	278	+ 2
Mfg. Avg. Wkly. Earn. - \$	293	302	273	+ 7	Trans. Com. & Pub. Util.	227	239	229	- 2
GEORGIA									
Civilian Labor Force - thous.	2,621	2,670	2,606	+ 1	Nonfarm Employment- thous.	2,196	2,227	2,160	+ 0
Total Employed - thous.	2,406	2,461	2,387	+ 1	Manufacturing	491	495	502	- 2
Total Unemployed - thous.	215	209	220	- 2	Construction	97	103	95	+ 2
Unemployment Rate - % SA	8.2	8.1	8.2		Trade	519	540	506	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	442	440	433	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	377	376	359	+ 5
Mfg. Avg. Wkly. Hours	39.8	40.4	29.9	+33	Fin., Ins., & Real Est.	118	118	114	+ 4
Mfg. Avg. Wkly. Earn. - \$	276	279	200	+38	Trans. Com. & Pub. Util.	144	146	144	0
LOUISIANA									
Civilian Labor Force - thous.	1,812	1,855	1,849	- 2	Nonfarm Employment- thous.	1,587	1,607	1,614	- 2
Total Employed - thous.	1,608	1,640	1,659	- 3	Manufacturing	195	199	213	- 8
Total Unemployed - thous.	204	215	189	+ 8	Construction	116	119	124	- 6
Unemployment Rate - % SA	10.4	12.0	10.1		Trade	366	372	363	+ 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	308	310	306	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	304	305	294	+ 3
Mfg. Avg. Wkly. Hours	42.1	42.7	34.9	+21	Fin., Ins., & Real Est.	79	79	78	+ 1
Mfg. Avg. Wkly. Earn. - \$	384	401	328	+17	Trans. Com. & Pub. Util.	125	127	131	- 5
MISSISSIPPI									
Civilian Labor Force - thous.	1,032	1,051	1,029	+ 0	Nonfarm Employment- thous.	780	794	790	- 1
Total Employed - thous.	906	927	917	- 1	Manufacturing	196	198	205	- 4
Total Unemployed - thous.	126	124	112	+13	Construction	39	40	37	+ 5
Unemployment Rate - % SA	11.5	11.9	10.2		Trade	160	167	158	+ 0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	179	182	184	- 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	123	124	120	+ 3
Mfg. Avg. Wkly. Hours	39.2	40.1	28.7	+37	Fin., Ins., & Real Est.	33	33	33	0
Mfg. Avg. Wkly. Earn. - \$	259	262	181	+43	Trans. Com. & Pub. Util.	39	39	39	0
TENNESSEE									
Civilian Labor Force - thous.	2,111	2,113	2,113	- 0	Nonfarm Employment- thous.	1,639	1,668	1,687	- 3
Total Employed - thous.	1,823	1,844	1,857	- 2	Manufacturing	453	456	482	- 6
Total Unemployed - thous.	288	269	256	+13	Construction	61	67	64	- 5
Unemployment Rate - % SA	12.3	12.8	10.9		Trade	363	372	368	- 1
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	293	294	304	- 4
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	303	309	298	+ 2
Mfg. Avg. Wkly. Hours	39.5	39.8	34.4	+15	Fin., Ins., & Real Est.	79	79	79	0
Mfg. Avg. Wkly. Earn. - \$	293	295	251	+17	Trans. Com. & Pub. Util.	78	81	83	- 6

Notes: All labor force data are from Bureau of Labor Statistics reports supplied by state agencies. Only the unemployment rate data are seasonally adjusted. The Southeast data represent the total of the six states. The annual percent change calculation is based on the most recent data over prior year.



GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.		FEB 1983	JAN (R) 1983	FEB (R) 1982	ANN. % CHG.
UNITED STATES										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	2,584.9	2,541.5	2,447.6	+ 6	Prices Rec'd by Farmers				
Taxable Sales - \$bil.	FEB	90,663	91,033	87,216	+ 4	Index (1977=100)	132	128	133	- 1
Plane Pass. Arr. 000's		N.A.	N.A.	N.A.		Broiler Placements (thous.)	81,638	81,770	79,356	+ 3
Petroleum Prod. (thous.)	FEB	8,654.1	8,680.5	8,684.4	- 0	Calf Prices (\$ per cwt.)	66.20	62.40	58.90	+12
Consumer Price Index						Broiler Prices (\$ per lb.)	27.7	25.8	27.0	+ 3
1967=100	FEB	293.2	293.1	283.4	+ 3	Soybean Prices (\$ per bu.)	5.65	5.56	6.04	- 6
Kilowatt Hours - mils.	OCT	163.4	178.3	168.7	- 4	Broiler Feed Cost (\$ per ton)	206	202	209	- 1
SOUTHEAST										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	307.4	301.8	289.3	+ 6	Prices Rec'd by Farmers				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Index (1977=100)	120	116	119	+ 1
Plane Pass. Arr. 000's	DEC	3,763.6	3,603.1	3,821.9	- 2	Broiler Placements (thous.)	31,405	31,619	30,098	+ 4
Petroleum Prod. (thous.)	FEB	1,397.0	1,384.0	1,397.4	- 0	Calf Prices (\$ per cwt.)	64.01	59.14	55.74	+15
Consumer Price Index						Broiler Prices (\$ per lb.)	26.9	24.7	25.5	+ 5
1967=100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	5.76	5.66	6.25	- 3
Kilowatt Hours - mils.	OCT	27.6	30.0	27.6	+ 0	Broiler Feed Cost (\$ per ton)	195	191	205	- 5
ALABAMA										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	33.8	33.6	32.8	+ 3	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.	NOV	23.0	22.5	21.7	+ 6	(Dates: DEC, DEC)	2,186	-	2,211	- 1
Plane Pass. Arr. 000's	DEC	98.0	97.9	105.2	- 7	Broiler Placements (thous.)	10,341	10,530	9,874	+ 5
Petroleum Prod. (thous.)	FEB	54.0	53.0	56.4	- 4	Calf Prices (\$ per cwt.)	61.80	58.40	54.80	+12
Consumer Price Index						Broiler Prices (\$ per lb.)	27.0	24.5	24.5	+10
1967=100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	5.69	5.60	6.25	- 9
Kilowatt Hours - mils.	OCT	3.6	3.7	3.9	- 8	Broiler Feed Cost (\$ per ton)	210	205	225	- 7
FLORIDA										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	114.3	111.3	105.5	+ 8	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.	FEB	67.7	67.4	67.2	+ 1	(Dates: DEC, DEC)	4,194	-	4,039	+ 4
Plane Pass. Arr. 000's	DEC	2,253.8	1,636.5	2,109.3	+ 7	Broiler Placements (thous.)	1,965	1,999	2,006	- 2
Petroleum Prod. (thous.)	FEB	65.0	65.0	84.0	-23	Calf Prices (\$ per cwt.)	65.80	60.80	58.10	+13
Consumer Price Index - Miami		JAN	NOV	JAN		Broiler Prices (\$ per lb.)	27.0	25.0	27.0	- 8
Nov. 1977 = 100		157.9	156.8	155.2	+ 2	Soybean Prices (\$ per bu.)	5.69	5.60	6.25	- 9
Kilowatt Hours - mils.	OCT	8.1	9.3	7.8	+ 3	Broiler Feed Cost (\$ per ton)	215	215	225	- 4
GEORGIA										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	53.3	52.5	50.6	+ 5	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.	3Q	39.4	37.2	38.1	+ 3	(Dates: DEC, DEC)	3,322	-	3,278	+ 1
Plane Pass. Arr. 000's	DEC	1,568.9	1,435.8	1,603.8	- 2	Broiler Placements (thous.)	12,727	12,718	12,183	+ 4
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	59.40	55.30	54.00	+10
Consumer Price Index - Atlanta		FEB	DEC	FEB		Broiler Prices (\$ per lb.)	26.5	24.0	25.0	+ 6
1967 = 100		295.1	296.1	279.8	+ 5	Soybean Prices (\$ per bu.)	5.64	5.56	5.92	- 5
Kilowatt Hours - mils.	OCT	4.2	4.8	4.1	+ 2	Broiler Feed Cost (\$ per ton)	185	185	189	- 2
LOUISIANA										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	44.4	43.7	41.8	+ 6	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: DEC, DEC)	1,758	-	1,714	+ 3
Plane Pass. Arr. 000's	DEC	247.7	250.6	255.2	- 3	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	FEB	1,190.0	1,176.0	1,163.0	+ 2	Calf Prices (\$ per cwt.)	63.00	59.60	58.60	+ 8
Consumer Price Index						Broiler Prices (\$ per lb.)	28.0	26.0	27.0	+ 4
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	5.81	5.88	6.42	-10
Kilowatt Hours - mils.	OCT	5.0	5.6	4.8	+ 4	Broiler Feed Cost (\$ per ton)	255	255	245	+ 4
MISSISSIPPI										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	19.9	19.7	19.0	+ 5	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		(Dates: DEC, DEC)	2,311	-	2,246	+ 3
Plane Pass. Arr. 000's	DEC	29.0	28.8	30.8	- 6	Broiler Placements (thous.)	6,371	6,372	6,036	+ 3
Petroleum Prod. (thous.)	FEB	88.0	90.0	94.0	- 6	Calf Prices (\$ per cwt.)	69.50	61.90	55.10	+26
Consumer Price Index						Broiler Prices (\$ per lb.)	27.0	26.5	27.5	- 2
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	5.79	5.58	6.29	- 8
Kilowatt Hours - mils.	OCT	1.1	2.2	1.9	- 6	Broiler Feed Cost (\$ per ton)	170	163	189	-10
TENNESSEE										
Personal Income						Agriculture				
(\$bil. - SAAR)	3Q	41.7	41.0	39.6	+ 5	Farm Cash Receipts - \$ mil.				
Taxable Sales - \$ bil.	DEC	28.7	27.4	26.9	+ 7	(Dates: DEC, DEC)	1,953	-	1,836	+ 6
Plane Pass. Arr. 000's	DEC	128.8	153.6	140.1	- 8	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	FEB	N.A.	N.A.	N.A.		Calf Prices (\$ per cwt.)	63.30	58.00	54.40	+13
Consumer Price Index						Broiler Prices (\$ per lb.)	26.5	22.5	25.0	+ 6
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices (\$ per bu.)	5.80	5.65	6.18	- 6
Kilowatt Hours - mils.	OCT	4.9	4.4	5.1	- 4	Broiler Feed Cost (\$ per ton)	184	181	191	- 4

Notes:

Personal Income data supplied by U. S. Department of Commerce. Taxable Sales are reported as a 12-month cumulative total. Plane Passenger Arrivals are collected from 26 airports. Petroleum Production data supplied by U. S. Bureau of Mines. Consumer Price Index data supplied by Bureau of Labor Statistics. Agriculture data supplied by U. S. Department of Agriculture. Farm Cash Receipts data are reported as cumulative for the calendar year through the month shown. Broiler placements are an average weekly rate. The Southeast data represent the total of the six states. N.A. = not available. The annual percent change calculation is based on most recent data over prior year. R = revised.

FRASER Review

INTERSTATE BANKING

CONVENTION ON BANKING

EXPANSION AND BANKING

OPERATES CAPITAL

TECHNOLOGY

EXPERIENCE

REGIONAL FORCES

2006

2007

2008

Federal Reserve Bank of Atlanta
P.O. Box 1731
Atlanta, Georgia 30301

Address Correction Requested

Bulk Rate
U.S. Postage
PAID
Atlanta, Ga.
Permit 292