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The Rise in Unemployment Since the 1950's

By James E. Pearce

The coexistence in the 1970's of high rates of inflation and unemployment has presented difficult policy questions and raised an important issue regarding what amount of unemployment is acceptable. The U.S. economy has changed dramatically during the past 25 years, and this has affected the unemployment rate that is consistent with economic stability.

As the upper section of the accompanying chart illustrates, the unemployment rate has drifted upward since the 1950's. This rise is not due to any long-term weakening in aggregate demand for goods and services. The lower section of the chart, which shows the amount by which the gross national product (in constant dollars) has deviated from its trend level, provides a rough indication of the amount of aggregate economic activity in each year. The unemployment rate in the 1970's has been higher in all phases of the business cycle than it was in the previous two decades. The years 1950 and 1977 were similar in terms of aggregate activity (real GNP fell short of trend by about 1.5 percent in both years), but the unemployment rate was considerably higher in 1977. Comparing other years of similar activity, such as 1965 and 1972, leads to the same conclusion.

This article reviews the findings of some recent studies of unemployment. Some statistics on the unemployed are presented, and the influence of

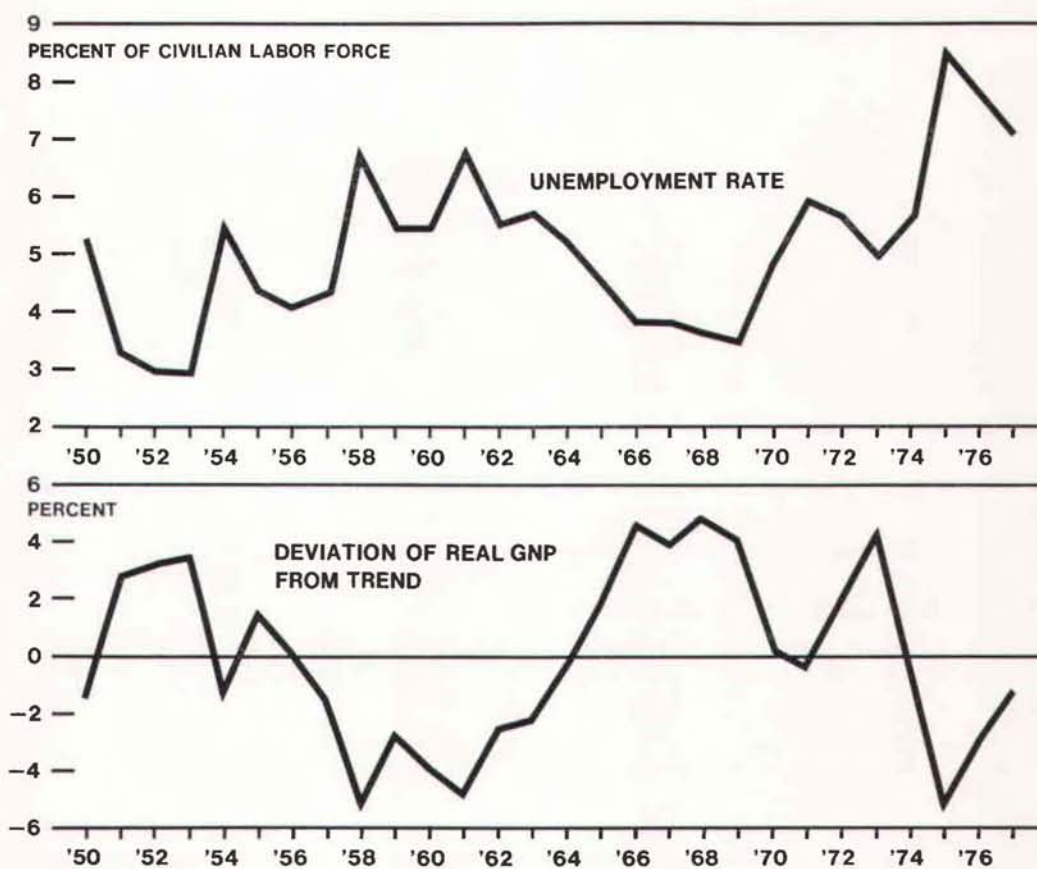
some frequently mentioned determinants of the unemployment rate is discussed. A summary of the evidence on the sources and magnitude of the increase in the unemployment rate follows that discussion. The article concludes with a brief section on the evaluation of the social cost of the increase and the prospects for change in the immediate future.

Full employment as a policy objective

The unemployment rate is the percentage of the labor force that is unemployed. In government statistics an individual is classified as unemployed if he has no job but is trying to obtain one, or if he has a job but is on layoff and awaiting recall. Those who are not employed and are not actively trying to obtain employment are classified as out of the labor force.

Changing jobs does not necessarily involve unemployment, but it often does. Acquiring a first job may also require that some time be spent looking, once the individual has decided to join the labor force. In addition, some firms meet seasonal fluctuations in demand by laying off and later rehiring some employees. Because there are always some members of the labor force that are not working, economists associate "full employment" with a positive unemployment rate. The question then becomes, What are the characteristics of an econ-

**Unemployment has risen, even after adjustment
for the cyclical position of the economy**



SOURCES: U.S. Bureau of Labor Statistics.
 U.S. Department of Commerce.
 Federal Reserve Bank of Dallas.

omy at full employment, and what unemployment rate is consistent with full employment in the United States?

There is some disagreement concerning the precise definition of full employment. However, most economists agree that full employment would be observed in an economic system in which production remained near its long-run trend with no dramatic fluctuations in economic activity. The unemployment rate under these conditions is often referred to as the "natural" rate of unemployment. If fiscal or monetary policies were used to push the actual unemployment rate below the natural rate, subsequent acceleration of inflation would result. On the other hand, unemployment above the natural rate would be accompanied by below-trend production and a recession.

The unemployment rate reflects the extent to which the labor force is in transition.

It is a common misconception that the unemployment rate measures the percentage of the working population that cannot find jobs. A more accurate appraisal would be that this important indicator reflects the extent to which the labor force is in transition. The statistics on the unemployed lend no support to the notion that a substantial number of people are perpetually seeking work but are unable to obtain suitable jobs.¹ People on temporary layoff normally account for about 10 percent of total unemployment. These workers are usually recalled by their employers within a few weeks. The duration of unemployment for the average jobseeker is somewhat greater, but it is not long enough to be considered permanent. When the economy is at full employment, over half the unemployed have been without work for fewer than five weeks, and only 1 unemployed person in 12 has been looking for a job for more than six

months. The high unemployment rates characteristic of many disadvantaged groups are due to the frequency with which people in these groups change jobs and leave and reenter the labor force. Those who have extreme difficulty finding jobs tend to remain out of the labor force and are not captured in the unemployment statistics.

This view of the system does not deny that some people experience unusual financial hardship when unemployment is at the natural rate, nor does it suggest that the prevailing natural rate is necessarily optimal or efficient. The appropriate conclusion to be drawn from this line of reasoning is that forcing unemployment below the natural rate by stimulating aggregate demand will be self-defeating in the long run. The reduction in unemployment will be temporary, but the higher inflation will be permanent unless reversed subsequently by restrictive policies. If, when the system was at full employment, policymakers were to regard unemployment as excessive, microeconomic policies could be implemented that would make unemployment less attractive. This would reduce the time spent on job search. If economic stability at full employment is to be a policy objective, policymakers should be aware of developments that bring changes in the natural rate so that they can evaluate the current situation accurately.

Determinants of natural rate of unemployment

Two major determinants of the natural rate of unemployment are the composition of the labor force and legislation affecting the behavior of people engaged in job search. Composition is important because there are persistent differences in unemployment rates across age-race-sex groups. As the representation of groups with high unemployment rates rises in the labor force, the aggregate unemployment rate rises also. Relevant legislation includes the Fair Labor Standards Act, the provision of unemployment insurance, and programs that provide subsidies to low-income families.

Two groups that have high unemployment rates are young people and married women. Large proportions of these groups are quite mobile and frequently in transition between jobs and between non-labor-market activities and labor force participation. Many members have financial support from their families and strong commitments to activities other than employment, such as attending school or working in the home. Their attachment to any

1. See Robert E. Hall, "Why Is the Unemployment Rate So High at Full Employment?" *Brookings Papers on Economic Activity*, 1970, no. 3, pp. 369-402, and Stephen T. Marston, "Employment Instability and High Unemployment Rates," *Brookings Papers on Economic Activity*, 1976, no. 1, pp. 169-203.

one job and to the labor force is often weaker and their job search less intense than in the case of full-time career workers.² A disproportionate number hold part-time jobs, which typically pay lower wages and exhibit higher turnover. (The unemployment rate for part-time workers is normally 3 to 4 percent higher than the rate for full-time workers.) This employment pattern is particularly common among teenagers.

Married men have more stable employment patterns than other labor force participants. They account for approximately 40 percent of the labor force but only 20 percent of the unemployed. The unemployment rate for teenagers is about six times the rate for married men. The unemployment rate for the 20-24 age group, which is somewhat more settled, is only three times the rate for married men. Many married women do have full-time careers, and their unemployment rate is slightly less than twice that of their male counterparts.

Legislative programs that provide financial assistance to low-income families affect the unemployment rate by influencing labor force participation. The welfare and social security programs reduce the acceptability of low-wage jobs. Eligibility for benefits from these programs requires an income below some maximum, so many people will refuse to work in jobs that do not provide a substantially higher income than can be obtained through the programs.

Although both these subsidies to low-income groups reduce employment, the welfare programs tend to raise the unemployment rate while the social security system lowers it. Since recipients of social security benefits are not required to attempt to obtain employment, members of the population that are eligible to receive payments and whose earning capacities are low will tend not to participate in the labor force. These people have a tendency toward high unemployment, so the overall unemployment rate will fall as their labor force participation rate declines. The system of welfare programs generally does require job search, so it increases the unemployment rate by attracting more people who tend to have high unemployment rates into the labor force.

2. Stuart H. Garfinkle, in "The Outcome of a Spell of Unemployment," *Monthly Labor Review*, January 1977, pp. 54-57, found that more than 50 percent of the spells of unemployment of teenagers and women were terminated by leaving the labor force. The comparable figure for adult men was under 30 percent.

The unemployment insurance (UI) system used in the United States contributes to higher unemployment in two ways. First, it tends to increase the duration of spells of unemployment experienced by job losers. By reducing the financial hardship of unemployment, UI allows these job-seekers to be more selective in their search for new employment. In addition, it encourages people who would otherwise quickly terminate their unemployment by leaving the labor force to extend their job search over a longer period in order to collect the additional benefits.

The current UI program also increases unemployment through its subsidy to establishments that do not provide work for their employees on a continuous basis. Examples include firms in industries where demand varies seasonally, such as construction, and businesses that hire people to work in a series of temporary jobs, such as producers of television programs and motion pictures. The subsidy arises because the UI tax rates do not fully reflect an employer's history for layoffs. A firm whose employees are more likely to be laid off is subject to a higher UI tax rate than a firm whose workers rarely become unemployed, but the higher tax rate does not completely offset the larger amount of benefits collected. As a result of this subsidy, there are more people employed in seasonal industries and in careers involving intermittent employment than there would be otherwise. The overall effect of the unemployment insurance programs in this country is that the natural rate is about 1 percentage point above what it would be in the absence of any UI system.³

The Fair Labor Standards Act also raises the unemployment rate. This law dictates the dollar value of the minimum wage and also stipulates the types of establishments required to pay their employees wages that are at least equal to this amount. The minimum causes a decrease in both the number of jobs and the supply of labor. When wages are raised above their market levels, employment in firms covered by the legislation is reduced. This leads to an expansion of employment in noncovered firms, but some displaced workers remain without jobs. The decline in the number of op-

3. See Stephen T. Marston, "The Impact of Unemployment Insurance on Job Search," *Brookings Papers on Economic Activity*, 1975, no. 1, pp. 13-48, and Martin Feldstein, "The Effect of Unemployment Insurance on Temporary Layoff Unemployment," *American Economic Review* 68 (December 1978): 834-46.

portunities discourages potential jobholders and causes a reduction in the labor force. However, this does not fully offset the decline in employment, so the unemployment rate rises as a result of increases in the minimum wage rate and extensions in the law's coverage. The potential magnitude of these effects is large, because those occupying the jobs affected by minimum wage legislation are predominantly married women and young people working part-time. Recent research indicates that an effective minimum wage contributes significantly to the high unemployment rates of males under 25 and females 20 or older.⁴

The largest effects on the natural rate of unemployment over the past two decades have come from changes in the composition of the labor force and the minimum wage law. There have been few major changes in either the benefit levels or the coverage of the UI system, and their effect has been small.⁵ During the recession that began in 1974, the number of weeks over which those eligible might collect benefits was extended from 26 to 65. This change probably added about 0.25 percentage point to the unemployment rate.⁶ The system of welfare programs has had increases in both coverage and benefits, as well as changes imposing more restrictive requirements on efforts to obtain employment. The Federal job training and employment programs have been expanded, and this has caused some reduction in unemployment. However, the net impact of these changes is difficult to estimate and is usually presumed small.⁷ On the other hand, the composition and minimum wage effects are substantial. Age-sex groups with high unemployment rates now account for a larger proportion of the labor force, and the minimum wage law has been amended to encompass a larger proportion of the employment of these groups.

Since 1950 the proportion of teenagers in the labor force has risen from 6.5 percent to 10 percent,

and the proportion of married women has jumped from 13 percent to 23 percent. Since 1960 the share of the labor force between 20 and 24 years old has risen from 10 percent to 14 percent. The growth in participation of these groups contributed heavily to the concurrent growth in the part-time labor force. Voluntary part-time employment increased from 8 percent of total employment in 1954 to 14 percent in 1976. Persons under 25 accounted for about 45 percent of this increase, and women 25 or older accounted for most of the remainder. The growth in part-time employment was confined almost exclusively to the service-producing sector.

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If nothing else had changed, the increase in the proportion of high-unemployment groups in the labor force would have been sufficient to cause an increase of 0.5 to 0.6 percentage point in the overall natural unemployment rate.⁸ However, the effect has been intensified by a rise in the unemployment rates of these groups relative to the unemployment rate for adult males.

The accompanying table shows the rise from 1960 to 1970 in the ratios of unemployment rates for two groups of young males to the unemployment rate for a subgroup of older males. These ratios increased about 40 percent over the period. The table actually understates the change from 1960 to 1965 because the ratios are lower in high-unemployment periods. (In 1975, when the rate for the older group was 4.9 percent, these two ratios were 3.9 and 2.9.) Most of this increase in youth

4. Jacob Mincer, "Unemployment Effects of Minimum Wages," *Journal of Political Economy* 84 (August 1976): S87-S104.

5. See Phillip Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," in *Contemporary Economic Problems 1977*, ed. William Fellner (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1977), pp. 32-34.

6. See Marston, "The Impact of Unemployment Insurance on Job Search," p. 33.

7. See Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," pp. 36-37.

8. See Robert J. Gordon, "Structural Unemployment and the Productivity of Women," in *Stabilization of the Domestic and International Economy*, ed. Karl Brunner and Allan H. Meltzer, Carnegie-Rochester Conference Series on Public Policy, vol. 5 (Amsterdam, New York, and Oxford: North-Holland Publishing Company, 1977), p. 188, and Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," pp. 29-30.

YOUTH UNEMPLOYMENT RATES AND MINIMUM WAGE COVERAGE

Item	1960	1965	1970
Unemployment rate for males 35 to 44 years old (Percent of civilian labor force)	3.8	2.6	2.4
Ratio of unemployment rate for males 18 to 19 to unemployment rate for males 35 to 44	3.9	4.8	5.6
Ratio of unemployment rate for males 20 to 24 to unemployment rate for males 35 to 44	2.3	2.4	3.5
Percent of nonsupervisory employees covered by Fair Labor Standards Act:			
In retail trade	3.0	33.0	58.1
In services	19.0	23.7	70.6
Minimum wages as percent of average hourly earnings weighted by industry composition of teenage employment and proportion of total employment covered	17.8	27.1	¹ 40.1

1. 1968 figure.
SOURCE: U.S. Department of Labor.

unemployment has been attributed to changes in the Fair Labor Standards Act.⁹ Major amendments broadened the scope of this legislation so that it now covers more employees in the retail trade and service industry groups. These developments are reflected in the fourth and fifth rows of figures in the table. The bottom row gives the minimum wage expressed as a percentage of average wages after correction for coverage and the industrial composition of teenage employment. This is a composite figure designed to reflect the changes in coverage and the general wage level as well as in the minimum itself.

Amendments since 1970 have increased coverage to about 70 percent in both industry groups. The changes that have taken place since 1960 have had a large impact on unemployment because they have established an effective minimum in low-wage sectors of the economy during the period of their most rapid growth. Amendments to the Fair Labor Standards Act have added 0.5 to 0.6 percentage point to the natural unemployment rate since 1954.¹⁰

9. See Gordon, "Structural Unemployment and the Productivity of Women," p. 208, and Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," pp. 35-36.

10. Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," pp. 35-36.

Estimating the natural rate

Estimation of the natural rate of unemployment would be straightforward if the rate did not change over time. One could simply examine the series of unemployment rates along with other indicators of the state of the economy, such as changes in inflation and output. Unemployment rates associated with rising inflation and high GNP relative to trend could be regarded as lying below the natural rate, and those associated with declining inflation and relatively low GNP could be regarded as lying above the natural rate. This examination can be done visually or with statistical techniques.

The changes that have taken place in the past 20 years make this approach inappropriate. What is usually done instead is an analysis of a substitute unemployment rate, one that presumably has not been significantly affected by these developments. One class of such substitutes is the unemployment rate for a subgroup of the population whose natural rate can be assumed to have remained stable over the period. Commonly used subgroups include white married males and prime-age males (those 25 to 54 years old). Other investigators have used an unemployment rate that is a weighted average of rates for population subgroups. This is an attempt to correct for changes in labor force composition. Once the substitute statistic is selected, its natural rate is determined as described above. Then the relationship between the substitute unemployment rate and the overall unemployment rate at each point in time is used to calculate a

series of natural unemployment rates for the entire labor force over the period.

The methods actually used to estimate the natural rate vary considerably in their degree of sophistication. Despite these differences, most analysts have reached similar conclusions. Investigators have found that the natural rate was approximately 4.0 percent to 4.5 percent in the early to middle 1950's and is now in the 5.5-percent to 6.0-percent range.¹¹ Those using more exact methods and an unemployment rate for a very narrowly defined subgroup (such as white males 35 to 54 years old) tend to find that the increase over the period has put the current natural rate in the upper end of the latter range.

Welfare implications and the outlook

It appears, therefore, that the unemployment rate at full employment has increased about 1.5 percentage points in the past 25 years. Thus, it may have become necessary to tolerate somewhat higher unemployment rates than were common one or two decades ago. Some of this increase has been benign. Higher unemployment arising from changes in population distribution and in the attitude of women regarding employment that have led to greater participation by high-unemployment groups is not an indication of a decline in well-being, nor is it a sign that the labor market is functioning less efficiently. However, this composition change accounted for less than half the increase in the natural rate.

11. For examples, see Gordon, "Structural Unemployment and the Productivity of Women," pp. 181-226; Franco Modigliani and Lucas Papademos, "Targets for Monetary Policy in the Coming Year," *Brookings Papers on Economic Activity*, 1975, no. 1, pp. 141-63; Michael L. Wachter, "The Changing Cyclical Responsiveness of Wage Inflation," *Brookings Papers on Economic Activity*, 1976, no. 1, pp. 115-59; and Cagan, "The Reduction of Inflation and the Magnitude of Unemployment," pp. 15-52.

Most of the remainder was due to the rise in the relative unemployment rates of high-unemployment groups, which was largely a consequence of changes in the minimum wage law. This source of high unemployment does reflect a welfare loss. Fewer young people participate in the labor market, and those that do must look harder to find jobs. Some of the increase in unemployment, then, does indicate a social cost, but recovery of this efficiency loss should not be attempted by expanding aggregate demand.

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Should the rise in the natural rate evident over the past two decades be expected to continue? Most experts believe not. The expansion of the under-25 segment of the labor force was due primarily to the unusually large number of births following the end of World War II. The rise in the unemployment rate attributable to this source has leveled off, and a reversal is likely. Labor force participation rates of married women continue to climb, but the effect this will have on unemployment is difficult to predict. If more women develop strong attachments to their jobs, then their increasing representation in the labor force will have little impact on the unemployment rate. Steep increases in the minimum wage have been enacted, but coverage will decline slightly and the current high rate of inflation will erode much of their effect. Thus, the prospect for the near future is for no increase, and perhaps a modest decline, in the natural unemployment rate.

“Fed Quotes”

Brief Excerpts from Recent Federal Reserve Speeches, Statements, Publications, Etc.

“The Federal Reserve has been moving its policies in a progressively less accommodative direction this year in an effort to prevent excessively rapid growth in money and credit. In an environment of inflation and heightened inflationary expectations, borrowers have become willing to pay higher rates of interest in order to obtain credit to finance acquisition of assets whose values they anticipate will be rising more rapidly. This phenomenon is most clearly seen in the real estate market, but the behavior is common in other sectors as well. To hold down nominal rates of interest in such a circumstance is to invite a credit-financed surge in aggregate demand that would add further to inflationary pressures. Consequently, the Federal Reserve has pursued policies that have permitted market rates to rise appreciably this year.”

“Usury ceilings, which are unrealistic in relation to present market interest rates in many states, are cutting into credit availability in some local markets, and it would be desirable if these obstacles to the efficient operation of our financial system were eliminated.”

“While monetary aggregates are useful indicators of financial conditions, the continuing change in the institutional environment and in public preferences for different deposits indicates that any single monetary measure, or even a set of several measures, can by no means be the sole focus of policy. Thus, a broad range of financial indicators—including nominal and real interest rates, credit flows, and liquidity conditions—necessarily must be considered in assessing the stance of monetary policy.

“Looking beyond these relatively technical questions about how best to characterize monetary policy, it is clear that in the present environment we cannot rely solely on monetary management to contain inflationary pressures. It is essential to obtain public cooperation in the Administration’s anti-inflationary program and to exercise restraint in fiscal policy, if the nation is to achieve a gradual, orderly reduction in the rate of inflation. You can be assured that monetary policy will do its part in achieving that objective.”

G. William Miller, Chairman, Board of
Governors of the Federal Reserve System
(Before the Committee on Banking, Housing
and Urban Affairs, U.S. Senate, November 16,
1978)

"The poor performance of our economy as regards productivity has complicated our problems with inflation."

"In the crudest terms, a labor union feels entitled to a 3 percent or so advance in real wages each year. A decade or two ago, productivity gains could justify that increase; today they do not. Collectively, the effort to increase real income faster than productivity will fail, but the effort adds to the upward pressure on costs and prices. Either expectations have to be reduced, or productivity increased, if the process is not to aggravate the inflationary spiral."

Paul A. Volcker, President, Federal Reserve
Bank of New York
(At Adelphi University, Garden City,
New York, October 24, 1978)

"Under the Bretton Woods code, only fundamental disequilibrium could justify and require an alteration in exchange rates. A cyclical disequilibrium, absent other sources of imbalance, was to be ridden out. The ensuing current account deficit was to be financed and dealt with by other adjustment measures, but not by exchange rate depreciation.

"In recent years, market forces have told us that the Bretton Woods prescription would probably not have been adhered to had it still been in effect today. They have told us this by moving exchange rates around rather sharply. The world has fared better under floating rates because in all probability it has been spared a series of exchange rate crises that could have provoked counterproductive controls on capital movements."

Henry C. Wallich, Member, Board of
Governors of the Federal Reserve System
(At Frankfurt, Germany, November 10, 1978)

New member bank

First City Bank-West, N.A., El Paso, Texas, a newly organized institution located in the territory served by the El Paso Branch of the Federal Reserve Bank of Dallas, opened for business January 2, 1979, as a member of the Federal Reserve System. The new member bank opened with capital of \$625,000 and surplus of \$625,000. The officers are: Lester L. Parker, Chairman of the Board and President; Jeffrey Gabbert, Assistant Vice President; and Florene O. Williamson, Cashier.

Income Growth in District Exceeds National Gain

By Mary G. Grandstaff

Personal income has risen rapidly in the United States during the 1970's. Current-dollar personal income in the nation rose at an average annual rate of 9.4 percent and more than doubled between 1969 and 1977. At the same time, each of the four states located wholly or partially in the Eleventh Federal Reserve District—Louisiana, New Mexico, Oklahoma, and Texas—had an even higher rate of increase in personal income.

The fastest rate of growth in personal income in the District states between 1969 and 1977 was experienced by New Mexico—with an average annual rate of 11.8 percent—followed closely by Texas, Oklahoma, and Louisiana—with rates of 11.6 percent, 10.9 percent, and 10.7 percent, respectively. The growth in real personal income (income adjusted for inflation) in the four states ranged from an annual average of 3.6 percent in Louisiana to 5.0 percent in New Mexico, compared with only 2.8 percent in the nation.

The personal income data indicate that the economies of District states have been substantially stronger than the economy of the nation as a whole. Gains in personal income result from both inflation and growth in economic activity. Between

1969 and 1977, consumer prices increased about 65 percent in the nation. And although price data are not available on an individual-state basis, it is probable that the overall growth of inflation in the District states in the same period rather closely paralleled that for the nation. In the two major metropolitan areas of Dallas and Houston—the only areas in the District states for which data are available—consumer prices rose 62 percent and 71 percent, respectively, between 1969 and 1977.

Thus, based on the national consumer price index, a 6.5-percent annual rate of growth in personal income was needed to keep pace with inflation. That amounted to almost 70 percent of the growth in income on a national basis, and real personal income grew at an average annual rate of 2.8 percent. Since total personal income rose more rapidly—at an average annual rate of 11.4 percent—in the District states, inflation accounted for only 57 percent of the growth in total personal income, and real personal income rose at an average annual rate of 4.6 percent.

The higher rates of increase in personal income in District states largely reflect faster growth in employment, as economic activity in the four

states outpaced that in the nation. Nonagricultural employment in the District states rose 36 percent—an increase that was more than twice as large as in the nation—between 1969 and 1977.

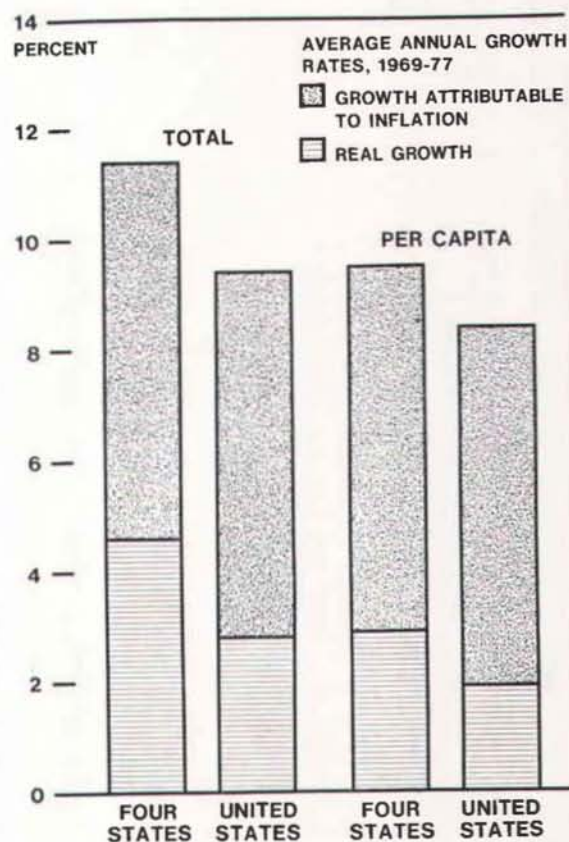
The increased demand for energy has been a key factor in the higher level of economic activity in the four states because oil and gas production comprises more important segments of their economies. But, in addition, economic growth in the four states has been broad based. For example, manufacturing employment in the four states between 1969 and 1977 increased almost 20 percent, compared with a gain of about 1 percent in the nation; construction employment rose almost 57 percent in the four states and about 9 percent in the nation; and employment in transportation, communications, and public utilities grew almost 18 percent in the District states but only 2 percent nationally. And the rates of growth in employment in most other industries also have been higher than in the nation.

As a result of the stronger growth in personal income, per capita personal income in each of the District states also rose more rapidly between 1969 and 1977 than in the nation despite faster growth in population. Per capita personal income increased at average annual rates of 9.6 percent in Louisiana and Texas and 9.5 percent in New Mexico and Oklahoma, compared with an average annual growth rate of 8.4 percent for the nation as a whole. Consequently, District states made significant gains toward attaining per capita income as high as the national average. Between 1969 and 1977, current-dollar per capita personal income rose from 89 percent of the national average to 97 percent in Texas, from 84 percent to 90 percent in Oklahoma, from 78 percent to 84 percent in Louisiana, and from 76 percent to 83 percent in New Mexico.

Personal income data for standard metropolitan statistical areas (SMSA's) indicate that most of the large urban areas in the four states had higher growth in per capita personal income than the U.S. average. Only four SMSA's in the District states—Bryan-College Station, Texas; El Paso, Texas; Lawton, Oklahoma; and Texarkana, Texas-Arkansas—did not improve their ratio to the national SMSA average between 1969 and 1976, and one of those—Bryan-College Station—maintained a constant ratio.

The fastest rates of growth in per capita personal income in SMSA's in the District states came in Amarillo, Texas, and Lafayette, Louisiana.

Personal income, both total and per capita, has risen much faster in Eleventh District states than in the nation



SOURCES: U.S. Bureau of Labor Statistics.
U.S. Department of Commerce.

**PER CAPITA PERSONAL INCOME IN ELEVENTH DISTRICT STATES,
BY STANDARD METROPOLITAN STATISTICAL AREAS**

Area title	1969	1976	As percent of U.S. SMSA average		Rank among 266 U.S. SMSA's	
			1969	1976	1969	1976
Abilene, Texas	\$2,938	\$5,930	74	87	231	161
Albuquerque, New Mexico	3,147	6,062	79	89	199	153
Alexandria, Louisiana	2,572	4,787	65	70	260	259
Amarillo, Texas	3,130	6,753	79	99	202	66
Austin, Texas	3,159	5,633	80	83	196	213
Baton Rouge, Louisiana	3,180	6,228	80	91	190	133
Beaumont-Port Arthur-Orange, Texas	3,285	6,557	83	96	170	87
Brownsville-Harlingen-San Benito, Texas ...	1,997	3,825	50	56	264	264
Bryan-College Station, Texas	2,819	4,871	71	71	241	258
Corpus Christi, Texas	2,861	5,668	72	83	238	204
Dallas-Fort Worth, Texas	4,036	7,096	102	104	35	36
El Paso, Texas	2,805	4,733	71	69	244	260
Fort Smith, Arkansas-Oklahoma	2,592	4,903	65	72	258	253
Galveston-Texas City, Texas	3,368	6,808	85	100	156	58
Houston, Texas	3,760	7,617	95	112	76	12
Killeen-Temple, Texas	3,121	5,683	79	83	206	201
Lafayette, Louisiana	2,788	6,040	70	89	248	155
Lake Charles, Louisiana	2,973	5,594	75	82	225	217
Laredo, Texas	1,896	3,575	48	52	265	265
Lawton, Oklahoma	2,966	5,065	75	74	227	245
Longview, Texas	3,231	6,069	82	89	180	152
Lubbock, Texas	2,964	5,680	75	83	228	203
McAllen-Pharr-Edinburg, Texas	1,664	3,338	42	49	266	266
Midland, Texas	4,133	7,701	104	113	29	9
Monroe, Louisiana	2,739	5,002	69	73	250	248
New Orleans, Louisiana	3,500	6,343	88	93	129	113
Odessa, Texas	3,342	6,474	84	95	161	94
Oklahoma City, Oklahoma	3,465	6,310	87	92	133	117
San Angelo, Texas	3,019	6,003	76	88	221	157
San Antonio, Texas	3,123	5,654	79	83	204	208
Sherman-Denison, Texas	3,103	5,688	78	83	209	199
Shreveport, Louisiana	3,072	5,661	78	83	217	206
Texarkana, Texas-Arkansas	3,131	5,256	79	77	201	236
Tulsa, Oklahoma	3,544	6,775	89	99	123	62
Tyler, Texas	3,284	6,328	83	93	171	114
Waco, Texas	3,122	5,920	79	87	205	166
Wichita Falls, Texas	3,557	6,652	90	97	121	74

SOURCE: U.S. Department of Commerce.

As a result, the position of those SMSA's relative to the U.S. average improved from 79 percent and 70 percent, respectively, in 1969 to 99 percent and 89 percent in 1976.

In 1969, per capita personal income in only two SMSA's in the District states was at least as high as the national average. Midland, Texas, was at 104 percent of the U.S. average, and Dallas-Fort Worth, Texas, was at 102 percent. And only two other SMSA's had as much as 90 percent of the U.S. average.

In 1976, there were 13 SMSA's in the four states with per capita personal income equal to 90 percent or more of the national average. And 4 of those 13 SMSA's—Midland, Houston, Dallas-Fort Worth, and Galveston-Texas City, Texas—had per capita personal income that exceeded or equaled the U.S. average. The Midland SMSA continued to have the highest per capita personal income in the four states in 1976, but several other SMSA's, especially Houston, have been gaining ground rapidly.

Steps Taken to Eliminate Unnecessary Regulations

The first actions have been taken by the Board of Governors in its 18-month program for reviewing and improving all Federal Reserve regulations. The Board canceled Regulation E, which governed the purchase by Federal Reserve banks of short-term municipal tax and assured-revenue warrants, and will publish for comment a proposal to eliminate Regulation V, a defense loan guarantee program from the Korean War era.

Regulation E, which was issued in 1915, has not been used since 1933. At that time, the Federal Reserve Act was amended to give the System alternative ways of purchasing such securities in the open market.

Regulation V facilitates and expedites the financing of contractors and others involved in national defense work. The program arose from the Defense Production Act of 1950, which expires September 30, 1979. Since the beginning of 1971, only six new loans have been guaranteed under the program.

Regulation C (Home Mortgage Disclosure) was also reviewed by the Board but remains unchanged. The Home Mortgage Disclosure Act, which Regulation C implements, expires in June 1980 unless it is extended. Before considering any changes in the regulation, the Board has decided to see whether Congress renews the act.

Each of the other Federal Reserve regulations is being reviewed by one or more of the Reserve banks to determine whether the regulation is still needed and its costs and benefits. In addition to cancellation of obsolete regulations, changes may involve redrafting, simplification, and elimination of unnecessary parts of the regulations. The Board may also make recommendations to Congress for statutory changes.

Agencies Adopt Uniform Approach on Foreign Loan Risks

A uniform approach for evaluating the "country risk" involved in international lending by U.S. banks has been adopted by the three Federal bank regulatory agencies. Under the new procedures, country risk factors will be segregated from other credit considerations and dealt with in a separate section in the examination report. "Senior bank management will be expected to monitor closely all situations listed or commented on by exam-

iners," the agencies said.

A nine-member committee of experienced examiners from the Federal Reserve, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation will administer the new examination system. This Interagency Country Exposure Review Committee will make judgments about political and economic conditions in individual countries. Based on these assessments, the committee will decide how much a bank can lend a particular country before examiners begin questioning the soundness of the loans. Where risk concentrations are discovered, examiners will evaluate the risk in light of the type of credit, type of borrower, and loan maturities involved.

The committee, which begins meeting in January, plans to formalize the individual agencies' procedures for evaluating risk rather than make the criteria more strict or more lenient.

Fed Publishes Preliminary Pricing Schedule

A preliminary schedule of prices for Federal Reserve check collection and automated clearinghouse services has been published for comment. The tentative schedule, prepared by the Board of Governors and the 12 Reserve banks, will not be implemented until effective steps have been taken to alleviate the burden of membership in the Federal Reserve System.

The prices for check collection are based on each Federal Reserve district's operating costs for the first half of 1978. In an attempt to be competitive with the private sector, a markup of 11 percent was applied to the total to reflect costs, such as capital costs and taxes, that a private firm would have to bear in providing the service. No price has been included for float at this time because there are several alternatives for float control besides pricing. The proposed prices for check collection range from as little as 0.2 cent a check to as much as 5.6 cents, depending on how and where the check is submitted. The majority of checks would cost between 1.2 cents and 2.2 cents.

Prices for automated clearing and settlement services have been calculated to be competitive

with check prices. In almost all Reserve districts, the proposed prices for these services are 1.4 cents for a local item and 2.0 cents for an interregional item.

Establishment of prices is intended to encourage more efficient use of payments facilities by banks and their customers. By charging for the services, the Federal Reserve hopes to stimulate the development of more efficient ways of making payments and foster the transition from a paper-based payments system to a less costly electronic system.

Price schedules for other services, such as the provision of coin and currency and wire transfers of funds, are also under consideration.

Copies of the proposed schedule of prices for check collection and automated clearinghouse services are available from the Bank and Public Information Department of this Bank, (214) 651-6267. Comments may be sent to Ernest T. Baughman, President, Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222, or the Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

Call Reports Simplified for Small Banks

Small banks will be able to use simplified reports of condition and income beginning with the reports for December 31, 1978. Banks with assets of less than \$100 million as of June 1978, and with domestic offices only, will be eligible to use the simplified reports.

The three Federal banking agencies adopted, with minor amendments, the proposed simplification of the reports that was published for comment in October. Comments received were overwhelmingly favorable to the proposal.

The new reports, which are optional, can be used by over 90 percent of the nation's commercial banks and will require 40 percent fewer items of information than the standard forms. Because some banks will not be prepared to use the new version in December, eligible banks will be permitted to exercise separate options for the initial (December 1978) report and for the 1979 reports.

For further information, contact the Bank Supervision and Regulations Department of this Bank, (214) 651-6274.

Bankers School to Deal with Agricultural Loans

The 27th Texas Farm and Ranch Credit School for Commercial Bankers will be held February 12 and 13 at Texas A&M University. The school is sponsored by the Texas Agricultural Extension Service, the Texas Agricultural Experiment Station, and the Texas Bankers Association.

Workshops on agricultural credit analysis and commodity hedging are planned to follow the school and will continue through the morning of February 16. For registration information, contact Richard Trimble, Department of Agricultural Economics, Texas A&M University, College Station, Texas 77843, (713) 845-8011.

New nonmember banks

Richmond Commerce Bank, Houston, Texas, a newly organized insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business January 5, 1979.

Mercantile Bank of Fort Worth, Fort Worth, Texas, a newly organized insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business January 15, 1979.



Regulatory Briefs

Review of Recent Actions of the Board of Governors of the Federal Reserve System

• **PENALTIES HAVE BEEN EASED FOR EARLY WITHDRAWAL** from certain types of time deposit accounts at member banks. The change, an amendment to Regulation Q, primarily applies to individual retirement accounts and Keogh Plan retirement accounts. Questions may be referred to the Consumer Affairs Division of the Federal Reserve Bank of Dallas, (214) 651-6169.

• **THREE AMENDMENTS BROADENING THE SCOPE OF REGULATION B**—Equal Credit Opportunity—have been proposed by the Board of Governors. The first would require arrangers of credit, such as real estate brokers and auto dealers, to comply with the regulation. The second amendment would bring direct business loans of less than \$100,000 under the regulation's recordkeeping and notification requirements. The third would eliminate the exemption of business credit from the general prohibition in the regulation against asking the applicant's marital status. For further information, contact the Consumer Affairs Division of this Bank, (214) 651-6171.

• **A NEW MONETARY INDICATOR, M-1+**, has been announced by the Board. The new aggregate, although not yet used in policy decisions, was created in an attempt to include the growth of unconventional checking accounts, such as the new bank automatic transfer accounts, in a definition of readily spendable funds. M-1+ adds to M-1—which consists of currency and private demand deposits—commercial bank passbook and savings accounts, demand deposits at mutual savings banks, credit union share drafts, and NOW (negotiable orders of withdrawal) accounts at commercial banks, savings banks, and savings and loan associations.

• **A UNIFORM RATING SYSTEM FOR DATA PROCESSING CENTERS** operated by or serving the nation's banks and thrift institutions has been adopted by the four Federal financial regulators. Under the system the audit, management, systems development and programming, and computer operations functions will be evaluated and rated

on a scale of 1 through 5, with 1 being the highest. The individual ratings will then be combined to give a composite rating.

• **UNIFORM SECURITIES TRANSACTIONS RULES** have been proposed by the three Federal bank regulators. The proposals would establish uniform standards for recordkeeping, confirmation, and other procedures for banks making securities transactions for their customers. The proposals, first issued last February, were revised in light of comments received and have been made less burdensome. The standards, as revised, would require banks to maintain for three years itemized daily records of securities purchases and sales and to establish written securities transactions policies. For additional information, contact the Bank Supervision and Regulations Department, (214) 651-6274.

• **SEVERAL TECHNICAL CHANGES IN BANK HOLDING COMPANY REGISTRATION AND APPLICATIONS** have been made by the Board. Time deadlines for comments and requests for hearings were firmly established, and from now on, such comments and requests will be considered only if they are submitted on time. In addition, the Board eliminated the requirement for new bank holding companies to file a Registration Statement within 180 days following approval of their applications. Instead, the new companies will be asked to answer six questions about their financial organizational structure that are asked in a letter sent to all newly formed holding companies.

• **A MORATORIUM ON BANK HOLDING COMPANY APPLICATIONS FOR INSURANCE ACTIVITIES** was rejected by the Board of Governors. The moratorium was requested by Congress because legislation limiting such activities will be reintroduced in the next session of Congress. In rejecting the request, the Board indicated that the imposition of a moratorium would create inequities between bank holding companies that had already expanded insurance activities and those that may wish to do so in the future.