

# Voice

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# Since You Asked

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*A fringe benefit of working at a Federal Reserve Bank is the frequent invitation to speak before various groups. And speeches inevitably generate questions. This is a brief response to the question asked most frequently following speeches during the past month.*

**“I have heard a lot recently about too much money causing inflation—just how fast should the money stock be permitted to grow?”**

There is no widespread agreement on the answer to that question. As a broad generalization, a fairly steady growth at a rate substantially below the rate of growth of production probably would be about right, possibly about 1 to 2 percent a year.

In theory, different rates of growth of money would be appropriate at different times. For example, rates of growth of money could be varied over the business cycle. That is, if economic activity were to slow down, the rate of growth of money could be stepped up in the belief it would temper the slowdown. On the other hand, when the economy begins to reach capacity, the rate of growth of money could be slowed to moderate the continued growth of demand and the upward pressure on prices. In practice, however, such “countercyclical” policy is unlikely to be achieved, given the uncertainty of forecasts of economic activity.

In addition, the appropriate rate of growth of money, even for similar periods of business cycles, changes over time. There are ever present changes in payments system technology and attitudes that affect the amount of money people feel they need to hold. Experience indicates the ratio of money to gross national product changes considerably even within fairly short periods.

Even though it is not possible to state definitively at any point in time what would be the very

best rate of growth of money, it appears clear, with the benefit of hindsight, that we have permitted too much money and credit to be created during the past 30 years since World War II. Consumer prices have increased in every year, with two exceptions, during that period. Overall, the rise in consumer prices during the period has been a little more than 300 percent. The stock of money—currency outside banks and private demand deposits in banks (the so-called M-1)—increased somewhat more than 300 percent. The rate of production of all goods and services increased nearly 300 percent. It is clear, therefore, that monetary growth roughly comparable with the growth of production can finance substantial increases in the general level of prices.

The numbers cited above could be read to indicate that no growth of money at all would have been roughly consistent with economic growth and price stability during the past 30 years. But that presumes the economy would have grown as much and prices would not have risen if the money stock had not been permitted to rise. That may be too big a bite to swallow.

—Ernest T. Baughman  
President, Federal Reserve Bank of Dallas



# The Use of Employment and Training Programs to Reduce Unemployment

By James E. Pearce

Since the end of the Second World War, the U.S. Government has attempted to adjust its tax revenues, expenditures, and money stock in a manner that would produce stable growth in the aggregate demand for goods and services and thereby avoid both inflation and high unemployment. This strategy has met with a remarkable lack of success in the past ten years. The rise in the rates of both inflation and unemployment in the 1970's has caused many to conclude that management of aggregate demand alone is not sufficient to achieve full employment and price stability simultaneously. They therefore have recommended measures directed toward specific sectors of the economy as supplements to the standard monetary and fiscal policy tools. This sentiment has led to the adoption of employment (or "job creation") and training programs to improve the performance of those sectors of the labor market exhibiting high unemployment rates.

As the bottom row of the accompanying table indicates, Federal expenditures on employment and training programs have increased rapidly over the past 15 years. The Government spent about \$100 million on such measures in 1964, approximately \$1.7 billion in 1971, and over \$13 billion in 1979. This article presents a brief history and analysis of the U.S. experience with employment and training programs over this period. The distinguishing characteristics of each type of program are identified, and the theories underlying their design are

explained. The programs have not been particularly successful in reducing unemployment, so considerable attention is devoted to the causes for this lack of success. The article concludes with an evaluation of the prospects for future success with this approach.

## **Structural versus countercyclical policies**

The argument for policies directed specifically toward the labor market arises from the observation that unemployment rates vary considerably across areas and skill classes. People with little education or experience routinely have above-average unemployment rates, and areas with heavy concentrations of industries that are very sensitive to fluctuations in aggregate demand contribute a disproportionate share of the increases in unemployment in recessions. Many analysts regard high unemployment as a manifestation of an excess supply of labor and have inferred from the variation in unemployment rates that markets for some classes of labor are in equilibrium while others are not. They therefore advocate the use of policies that can be aimed directly toward markets exhibiting imbalances without interfering with those that appear to be functioning satisfactorily.

High unemployment rates are claimed to have two sources. One is that the structure, or composition, of the demand for labor may not coincide with that of the supply of labor. This occurs when demand exceeds supply in one occupation or area



while an excess supply exists in another. The high unemployment rate for the unskilled, even during periods of robust economic activity, is thus referred to as having *structural* origins, for it accompanies shortages of some types of skilled labor. Remedies include training programs to transfer workers from a market in which supply is excessive to markets in which supply is deficient; they also include expansion of demand, through job creation programs, for the type of labor in excess supply. If structural programs are to be effective, participation in them must be restricted to the kinds of people exhibiting high unemployment rates; in the present environment these are the unskilled.

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**The emphasis in the 1970's has been on stimulating employment rather than providing training.**

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During recessions, on the other hand, unemployment rates for all groups rise as aggregate demand temporarily falls below its equilibrium level. Because these shifts cause a series of rises and declines in unemployment, the resulting year-to-year variation in the unemployment rate is called *cyclical*. Within the set of direct labor market policies, the major countercyclical measure is the temporary program to create additional jobs. Tim-

ing is important, because the program must be implemented quickly after the onset of a recession and retired promptly once the subsequent recovery is under way. Strict enforcement of eligibility restrictions increases the difficulty in meeting the timetable. For this reason and because they are intended to reach those whose immediate distress is sharp but whose situation is not so bleak over the longer term, countercyclical employment programs need not be as exclusive as structural programs. Funds are often distributed geographically on the basis of local unemployment rates to provide the greatest stimulus to the labor markets hit hardest by recession.

The table shows Federal expenditures on employment and training by type of program for selected years since 1964. Over this period the Government has experimented with a number of structural and countercyclical measures operating through the public and private sectors. In the first ten years the diverse programs were administered by different agencies. In 1973, Congress passed the Comprehensive Employment and Training Act (CETA), which placed almost all the programs under the supervision of the U.S. Department of Labor. The emphasis in the 1970's has been on stimulating employment rather than providing training, and the major question has been, Precisely what types of jobs should be supported through these programs? In the first half of the decade, employment programs were primarily counter-



cyclical and operated through the public sector. In the past few years the programs have assumed a more structural orientation, and greater private sector involvement has been sought. Interest in training programs, which dominated early "manpower" thinking, has just recently begun to be revived.

### **Countercyclical public service employment in the 1970's**

Aside from the rapid increase in total expenditures, the most notable aspect of labor market policy in the 1970's has been the growth of federally financed jobs in local governments. Under what are called public service employment (PSE) programs, Federal grants to state and local governments provide money for these agencies to pay the wages and salaries of a specified number of new employees. Federal funding of such jobs was nonexistent before 1971, but by the 1978 fiscal year these programs consumed over half of all employment and training outlays. Almost all PSE prior to 1978 was countercyclical. With the exception of the program established under Title II of the original CETA legislation, Congress authorized expansions of PSE in response to what was perceived to be significant cyclical unemployment and did not confine participation to the disadvantaged or unskilled.

Congress established the first postwar PSE program in 1971 with the passage of the Emergency Employment Act. Employment under this program peaked in the middle of 1972 at 180,000 and declined steadily thereafter through 1975. The original CETA legislation included a modest permanent program that began in early 1974. Shortly thereafter, however, the unemployment rate began rising sharply. Consequently, late that year, Congress passed the Emergency Jobs and Unemployment Assistance Act, which authorized the spending of an additional \$1 billion for PSE. By the end of 1975, about 360,000 people were employed in CETA jobs.

The increase in PSE authorized by the 1974 legislation was intended to be temporary; President Ford's budget plan called for the program to be phased out entirely in fiscal year 1978. President Carter reversed this trend when he took office, however. He requested and received approval of an economic stimulus package that included an expansion in PSE to 750,000 positions in fiscal 1978, an increase of more than 100 percent. This level was maintained through the following fiscal

year. Also authorized for 1977-78 was the New Jobs Tax Credit, a program to stimulate private sector employment growth. Firms expanding employment beyond a given base were eligible for tax credits against a percentage of the first-year wages paid to the added employees. There were no restrictions on the type of workers a firm could hire to qualify for this subsidy.

The theory underlying countercyclical fiscal policy in general is that the Federal Government can offset fluctuations in private sector demand for goods and services by varying its tax collections and expenditures. For example, when business investment spending declines, an increase in Government spending can stimulate demand and reduce the rise in unemployment. The status of PSE as the fiscal policy tool preferred by legislators can be at least partly attributed to the belief that a given increase in the Federal deficit will have a larger impact on the unemployment rate if it is channeled directly into the labor market via direct job creation than if expenditures on some routinely provided Government service, such as road construction, are increased.

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Most economists, however, doubt that direct job creation has much, if any, advantage over standard fiscal policy measures.<sup>1</sup> This skepticism is based primarily on the theory that as far as the amount of stimulus is concerned, the manner in which Federal spending is increased is less important than the size of the increase, because most of the effect on aggregate demand and employment is indirect. The original recipients of the Federal expenditures will find themselves with higher incomes and, therefore, will raise their own spending.

1. Michael Wiseman is perhaps the leading exception. See "Public Employment as Fiscal Policy," *Brookings Papers on Economic Activity*, 1976, no. 1, pp. 67-104. For a discussion of the advantages and disadvantages of using PSE in a countercyclical fashion, see Martin Neil Baily and James Tobin, "Inflation-Unemployment Consequences of Job Creation Policies," in *Creating Jobs: Public Employment Programs and Wage Subsidies*, ed. John L. Palmer, Brookings Institution Studies in Social Economics (Washington, D.C., 1978), pp. 43-76.



## FEDERAL EXPENDITURES ON EMPLOYMENT AND TRAINING PROGRAMS IN SELECTED FISCAL YEARS

(Millions of dollars)

Type of program	1964	1968	1971	1972	1973	1975	1977	1978e	1979e
Training .....	\$98	\$ 739	\$1,208	\$1,367	\$1,273	\$1,752	\$1,581	\$ 2,728	\$ 4,405
Institutional ....	93	626	739	930	782	1,274	1,063	2,305	3,700
On-the-job .....	5	113	469	437	491	478	518	423	705
Work experience ...	—	576	458	797	661	1,205	1,794	2,738	3,700
Public service employment ....	—	—	—	559	1,005	1,264	2,943	5,764	5,465
TOTAL .....	\$98	\$1,315	\$1,666	\$2,723	\$2,939	\$4,221	\$6,318	\$11,230	\$13,570

e—Estimated.

SOURCES: Charles L. Schultze, with Edward K. Hamilton and Allen Schick (*Setting National Priorities: The 1971 Budget*, Brookings Institution).  
U.S. Office of Management and Budget.

This will lead to a rise in the incomes of others, who will in turn spend more, and so forth. These indirect increases in private spending are alleged to have an effect on unemployment that is greater than the direct effect of the larger Federal expenditures.

Another issue economists have raised is the extent to which the jobs established under these programs represent an increase in employment above what would have been realized in the absence of such programs. Employers have an incentive to use the workers whose wages are subsidized as replacements for workers they would have employed anyway. Under these countercyclical programs, local governments (and private employers in 1977-78) had considerable freedom with respect to the types of people they could hire and the tasks the subsidized workers could perform. It was not difficult, therefore, to reduce the growth in employment of unsubsidized workers when Federal subsidies became available.

Estimating the precise magnitude of this displacement is, of course, difficult. Students of the problem note that it probably increases with the amount of time a program has been in effect and that it probably is negatively related to the restrictiveness of the eligibility constraints. Conservative estimates of displacement under the CETA countercyclical programs of the midseventies are around 40 percent, or a net increase of six jobs for every ten PSE slots. Other economists are more skeptical and suspect that displacement rises to nearly 100 percent in the second year of such a PSE program, which implies that by that time the program would no longer have any effect whatever on total em-

ployment. The displacement in the private sector program also has been estimated to be near 100 percent.<sup>2</sup>

### Structural job creation programs

Economists were not the only observers who regarded the expansion of countercyclical PSE with little enthusiasm. Spokesmen for the poor and for minority groups complained that the programs did not provide enough assistance to the unskilled. The Carter stimulus package did include a sizable increase in work experience programs, but these provided part-time and temporary work and were concentrated heavily among the young. Few of the full-time, full-year PSE jobs went to the uneducated. About 40 percent of the experienced labor force has completed fewer than 12 years of schooling, but only 25 percent of the CETA public service employees fell in this category in 1975.<sup>3</sup>

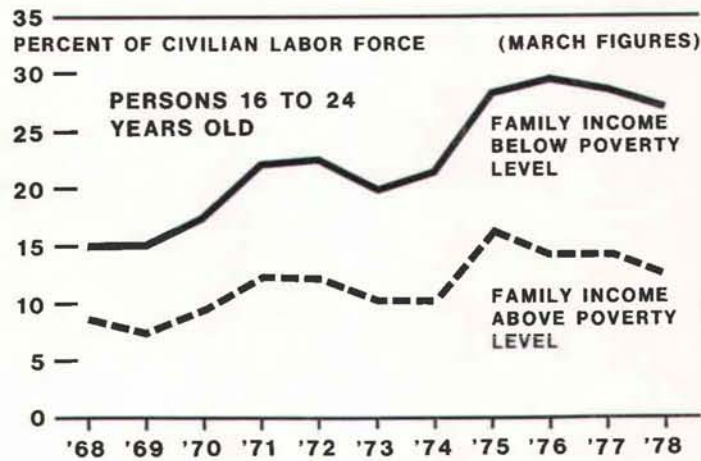
In the past two years, Congress has responded to this pressure. Restrictions on eligibility for employment under PSE grants were tightened considerably in the 1978 legislation reauthorizing

2. See George E. Johnson, "Structural Unemployment Consequences of Job Creation Policies," in *Creating Jobs: Public Employment Programs and Wage Subsidies*, p. 138. For estimates of displacement in the 1977 PSE program, see Edward M. Gramlich, "Stimulating the Macro Economy Through State and Local Governments," *American Economic Review* 69, no. 2 (May 1979): 180-85.

3. These figures are from George E. Johnson and James D. Tomola, "The Fiscal Substitution Effect of Alternative Approaches to Public Service Employment Policy," *Journal of Human Resources* 12 (Winter 1977): 20.

**CHART 1**

**Unemployment Rates, by Income Class**



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

CETA programs. Regulations in the previous years had required that an individual be unemployed at least one month to qualify for a structural PSE program and only 15 days in areas with unemployment rates in excess of 7 percent to qualify for a countercyclical program. The new regulations require that an individual be a member of a low-income family and unemployed for the past 15 weeks or be a recipient of aid to families with dependent children (AFDC, or "welfare") to qualify

for employment under a structural grant. Restrictions on countercyclical program eligibility require that nonwelfare recipients be unemployed at least 10 of the past 15 weeks and meet a slightly less restrictive income constraint. The National Commission for Employment Policy estimates these changes have reduced the size of the population eligible for jobs under CETA public service employment grants from 27 million to 10 million.<sup>4</sup> Even so, the commission concedes that the design



of a program creating useful jobs filled primarily by the disadvantaged is difficult and that the current programs may fare little better than programs used in the past.

The recent emphasis on structural problems has been accompanied by interest in heavier private sector involvement in direct job creation. Public service employment was first established under the premise that the jobs provided were to be transitional. The participants were expected to be able to acquire jobs in the private sector after working a year or so in the public sector. There

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is, however, no evidence that private employers place any value on subsidized experience in the public sector, and some suspect the employers view such experience as a mark of inferiority.<sup>5</sup>

Another problem with using PSE as a structural tool arises from the reliance on relatively well educated people in the public sector. This factor is partly responsible for the large proportion of high school graduates among CETA participants that is noted above. Entry-level jobs in many local governments require at least average education and pay wages above the legal minimum. Current regulations covering structural PSE grants will attract the poorly educated and do not allow participants to be paid more than the minimum wage. Thus, the programs may establish a separate lower class of employees, and the opportunities for participants to gain skills useful elsewhere would be limited.

Structural private sector employment programs generally offer a subsidy to induce firms to hire more of the unskilled. The Work Incentive Program

4. From the statement of Isabel V. Sawhill, Director, National Commission for Employment Policy, in *The Effects of Structural Employment and Training Programs on Inflation and Unemployment*, Hearings before the Joint Economic Committee, 96th Cong., 1st sess. (Washington, D.C.: Government Printing Office, 1979), pp. 75, 78.

5. See Sawhill, "Statement," p. 73.

(WIN) has provided the bulk of the experience with such measures. Since 1967, WIN has offered a variety of labor market services to AFDC recipients, including training, work experience, placement, and child care. The Revenue Act of 1971 added a subsidy to employers hiring program participants. Prior to 1978, employers were eligible for a tax credit of 20 percent of the first \$4,200 of the first-year wages of WIN participants. In 1978 the subsidy was raised to 50 percent of the first \$6,000 paid to these welfare recipients in their first year with a firm and 25 percent of this amount in their second year.<sup>6</sup> The Targeted Jobs Tax Credit, which offers a tax credit of similar magnitude to firms hiring disadvantaged youth, was also authorized in 1978.

An evaluation of these recent efforts to encourage an expansion of private employment of the disadvantaged is not yet possible, but experience with WIN does not lead one to be optimistic. Employer participation in wage subsidy programs has always been low, and preliminary indications are that the larger subsidies available in the most recent programs are not raising it much. In 1977, firms claimed tax credits for only 30,000 WIN participants—a figure that is less than 1 percent of the number of heads of AFDC families and only about 5 percent of the number of employed welfare recipients.<sup>7</sup> Some observers attribute these low figures to employers' ignorance of the existence of the program, but others believe the businessmen's desire to avoid Government paperwork and supervision is to blame. A recent Labor Department survey indicates that as of July 1979, only 8,400 out of 45,000 eligible people had been hired under the current subsidy programs. The survey found that only about 10 percent of the firms polled knew of the existence of the subsidies.<sup>8</sup>

6. A change in the tax status of the subsidized wages makes the new larger subsidy less generous than it appears, so the incentive for employers to participate in the program has not really increased much. See Sawhill, "Statement," p. 79.

7. From Sawhill, "Statement," p. 79.

8. See "Job Money and Too Few Takers," a *New York Times* editorial, September 17, 1979. This evidence is consistent with the findings of Jeffrey M. Perloff and Michael L. Wachter with respect to private employers' knowledge of the existence of the New Jobs Tax Credit. See "The New Jobs Tax Credit: An Evaluation of the 1977-78 Wage Subsidy Program," *American Economic Review* 69, no. 2 (May 1979): 173-79.



### Experience with training programs

The employment programs discussed in the preceding section are designed to alleviate the structural unemployment problem by altering the composition of labor demand to make it correspond more closely to the composition of labor supply. Many believe that better results would be realized if more emphasis were placed on shifting the composition of labor supply through training programs. As the table shows, this was the approach taken in the 1960's, although it was employed on a relatively modest scale.

The Government funds three basic types of training programs outside the traditional public school system. *Institutional training* programs provide instruction in classrooms and workshops. They are usually administered through local governments. *On-the-job training* (OJT) seeks to have participants develop new skills at actual job sites. OJT programs usually operate through the private sector; businesses hire and train unskilled workers and are reimbursed for training or wage costs incurred. *Work experience* programs, which are directed toward unemployed young people with virtually no marketable skills, prepare their participants for further training and education. They provide enrollees with short-term projects and income and seek to instill good work habits and only the most basic skills.

The major pre-CETA expenditures on institutional training were authorized through the Manpower Development and Training Act (MDTA), first passed in 1962. In its early years the program offered training to experienced workers whose skills had been rendered obsolete by automation. After 1967 the program's emphasis shifted to concentrate on the problems faced by the low-income population. Three other major programs also provided institutional training during this period. The Job Corps, begun in 1965, provided training and living quarters for high school dropouts. The Work Incentive Program mentioned earlier offered training to welfare recipients, and the Concentrated Employment Program (CEP), started in 1967, provided institutional training and other labor market services to low-income people in areas with exceptionally high unemployment. The Job Corps and WIN programs are still operating; the others have been subsumed under CETA.

The major OJT program for the unskilled was job opportunities in the business sector (JOBS).

Businesses were encouraged to pledge to hire the hard-core unemployed, and the Department of Labor recruited people to fill the openings. Participating employers became eligible for wage subsidies if they provided the new hires with an orientation to the work environment, skill training, and remedial education when necessary. The average subsidy paid was about \$3,000. This program, which ran from 1968 to 1973, is an outstanding example of the difficulty the Government has experienced in subsidizing employment and training in the private sector. The Labor Department had placed almost 270,000 people by the end of 1969, but employers had sought reimbursement for only 35 percent of these placements. The Department's inability to exhaust the funds allocated for this training in the early years of JOBS slowed the growth of OJT authorizations in the 1970's.<sup>9</sup>

Although most Government-sponsored OJT before 1973 was funded through JOBS, other programs also included this type of training. In the early 1960's, MDTA had a small OJT component, and WIN and CEP began to contribute resources later in the decade. The figures for this category in the table also include expenditures on a modest public sector program called public service careers (PSC), which subsidized the training of disadvantaged workers hired by local governments. Small though they are, the OJT totals after 1969 are heavily inflated by a program subsidizing training for veterans. Outlays for this purpose peaked in 1975 at \$263 million, more than was spent that year on all other OJT programs combined.

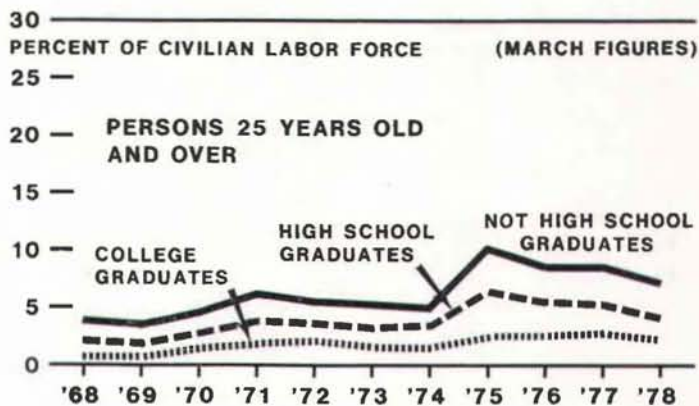
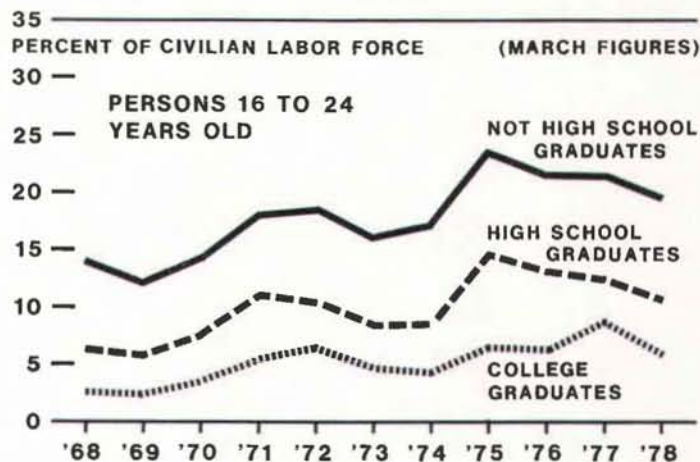
The Neighborhood Youths Corps (NYC) was the primary work experience program from the mid-sixties until the passage of CETA. The NYC had a separate subprogram directed toward those in high school and another aimed at teenage dropouts. Operation Mainstream was a similar program for rural areas. Work experience was also included among the subprograms of WIN and CEP. The emphasis on all these programs has been on providing part-time and summer work. After 1973, most of them were taken over by CETA operations.

9. A later development that offset this factor somewhat was the emergence of a subprogram involving small business; people needing less training were placed with smaller employers, who were not required to provide the full complement of services expected of the larger firms. By 1972, this segment had become nearly as large as the main portion of the program.



**CHART 2**

**Unemployment Rates, by Education Level**



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

The major addition since then has been the Youth Employment and Demonstration Projects Act (YEDPA), passed in 1977. This law established more youth employment and training programs and set up several test projects to analyze the effectiveness of the approach. Programs authorized under YEDPA account for the doubling in expenditures in the work experience category and the sharp rise in funding for institutional training shown in the table for the 1977-79 period.

Although the United States has now accumulated more than 15 years of experience with subsidized training, there has until recently been very little research on the effect of these programs. The studies now available present an encouraging but not wholly favorable view of training. Of the programs evaluated so far, the two versions of the MDTA institutional program and JOBS are emerging as the most effective. The evidence shows considerable variation in effectiveness across race and



sex groups for each program. The racial differences show no consistent pattern, but females generally have enjoyed greater gains from training than males.<sup>10</sup> Estimates indicate the early MDTA program raised earnings for all race-sex groups, but the gains achieved by males decayed with the passage of time. Other programs appear to have benefited females only. A problem in most of the current studies is an insufficient sample from which the effect of training is calculated. This leads to imprecise estimates, implying in many cases that no inference can be drawn with respect to the effect of the program under investigation.<sup>11</sup>

Estimates of the effect of training must be interpreted with considerable caution, for the data from which they were constructed are inadequate in another respect: information on a truly comparable control group has never been available to analysts. Earnings histories are needed on a set of people who do not receive any training, although they are eligible for a training program and wish to participate. Such data have not been collected, however, so economists have generally used earnings profiles of people with demographic characteristics similar to those of the trainees. This raises the possibility that the earnings differences observed between trainees and the control group reflect differences in unobserved attributes rather than the effect of training.

Research on the special youth programs has produced little conclusive evidence of their effectiveness. Evaluations of the Job Corps and the Neighborhood Youth Corps have produced estimates of benefits that vary widely by race and sex, and the estimates reported are often not statistically significant. These studies have not been able to provide much evidence because investigators have not been given histories of a sufficient number of participants to analyze.<sup>12</sup>

10. Two factors may account for the larger effect observed for earnings of females. Females were usually prepared for clerical jobs while males were trained as craftsmen or operatives, and it is possible that job opportunities were more numerous in the female-dominated occupations. In addition, there were probably more women who, after training, switched from part-year work to year-round jobs.

11. For some examples of studies of the effect of training and for further discussion of these issues, see Farrell E. Bloch, ed., *Evaluating Manpower Training Programs*, Supplement 1 to *Research in Labor Economics* (Greenwich, Conn.: JAI Press, 1979).

### What to expect in the future

Charts 1 and 2 plot March unemployment rates by income and education levels for 1968 through 1978. There are separate plots of the unemployment rates of people 16 to 24 years old and people 25 and older. Chart 1 shows unemployment rates for members of those families for which earnings in the previous year fell below the official poverty level. It also shows unemployment rates for members of families with earnings above the poverty level. Chart 2 shows unemployment rates by amount of schooling. The groups with the highest unemployment rates consist of people who have not graduated from high school. In the middle are the unemployment rates for those who have graduated from high school but do not have college degrees. The groups with the lowest unemployment rates consist of college graduates.

There is no indication in these charts that unemployment among the young, the unskilled, or the poor has declined over the past 11 years. Both charts reveal an upward drift in the unemployment of young people, particularly those from poor families and those without high school diplomas. Furthermore, the differences between the unemployment rates of the poor and the above-poverty groups and between the rates of those without high school diplomas and those with college degrees have widened over this period.

To a large degree, the failure of the programs of the midseventies to produce more improvement in unemployment without accelerating inflation has been attributed to loose eligibility restrictions. Federal programs funded employment of skilled labor that was easily substituted for the type of labor that would have been employed in the absence of the subsidies. The resulting high displacement led to only a small net change in the employment of skilled labor and did not disturb unskilled labor markets.

The current policy seeks to rectify this problem by restricting participation to the poor and unskilled. Hopefully, this reorientation will reduce displacement and stimulate demand principally in those labor markets that exhibit the highest unemployment rates. There is also a revival of interest in training programs, manifested at this point by

12. See the articles by Nicholas M. Kiefer and Gordon P. Goodfellow in *Evaluating Manpower Training Programs*, pp. 159-221, for references to earlier studies of the Job Corps and NYC, as well as the authors' own evaluations.



expanded work experience programs and funding for the collection of data to use in evaluating the training programs currently operating. Presumably, if the evaluations show training does raise the earnings and employment of trainees, then these programs will be expanded further.

That Congress has adopted an optimistic view of the outlook for reducing unemployment through these programs can be seen from the Full Employment and Balanced Growth Act (Humphrey-Hawkins Act) of 1978, which calls for a reduction in the unemployment rate for adults to 3 percent by 1984. (The current rate is about 5 percent.) Section 2 of this act proclaims that monetary and fiscal policies alone have been unable to provide full employment and stable prices, and Sections 202 and 205 endorse the use of employment and training programs to combat cyclical and structural unemployment. Whether more appropriately designed job creation and training programs will effectively lead to higher employment and income among the groups of the population that are poor and have high unemployment rates remains to be seen. Even if these programs do meet this objective, however, one should not expect them to bring about a large reduction in the measured unemployment rate.

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**Job creation and training measures could successfully improve the economic status of the people they are intended to assist without reducing the unemployment rate.**

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Changes that increase the demand for the services of members of these groups, either by raising their productivity or by stimulating the demand for unskilled labor, will cause an increase in their labor force participation that will at least partially offset the rise in employment. The labor force participation rates of the groups in question (adults from low-income families and teenagers) are low and sensitive to changes in the availability of jobs, so the potential magnitude of this offsetting increase in participation is both large and likely to be realized. The improvement in measured unemployment is therefore likely to be small or nonexistent.

This consideration indicates that job creation and training measures could successfully improve the economic status of the people they are intended to assist without reducing the unemployment rate, which suggests the stated objectives of these policies and the major criterion by which their effectiveness is judged should be revised. Structural employment and training programs should be viewed as antipoverty measures rather than policies that will lower unemployment, and they should perhaps be evaluated on the basis of their effects on the proportion of the relevant population employed and on the labor income earned by the members of this population.

The unfortunate confusion between policies that alleviate poverty and policies that reduce unemployment is a product of a misunderstanding of the relationship between unemployment and poverty. The unemployment rate for members of low-income households substantially understates the problems these people experience in the labor market. Of the heads of families with annual incomes below the poverty level, 75 percent worked fewer than 40 weeks in 1977, and 50 percent did not work at all.<sup>13</sup> Because most of the time that these people are not working is spent out of the labor force rather than in job search, little of such time is reflected in unemployment statistics. It follows that an increase in the amount of time they are in the labor force will likely accompany any increase in the amount of time they spend working, and a reduction in their unemployment rate need not accompany a rise in their income. Therefore, the employment-population ratio is a much better indicator of how the poverty population is faring in the labor market than the conventional unemployment rate.

On the other hand, policies intended to improve the status of the poor and the unemployed actually contribute to the high unemployment rate for the unskilled. Examples include the Fair Labor Standards Act (minimum wage law), the Davis-Bacon Act, the existing unemployment compensation program, and AFDC. Economists are almost united in support of the argument that repeal of the first

13. About 30 percent of those who did not work were disabled or retired. See U.S. Bureau of the Census, *Current Population Reports, Series P-60, no. 119, Characteristics of the Population Below the Poverty Level: 1977* (Washington, D.C.: Government Printing Office, 1979), p. 108.



two acts would lower unemployment and increase the number of jobs available to the unskilled. In the current political environment, Congress will not take this action, however, because it would be

interpreted as running counter to the interests of the disadvantaged. As long as such perceptions prevail, it is not likely the political process will produce any reduction in structural unemployment.

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## **Committee to Set Service Levels**

A special committee of senior System officials, as announced by the Board of Governors on October 9, has been created to draw up uniform service standards regarding check collection, cash, and fiscal agency operations at all Federal Reserve offices. The objective of the committee will be to achieve greater consistency of services to member banks and other institutions in all 12 Federal Reserve districts.

Special task forces established under the steering committee will review fiscal agency operations, such as Treasury and Government agency issues and coupons, food coupons, Federal taxes, and Treasury tax and loan accounts, government checks, and securities safekeeping and transfers. Other Reserve Bank services to be studied include currency and coin, check and noncash collection, wire transfers of funds, automated clearinghouse operations, and member bank loans.

Members of the steering committee will be Robert P. Black, President of the Federal Reserve Bank of Richmond; Robert H. Boykin, First Vice President of the Federal Reserve Bank of Dallas; and William H. Wallace, Staff Director for Federal Reserve Bank Activities at the Board of Governors in Washington.

Frederick H. Schultz, Vice Chairman of the Board, said that work in establishing service-level standards will begin within the next several weeks, and a final report is expected early next year.



# “Fed Quotes”

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

“It is not entirely a coincidence that we can observe in these recent inflationary years a declining tendency in the profitability of investment. Calculations differ because of the accounting problems associated with changing prices. However, one estimate indicates that the annual after-tax return on corporate net worth, measured, as it reasonably should be, against the replacement cost of inventories and fixed assets, has averaged 3.8 percent during the 1970s, a period characterized by rapid inflation, as compared to 6.6 percent in the 1960s. At the same time, the uncertainty about future prospects associated with high and varying levels of inflation tends to concentrate the new investment that does take place in relatively short, quick pay-out projects. Or firms may simply delay investment commitments until the pressures of demand on capacity are unambiguously compelling—with the result that capacity pressures can become strong even before the labor force is fully utilized.

“In other areas, inflationary expectations are reflected in a diversion of energies into essentially speculative activities—ranging from the ‘froth’ of investing in art objects to the considered purchase, at the expense of heavy indebtedness, of larger or second homes as an inflation hedge. When returns from these activities are often judged greater than from usual patterns of work and saving, normal incentives are plainly distorted in a manner inconsistent with orderly growth.”

“For its part, the Federal Reserve intends to continue its efforts to restrain the growth of money and credit, a growth that in recent months has been excessive in terms of our own 1979 objectives—objectives that have only recently been reviewed by our Congressional oversight committees.”

“I frankly do not know whether needed restraint on monetary growth will be reflected in further increases in short-term rates; that will depend on the course of economic activity, credit demand, and other factors. But I know that . . . no sustained decline in nominal interest rates can reasonably be expected in the absence of a discernible slowing in the underlying trend of inflation.”

“Should economic trends develop in a clearly unfavorable direction and action come to be needed to deal with sharp declines in output and employment, it would be crucially important that those actions be integrated with the longer-term needs of the economy. Specifically, any fiscal actions should be designed to minimize any inflationary impact in the short run while helping to deal positively with some of the sources of inflationary pressures in the long run. Cost-cutting and incentive-building tax reductions broadly meet this criterion; few spending programs do. We need to give much more weight than in the past to the need for both tangible capital formation and research and development, for these activities underlie productivity growth.”

Paul A. Volcker, Chairman, Board of  
Governors of the Federal Reserve System  
(Before the Committee on the Budget, U.S.  
House of Representatives, September 5, 1979)



"This Committee has before it, in S. 85 and H.R. 7, nearly all of the essential elements of constructive legislation. I hope you will agree that the major new provision I have proposed today—standby authority for 'supplementary deposits'—is a useful and possibly essential 'insurance policy' for monetary policy. I do not believe it should be controversial.

"Consequently, the way seems to me clear for promptly enacting legislation with the following main features:

"First, reserve requirements should be placed on transactions balances at all depository institutions. Both S. 85 and H.R. 7 adopt this principle; what remains is only satisfactory resolution of exemption levels and the price level of the requirement.

"Second, to assure an adequate reserve base for monetary control and to support the nation's depository system, legislation should provide an insurance policy in the form of standby authority for 'supplementary deposits' at Federal Reserve Banks, with those deposits earning a market rate of return.

"Third, initial reserve ratios on nonpersonal time deposits should be at zero, as in H.R. 7, but with the understanding that the Federal Reserve would have some flexibility to apply reserves to short-term nonpersonal time deposits if needed to 'protect' the dividing line between transactions and time accounts or for cyclical purposes. There should be no reserves on personal or long-term time deposits.

"Finally, there should be full pricing and open access to Federal Reserve services, with adequate flexibility, in timing and application, to minimize the risk of disruptions in banking markets and to protect the availability of a basic level of payments services to all institutions.

"In passing through the lobby of the Federal Reserve Building recently, I read again a quotation from Woodrow Wilson on the wall referring to the original Federal Reserve Act: 'We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon, and step-by-step we shall make it what it should be.'

"A constructive blending of S. 85 and H.R. 7, combined with the safety valve I have requested, can take a big step toward developing a reserve structure as it should be. The basic issue is preserving a strong and effective central bank able to discharge its responsibilities for monetary policy. The questions have been long debated, and I sense a convergence of views. Now, this Committee has the chance to bring the long process to the edge of conclusion. I urge you to seize that chance."

Paul A. Volcker, Chairman, Board of  
Governors of the Federal Reserve System  
(Before the Committee on Banking, Housing  
and Urban Affairs, U.S. Senate, September 26,  
1979)



"In view of the strong and widespread expectations of inflation that prevail at present, I have . . . reluctantly come to believe that fairly drastic therapy will be needed to turn inflationary psychology around.

"The precise therapy that can serve a nation best is not easy to identify, and what will work well in one country may work poorly in another. In the case of the American inflation, which has become a major threat to the well-being of much of the world as well as of the American people, it would seem wise to me at this juncture of history for the government to adopt a basic program consisting of four parts. The first of these would be a legislative revision of the Federal budgetary process that would make it more difficult to run budget deficits and that would serve as the initial step toward a constitutional amendment directed to the same end. The second part would be a commitment to a comprehensive plan for dismantling regulations that have been impeding the competitive process and for modifying others that have been running up costs and prices unnecessarily. The third part would be a binding endorsement of restrictive monetary policies until the rate of inflation has become substantially lower. And the fourth part would consist of legislation scheduling reductions of business taxes in each of the next five years—the reduction to be quite small in the first two years but to become substantial in later years. This sort of tax legislation would release powerful forces to improve the nation's productivity and thereby exert downward pressure on prices; and it would also help in the more immediate future to ease the difficult adjustments forced on many businesses and their employees by the adoption of the first three parts of the suggested program."

Arthur F. Burns, former Chairman, Board of  
Governors of the Federal Reserve System  
(The 1979 Per Jacobsson Lecture, Belgrade,  
Yugoslavia, September 30, 1979)

"I believe the time is approaching when all banks should stop forwarding checks of over \$1,000 written on banks outside the immediate city of the receiving bank and should wire transfer the funds. The Federal Reserve could help to encourage this move by requiring separate sorts and passing credit only when collected. Perhaps the best way to start this would be on corporate accounts.

"We should modernize our currency by promoting the \$1 coin and \$2 bill. Both have the potential for major improvement in currency use and efficiency in production and we are approaching a watershed point to encourage their use."

Philip E. Coldwell, Member, Board of  
Governors of the Federal Reserve System  
(At the Bank Administration Institute  
Conference on Contemporary Issues in Cash  
Management, New Orleans, Louisiana,  
September 13, 1979)



# Hog Producers Hold Key to Future Meat Supplies

By Don A. Riffe

The upward movement in livestock and meat prices has abated somewhat from the rapid increases observed last spring. And according to the U.S. Department of Agriculture, a decline in fourth-quarter beef production of about 12 percent from a year ago will be more than offset by increased supplies of pork and poultry. Thus, retail meat prices are not expected to increase significantly during the remainder of 1979.

In the coming year, beef production is likely to remain at reduced levels. The profitability of hog feeding in late 1979 and early 1980 and the response of the nation's hog producers will largely determine the availability of pork—the primary alternative to beef—through the end of 1980 and beyond.

## **Beef production to remain low**

While beef will continue to be the most important single component of the U.S. meat supply, cattlemen are in the process of rebuilding their herds; therefore, beef production will remain at reduced levels for some time. The July 1 inventory of cattle and calves on farms and ranches showed an 8-percent increase in beef heifers held for herd replacement. Furthermore, cow slaughter has been at a low level all year. In time, numbers on farms and ranches will rise to more normal levels, and the stage will be set for increased beef supplies. But there is little prospect that retail meat counters will be displaying significantly more beef or lower beef prices in 1980.

In addition to the number of cattle slaughtered, the average weight of cattle has an impact on beef production. Usually, cattle from feedlots are heavier than those slaughtered without being fattened on grain. Placements of cattle in feedlots in the third quarter of 1979 were down about 19 percent from the year-earlier level. A lower level of placements has an effect on beef production about six months later. Thus, beef supplies will continue to be very tight through the early months of 1980. Prices for live cattle and beef are likely to rise, although the availability of large quantities of pork and chicken should have a tempering effect.

## **Hog producers play key role**

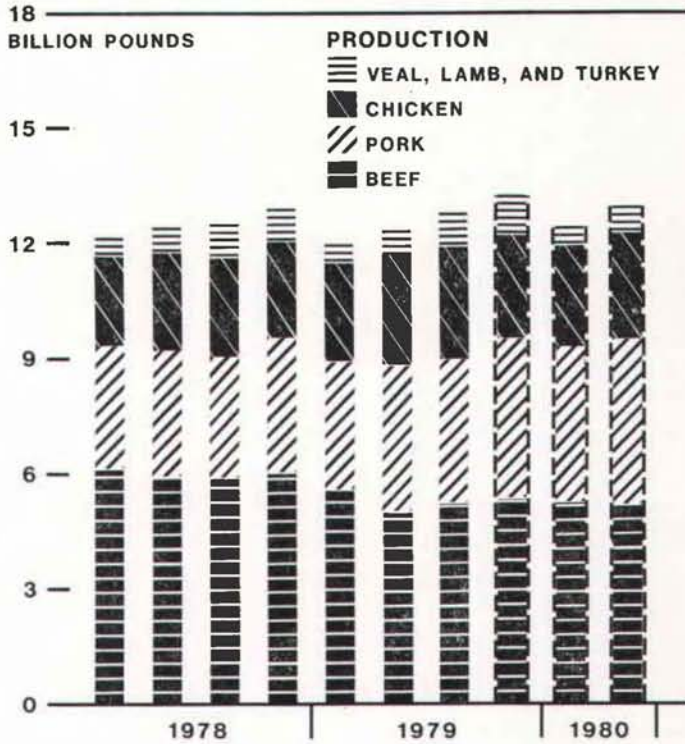
Hog and broiler producers responded to favorable profit margins in 1978 and early 1979 by expanding production. They have expanded to the point that pork and chicken will account for much of the variation in total meat supplies for the coming year. Although beef is still the largest single component of total meat production, it is estimated that pork and chicken combined will account for about 31 percent more pounds of production than beef in the fourth quarter of 1979. By contrast, beef production was about 1 percent greater than combined pork and chicken production in the same period of 1978.

Since the second quarter of 1979, profit margins for hog and broiler producers have narrowed considerably. Some producers have sustained losses.



**CHART 1**

**Pork and chicken are playing expanded role in total meat supply**



Forecasts for 1979-Q4, 1980-Q1, and 1980-Q2.  
SOURCE: U.S. Department of Agriculture.

Normally, when profits are eroded, producers will begin to cut production. The prospective small beef supply in 1980, however, could maintain livestock and meat prices at levels that will minimize any declines in production of hogs and broilers. But if hog and broiler producers do begin to reduce production substantially, total meat supplies would be increased temporarily, followed by a decline in the latter part of 1980.

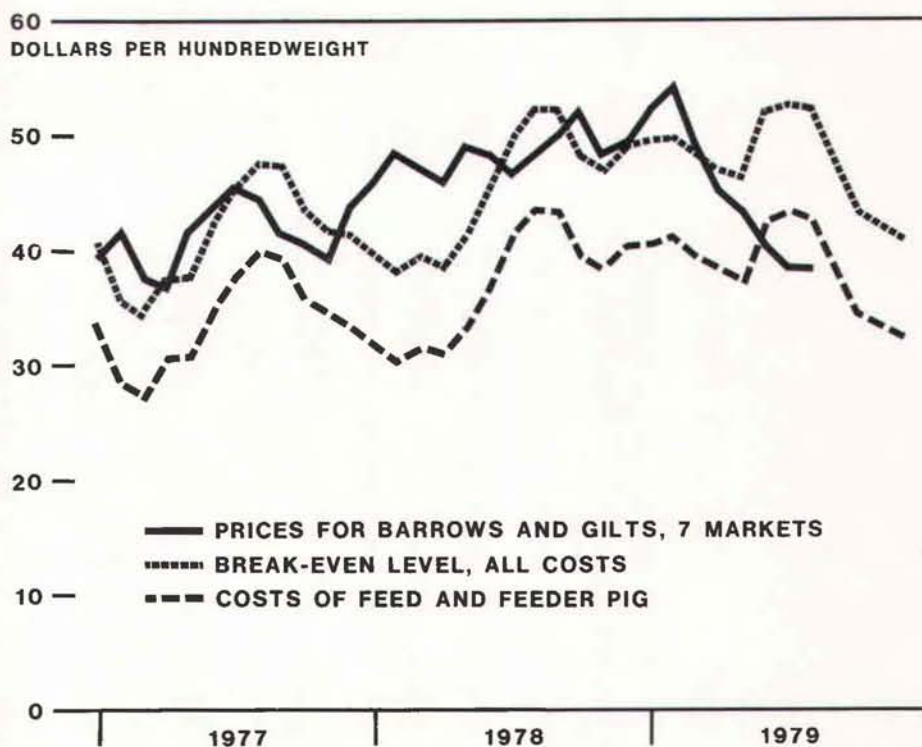
Broiler producers can respond to changing market conditions in a relatively short period. When broiler profits are such that producers decide to cut production, for example, the effects can be

realized at the retail level within three months. More than twice that amount of time is required for hog producers' decisions to cut production to result in less pork at retail meat counters. Likewise, it takes hog producers much longer than broiler producers to increase production. The longer production period for hogs, the fact that pork accounts for a greater proportion of total red meat and poultry production than chicken, and prospects for continued low levels of beef production indicate that hog producers hold the key to any significant changes in the total meat supply in 1980.



## CHART 2

Hog prices have been below the break-even level for many producers since April this year



SOURCE: U.S. Department of Agriculture.

### Will a major liquidation be avoided?

Decisions affecting pork production through the early months of 1980 have already been made. There is little doubt that production will be large. The question is whether hog prices will be depressed to levels that will cause producers to substantially reduce the number of hogs kept for breeding.

The latest information from hog producers is for September 1 and comes from the "Hogs and Pigs" report published by the U.S. Department of Agriculture. The number of hogs kept for breeding in the 14 major hog-producing states was down slightly from the June survey but was still the largest September 1 breeding inventory since 1970.

Perhaps the most significant information from the report covers producers' plans for the future. The hog producers expressed their intentions to farrow about 10 percent more sows in the December-February period than they did a year earlier. Thus, as of September 1, producers had not begun to cut production plans.

The profitability of hog feeding has changed significantly in 1979. One simple indicator of profitability is the ratio of the price of hogs to the price of corn: the larger the hog-corn ratio, the greater the profitability of hog feeding. Based on midmonth prices received by U.S. farmers, the hog-corn ratio averaged about 24 in the first quarter of 1979—that is, 24 bushels of corn were



equivalent in value to 100 pounds of liveweight. The ratio fell to about 18 in the second quarter and then to about 14 in the third quarter. The third-quarter average was the lowest quarterly average ratio since 1975.

Prospects for improved profitability in the coming months are not good. Hog marketings will continue to be large, as all weight groups of market hogs in the September 1 report showed large increases over year-earlier levels and producers indicated that September-November farrowings would be about 13 percent greater than a year before. U.S. Department of Agriculture estimates of expenses for Corn Belt hog feeding show that prices of more than \$40 per hundredweight would be required to cover all costs for hogs marketed in the fourth quarter of this year (Chart 2). Hog prices have been below estimated break-even levels for many producers since April; for some, prices have not covered the variable costs of feed and feeder pigs since June.

The trend in profitability suggests that producers' farrowing intentions for the December-February period will not be fully realized. Pigs born in December-February will be ready for market next summer. The accompanying table shows the fourth-quarter average hog-corn ratios for 1970 through 1979, along with the number of sows farrowing in December-February as a percentage of the number of hogs kept for breeding as of the previous September 1. When the hog-corn ratio is quite low, it is likely that a number of the sows kept for breeding as of September 1 will not actually be kept until the following December-February period.

The realization of producers' intentions to farrow 2.9 million sows in the 14 major hog-producing states during the coming December-February period would require that the same percentage of the September 1 breeding inventory be kept for farrowing as was kept last year. In the fourth quarter of 1978, the hog-corn ratio was very high at 24.1. At mid-October 1979 the ratio was 14.0. Thus, it seems probable that the number of sows farrowing in the December-February period will not be fully 10 percent greater than a year before.

Nonetheless, previous hog production cycles indicate that the hog-corn ratio may have to drop to the 10-12 range before producers begin seriously reducing the size of the breeding inventory (Chart 3). If producers continue to increase farrowings over year-earlier levels, that relatively low level

## BREEDING HERD INVENTORY IN 14 MAJOR HOG-PRODUCING STATES

Year	Hogs kept for breeding, Sept. 1 (Thousands)	Sows farrowing, December-February		Average hog-corn ratio, <sup>1</sup> fourth quarter of year
		Number (Thousands)	As percent of hogs kept for breeding, Sept. 1	
1970 ...	8,323	2,453	29.5	12.1
1971 ...	7,504	2,177	29.0	19.0
1972 ...	7,404	2,266	30.6	22.1
1973 ...	7,547	2,258	29.9	17.8
1974 ...	6,825	1,788	26.2	11.2
1975 ...	6,011	2,052	34.1	21.1
1976 ...	6,813	2,304	33.8	15.3
1977 ...	7,186	2,285	31.8	21.6
1978 ...	7,463	2,660	35.6	24.1
1979 ...	8,237	<sup>2</sup> 2,933	35.6	<sup>3</sup> 14.0

1. Bushels of corn equivalent in value to 100 pounds liveweight, based on midmonth prices received by U.S. farmers.

2. Intentions.

3. Mid-October ratio only.

SOURCE: U.S. Department of Agriculture.

of profitability is almost certain to be reached. But the longer it is delayed, the longer the period that pork production will remain large—large enough to substantially offset the decline in beef production. Several factors may act to minimize or delay any major selling of breeding stock in 1980.

### Special factors exerting influence in a "normal" liquidation year

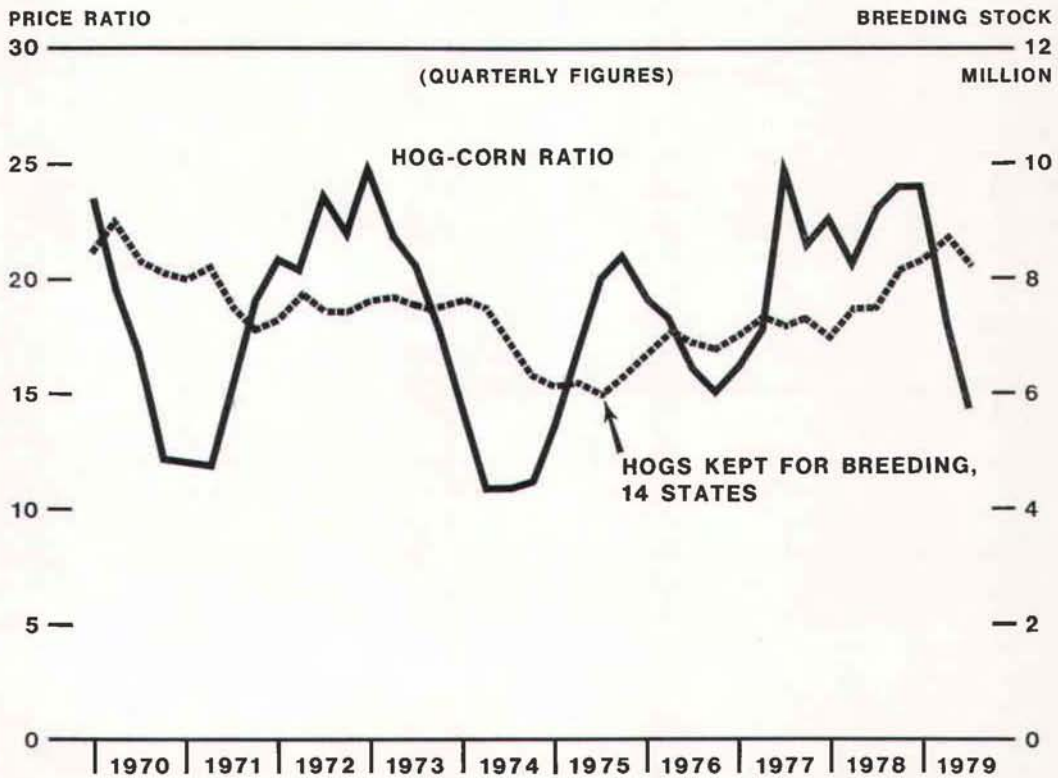
An important influence upon the profitability of hog feeding will be the supply of beef. The cyclical liquidation of cattle in recent years has left a void in beef production that cattlemen have not been able to fill in 1979 and will not be able to fill in 1980. This void has encouraged hog and broiler producers to expand and could also encourage continued high levels of production through the coming year. The anticipated tightness of beef supplies in late 1979 and early 1980 appears to be coming at an opportune time to buoy hog prices and producer expectations, thus increasing the probability of large pork supplies extending into 1981.

Another factor that may act to prevent any major change in producers' farrowing plans in the near future is the large corn crop and the associated transportation problems in some key hog-producing states. The farm price of corn in some areas, notably Iowa, has been abnormally low



### CHART 3

Without this year's special circumstances, the hog industry would seem poised for a major liquidation of breeding stock



SOURCE: U.S. Department of Agriculture.

relative to central market prices, primarily because of grain transportation difficulties. Lower corn prices in some local markets may encourage area hog producers to keep expanding.

Some producers may also be influenced to maintain production levels because of the changing structure of the hog industry. Hog production facilities have become more capital-intensive in recent years, and any returns over variable costs tend to keep producers in business to help defray fixed expenses. Less and less production is accounted for by individuals raising hogs as an auxiliary activity and, hence, varying production

in a cyclical manner. As production units become larger and more "permanent" in nature, the hog-feed price ratio that induces producers to liquidate breeding stock may move lower.

#### Orderly marketing is important

In spite of the forces apparently serving to prevent a severe liquidation of hogs in the near future, producers will be walking a tightrope of sorts. At some points in time, the number of hogs coming to market may be large enough to test slaughter capacity. More hogs were slaughtered in May, July, and August of this year than in the



same months in all previous years. Hog slaughter will be as much as 20 to 25 percent above year-earlier levels through the end of 1979 and will continue at high levels into 1980.

If in addition to normal marketings, hog producers send an unseasonably large number of females to slaughter, the timing of these marketings will be very important. Any bunched marketings of breeding stock at a time when the market is already absorbing record numbers of slaughter hogs could temporarily send hog prices sharply lower. This, in turn, could induce more producers

to reduce the size of the breeding inventory and could snowball into a sizable liquidation.

With hog numbers up and profitability down, the hog industry would seem poised for a major liquidation of breeding stock under "normal" circumstances. However, with orderly marketing, the threshold level of profitability required to trigger a substantial liquidation may not be reached until at least the latter part of 1980, if at all. Pork production should continue to be relatively large throughout 1980, helping to boost total meat supplies and offset the void in beef production.

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## **Pamphlets Available on Federal Reserve System Structure**

The Board of Governors of the Federal Reserve System has issued a series of pocket-size educational pamphlets on the structure of the Federal Reserve System for use by the public, particularly teachers.

These four pamphlets highlight key features and functions of the Board of Governors, the Federal Open Market Committee, Federal Reserve banks, and the boards of directors of the Reserve banks. As an example of the specific types of information provided in the pamphlets, the Federal Open Market Committee leaflet addresses the composition of the FOMC, its organizational structure and decision-making process, the monthly meetings in Washington, D.C., open market operations and policy effects, and reporting of actions taken by the FOMC.

Interested parties may obtain copies of these pamphlets from Publications Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.



## **Off-Premises Collateral Arrangement Used by Eleventh District Banks**

The Federal Reserve System has adopted a new procedure—the off-premises collateral arrangement. A key facet of the new arrangement is allowing member banks to hold certain types of loan collateral on their own premises rather than transmit such collateral to the Federal Reserve Bank or Branch or to a correspondent bank, as they have done in the past. The three types of collateral that may be used to secure borrowings through off-premises custody arrangements are one- to four-family residential mortgages, commercial and agricultural paper, and Group I municipal securities.

When member banks use one- to four-family residential mortgages or “eligible” commercial and agricultural paper to secure their discount window credit, they receive the basic discount rate. However, borrowings secured by Group I mu-

nicipal securities or “ineligible” commercial and agricultural paper are obtained at the Section 10(b) rate, which is one-half of 1 percent over the basic discount rate.

A number of member banks in the Eleventh Federal Reserve District are using the off-premises collateral arrangement and view it as a positive step toward modernizing discount window collateral procedures. One banker indicated that the arrangement helps to avoid delay in returning a note to a bank customer after the note is paid. Another noted that the new procedures have simplified work while still maintaining the same standards, especially for residential mortgages. He noted further that the off-premises custody arrangements reflect a great deal of trust by the Federal Reserve in the member banks.



# Regulation S Establishes Reimbursement Rates

Federal Reserve Regulation S, which became effective October 1, 1979, establishes \$10 an hour per person as the rate of reimbursement for financial institutions that assemble and provide customers' financial records requested by an agency of the Federal Government. Other rates established by the new regulation are a reproduction charge of 15 cents per page and transportation costs limited to actual costs incurred by the financial institutions.

The Right to Financial Privacy Act of 1978 restricts Federal agency access to the financial records of individual customers and partnerships of five or fewer people unless certain procedures are followed by the agencies. Before a financial institution can release any financial records, the Federal agency must have (1) a valid written customer

authorization, (2) an administrative summons or subpoena, (3) a valid search warrant, (4) a judicial subpoena, or (5) a formal written request. Generally, a financial institution should not release applicable financial records until the Federal agency has certified in writing to the institution that the Federal agency has complied with the act.

After the Federal agency has met the procedural requirements of the Right to Financial Privacy Act, the financial institution compiling the customer's financial records will be reimbursed for its work according to the rates prescribed by Regulation S. Financial institutions are reminded to maintain accurate records.

Any questions concerning Regulation S may be directed to Consumer Affairs, Bank Supervision and Regulations Department, (214) 651-6169.

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## **New member bank**

Texas Commerce Bank—South Belt, N.A., Houston, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business November 1, 1979, as a member of the Federal Reserve System. The new member bank opened with capital of \$850,000 and surplus of \$850,000. The officers are: Steve A. Spencer, President and Chairman of the Board, and Janet K. Rice, Vice President and Cashier.

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## **New nonmember banks**

American 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 October 15, 1979.

Mineola State Bank, Mineola, 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 November 15, 1979.

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