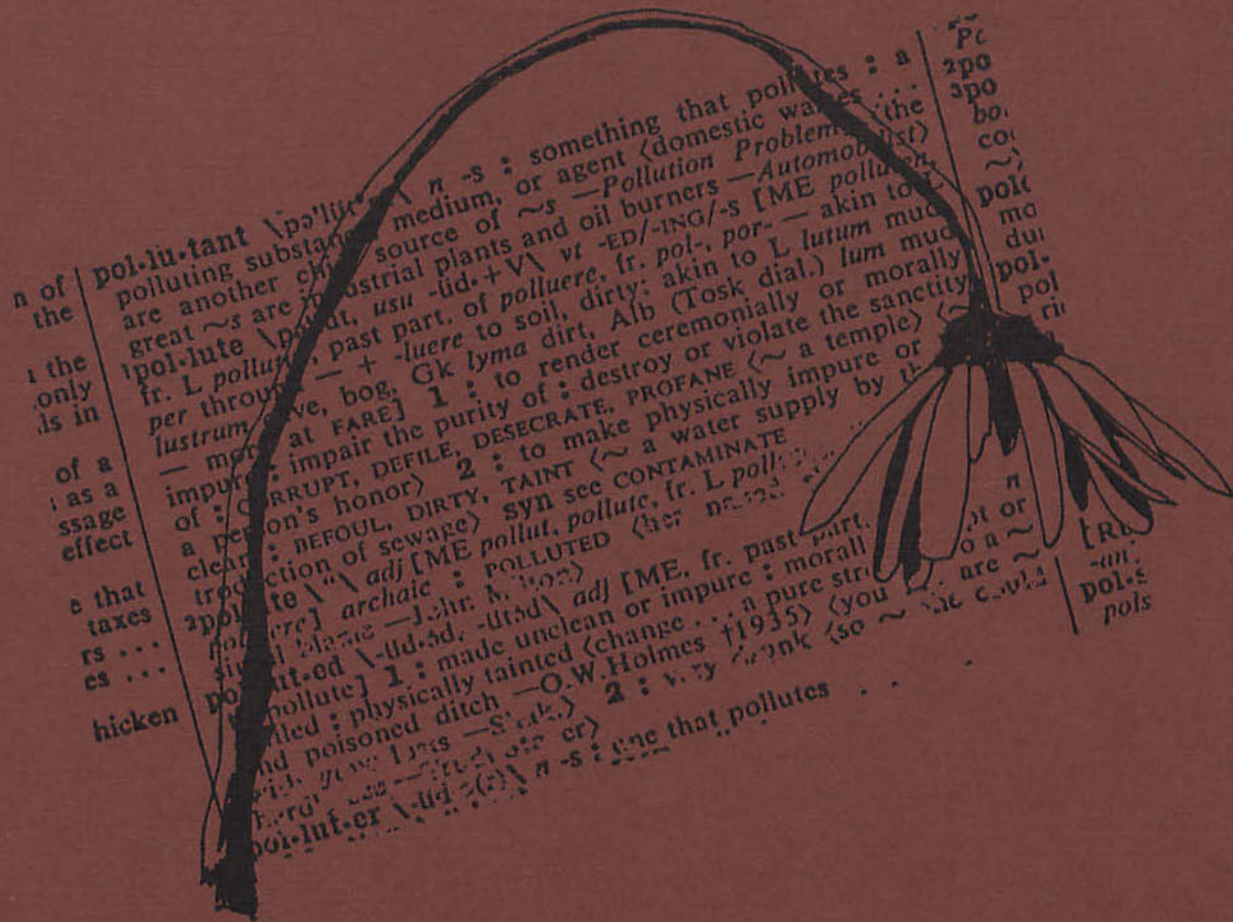


Business Review



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October 1973

Proper Policies Could Improve Functioning of Market Economy

A new dimension has been added to economic concerns in recent years. Historically, a major concern has been for policies that would stimulate a nation's economic growth. To this has now been added an increasing awareness of the consequences for the environment of maintaining many policies aimed primarily at economic growth.

The environmental consequences of growth—such as water and air pollution and the rising noise level—have become a widespread concern. Many consider the situation a fundamental economic problem.

To clarify the problem and begin reaching for a solution, it is necessary, first, to examine the economic system that has allowed pollution of the environment to develop as a seemingly inevitable and certainly unintended side effect of growth. In the United States, that means an examination of the market economy. After defining the market characteristics that encourage pollution, it becomes possible to clarify some of the economic consequences of often espoused anti-pollution policies and to formulate criteria for evaluating pollution control programs.

The market economy . . .

Consumers in a market economy base their decisions partly on their personal preferences and buying power. But market prices are also a major factor influencing their decisions. The higher the price of an item, the greater the sacrifice a consumer must make for it in terms of other consumption that he has to forgo.

Producers' decisions are also affected by market prices. And

because prices affect a producer's revenues and costs—and, therefore, his profits—they are a primary determinant of the final allocation of resources.

A simple example will illustrate the point. Assume that consumer tastes change and demand for one item rises while demand for another falls. The results are twofold: a shortage of the first item that puts upward pressure on its price and a surplus of the second item that puts downward pressure on its price.

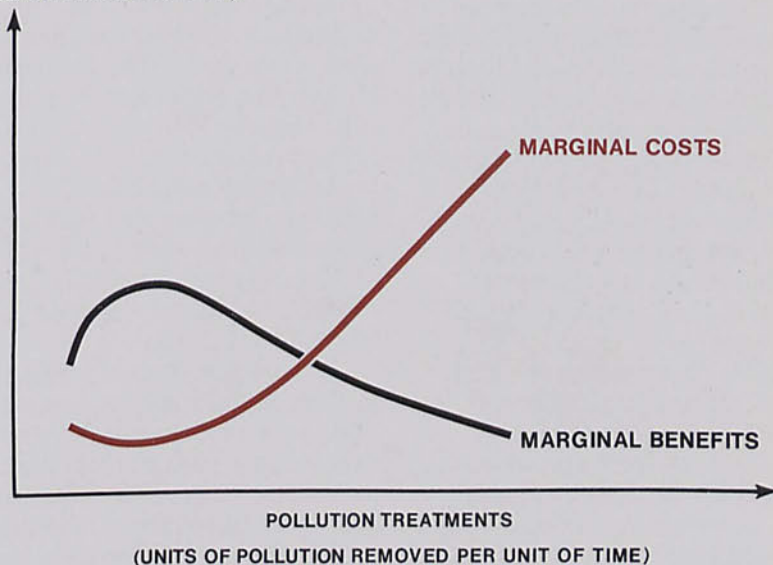
As the prices shift, production of the first item becomes relatively

more profitable. Producers devote more resources to its production and fewer to the production of the second item. But in deciding to respond to the change in demand, a producer must compare the costs of increased output of the first item—or a shift to its production—with the expected revenue.

Theoretically, so long as the additional revenue from selling more of the item exceeds the additional costs of production, he will increase output. And if the market is perfectly competitive, he will continue to expand production until the additional costs of pro-

Marginal costs of cleaning up pollution eventually outweigh marginal benefits

COSTS AND BENEFITS
(DOLLARS PER UNIT OF TIME)



ducing a unit of the item exactly equal its market price.

... and the environment

The problem regarding the environment enters in connection with producers' costs. All the costs to this point have been *private costs*—the producer's out-of-pocket costs for such items as labor and materials and his implicit costs for use of such resources as the plant and equipment he owns and could, otherwise, rent to someone else.

Most of these costs are paid in money and are, therefore, thought of in terms of money. But there is another sense in which they are true costs. Because resources used by the producer for one purpose cannot be used for others, the cost of allocating scarce resources to the production of one item is the loss of production of another. This loss, however, does not always equal the total cost to society.

The *social cost* of an item is the private resource cost incurred by the producer plus any additional loss of resources that can be attributed to the production but is not paid for by the producer. Correspondingly, the resources sacrificed from other endeavors in the production of an additional unit of the item are the *marginal social costs* of producing that item.

Ideally, marginal private costs would equal marginal social costs. That, however, is not always the case. When marginal social costs exceed marginal private costs, there is a loss in resources that exceeds the loss indicated by private costs.

This loss in resources is a cost the public must incur over and above the factor-input costs directly incurred by the producer. One example of this extra cost, which arises when decisions made in the marketplace are based on private costs that do not fully reflect social costs, is pollution.

The implications of such a situation are many. The primary implication, however, is that more resources are devoted to pollution-causing activities than would be the case if all costs were incurred by producers and paid by consumers.

Take a situation, for example, where a manufacturing company operates a plant on the banks of a public stream and dumps its wastes into the stream. The company incurs many private costs by paying suppliers for the resources used in production. But because no one owns the waterway, no one can charge the company for dumping its wastes in the stream. And since this resource cost is not counted among the producer's costs, it is not reflected in the prices charged for the product.

Yet, when waste has built up in the water to a point where the stream is being destroyed—from the standpoint of either economic usefulness or environmental health—the public is losing an important scarce resource. And there is nothing inherent in the market system to reverse the destruction—at least, in time to prevent a significant loss of the resource.

Just as businesses make their decisions on the basis of private costs, so do consumers. In deciding between two goods that provide the same level of satisfaction, consumers can usually be expected to choose the lower-priced one. And in cases where the social costs of production exceed the market price, consumers may actually encourage pollution by picking the lower-priced good.

Only when pollution increases to the point of impinging on private costs and, thereby, exerts upward pressure on market prices do consumers consider substitutes. This, unfortunately, rarely happens before society incurs serious environmental problems. And these problems are usually irre-

versible in the short run and, sometimes, even in the long run.

In situations where social costs exceed private costs because of pollution, reliance on the free market can lead to an overproduction of goods with which pollution is associated. In its 1972 report to the President, the Council of Economic Advisers stated:

The basic environmental problem, for example, is that some resources, like air, are common property and consequently the private economic system does not put a price on their use. The result is overuse or misuse—such as the dumping of excess pollutants into the air.

The council went on to suggest, however, that solutions to the problem can be defined in the framework of a market economy:

The lesson of all this is not *laissez-faire*. There are conditions where a functioning price system does not naturally exist and has to be created or simulated.

One approach to the problem

There are, doubtlessly, many ways of attacking pollution problems. Most, however, seem to center on three basic approaches. All can be explored in terms of a single example—water pollution.

Returning to the situation of a manufacturing company that dumps its wastes into a stream, one way to lessen the pollution would be for the public to undertake construction of a plant to treat the industrial waste. Such an approach might eliminate the pollution, but it has some inherent disadvantages.

With construction financed presumably out of general tax revenues, there would be no direct increase in the manufacturer's production costs and, therefore, no cost-induced price increase for his product. And without this price increase, no pressure for a reduction in the amount of the good demanded would be initiated from the supply side of the market.

Some reduction in demand might result, of course, from the increase in taxes required to build the treatment plant, but the reduction would probably be slight. Just how effectively such an approach would influence the demand side would depend on the proportion of taxpayers that bought the product of the offending plant, the extent of the tax increase, and the sensitivity of demand for the product to changes in disposable income.

The greatest limitation of this approach, then, is that, with no direct implications for change in either production costs or consumer prices, the costs of pollution are still incurred by the public at large rather than being incorporated in the market price of the product. And, of course, to the extent that some taxpayers are not consumers of the good produced at the polluting plant, the program subsidizes those that are.

Consumers have no incentive to shift demand to less polluting products. The producer has no incentive to change either production methods or the volume of goods produced. And little change in the amounts of waste produced by the plant can be expected.

Another approach

Another approach would be to require the company to adopt certain pollution standards. This approach would eliminate the need for public construction of a waste treatment plant. Instead, the company would be required to change its production technique to reduce the volume of pollutants.

Although some flexibility could be built into the pollution standards, there would probably be instances in which a company could not make the necessary changes in the time allowed and would, presumably, have to stop production. Considerations of the availability of substitute goods,

any social benefits of having adequate supplies of the good produced by the polluting plant, and any problems connected with closing the plant—such as unemployment, loss of capital equipment, or costs of relocation—would, therefore, have to be taken into account in formulating standards.

Revamping a plant to meet disposal requirements will almost certainly result in corresponding increases in its production costs. If the goods could have been produced at a lower cost initially without polluting the stream, the producer would presumably have already done so. And if a technique with less pollution is not known, the producer will have to incur the cost of searching for it. For the company to stay in business, at least part of these costs of meeting pollution standards—which will vary with the particular industry and the severity of the restrictions—must be passed on to consumers as higher prices.

Transfer of resources represents another cost resulting from this approach. It takes time and money to retool a plant or move equipment from one company to another. And when new production techniques are forced on a producer, some specialized equipment is probably rendered obsolete. In the long run, these changes will bring higher prices, which, in turn, will lead some consumers to consider other goods with an eye to reducing their use of the goods in question.

And a third approach

The third alternative is in most direct harmony with efforts to devise a better-functioning price system. It would involve two stages: the cost of waste treatment would be estimated, and, then, this estimated cost would be levied on the polluting company. Imposed as a tax on units of waste

discharged—and possibly varied if marginal cleanup costs could be related directly to the volume of discharge—the levy could be used to build and maintain a waste treatment plant.

With production that resulted in pollution now costing more than production that did not, the company would be encouraged to update its plant as fast as new equipment and techniques became available. And with the tax cost reflected at least partially in the price of the product, consumers could decide whether they wanted the product enough to pay the full cost of its production.

If there were not enough consumers willing to absorb the higher costs resulting from pollution control, the company might have to stop production altogether. In such a case—and assuming there were social benefits to be derived from the good—the public might want to consider alternatives to doing without the product. It would still have the option, for example, of financing waste treatment out of general tax revenue to keep a company in business.

This third approach to pollution problems represents an effort to create a functioning price system where one does not exist. By placing more reliance on the price system for the allocation of resources, this approach is more nearly consistent with the proper functioning of a market economy.

Where suitable technology is available for cleaning up pollution, revenue from the pollution tax can be used for that purpose. Meanwhile, the company is given an incentive to develop more pollution-free production techniques.

In the case of many water pollution problems, the technology for pollution treatment does exist. And policies consistent with the conceptual framework of the third alternative have been proposed.

Application of this approach, however, need not presuppose knowledge of how to reverse the adverse consequences of continuing pollution. By raising the cost of producing the polluting product and, thereby, reducing its production and consumption, a pollution tax can hold pollution to acceptable levels.

Proposals for such a pollution tax have already been made in connection with the use of electricity and automobiles. Progressive taxation on the use of electricity, it has been argued, should be substituted for declining unit-cost structures that encourage consumption. Similarly, taxes based on the pollution capacity of automobiles have been proposed.

While reduction in output would come at a cost to the public, so would continued deterioration of the environment. When the deterioration has become so great that the state of the environment is more important than the loss of some production, this application of the third approach becomes simply a matter of choosing the "lesser of two evils."

A guide for policy

Problems of formulating adequate pollution control policies are complicated by the difficulties of assigning dollar values to the excess of social costs over private costs. A suitable conceptual framework is available, however, to provide a guide in choosing between proposed policies.

Both benefits and costs are involved in cleaning up pollution. The costs are fairly easy to identify. They are the dollar costs of resources used in the cleanup—presumably with no complicating side effects, such as pollution from the cleanup itself.

It is the benefits that pose identification problems. Since the benefits of a cleanup include not

only the restoration of natural resources for purely productive use but also such noneconomic matters of general welfare as ecological balance, the abatement of noise and odors, and a reduction in threats to personal health, dollar values are hard to assign.

It seems clear, however, that where effluences have been treated very little and pollution has become a serious problem, the public can reap substantial benefits from efforts at cleaning up the environment. With each additional effort, more benefits may be achieved. But at some point, about as many benefits will have been obtained as can be without enormous additional effort.

Using the economic tool of marginal analysis, the benefits of pollution control can be viewed in terms of its *marginal benefit*—the benefit from removing an additional unit of pollution from the environment for a definite length of time. This might measure, for example, the gain to society from removing a ton of pollutants from the atmosphere for one day. Costs can be considered in terms of the *marginal cost* of such benefits—the dollar cost, again, of removing a unit of pollution for a specific period.

Since the marginal benefits of eliminating pollutants rise rapidly relative to the cost of such efforts until some point where the relationship begins to reverse itself and every additional benefit costs progressively more to achieve, the most efficient allocation of resources to pollution control can be plotted. The slope of the marginal cost curve depends on many factors, such as the type of production involved in the cleanup and the structure of the market for inputs to the cleanup. After a point, however, marginal costs will begin rising steadily, reaching their maximum only after the marginal benefits have been tapering off for

some time. By contrast, marginal benefits rise initially and then normally level off and begin slowly tapering downward.

The optimal level of pollution control would be at the intersection of these curves—at the point where marginal benefits exactly equal marginal costs. Until then, although the difference is narrowing, the benefits of removing another unit of pollution always exceed the costs. After the point of intersection, the marginal costs exceed the marginal benefits.

This simple technique of analysis has ready application to policy decisions. In 1971, for example, the Senate passed an amendment to the Federal Water Pollution Control Act requiring absolutely no discharge of pollutants into streams by 1985. The cost of achieving this zero discharge goal has been estimated at \$316.5 billion. But it has also been estimated that as much as 95 percent of the pollutants flowing into lakes and streams—and possibly as much as 99 percent—could be eliminated at a cost of \$118.8 billion. This means the bill would require a marginal cost of nearly \$200 billion to eliminate from 1 to 5 percent of the water pollution—and that after the achievement of what is considered high-quality water.

Concluding comments

Any effective environmental policy will necessarily impose hardships on the economy, for such a policy would be designed to change behavior and resource-use patterns. There is now general agreement that some changes are necessary, but they will undoubtedly be costly and often difficult to make.

Discussions, usually in engineering or ecological terms, have already resulted in broadly accepted proposals for alleviating some of the problems of a deteriorating environment. Some of these pro-

posals have been enacted into laws, and new laws are to be expected.

Hopefully, these laws can be designed to make prices reflect the true relative costs of products. Such an approach seems to be the only way to continue placing primary reliance on a market economy to allocate resources and yet escape from those environmental problems that have been the unintended consequences of choices made in a free market.

-Clifford L. Fry

New member bank

The Houston State Bank, Houston, Texas, located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business September 25, 1973, as a member of the Federal Reserve System. The new member bank has a capital structure of \$1,000,000, consisting of capital stock of \$400,000, surplus of \$400,000, and undivided profits and reserves of \$200,000. The officers are: James B. Bexley, President and Chief Executive Officer; Franklin Allen, Vice President; and Bill McClellan, Cashier.

New par banks

The Parkdale Bank, Beaumont, Texas, an insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, September 4, 1973. The officers are: Arthur S. Cagle, President; Richard R. Boyd, Cashier; and Roy Walters, Assistant Cashier.

The Concordia Bank & Trust Company, Vidalia, Louisiana, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, and its Ferriday Branch, Ferriday, Louisiana, were added to the Par List on September 20, 1973. The officers are: John Dale, Jr., President; Travis Gore, Executive Vice President and Cashier; Kenneth Blaylock, Vice President and Manager, Ferriday Office; Willie R. Smith, Vice President; S. L. Winston, Jr. (Inactive), Vice President; William E. Chisholm, Assistant Vice President; Darrell L. Cobb, Assistant Vice President; Victor Cross, Assistant Cashier; and John M. Taylor, Assistant Cashier.

Their Small Size Costs Banks Business of Large Companies

Some of the biggest corporations in Texas report that banks in the state are too small to meet their needs. Almost all the prime bank customers covered in a recent survey maintain extensive banking ties in other states. And some of the most prominent companies based in Texas do no significant banking in the state at all.

The survey was undertaken by the Federal Reserve Bank of Dallas after interviews with eight of the state's very largest companies. When the interviews cast doubt on the adequacy of banking resources in Texas, 34 other major corporations were asked detailed questions about their banking connections. Responses show a heavy dependence on out-of-state banks for credit and services. Most of the demand deposits of these companies are held outside Texas, and even more of the loan balances.

All but three of the 42 companies asked for information have revenues that rank them among the state's 100 leading corporations. And those three just miss being counted in that elite group. Together, these companies have annual sales of more than \$19 billion and assets of nearly \$18 billion. They employ some 400,000 people, working around the world to produce a variety of goods and services for regional, national, and international markets.

Survey results . . .

Most of the companies use Texas banks. Taken as a whole, however, they use twice as many out-of-state banks. And five use no Texas banks at all. More than half of the financial officers contacted re-

ported that their company's principal bank was out of state.

All told, they maintain more than \$600 million in loan and deposit balances at banks in other states. About four-fifths of their current bank loan balances and outstanding lines of credit originate outside Texas. And their deposit accounts are three times greater at out-of-state banks than at banks within the state.

Many of the companies have to turn outside the state for vital bank services. Nearly half of those needing international banking services, for example, reported that they have to go out of state for the types of service they need.

Three-fourths of the nearly 100 out-of-state banking ties reported are with the nation's largest banks in New York, Chicago, and California. New York banks are especially important. They account for two out of every five out-of-state banking relations. And they receive more than half of the out-of-state loan and deposit business generated by these companies. Most of the reporting officers also turn to New York banks when they cannot obtain international banking services in Texas. And most of the officers named a New York institution as their principal bank. Foreign banks, on the other hand, receive very little of their banking business.

The main reason for this outflow of banking business is clearly the size of Texas banks. Banks in the state are simply too small to compete effectively with large out-of-state banks.

Nearly a third of the corporate officials reported that the compar-

atively low lending limits of their Texas banks cause them financing difficulties. These difficulties include inconveniences and problems of timing and coordination. Nine out of ten of these dissatisfied customers have taken their business to out-of-state banks.

Many of the corporate giants would bank more in Texas if they could arrange bigger loans within the state. Of the companies surveyed, close to half would use Texas banks more if lending limits were increased 50 percent. And way more than half would use Texas banks more if the limits were doubled.

Companies still banking in the state deal primarily with the largest institutions. The five largest banks in the state, for example, had well over half the in-state banking ties of these companies. The ten largest banks had three-fourths. And the 25 largest had over 90 percent.

Banking activity is even more concentrated. The five largest banks held 79 percent of the loan and deposit balances these companies had in Texas. The ten largest had 86 percent. And the 25 largest had 99 percent.

But in nearly three-fifths of the cases where Texas banks are used, the banks have to enter into participation loans to meet the borrowing needs of the companies surveyed. And this is despite two-fifths of the companies being unhappy with participation arrangements. More than two-thirds of the participation loans were entered into by out-of-state banks.

More than four-fifths of the respondents regard the largest banks

in Texas as offering rates and services competitive with those found in New York, California, and other major money markets. Asked about Texas banks in general, slightly more than half of them still said that in cost of borrowing and quality of service, Texas banks are competitive with banks out of state. And 7 percent said Texas banks are better. But a significant two-fifths believed that the state's banking system is not competitive.

Regarding their opinions of Texas banking services, nearly half the companies had uncomplimentary comments to make. The most frequent complaint was that Texas banks are not big enough to provide adequate loans and services. Most of the other criticism related to poor service in technical areas, especially international banking, or to poor service in general. In all but two cases, the disgruntled corporate customer has gone out of state for the services he could not find at home.

... and implications

The amount of out-of-state banking done by major Texas corporations is impressive. Even in this limited sample, well over half a billion dollars in loans and deposits left the state last year. The lost loan volume on 34 of the reporting companies alone represented nearly 7 percent of all business loan activity at Texas banks.

Not all out-of-state business belongs at home. The far-flung operations of these large corporations require that many of them maintain banking relationships in the market areas they serve. But the state's banking industry is clearly losing a great deal of potential business—perhaps over a billion dollars a year.

Again, however, the main reason for this business going out of state is the size of Texas banks. Companies as large as those covered in

the survey often need much larger loans than Texas banks can accommodate. They find it costly and inconvenient to deal with small loans or elaborate participation arrangements.

Nearly a third of the companies had switched principal banks to larger ones, even though the move could have cost them preferred status during periods of tight money. Such moves pose a problem for the banking industry in Texas. If its prime customers bank elsewhere, the industry will have trouble developing the size and expertise needed to attract and hold large corporate business. But the problem also impacts on other businesses. If sophisticated banking services are not developed in Texas for use by large corporate customers, they will not be available for smaller businesses either.

As regards the growth of non-financial enterprises in Texas, it is encouraging to find that large corporations have no trouble eventually finding the bank credit and services they need. But what about smaller companies that do not have nationwide reputations and connections? It is the small, rapidly growing enterprises that usually need capital and financial expertise most desperately. What are such companies to do if local banking resources are not adequate for their needs and out-of-state banks will not serve them?

In one sense, the survey may have covered the wrong companies. A canvass of smaller companies might have done better uncovering local banking problems. But results of this study clearly suggest that banking resources in Texas are either inadequate or—probably because they are so thinly spread among small banks—inefficiently organized.

One remedy would be the promotion of larger banking organizations in the state. Since branch

banking is prohibited in Texas and internal growth is slow and uncertain, the bank holding company device seems to hold some promise. Large multibank holding companies not only pool the resources of their members but may provide management efficiencies, better access to organized capital markets, and diversification in both product lines and geographic areas.

Care must be taken, of course, to preserve the competitive market structure of the state's banking industry. Otherwise, undue concentration of banking resources could reduce the output of credit and services instead of increasing it. But statewide concentration is not a problem now. The largest banking organization in Texas controls only about 7 percent of the state's deposits. Since the Bank Holding Company Act provides regulatory authorities tools to prevent anticompetitive developments, the current bank holding company movement may be a healthy response to the banking deficiencies in Texas.

—John R. Stodden



Statistical Supplement to the Business Review

Total credit at weekly reporting banks in the Eleventh District rose substantially in the four weeks ended September 19. Heavy loan demands were financed mainly by a sizable inflow of deposit funds.

The increase in total loans was due largely to a greater than usual rise in demand for business loans. Real estate loans rose only slightly, as construction in the District remained weak—probably because of high interest rates and rising costs of labor and materials. Demand for consumer loans was fairly weak, as many borrowers apparently were more restrained as a result of uncertainties over the outlook for inflation and general business conditions.

Despite a decline in their holdings of Treasury bills, on balance, banks added to their portfolios of Government securities. Holdings of other securities fell slightly, even though banks added a small volume of municipal issues to their portfolios.

As a result of gains in both demand deposits and time and savings deposits, total deposits increased substantially. Reflected mainly in the rise in time and savings deposits was a sizable increase in large CD's outstanding. With an ample supply of deposit funds to meet credit needs, banks substantially reduced their borrowings in the Eurodollar market. Also, bank-related commercial paper declined slightly.

The seasonally adjusted Texas industrial production index advanced 1.1 percent in August to a level 7.3 percent higher than a year before. The advance resulted from gains in manufacturing and mining. Output of utilities declined.

In manufacturing, production of nondurable goods was up 1.5 percent, reflecting advances in chemical and allied products, petroleum refining, and leather products that more than offset declines in food and textile products. Production of durable goods increased 1.3 percent, despite declines in furniture and fixtures.

The advance in mining was led by a rise of more than 3 percent in the production of metal, stone, and earth minerals. Crude oil production was up 1.2 percent, but natural gas production dropped slightly. As a result of declines in the distribution of electricity and gas, the output of utilities fell nearly 1.3 percent.

Seasonally adjusted total employment in the five southwestern states rose 0.3 percent in August, reaching a level 3.3 percent higher than a year before. Because of a sharp 0.6-percent increase in the labor force, however, the unemployment rate rose, reaching 4.1 percent, compared with 3.8 percent in July.

Nonagricultural employment was up 0.2 percent. Led by impressive gains in mining and construction, employment outside manufacturing rose 0.3 percent. But manufacturing employment was about the same as in July. Although employment in durable manufacturing increased, the gain was offset by a decline in nondurable manufacturing.

Registrations of new passenger automobiles in the four largest metropolitan counties of Texas—Bexar, Dallas, Harris, and Tarrant—increased in August, reaching a level 13 percent higher than in

August 1972. Cumulative registrations for the first eight months of this year were 16 percent greater than in the same period last year. Dallas had the largest cumulative gain—an 18-percent increase. Other cumulative gains were Harris County (Houston), 17 percent; Tarrant County (Fort Worth), 15 percent; and Bexar County (San Antonio), 11 percent.

Department store sales in the Eleventh District were 15 percent higher in the four weeks ended September 22 than in the comparable period last year. Cumulative sales through that date were 13 percent greater than in the corresponding period last year.

Agricultural prospects in the Eleventh District were generally improved in September. Although heavy rains delayed some harvesting and other field work over much of the District, most crops benefited and grazing conditions improved. The main exception was the rice crop, which suffered heavy losses from Tropical Storm Delia.

The month began with sorghum production in District states estimated at 488 million bushels and soybean production at 55 million bushels. Both estimates represented improvements in outlook over a month before and sharp increases over 1972 production levels. The cotton estimate totaled 6.3 million bales. This projection for the five-state area—3 percent higher than output last year—was due primarily to expanded cotton acreage in Texas. Crops in Louisiana, New Mexico, and Arizona were, however, expected to be off from a year before.

(Continued on back page)

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Sept. 19,	Aug. 22,	Sept. 20,	LIABILITIES	Sept. 19,	Aug. 22,	Sept. 20,
	1973	1973	1972		1973	1973	1972
Federal funds sold and securities purchased under agreements to resell	1,001,502	947,045	914,050	Total deposits	13,524,412	13,333,464	12,438,720
Other loans and discounts, gross	9,729,332	9,646,081	8,183,490	Total demand deposits	6,700,027	6,649,087	6,800,275
Commercial and industrial loans	4,405,737	4,352,716	3,635,246	Individuals, partnerships, and corporations	4,877,827	4,813,100	4,738,032
Agricultural loans, excluding CCC certificates of interest	283,442	280,006	193,508	States and political subdivisions	277,867	405,462	374,337
Loans to brokers and dealers for purchasing or carrying:				U.S. Government	150,032	70,912	264,431
U.S. Government securities	851	821	1,166	Banks in the United States	1,231,179	1,209,546	1,302,538
Other securities	46,163	44,925	85,227	Foreign:			
Other loans for purchasing or carrying:				Governments, official institutions, central banks, and international institutions	2,972	3,362	3,336
U.S. Government securities	7,076	7,466	6,429	Commercial banks	49,820	52,846	36,370
Other securities	479,036	481,535	454,692	Certified and officers' checks, etc.	110,330	93,859	81,231
Loans to nonbank financial institutions:				Total time and savings deposits	6,824,385	6,684,377	5,638,445
Sales finance, personal finance, factors, and other business credit companies	145,158	153,813	131,919	Individuals, partnerships, and corporations:			
Other	651,955	646,904	686,753	Savings deposits	1,137,139	1,146,924	1,194,620
Real estate loans	1,367,185	1,371,310	1,092,046	Other time deposits	3,749,203	3,602,304	2,942,334
Loans to domestic commercial banks	32,412	28,053	16,120	States and political subdivisions	1,787,378	1,803,200	1,370,267
Loans to foreign banks	74,151	63,572	30,846	U.S. Government (including postal savings)	21,954	23,267	22,945
Consumer installment loans	1,062,766	1,058,758	925,273	Banks in the United States	103,691	83,862	93,779
Loans to foreign governments, official institutions, central banks, and international institutions	270	520	0	Foreign:			
Other loans	1,173,130	1,155,682	924,265	Governments, official institutions, central banks, and international institutions	25,000	24,800	13,400
Total investments	3,951,594	3,940,221	3,647,053	Commercial banks	20	20	1,100
Total U.S. Government securities	975,473	958,742	1,000,772	Federal funds purchased and securities sold under agreements to repurchase	2,473,564	2,472,358	1,953,034
Treasury bills	169,812	207,595	166,736	Other liabilities for borrowed money	311,161	202,649	100,236
Treasury certificates of indebtedness	0	0	0	Other liabilities	561,304	560,895	449,724
Treasury notes and U.S. Government bonds maturing:				Reserves on loans	165,814	166,161	139,681
Within 1 year	151,180	137,788	135,193	Reserves on securities	14,359	13,982	19,159
1 year to 5 years	494,950	446,637	492,360	Total capital accounts	1,222,568	1,230,580	1,139,903
After 5 years	159,531	166,722	206,483				
Obligations of states and political subdivisions:				TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	18,273,182	17,980,089	16,240,457
Tax warrants and short-term notes and bills	128,478	144,653	142,818				
All other	2,595,067	2,574,819	2,253,818				
Other bonds, corporate stocks, and securities:							
Certificates representing participations in:							
Federal agency loans	8,561	8,520	15,004				
All other (including corporate stocks)	244,015	253,487	234,641				
Cash items in process of collection	1,433,964	1,463,689	1,445,180				
Reserves with Federal Reserve Bank	755,292	651,768	926,969				
Currency and coin	124,102	124,089	104,447				
Balances with banks in the United States	446,822	391,679	400,564				
Balances with banks in foreign countries	15,321	17,070	12,354				
Other assets (including investments in subsidiaries not consolidated)	815,253	798,447	606,350				
TOTAL ASSETS	18,273,182	17,980,089	16,240,457				

r—Revised

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Aug. 29,	July 25,	Aug. 30,
	1973	1973	1972
ASSETS			
Loans and discounts, gross	18,719	18,691	16,033
U.S. Government obligations	2,279	2,266	2,310
Other securities	6,036	5,906	5,228
Reserves with Federal Reserve Bank	1,435	1,369	1,501
Cash in vault	352	342	314
Balances with banks in the United States	1,194	1,221	1,190
Balances with banks in foreign countries ^a	21	15	16
Cash items in process of collection	1,588	1,558	1,514
Other assets ^a	1,514	1,481	1,180
TOTAL ASSETS ^a	33,138	32,849	29,286
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,568	1,586	1,689
Other demand deposits	11,199	11,248	10,557
Time deposits	13,574	13,413	11,498
Total deposits	26,341	26,247	23,744
Borrowings	3,143	3,041	2,094
Other liabilities ^a	1,327	1,243	1,467
Total capital accounts ^a	2,327	2,318	1,981
TOTAL LIABILITIES AND CAPITAL ACCOUNTS ^a	33,138	32,849	29,286

e—Estimated

DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	DEMAND DEPOSITS			TIME DEPOSITS	
	Total	Adjusted ¹	U.S. Government	Total	Savings
1971: August	11,468	8,097	242	9,615	2,437
1972: August	12,420	8,824	226	11,441	2,717
September	12,619	8,933	254	11,492	2,744
October	12,866	9,034	264	11,618	2,770
November	12,844	9,321	222	12,009	2,786
December	13,439	9,688	289	12,261	2,812
1973: January	13,636	9,802	317	12,501	2,815
February	13,270	9,516	379	12,811	2,817
March	13,203	9,454	395	13,038	2,848
April	13,237	9,550	331	13,249	2,855
May	13,136	9,502	341	13,336	2,859
June	13,218	9,551	279	13,374	2,884
July	13,259	9,567	261	13,396	2,868
August	12,941	9,492	172	13,507	2,857

1. Other than those of U.S. Government and domestic commercial banks, less cash items in process of collection

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	5 weeks ended Sept. 5, 1973	4 weeks ended Aug. 1, 1973	5 weeks ended Sept. 6, 1972
Total reserves held	1,795,557	1,818,526	1,909,438
With Federal Reserve Bank	1,491,421	1,513,643	1,636,258
Currency and coin	304,136	304,883	273,180
Required reserves	1,786,515	1,804,716	1,890,748
Excess reserves	9,042	13,810	18,690
Borrowings	102,966	131,982	3,092
Free reserves	-93,924	-118,172	15,598

BANK DEBITS, END-OF-MONTH DEPOSITS, AND DEPOSIT TURNOVER

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS ¹				DEMAND DEPOSITS ¹			
	August 1973 (Annual-rate basis)	Percent change			August 31, 1973	August 1973	Annual rate of turnover	
		July 1973	August 1972	8 months, 1973 from 1972			July 1973	August 1972
ARIZONA: Tucson	\$15,528,923	17%	51%	36%	\$358,618	44.5	38.5	32.6
LOUISIANA: Monroe	5,010,090	6	16	21	120,147	42.5	40.6	38.1
Shreveport	19,335,966	21	37	22	311,284	60.8	50.2	47.1
NEW MEXICO: Roswell ²	1,387,523	20	49	19	50,402	27.4	22.7	21.0
TEXAS: Abilene	3,537,251	11	32	21	141,192	24.4	22.0	21.7
Amarillo	11,659,832	20	45	29	210,867	54.0	43.4	42.6
Austin	16,566,251	7	31	15	447,251	36.8	31.8	29.3
Beaumont-Port Arthur-Orange	8,785,844	3	23	17	282,943	31.0	30.2	26.6
Brownsville-Harlingen-San Benito	2,809,951	-6	10	21	112,168	24.4	25.0	25.6
Bryan-College Station	1,750,398	21	10	14	59,101	30.1	24.9	30.2
Corpus Christi	9,115,210	2	22	15	297,011	31.0	31.0	28.0
Corsicana ²	662,366	6	20	24	41,739	15.8	15.0	15.2
Dallas	226,708,116	8	44	27	2,887,134	77.7	70.8	56.2
El Paso	11,784,523	2	11	17	318,071	36.8	36.1	35.5
Fort Worth	33,648,208	10	11	11	843,444	39.8	36.3	38.1
Galveston-Texas City	3,898,618	7	15	17	135,797	29.0	28.2	26.9
Houston	167,083,142	-1	14	19	3,239,592	50.6	50.4	46.6
Killeen-Temple	2,553,124	1	28	27	117,238	21.6	21.1	18.7
Laredo	1,553,897	5	25	24	61,719	25.8	25.2	24.5
Lubbock	8,882,176	12	59	39	227,240	38.5	34.6	28.6
McAllen-Pharr-Edinburg	3,650,963	5	43	34	155,439	21.8	19.7	18.5
Midland	2,899,898	9	21	16	154,527	18.5	16.8	16.3
Odessa	2,463,820	12	34	20	102,390	23.8	21.4	17.3
San Angelo	2,226,414	14	35	23	84,480	26.5	22.2	21.1
San Antonio	28,887,025	9	25	20	912,867	31.7	29.3	27.8
Sherman-Denison	1,662,097	7	24	15	84,806	19.3	17.7	17.7
Texarkana (Texas-Arkansas)	2,134,517	10	18	12	88,277	23.5	21.2	21.2
Tyler	3,077,921	0	-2	13	123,218	24.0	23.1	26.6
Waco	4,870,878	5	6	16	160,233	30.6	29.7	30.6
Wichita Falls	3,729,805	5	29	17	150,065	24.4	23.1	21.8
Total—30 centers	\$608,164,747	6%	28%	22%	\$12,278,260	49.0	45.7	40.9

1. Deposits of individuals, partnerships, and corporations and of states and political subdivisions
2. County basis

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	Sept. 19, 1973	Aug. 22, 1973	Sept. 19, 1972
Total gold certificate reserves	374,202	196,193	258,294
Loans to member banks	185,432	72,375	37,500
Other loans	0	0	0
Federal agency obligations	65,755	71,676	47,298
U.S. Government securities	3,074,281	3,303,148	3,149,752
Total earning assets	3,325,468	3,447,199	3,234,550
Member bank reserve deposits	1,400,793	1,274,045	1,624,810
Federal Reserve notes in actual circulation	2,359,558	2,357,258	2,177,107

BUILDING PERMITS

VALUATION (Dollar amounts in thousands)

Area	Percent change							
	NUMBER				August 1973 from			
	August 1973	8 mos. 1973	August 1973	8 mos. 1973	July 1973	Aug. 1972	8 months, 1973 from 1972	
ARIZONA								
Tucson	444	4,233	\$12,526	\$122,191	34%	87%	-6%	
LOUISIANA								
Monroe-West								
Monroe	64	656	1,612	20,657	-57	62	13	
Shreveport	501	3,632	5,341	57,724	-21	-17	36	
TEXAS								
Abilene	65	593	689	19,044	-42	-74	43	
Amarillo	150	1,297	2,993	36,950	39	-32	67	
Austin	509	4,010	27,499	179,256	1	41	6	
Beaumont	201	1,550	3,319	22,920	82	183	24	
Brownsville	101	794	5,393	22,409	206	247	123	
Corpus Christi	253	2,348	1,829	37,133	-61	-71	-19	
Dallas	2,696	12,376	27,671	226,421	-1	11	-22	
Denison	23	222	62	1,911	-51	-81	-16	
El Paso	519	4,241	23,323	126,544	112	155	4	
Fort Worth	319	2,984	11,525	84,413	46	47	48	
Galveston	63	445	377	6,756	20	-27	-17	
Houston	2,659	21,353	58,174	490,710	40	5	10	
Laredo	30	352	778	14,324	-49	23	39	
Lubbock	116	1,256	3,855	49,708	111	-10	32	
Midland	50	656	278	10,204	-62	-93	-35	
Odessa	117	882	714	10,565	7	-71	-49	
Port Arthur	78	819	410	4,571	136	-11	6	
San Angelo	85	651	993	7,403	-7	-4	26	
San Antonio	1,923	14,681	24,577	169,603	6	-4	8	
Sherman	23	296	352	4,145	-14	-11	-20	
Texarkana	59	421	1,656	4,690	150	346	-13	
Waco	225	1,658	3,492	26,911	11	-6	4	
Wichita Falls	84	604	12,294	25,056	756	344	120	
Total—26 cities	11,357	83,010	\$231,732	\$1,782,219	27%	20%	5%	

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	August 1973	July 1973	June 1973	January—August	
				1973	1972r
FIVE SOUTHWESTERN STATES ¹	1,199	1,005	1,018	8,143	7,914
Residential building	467	464	446	3,888	3,965
Nonresidential building	385	318	353	2,742	2,077
Nonbuilding construction	347	223	219	1,513	1,872
Residential building	69,777	61,215			
Nonresidential building	33,484	30,024			
Nonbuilding construction	17,970	17,970			
Residential building	4,233	4,224	4,612	21,690	13,221
Nonresidential building	3,241	2,991	2,976	14,603	
Nonbuilding construction	2,828	2,013	2,323		

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
r—Revised
NOTE: Details may not add to totals because of rounding.
SOURCE: F. W. Dodge, McGraw-Hill, Inc.

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	August 1973	July 1973	August 1972	Percent change from	
				July 1973	August 1972
FOUR SOUTHWESTERN STATES					
Louisiana	6,788.2	6,760.2	7,042.7	0.4%	-3.6%
New Mexico	2,281.6	2,281.8	2,608.9	.0	-12.5
Oklahoma	271.7	269.0	310.0	1.0	-12.4
Texas	536.9	521.0	564.5	3.1	-4.9
Gulf Coast	3,698.0	3,688.4	3,559.3	.3	3.9
West Texas	734.1	738.7	731.7	-6	.3
East Texas (proper)	1,888.8	1,870.1	1,727.5	1.0	9.3
Panhandle	251.8	254.2	249.8	-.9	.8
Rest of state	65.6	62.4	67.1	5.1	-2.2
United States	757.6	763.0	783.2	-7	-3.3
UNITED STATES	9,406.3	9,346.0	9,622.9	.6%	-2.3%

r—Revised

SOURCES: American Petroleum Institute
U.S. Bureau of Mines
Federal Reserve Bank of Dallas

COTTON PRODUCTION

Texas Crop Reporting Districts

(Thousand 480-pound net weight bales)

Area	1973, indicated Sept. 1	1972	1971	1973 as percent of 1972
1-N—Northern High Plains	480	409	219	117%
1-S—Southern High Plains	2,160	1,755	1,036	123
2-N—Red Bed Plains	415	386	205	108
2-S—Red Bed Plains	480	415	200	116
3—Western Cross Timbers	15	16	6	94
4—Black and Grand Prairies	480	491	311	98
5-N—East Texas Timbered Plains	15	25	19	60
5-S—East Texas Timbered Plains	35	44	23	80
6—Trans-Pecos	107	117	121	91
7—Edwards Plateau	70	55	37	127
8-N—Southern Texas Prairies	40	50	28	80
8-S—Southern Texas Prairies	60	88	54	68
9—Coastal Prairies	90	118	80	76
10-N—South Texas Plains	15	16	7	94
10-S—Lower Rio Grande Valley	220	292	269	75
State	4,682	4,277	2,614	109%

NOTE: Details may not add to totals because of rounding
SOURCE: U.S. Department of Agriculture

Cattle on feed in Texas came to 2.3 million head on September 1. Arizona, the District's other major cattle feeding state, had 556,000 head on feed. Both totals were only marginally over August—when marketings in both states were off from a year before. The number on feed in Texas, however, was up 10 percent from September 1972.

There was a broad decline in average prices received by Texas farmers and ranchers since the 20-percent surge in the month ended August 15. But prices through mid-September continued

far above year-earlier levels. Cash receipts from farm marketings in the five states totaled \$5 billion in the first seven months of the year—30 percent more than in the same period last year.

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States¹

(Seasonally adjusted)

Item	Thousands of persons					Percent change Aug. 1973 from	
	August 1973p	July 1973	August 1972r	July 1973	August 1972	July 1973	August 1972
Civilian labor force	8,946.0	8,894.1	8,686.0	0.6%	3.0%		
Total employment	8,582.3	8,555.2	8,312.1	.3	3.3		
Total unemployment	363.7	338.9	373.9	7.3	-2.7		
Unemployment rate	4.1%	3.8%	4.3%	2.3	2.2		
Total nonagricultural wage and salary employment	7,081.2	7,064.5	6,794.3	.2	4.2		
Manufacturing	1,233.8	1,233.5	1,178.9	.0	4.7		
Durable	693.1	690.9	646.6	.3	7.2		
Nondurable	540.6	542.6	532.3	-4	1.6		
Nonmanufacturing	5,847.5	5,830.9	5,615.4	.3	4.1		
Mining	234.1	232.8	231.5	.6	1.1		
Construction	489.7	487.7	451.0	.4	8.6		
Transportation and public utilities	479.5	478.4	463.2	.2	3.5		
Trade	1,693.5	1,691.3	1,626.0	.1	4.2		
Finance	385.9	384.6	362.3	.3	6.5		
Service	1,156.9	1,153.2	1,112.9	.3	4.0		
Government	1,407.8	1,403.1	1,368.4	.3%	2.9%		

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas

2. Actual change

p—Preliminary

r—Revised

NOTE: Details may not add to totals because of rounding.

SOURCES: State employment agencies

Federal Reserve Bank of Dallas (seasonal adjustment)

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1967 = 100)

Area and type of index	August 1973p	July 1973	June 1973	August 1972
TEXAS				
Total industrial production	139.9	138.5	137.3r	130.4
Manufacturing	144.5	142.5	142.5r	131.7
Durable	159.0	157.0	157.1	142.2
Nondurable	134.1	132.1	132.0r	124.1
Mining	124.5	123.3	119.3r	121.3
Utilities	156.4	158.5	157.9r	153.1
UNITED STATES				
Total industrial production	126.2	126.5	125.6r	116.3r
Manufacturing	125.7	126.2	125.7r	115.4r
Durable	122.2	123.4	123.1r	109.7r
Nondurable	130.7	130.3	129.3	123.6r
Mining	113.1	111.8	109.8r	108.8r
Utilities	152.4	151.2	150.3r	144.9r

p—Preliminary

r—Revised

SOURCES: Board of Governors of the Federal Reserve System
Federal Reserve Bank of Dallas