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Editor: William Burke
The Cause and the Cure

Not too many years ago, policymakers were worried about the sluggishness rather than the overexuberance of the national economy, so they utilized expansionary monetary and fiscal policies to bring the economy up to its full potential. The policies worked well, and by the middle of the decade the nation was operating at relatively full employment with little pressure on prices. But then, with escalation in Vietnam, a wartime boom was placed atop the ongoing boom in household and business demand. (By 1968, Vietnam was adding about $30 billion to consumer incomes while adding nothing to the supply of consumer goods.) The result was a textbook case of inflation, as the spending power of the domestic economy outran the supply of goods and services available at existing prices.

Today, as a consequence, the nation must deal with the Procrustean task of adjusting burgeoning demands to the relatively limited supply of goods, primarily by shaking marginal demands out of the marketplace. This can be approached through continued inflation, through direct controls, or through monetary and fiscal policies. Choosing among the alternatives, most observers have rejected the inflationary solution out of hand, because of the brutally uneven way in which it operates, with most of the burden being borne by low-income people on fixed incomes.

Still, some observers have recently suggested re-instituting mandatory wage and price controls, of the type that prevailed during the two major wars of this century. Designed as they were
to substitute rationing by the queue or the coupon for rationing by
the purse, controls were relatively successful in suppressing infla-
tionary symptoms for a time, but they then set the stage for an
inflationary blow-off when the pressure was released. Controls,
moreover, not only interfered with the productive efficiency of the
economy by undermining the price mechanism, but they also re-
quired general acceptance of a system of priorities and the creation
of a bureaucratic apparatus that was costly in terms of both dollars
and economic resources.

The present argument for controls has a beguiling simplicity
— pass a law and the rapid upsurge in costs and prices will come
to an end. But those who support controls tend to forget that
one man’s price is another man’s cost, or perhaps they simply
think that their own prices will remain free when everyone else’s
prices are controlled. In other words, they seem to assume that
when the jerry-built structure of controls and rationing is erected
in place of the price mechanism, they and they alone will be at
the head of every queue. Logically, it seems unlikely.

The monetary-fiscal approach is the only solution that prom-
ises to curb inflation without hobbling the normal allocation of
available supplies through the price mechanism. With a tight fiscal
policy, businesses and households will have less cash to buy less
essential goods; with a tight monetary policy, borrowers will be
able to obtain less credit to undertake less essential commitments.
Thus, as pressure is steadily applied, the American economy with
its immense productive capacity will gain the time it needs to fulfill
all but the most marginal demands — and at a reasonably stable
level of prices.

But in any case, we cannot today avoid the burden of choice,
when all sectors of the economy want more than is available at
existing prices. As Federal Reserve Chairman Martin recently
said, the task of curbing inflation will call for “a good deal of pain
and suffering.” Thus, painful choices will tell the story of 1969.
The $2-billion mobile-home industry has been moving rapidly ahead in recent years. Whether as a producer of the millions of units used by vacationers on the nation's highways or as a producer of the relatively permanent units found scattered in mobile-home parks throughout the nation, the industry has tripled its output so far in the present decade. Over the 1960-68 period, shipments (that is, factory sales) doubled in the West, to 44,000 units, and more than tripled elsewhere, to 273,000 units. As a result of the rising sales of this type of housing, about 6 million people live in the nation's more than 2 million mobile homes, and about 1 million of that total live in the 430,000 units scattered around the Western states.

California led the sales pace in the early 1960's but it has since lost some ground relative to other states, especially during the middle years of the decade. California in 1968, with shipments of 19,000 units, lagged behind the sales performance of both Florida (26,000) and Texas (24,000). Michigan and Georgia followed California in the 1968 sales parade, each with roughly 16,000 units sold. In other Western regions, the Pacific Northwest recorded shipments of over 15,000 units in 1968, and the Mountain states accounted for over 9,000 more.

This recent upsurge has brought sales to a point where they equal 17 percent of the nation's new housing. (Mobile homes, however, are not included in housing-starts statistics.) Mobile homes, with their obvious advantages of economy and convenience, thus have assumed an increasingly important role in housing the nation's growing population.

Over this decade, the fortunes of the mobile-home industry have paralleled those of the Western housing industry. Over the 1960-64 period, when the West accounted for 26 percent of the nation's population growth, it produced almost 29 percent of the nation's new housing and sold almost 19 percent of its mobile homes. But over the 1964-68 period, as this region's share of U.S. population growth dropped to 24 percent, it produced only 21½ percent of the housing total and sold only 14 percent of the mobile-home total.

The buyers

As already indicated, about 6 million people live in mobile homes throughout the nation. Some select this way of life as a means of obtaining satisfactory housing in rapidly developing areas where inexpensive conventional housing is not available, or in areas where employment opportunities are uncertain and rental housing scarce. But in addition, some utilize mobile homes as permanent housing—in particular, young marrieds and retired people with relatively limited incomes.

According to a 1967 Census survey, people who live in mobile homes generally are younger and poorer than the average U.S. family. The median age of the mobile-home household head is 35 years—13 years below the median age of household heads in the general population. (This is true even though retired people account for one-fourth of all
mobile-home owners.) Moreover, over 60 percent of mobile-home owners have incomes below the U.S. median. One-half of such owners are engaged in skilled and semiskilled work—craftsmen and machine operators, for example—and most represent small families, generally without children.

These individuals are attracted to mobile-home housing by such factors as low cost and convenience. The most important of these factors is low cost. The average cost of a furnished mobile home is $8.70 per square foot, as against $18.50 per square foot for a conventional housing unit. Moreover, the price of such a unit runs about $6,000 for the standard 12-feet-wide, 60-feet-long model—a price that is well within reach of the pocketbooks of small families priced out of the conventional housing market.

Most mobile homes also provide highly livable quarters suitable for year-round living. In fact, a two-level townhouse luxury model, priced in the $8,000-$15,000 range, offers such features as natural wood exteriors, air conditioning, and wall-to-wall carpets.

Mobile homes also offer generally easy financing terms, with most units being financed in the same manner as automobiles. (Roughly $3.5 billion in commercial-bank and finance-company loans are now outstanding on mobile homes.) In addition, the larger permanent units are eligible for regular FHA mortgage financing with long maturities, and mobile-home parks have recently become eligible for liberalized FHA financing. And from the tax standpoint, the in-lieu taxes levied on mobile homes by local governments generally amount to only a fraction of the property taxes levied on conventional units.

The producers

On the production side, the mobile-home industry is large but still relatively unconcentrated. The industry is composed of about 360 manufacturers, with 483 plants scattered throughout the nation. Of that total, 71 plants are located in the West—mostly in California (46 plants), Idaho (12), and Oregon (7). At the beginning of the decade, the West produced about 15 percent of all mobile homes, but its share of U.S. production today is closer to 10 percent of the total.

The industry in many respects resembles the turn-of-the-century auto industry. Some of the 483 manufacturing plants produce as many as 250 units a week, but other plants produce no more than one or two weekly.
Most plants are small-scale enterprises, capitalized at around $100,000 each, and employing less than 100 workers. (Still, concentration is growing apace; the top 15 firms account for 60 percent of the national market, and in California the three largest producers account for 40 percent of the state's total shipments.) The 8,000 dealers throughout the nation sell some 600 different brands of mobile homes, and many dealers carry the products of as many as four or five different manufacturers.

The industry's product has changed considerably in recent years. Today's mobile home is no longer in the same category with the old-fashioned travel trailer; instead, it is designed along the lines of the conventional housing unit. Today's mobile homes are at least 10 feet wide and 29 feet long—the most popular item is the 12-feet-wide 60-feet-long model first produced in 1962—and their prices range between $4,000 and $50,000, with 60 percent of the total selling between $5,000 and $10,000. (Trailers, in contrast, are designed only for temporary use, have a maximum width of 8 feet and maximum length of 32 feet, and sell within the range of $1,400 to $9,000.)

The trend in mobile-home production thus is towards ever-longer and ever-wider units. Over the past decade, the average length has almost doubled from 35 feet to over 60 feet, and more and more of the wider units have been produced, while those smaller than 10-to-12 feet wide have rapidly declined.

This trend has now culminated in the production of double-wide and expandable units, which are designed to provide extra living space without increasing the basic width of the unit when it is towed over the highway. A double-wide unit simply consists of two mobile sections joined into a single unit in a mobile-park space; two standard 12-feet-wide 60-feet-long units thus provide about 1,500 square-feet of living space, matching the size of a fair-sized apartment.

West accounts for one-third of all mobile-home parks in nation

![Graph showing the number of mobile-home parks in the West and other U.S. from 1960 to 1968]

Parking space

The rapid increase in production over recent years has created a need for development of more and more parking space for mobile homes. The West dominates this immobile segment of the industry, since throughout this decade District states have accounted for roughly one-third of all standard-sized parks in the entire nation. (The number of such parks, each with 15 or more spaces, has actually declined during this decade, but their average size has meanwhile increased.) In 1968, California had about 2,000 mobile home parks; Arizona and Washington had about 1,000 between them, and other District states, 1,000 more. In all, these 4,000 parks had room for 267,000 homes.

The newer parks are a far cry from the trailer camps of the 1930's. Many new developments have planned room for 300-500 spaces each, as against the present average of 75 spaces per park, and many boast such features as community centers, swimming pools, shuffleboard courts, and pitch-and-putt courses. Many parks today have a density of only 8 spaces per acre—only one-half the average density of 1960 and one-fourth the average density of 1930. Spaces in these parks are generally rented (not sold) at an average of $40 a month, including utilities, although the price range goes from $15 a month for an old-style trailer camp to $250 a month for a modern luxury court.
Future growth

The future of the industry, to a large extent, is tied in with the future of the nation’s housing industry. Most housing analysts see a market for at least 2 million new housing units annually within the near future, but in view of the recent trend of housing costs they also see difficulties for those low-income families who want to buy or rent a conventional housing unit. The mobile-home industry thus may be called upon to fill the gap at the lower-income end of the housing industry; already, in fact, mobile-home dealers handle roughly 3 out of every 4 housing units sold under $15,000.

Mobile-home sales nationwide jumped about 30 percent in 1968, to 317,000 units, and they may well increase by the same amount in 1969—perhaps even to 400,000 units, the goal which the Mobile Home Association several years ago targeted for 1975. The industry’s future growth, like this rapid growth of the recent past, will depend largely upon the continued expansion of those segments of the population that desire inexpensive, convenient, and easily maintainable housing.

One of those segments is the younger married group, which is already the mainstay of the mobile home market, accounting for roughly 43 percent of total sales. But that group should grow by at least 40 percent over the next decade, and should thus continue to provide a strong underpinning to demand. In addition, demand will be reinforced by the ever-growing size of the retired population.

The future growth of the industry will also depend upon the utilization of the modular concept of construction for permanent housing for the nation’s lower- and medium-income families. This type of mass-construction technique should play a major role in meeting the nation’s housing goals over the next decade. In heavily urbanized areas in particular, the industry’s major contribution may take the form of modular units—especially in high-rise apartment buildings—rather than the form of mobile homes.

Future problems

The industry nonetheless will face some obstacles in its path. For one thing, the shortage of mobile-park space is a problem, especially since it is complicated in many areas by restrictive zoning laws. Still, many major producers are working to meet this problem; for example, a Western-based producer has recently embarked upon a 10-year, $300-million program to develop 300 parks throughout the nation.

Another problem is the lack of adequate financing which still plagues some segments of the industry. But here again, efforts have been made recently to meet the problem. The Federal Home Loan Bank Board has authorized savings-and-loan associations to make mobile-home loans for periods up to 12 years’ maturity, and HUD Secretary Romney meanwhile has moved to extend the terms of FHA-backed mortgages for mobile-home sites to 40 years from the present 15-year limitation, and to raise the coverage to 90 percent of value as against the present 75-percent limit. With efforts of this type, the mobile-home industry should become an increasingly useful adjunct to the residential-construction industry in meeting the housing needs of the 1970’s

—Paul Ma
Time-Deposit Shifts

Whenever money-market rates rise sharply, banks become apprehensive about possible disintermediation — the withdrawal of individual and business savings from depository institutions which operate under fixed rate ceilings for reinvestment in other money-market instruments paying higher rates of return. Concern over disintermediation thus has intensified in the present atmosphere, because businesses and other rate-sensitive investors hold a sizable volume of large-denomination time certificates and because individual savers (and not only larger investors) have become increasingly sensitive to even small rate differentials. Some measure of the extent of the problem can be gained from an analysis of the Federal Reserve's quarterly surveys of time-and-savings deposit flows.

Data from recent surveys show that commercial banks in the West were less successful than commercial banks elsewhere in attracting (or retaining) individuals' savings funds between the January and April 1968 survey dates, but were more successful than other banks from October 1968 through January 1969. (Data were gathered as of the end of each survey month.) On the other hand, during both these tight-money periods Western banks experienced less attrition in business-type certificates than other commercial banks. (National survey data are not yet available for January-April 1969, but preliminary data for Western member banks show a greater amount of disintermediation during that period than in the earlier periods.)

Individual savings: reduced inflow

During 1968, banks in the West, as elsewhere in the nation, experienced a reduced inflow into individual savings deposits—that is, the total inflow into regular passbook savings deposits, consumer-type open-account time deposits (generally in “passbook-type” form), and time certificates held by individuals. For one reason, the ratio of savings to disposable income was lower in 1968 than in 1967, and the savings deposit inflow reflected this less favorable ratio. For another, the general rise in market rates made the fixed interest rate on passbook savings and consumer certificates less attractive in comparison with rates of return on alternate investments available to individuals. In the West, an additional factor in the reduced flow of savings was the large increase in tax payments required in early 1968 because of sharply higher tax rates imposed by state and local governments.

Despite disintermediation, West posts modest time-deposit gain

Billions of Dollars

Despite disintermediation, West posts modest time-deposit gain
Between January 1968 and January 1969, consumer-type savings at Western banks increased by about 6 percent—substantially below the 10-percent rate of increase recorded by commercial banks elsewhere. (Western data are based upon statistics for Twelfth District member banks, which account for 90 percent of time-and-savings deposits of all commercial banks in the District.)

Over the entire twelve-month period, member banks in California reported a growth of only 5 percent in consumer savings—the smallest percentage gain of any of the Twelfth District states. The largest gains were recorded by Arizona and Nevada member banks, with increases of 11 and 13 percent, respectively.

**No gain in passbook savings**

Western banks posted no increase at all in regular passbook savings, the major type of consumer savings instrument, over the January-to-January time-span. This situation reflected the substantial withdrawals from passbook accounts in the first and the last of the four survey periods, matched by substantial inflows between April and October.

In spring 1968, the attrition in savings at Twelfth District banks was abnormally large—even by Western standards—because of the sharp increase in California income-tax rates and consequent heavy withdrawals from savings. (Western savers have traditionally drawn on their passbook savings to meet income-tax payments, probably because most banks in the region offer daily crediting of interest, with no interest-rate penalty for withdrawals.) The decline came to $109 million between January and April, as against a substantial increase for banks elsewhere.

Between April and July, Western banks posted a $102-million increase, and during the succeeding three months they reported a $284-million gain in passbook savings. However, this was then wiped out by a $277-million decline during the period of disintermediation in late 1968 and early 1969.

**Appeal of other instruments**

Most of the large October-January decline in passbook accounts did not represent attrition in consumer savings, as it had in early 1968, but rather a shift in savings funds from regular passbook accounts to consumer-type open accounts. Open-account instruments for individual savers were first actively promoted by major District banks in 1968—especially by Arizona banks in early 1968 and by California banks later in the year.

These open-account instruments generally carried a 5-percent interest rate, as against the 4-percent rate paid by virtually all District banks on regular passbook savings. Moreover, this type of savings instrument was especially designed to appeal to regular passbook savers, because of the flexibility it offered in adding to or withdrawing from the account. The initial deposit required by banks ranged all the way between $10 and $10,000, but the average figure was about $1,000.

**Disintermediation shows up mainly in business-type deposits**
Consumer-type open accounts at Western banks grew from $54 million to $472 million between January 1968 and January 1969—an increase of 774 percent—with most of the expansion coming in the final three months of this period. Other parts of the nation recorded a considerably slower expansion over the year, partly because this type of instrument had already become relatively well established in those areas.

Consumer-type time certificates (in denominations under $100,000) meanwhile grew by $791 million, or 18 percent, between the two January survey dates. In January 1969, small consumer certificates totaled $5.1 billion, compared to outstandings of $16.0 billion in regular passbook savings.

Roughly one-eighth of these deposits were in the form of savings bonds or similar instruments, with interest guaranteed for more than 12 months. But the vast bulk of such certificates had maturities of 3 to 12 months, and were in minimum denominations of $500 to $5,000, with a $1,000 minimum required by most banks. Twelfth District banks offered the maximum rate of 5 percent on over 99 percent of these deposits. In all District states except Arizona, the percentage increase in consumer time certificates far exceeded the increase in regular passbook savings.

According to preliminary data for the most recent survey period, Western member banks reported diverse movements in individual savings flows—but virtual stability overall—between January and April 1969. Passbook savings dropped by about $350 million, compared with a $109-million decline during the same period of 1968. (As in 1968, almost all of this decline was due to withdrawals by Californians, either to pay personal income taxes or to shift into other types of savings.) Consumer type open-account deposits continued to expand at an extremely rapid rate—these deposits more than doubled during the three months to a total of $959 million on April 30th. But consumer time certificates, which had increased steadily since early 1968, fell off by $136 million between the two 1969 survey dates, possibly because of a redirection of funds into consumer open accounts.

**Other District states improve on California's performance**

Business deposits: disintermediation?

Between January 1968 and January 1969, total business-type deposits—large time certificates (CD's), small business-held CD's, and business-held open-account deposits—expanded almost five times as fast at Twelfth District banks than at banks in other Districts. Business deposits at Western banks actually declined slightly during the periods of disintermediation (in early 1968 and again towards year-end), but these banks reported an 11-percent gain between April and October, compared to an increase of about 7 percent at banks elsewhere. Most of the shifts occurred in negotiable time certificates in denominations of $100,000 and over, which account for over half of total business deposits, both here and elsewhere.

Between January and January, large negotiable CD's increased more than 20 percent at District banks, while declining elsewhere. However, Western banks experienced some effects of disintermediation during the early and latter stages of this 12-month period.
District banks reported a $116-million decline in negotiable CD’s in January-April 1968, as the mid-April rates on three-month Treasury bills approached and other money-market rates exceeded the 5½-percent rate ceiling then prevailing on 90-day CD’s. (But in percentage terms, this decline was less than one-half of the loss reported by New York District banks.) After the maximum rates payable on large CD’s were adjusted upward in mid-April, Twelfth District banks made substantial gains in deposits which more than offset their earlier losses; deposits in October were 27 percent above the January 1968 level. (By contrast, CD’s at New York District banks were still slightly below January outstandings.) But Western banks then suffered a second period of disintermediation in the October-January survey period, posting a $140-million decline in large CD’s. (Still, this decline was substantially less than the attrition experienced by New York banks.)

Within the Twelfth District, three states—California, Washington, and Oregon—showed definite signs of disintermediation. California member banks posted declines of about 8 percent in large CD’s during each of the two periods of disintermediation, but reported increases of about 16 percent during each of the survey periods of spring-summer 1968. Washington and Oregon each reported relatively larger increases in CD’s during the April-October period than during the two periods of disintermediation. The growth pattern of large CD’s in other District states, however, seemed relatively unaffected by changes in money-market conditions.

Large non-negotiable CD’s, in contrast, grew much more slowly at Western banks than they did at banks in other districts. Twelfth District banks posted a 10-percent gain in such deposits over the 12-month period, but this was only one-fourth of the gain recorded elsewhere. (The pattern of deposit flows in this category generally followed the pattern noted for negotiable CD’s.) In minor categories, small business-type deposits under $100,000 declined by about 2 percent over this time-span, while large open-account deposits increased sharply, by more than 30 percent. In each case, the District-bank performance was stronger than that of other banks.

According to preliminary data for the latest survey period, total business deposits at District member banks fell $279 million between January and April 1969—more than twice the decline of the comparable year-ago period. In particular, banks lost $186 million in negotiable CD’s and $32 million in non-negotiable CD’s, as CD rate differentials became increasingly unfavorable. California, Washington, Arizona, and Nevada all reported either declines or unusually small increases in negotiable CD’s over the three-month period.

—Molly Anderson
Cost of (Western) Living

What does it cost to live in a Western city? Or any other American city? Despite widespread and longstanding curiosity about the cost of living, the question is no more frivolous than the answer is simple. When the Bureau of Labor Statistics undertook its latest budget study (1965-67), it did so with the advice of a host of statistical users, ranging from public and private welfare agencies to academic researchers, labor unions and business organizations. And their interests ranged from the original demand of a quarter-century ago—the appraisal of income-tax exemptions—to such current interests as collective bargaining, judicial decrees, college scholarships, subsidized services, and social-security and private insurance rates. The common characteristic was — and is — the need for a benchmark, some kind of standard (or set of standards) which could be adjusted for individual purposes.

The task of creating such budgets is something like the task of a playwright as he goes about setting a scene and describing his characters. For a budget must be extremely specific—a standard and style of living must be spelled out in all the money purchases a standard family will spend in a year. Once the basic standard is established, then variations can be derived.

The cast and the plot

First the cast: the “budget family,” a couple with two children and a family pet. The husband is 38 (the age of the wife is unspecified), the boy is 13 and the girl 8. The wife does not work outside the home, and the family income comes from the husband’s job alone. Finally, the family is well established in an urban setting of the 1960’s and owns a basic supply of furnishings and appliances.

Next the standard of living: a mixture of scientific specifications and actual spending patterns blended to create a pattern of consumption which will assure “maintenance of physical health and social well-being, the nurture of children and participation in community activities.” Thus it is not necessarily a description of how anyone does, in fact, live.

The scientific standards include nutritional requirements (National Research Council) translated into food plans by the U.S. Department of Agriculture; standards for sleeping space and essential housing equipment and utilities (American Public Health Association

Living costs higher in major Western cities than in rest of U.S.

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and the U.S. Public Housing Administration; a basic hospital-and-surgical insurance plan through the husband's place of work; and the exclusion of cigarettes from the budget in view of the recent findings concerning smoking and health. Specifications for the other budget categories — transportation, household furnishings, reading, recreation, education, restaurant meals—and the specific choices within the budget framework were derived from actual consumer choices, as shown by such sources as the 1960-61 Consumer Expenditure Survey.

The latest budget survey presents, for the first time, three budgets or scenarios for the "budget family": a moderate budget, along with a lower and a higher budget. The moderate levels of spending are derived from the points of maximum "income elasticity of demand." At each such point, the rate of increase of purchasing (in each budget category) itself reaches a peak and declines, even though the dollar volume of purchases continues to grow with income.

The lower and higher budgets differ from the moderate plan in quantities and qualities of purchases and in the number of services purchased, but each of the three budgets fulfills the same basic goals and reflects an essentially middle-class American style of life in the 1960's. Still, some important differences are found in housing and transportation. The lower budget specifies rental housing for all families, while the moderate budget and the higher budget are, in effect, home-owners' budgets. The lower budget also specifies more frequent use of public transportation (where it is available), a lower percentage of auto-owners, and a markedly higher age of the family car.

**What does it cost?**

In the spring of 1967, the basic survey period, the moderate budget cost the All-American Budget Family $9,076 at an annual rate—and now, after two years of rising prices, the out-of-pocket cost to the urban dweller would be about $10,000. The lower budget today would cost out at about $6,500, and the higher budget at more than $14,300.

Living costs in major Western cities are generally well above the national average. In the Los Angeles-Long Beach area, the family budget in 1969 would come to over $6,900 for the lower standard, to almost $10,300 for the moderate standard, and to more
Basic necessities cost about same in West as in rest of nation

City by city the West is near the top. Honolulu is the most costly city in the latest listings, although data from other sources show Anchorage to be even more costly. Among major metropolitan areas, San Francisco and Seattle are at the top in the lower-budget category, and San Francisco remains not far from the top (behind New York and Boston) in the moderate and higher budget categories. In general the lowest costs at all levels are found in Southern cities, regardless of size, and in nonmetropolitan areas.

The geographic variations in budget costs are due to more than price differentials alone. Inasmuch as climate and tastes (such as eating patterns) vary, the equivalent standard of living requires a different set of purchases in different geographic areas. A Los Angeles wardrobe would be inadequate in Minneapolis, just as a Chicago wardrobe would be inappropriate in San Francisco.

The latest survey results reinforce the findings of earlier surveys conducted immediately after World War II and late in the 1950's. Each of these surveys finds the Western cities characteristically near or at the top of the intercity cost scale, and taken together they reveal a tremendous increase in the dollar size of the standard budget.

In San Francisco, for example, a moderate budget with similar general goals for the four-person family cost about $3,300 in 1947, $6,300 in 1959, and over $10,850 ten years later. But although prices have certainly increased during the last two decades, the increased cost of the budgets is much more than a measure of increasing prices; the consumer price index performs that function. Rather, the budgets incorporate our changing definition (as a society) of a moderate standard of life, and thus show our rising expectations concerning the expenses a family must incur to “maintain physical health and social well-being, nurture children and participate in community activities.”

Butcher, baker, candlestick maker

The Western Budget Family on a moderate budget would have spent $2,092 on food (annual rate) in the spring of 1967—or about the same as the urban U.S. average.

Breakdown of budget differs according to income
However, the Western family spent relatively less than average on grocery purchases, and somewhat more on restaurant meals and snacks.

The $2,200 allotted to housing by the Western family was again very close to the national urban expenditure. In this case the similarity was achieved by a balance between renters' expenses on housing, which were well above the rest of the nation, and homeowners' costs, which were somewhat lower. In absolute terms, however, Western homeowners spent $460 more than Western renters on housing costs, strictly defined, and $580 more overall with the inclusion of tax payments. The extra expenses to homeowners partly represented principal payments on a mortgage, which of course constitutes an element of savings, a feature not available to renter families. (The differential might be even larger if the home were purchased today rather than seven years ago, as specified in the budget.)

Transportation ($926), clothing ($801) and personal care ($230) budgets for the Western family were all well above comparable expenses elsewhere in the nation. Here as elsewhere, car ownership upped the transportation costs by over $750 compared to families without an automobile. Medical care ($560) cost the Western family $100 more than it cost their non-Western cousins, mostly because of the relatively high prices of dentists and druggists in the Los Angeles area. And Westerners allotted more to the catch-all recreation-education-miscellaneous category ($567 in all), mainly because of higher recreational costs.

Total family consumption in 1967 was thus priced at $7,380 for the Western family, or about $200 more than for urban families elsewhere. In addition, social-security and income-tax payments came to $1,431 in Western cities—higher than elsewhere, because of the higher levels of Western income as well as differences in state income-tax rates. This category of course grew very rapidly during the two years following the survey period, because of the enactment of the Federal surtax, as well as higher rates and a higher salary base for social-security taxes, and higher California state-income taxes. Thus, with the addition of these items to the consumption items, the total moderate budget for a Western family in 1967 amounted to $9,305—$275 more than the equivalent moderate budget for a typical urban family elsewhere.

Where the dollar goes

Marked differences are evident in the allocation of dollars at the three different levels of spending for Western families. Food and housing take the largest chunk of money—between 44 and 49 percent between them at all three levels. But, in accordance with Engels' Law, food spending declines in importance with income, from more than one-fourth of total spending in the lower budget to a little over one-fifth in the moderate budget and a little under one-fifth in the higher plan. Housing costs proceed in the
opposite direction, composing 22 percent of the lower budget, 24 percent of the moderate plan, and 25 percent of the higher budget, primarily because of the greater importance of home-ownership in the larger budgets.

The portion of the dollar spent on transportation and clothing is quite similar in all three budgets (both about 9 percent) as is the personal-care outlay (2 to 3 percent). Medical costs fall from 9 percent of the lower budget to about 5 percent at the higher level, largely because of the similarity in hospital and surgical plans specified for all three units. Recreation, education and the like take an increasing portion of the budgets as total spending rises. In sum, total family consumption claims 82 percent of the lower budget, as against 79 percent of the moderate and 76 percent of the higher budget. Social-security payments decline as a percentage of the total as income increases, because of the maximum salary base. In contrast, the portion of total spending going to gifts, contributions, and life-insurance premiums increases slightly with income, while the income-tax bite rises from 8 to 12 to over 15 percent of family living costs in the West, depending on income.

As the family grows . . .

The style of living and the costs associated with the budgets described above are all related to the original cast: a family of four, husband in his late 30's and children 8 and 13. When any of the characteristics are varied, the equivalent budget cost changes as well. A single young person under 35 would need about one-third as much money as the standard family's $9,305 to attain a moderate standard of living in the West—roughly $3,300 in 1967. Marriage would bring the budget up to something over $4,500, and a pre-school child would raise the spending to just under $5,770.

Age alone presumes a more costly style of living. An older version of the original budget family, with the husband 55 to 65 and the oldest child in the expensive 16-17 age bracket, would spend 10 percent more than the original family (or $10,236) for a moderate standard in 1967. A combination of age and additional children would also imply higher costs. Thus, a family of six or more people, with the father aged 55 or less and the oldest child in his late teens, would require almost $14,000 for a moderate standard of living.

A retired couple's expenses would reflect a somewhat different pattern of life from the working couple's: lower proportions of homeowners and auto-owners, medicare costs instead of insurance at work, and little or no personal taxes. For such a couple, a moderate standard would cost $4,653 in 1967, and for a retired individual, the comparable figure could be $2,605.

—Adelle Foley
Western Digest

Rising Interest Rates
Large Western banks went along with major banks in other money-market centers by raising their prime rate from 7½ percent to 8½ percent in early June. (The prime rate is the lowest fee charged to the best credit risks among business borrowers.) This increase, the fifth since last December, was aimed at encouraging corporations to seek financing through the commercial-paper market or the corporate-bond market, rather than through the overburdened commercial banks. . . . Interest rates on business loans made by major West Coast banks meanwhile soared to a new high in the first half of May. According to a quarterly Federal Reserve survey, the average rate on short-term business loans jumped to 7.83 percent in the latest survey period—48 basis points above the average February figure.

Stable Jobless Rates
Pacific Coast states posted the same unemployment rate in May as in April—4.2 percent. Nationally, too, the jobless rate moved sideways, at 3.5 percent. . . . Payroll employment meanwhile increased much more strongly in the West than in the rest of the nation. Employment in this region expanded at close to a 5-percent annual rate, with almost all major industries posting gains—and with construction in particular strengthening, in contrast to its winter-period decline. But elsewhere, payroll jobs increased hardly at all during May.

Declining Aerospace Employment
Employment at District aerospace firms declined further during May. However, the 2,900 payroll reduction—to 700,300—was smaller than the average decline of recent months. The cutbacks occurred in both Washington and California firms, and were concentrated in aircraft rather than electronics production. . . . Further cutbacks are now likely to occur in the wake of the cancellation of the manned orbiting laboratory, a $3-billion Air Force project. The principal MOL contractor, for instance, may be forced to lay off more than 5,000 California workers.

Plunging Lumber Prices
The price decline in the Northwest’s lumber industry accelerated in early June, as supplies increased in the wake of labor-contract settlements and as demand fell off with the growing sluggishness in the national housing industry. Altogether, Douglas-fir lumber prices declined by roughly 35 percent between late February and mid-June, while softwood plywood prices dropped on the average by over 50 percent. . . . The industry is now in the position of selling lumber and plywood at prices that are generally well below those prevailing a year ago, while buying logs at prices 50 to 100 percent above year-ago levels. Moreover, its mill inventories are mounting, despite production cutbacks, because of a slower order inflow.