



President's Message: Life after Bank Mergers

Thomas C. Melzer

Stories about bank mergers, like the blockbuster combination of Chase Manhattan and Chemical Bank, have blanketed the news recently, with economists forecasting even more to come now that the Riegle-Neal Interstate Banking and Branching Act has begun to take effect. This proliferation has caused some people to become uneasy about the level of choice and service they'll be left with in the post-consolidation era.

Although understandable, such concern is unfounded for several reasons. To begin with, competition is ultimately protected by government regulation. Although it generally allows banks to broaden their businesses, Riegle-Neal also limits the portion of a state's banking deposits that can be held by any one bank. Depending on the gravity of the situation, federal antitrust laws could be invoked, as well.

Regulatory measures aside, market safeguards are also in place and are likely much more important. Our country has a plethora of banks—more than 10,000 at present. Thus, their number could shrink substantially before loss of competition ever becomes a serious issue. Moreover, removal of geographic restrictions can actually enhance competition by opening up formerly protected local markets to entry by outside banks. Electronic banking services, which are essentially free from physical and geographical constraints, have the same ability to penetrate formerly closed markets. Add to that the competition that comes from other types of financial institutions, such as mutual funds and securities brokers, which are increasingly offering services like transaction accounts that were formerly the sole province of commercial banks.

While leading to consolidation, increased branching is also likely to make banking more convenient for consumers. For example, businesses with locations in more than one state will be able to conduct their financial transactions through a single bank that has interstate operations. Consumers who live in one state and work in another would realize similar benefits.

Finally, expanded branching can also make the banking industry less failure-prone, which benefits everyone in the long run. Through geographical diversification, bankers are able to offset losses they may suffer when one region of the country experiences a downturn with profits earned in another region that is faring better.

Of course, the ultimate structure of the banking industry rests largely with consumers themselves. If the public chooses to patronize small community banks, which may offer more personalized service, these banks will stay in business. If, however, the public opts for the convenience that bigger banks can provide, they will win out. My guess is that consumers will continue to have choices for a long time to come.



A Fiscal Devolution: Can State and Local Governments Measure Up?

Kevin L. Kliesen

The relationship between the federal government and state and local governments is poised to undergo a sea change. There appears to be a newfound willingness to let states and localities experiment with policies designed to alleviate many of the country's most pressing social ills—a direction in policy decidedly different than what has prevailed for the past 60 years. One current proposal would let state and local governments decide how best to implement many federal welfare programs. Under this proposal, states would receive a fixed amount of money, called block grants, with few strings attached on how they spend this money. Under current law, by contrast, states receive federal revenues under a matching program based on a percentage of the total amount that they spend on these programs.

Buttressing this devolutionary undercurrent is an effort by Congress and the administration to eliminate the federal budget deficit within the next seven years. Although there remains some disagreement, the reordering of federal budgetary priorities is an important element that states must factor into their fiscal planning horizon. Can state and local governments handle their share of the heavy lifting necessary to accomplish these goals?

A Primer on Government Finances

Government finance concerns the borrowing, taxing and spending mechanisms at the federal (Congress), state (the state legislature) and local (city or county government) levels. Although federal finances receive most of the attention, most of the public services consumed by the average citizen on a day-to-day basis are provided for and financed at the state or local level: public schooling, street, sewer and highway maintenance, and police and fire protection. The federal government ensures the national defense and guarantees constitutional rights, public services that, while readily consumed by all citizens, are less visible. By the same token, the federal government also operates an elaborate social welfare system (programs like Social Security and Medicare), much of which is administered at the state and local levels.

Where the Money Comes from

As the table shows, revenues from taxes are more important to federal and state governments than they are to local governments.¹ Individual income taxes represent the largest share of federal revenues, while general sales taxes and property taxes are the most important sources of revenues for state and local governments, respectively. The local governments also rely heavily on the charges and miscellaneous general revenue category, which comes from sources like airports, highways (tolls), hospitals and universities (tuition).

Table 1

Where Government Revenues Come from

Percent of Total Revenues, 1991

	Federal	State	Local
Taxes	53.5%	47.0%	35.1%
Individual Income	39.0	15.0	1.6
Corporate	8.2	3.1	0.3
Property		0.9	26.4
General Sales & Gross Receipts	1.3	15.6	3.6
Selective Sales	3.5	7.6	1.6
All Other ¹	1.5	4.7	1.5
Charges & Misc. General Revenue	13.9	14.8	20.4
Utility & Liquor Store Revenue		1.0	8.9
Insurance Trust Revenues	32.3	15.4	2.6
Intergovernmental Revenue	0.3	21.7	33.0
From Federal		20.4	3.1
From State	0.3		29.8
From Local		1.3	
Total Revenues (Billions of Dollars)	\$1,200,682	\$659,948	\$612,182

¹ Death and gift taxes, severance and license taxes and all other taxes and receipts

NOTE: Totals may not add because of rounding error.

SOURCE: U.S. Department of Commerce, Bureau of the Census

As the table also shows, revenue from federal coffers is important to the states, accounting for a fifth of total state revenues in 1991. In similar fashion, local governments receive nearly 30 percent of their revenues from state governments; however, they receive little directly from the federal government because much of the intergovernmental aid they receive from the federal government is simply channeled through the state government.

Another large chunk of revenues for federal and state governments accrues from insurance trust taxes. At the federal level, insurance trust taxes include mostly Social Security and Medicare taxes, which account for nearly a third of total federal revenues, while at the state level these taxes are mainly for employee pensions and unemployment insurance. Insurance taxes are a relatively minor source of revenues for local governments.

Where the Money Goes

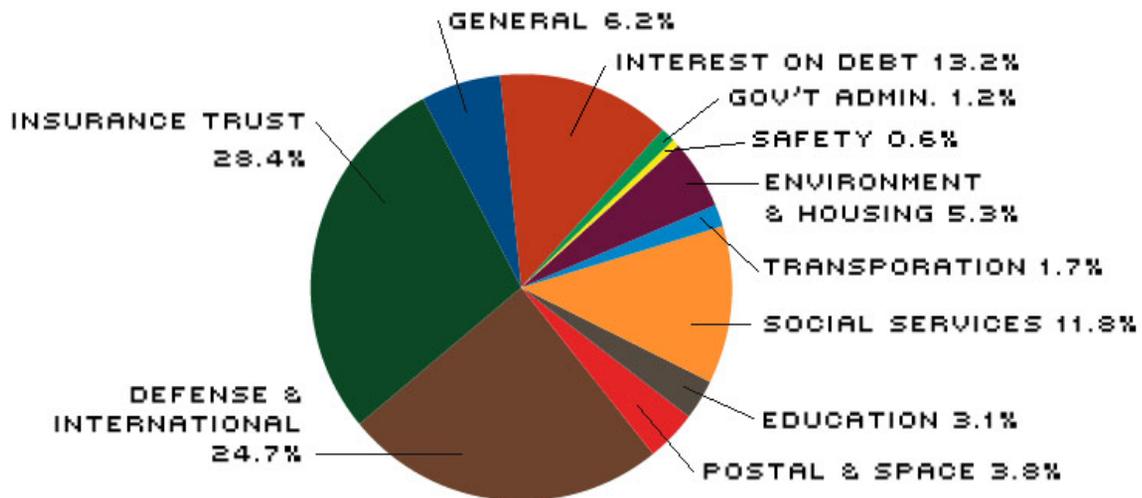
The composition of spending among federal, state and local governments also varies, reflecting their differing responsibilities. As the pie charts in Figure 1 show, state expenditures on education and social services make up more than half of total expenditures, while at the local level these two categories are nearly half. At the federal level, in contrast, spending on Social Security and Medicare (insurance trust) and defense makes up more than half of total spending. Local governments also spend proportionately more for fire, police and corrections (safety), while state governments pick up most of the tab for streets and highways (transportation). Spending on parks and recreation, housing, sewerage and solid waste management (environment and housing) is also an important local responsibility.

Figure 1

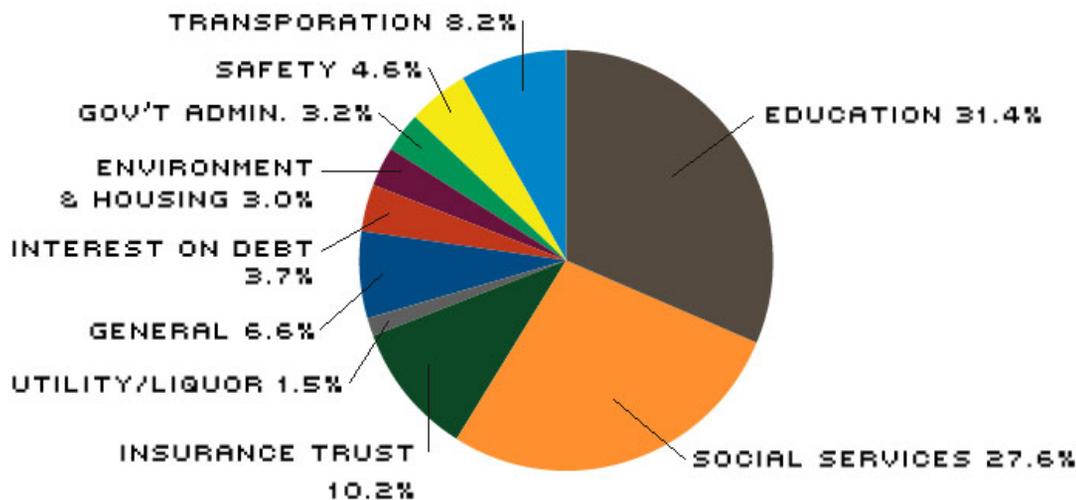
Where the Money Goes

GOVERNMENT EXPENDITURES, FISCAL YEAR 1991 (MILLIONS OF DOLLARS)

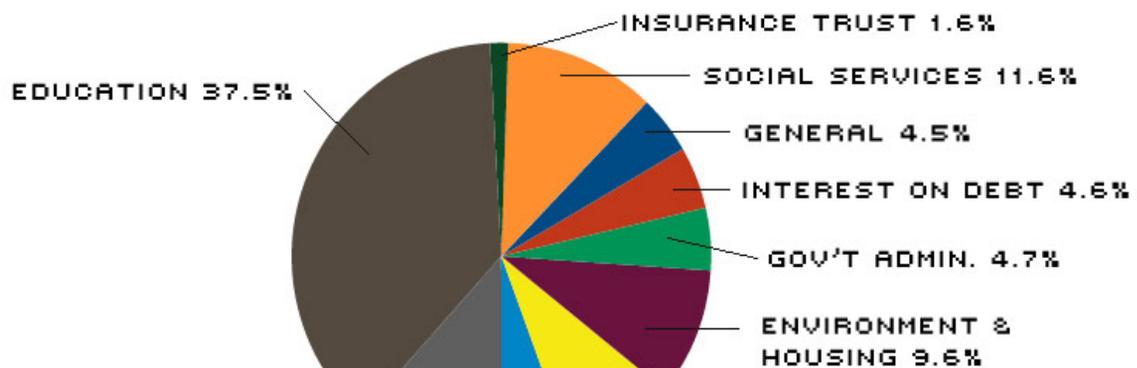
FEDERAL: \$1,479,509

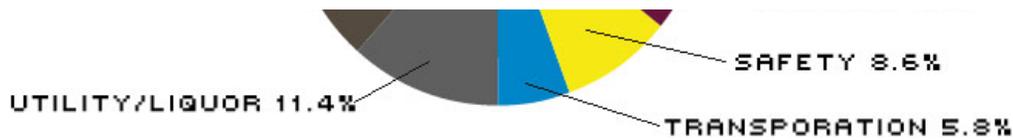


STATE: \$628,836



LOCAL: \$622,911





SOURCE: Bureau of the Census

Recent Trends in State and Local Finances

Prior to 1969, which, coincidentally, was the last time the federal government posted a budget surplus, state and local governments usually ran budget deficits. Since then, thanks in part to revenue sharing by the federal government, state and local governments have consistently run budget surpluses. Measured as a percentage of total expenditures, these surpluses have generally exceeded 6 percent since 1972. Over the past few years, though, state and local surpluses have dwindled steadily: After reaching a 38-year high of 13.4 percent in 1984, state and local budget surpluses fell to a 16-year low of just over 2 percent in 1991.

What happened? First, the economy, which began to slow in 1989, finally slipped into a recession in July 1990. In an economic downturn, increases in unemployment lead to increases in the demand for social welfare services, boosting expenditures by more than planned. At the same time, reductions in individual and corporate incomes reduce tax receipts, thereby lowering revenues.

Second, the downsizing in the defense industry and the worsening financial imbalances in the early 1980s in California and New England real estate markets led to increasing loan defaults, reduced economic growth and lower tax revenues. Third, the federal government passed a myriad of laws and regulations that had their largest effect at the state and local level. These mandates, which run the gamut from clean air and clean water regulations, to food stamp, welfare and Medicaid eligibility requirements, imposed onerous financial burdens on state and local governments. The burden stems from the fact that most of these mandates are not federally funded—the federal government provides little or no direct revenues to offset the costs of these added burdens.

Finally, state and local governments were themselves partly to blame. Between 1983 and 1991, compensation of state and local workers outpaced that of private industry workers by an average of 1.3 percentage points per year, needlessly boosting expenditures.

Unlike the federal government, 49 of the 50 states operate under an annual balanced budget requirement. Moreover, state and local governments have restrictions on their ability to borrow money to offset operating deficits. Nevertheless, because planned expenditures are sometimes higher than expected, and planned revenues are sometimes lower than expected, most state and local governments use surpluses to build up reserves. Also known as "rainy-day" funds or budget stabilization funds, these funds are employed to help cushion possible budgetary shortfalls.

A large number of state and local governments drew these reserves down to extremely low levels in the late 1980s and early 1990s, forcing themselves to enact fiscal counter measures. According to the National Governors Association and the National Association of State Budget Officers, state governments passed tax increases totaling \$4.9 billion in 1990, \$10.3 billion in 1991 and \$15 billion in 1992. At the same time states were raising taxes, in a slow-growth environment no less, they were curtailing their spending rates: After averaging 3.6 percent from 1984 to 1989, real state budget increases averaged 1.6 percent per year between

1990 and 1992. For policymakers, the relevant question is whether things have improved and, if so, by how much.

Have State and Local Governments Recovered?

In 1992, a record number of states—35—enacted mid-year budget cuts. By 1994, the number forced to take such action had declined to 10; for fiscal year 1995, 11 states reduced or planned to reduce their budgets. Echoing this improvement, the National Conference of State Legislatures (NCSL) reports that states' general fund reserves as a share of total expenditures are the highest in 15 years. As a result, the NCSL reports that most states are "entering fiscal year 1996 in the best shape they have been since the early 1980s."

Similar sentiments are expressed by the National League of Cities (NLC).² In 1990, 40 percent of cities reported general fund expenditures exceeding their revenues. By 1991, this figure jumped to 49 percent. By 1994, however, only 28 percent of cities reported a fiscal shortfall, the lowest since 1984, with the largest cities (those with populations greater than 300,000) having the least difficulty.

Much of this turnaround stems from the relatively strong economic growth that has prevailed nationally over the past two years. Real gross domestic product (GDP), after rising at a meager 0.3 percent annual rate between 1990 and 1991, has since risen at a 3.5 percent annual rate, well above its long-run average. Likewise, the national unemployment rate, which rose from an average of 5.3 percent in 1989 to 7.4 percent in 1992, has fallen to below 6 percent. These developments underscore a crucial determinant of government finances: Budget positions tend to improve when economic growth is strong and vice versa. And in fact, periods in which state and local surpluses were high and rising corresponded to periods of strong economic growth nationally, as in the mid-1980s.

Another factor contributing to the turnaround in state and local finances is the diminishing rates of state and local budget increases from a decade or so ago. Real state budget increases between 1992 and 1994 averaged 1.6 percent a year, a far cry from the mid-1980s, when they were more than double this amount. In fiscal year 1995, state budgets are projected to increase an inflation-adjusted 3.4 percent but then decline 0.7 percent in 1996, which would be the first decline since 1983. As a result, year-end general fund balances (rainy day funds available for unforeseen circumstances) as a percent of expenditures in 1995 are projected to be 5.2 percent, the same as in 1994, but substantially higher than 1.1 percent in 1991. In fact, year-end balances are projected to be the highest they have been since 1980 (9 percent).

Improved financial positions have led many states to enact multi-year tax cuts. In 1995, such cuts are expected to reduce revenues by \$2.6 billion from their 1994 levels; in 1996, with at least 28 states proposing tax reductions, revenues are projected to decline an additional \$3.4 billion. If this situation holds, state revenues will have declined for two years in a row because of tax reductions for the first time since 1979-80. Meanwhile, several states are proposing to limit future tax increases through voter referendum initiatives or efforts to make it harder for state legislatures to enact tax increases.

Storm Clouds on the Horizon

Despite the states' relatively robust fiscal health, recent trends in the composition of spending and revenues suggest a potential long-term problem, one that has been building for quite some time and that largely reflects trends in federal spending. Recall from the table that a substantial portion of a state's revenues comes from the federal government in the form of grants-in-aid or transfers. Most of the remainder is derived from its general fund revenues, which are received from a broad base of state taxes and are the primary way a state finances its operations. In 1994, general fund revenues accounted for slightly less than half of total state revenues. Federal funds were slightly more than a quarter of the total, with other state funds like excise taxes accounting for close to another quarter. Since 1987, though, states have relied less on general fund revenues, while

increasing their reliance on revenues from the federal government. This can present potential long-term problems.

Some of this is not their doing. Beginning in 1987, federal policymakers reversed a decade-long trend of fewer dollars transferred to state and local governments. After doling out 9.6 percent of its total expenditures in grants-in-aid to states and localities in 1987, the federal government upped its contribution to 12.8 percent in 1994, the highest percentage since 1980. By increasing their reliance on federal revenues, state and local governments may one day find themselves in a situation in which their expenditure commitments exceed their expected revenues, should the federal government decide to send fewer dollars their way.

Medicaid expenditures are another reason why federal funds have become increasingly important to states.³ Between 1970 and 1987, Medicaid expenditures rose from about 4 percent of state expenditures to more than 10 percent. Seven years later, this share had risen to almost 20 percent. Thus, the share of state funds allocated to Medicaid expenditures has increased roughly five-fold in the past 25 years.

The states do not, however, pickup the entire tab for Medicaid expenditures. The federal government's share of each state's Medicaid spending ranges from 50 percent to 80 percent. Despite this assistance, Medicaid spending by the states has mushroomed at the expense of other spending. For example, Medicaid spending has risen from just over 8 percent of general fund spending in 1987, to 13.3 percent by 1994. There appears to be little indication that this pattern is abating. According to a recent NCSL survey, Medicaid expenditures rose an estimated 10 percent in fiscal year 1995, significantly higher than the budgeted increase of 7.2 percent; for 1996, Medicaid expenditures are projected to increase 9.5 percent. Although some of this is a demographic phenomenon—that is, an aging population—a significant part can be placed at the footsteps of the federal government.

As states were devoting more resources to Medicaid, education expenditures (elementary and secondary, plus higher education) as a share of general fund expenditures fell from 49.7 percent in 1987 to 46.7 percent in 1994. The federal government has not helped to offset this decline: The amount it contributed to state education expenditures declined from almost 18 percent of total states pending in 1987 to more than 12 percent in 1994. As the NCSL reports, although many states attempted to counter this trend in 1995 by boosting general fund spending for elementary and secondary education by more than planned, actual general fund spending on higher education was lower than its budgeted increase. For 1996, the share of general fund outlays devoted to education is expected to be little changed from 1995.

Similar trends are evident for spending on transportation and cash assistance (welfare). One exception is outlays for corrections. The NCSL reports that corrections is the fastest growing component of state spending in recent years, with an increase of 11.1 percent expected in 1995, and an increase of 13.3 percent projected for 1996.

Rays of Sunshine

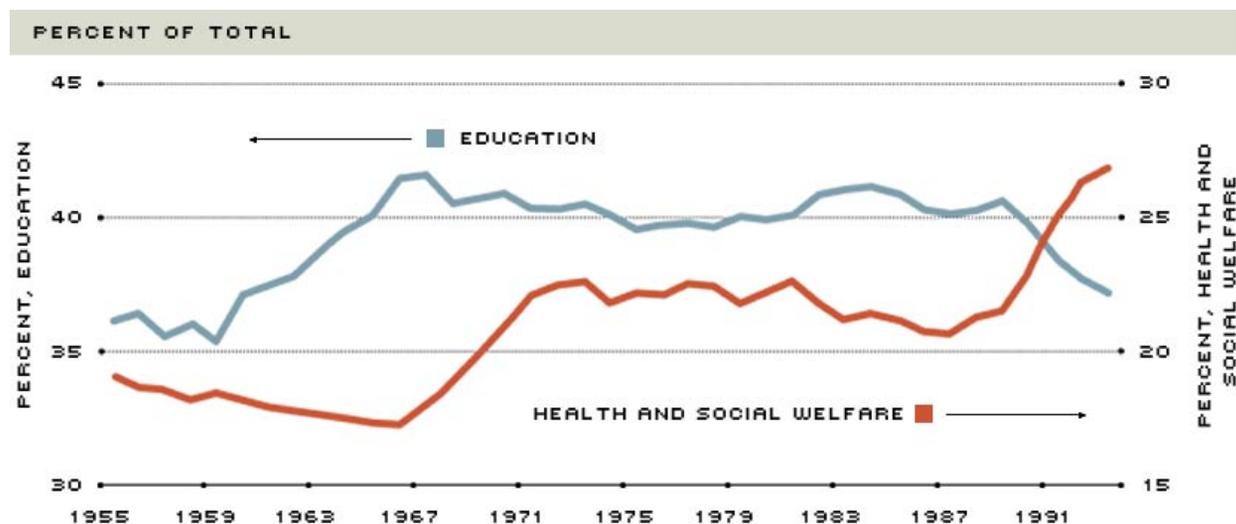
Clearly, if states continue to devote an increasing share of their resources to Medicaid, then they must—in the absence of increased revenues—devote fewer resources to education, highways or other programs (see Figure 2). Recognizing this, several states have initiated their own Medicaid reforms. For example, Kentucky has tried to reduce Medicaid outlays by requiring recipients to enroll in a managed care system, as well as by implementing other cost containment mechanisms like increasing deductibles and copayments. Tennessee has instituted a similar system.⁴

At the national level, current proposals to reform Medicaid and Medicare take a similar approach, offering states increased flexibility. In addition, some members of Congress have dusted off the unsuccessful 1983 Reagan administration proposal to assume the state's cost of Medicaid expenditures in return for the state's

assuming the federal government's cost of the Aid to Families With Dependent Children (AFDC) and food stamp programs. Regardless of whether this proposal passes muster with Congress, most policymakers recognize that double-digit yearly percentage increases on entitlement programs like Medicaid, Medicare and AFDC are not only unsustainable, but are coming at the expense of other programs. The Congressional Budget Office projects that under current policies, and with an aging population, spending on mandatory programs like Medicare, Medicaid and AFDC is estimated to rise from its current 55 percent of total federal outlays in 1995 to 62 percent by 2005.⁵ Meanwhile, spending on discretionary programs like defense, higher education or federal grants to state and local governments for mass transit is forecast to fall from 36 percent of total federal expenditures to 26.3 percent by 2005. Despite rhetorical flourishes that suggest otherwise, there is a broadening consensus that many of the patterns that have increasingly worsened budgets at all levels of government must be changed accordingly.

Figure 2

State and Local Spending on Education and Health and Social Welfare



The pattern of states devoting increased resources to Medicaid and other social welfare programs and fewer resources to education is shown in the chart above. Spending on health and social welfare jumped from just under 21 percent in 1988 to nearly 27 percent in 1993. During the same period, the share of resources devoted to education fell from just under 41 percent to less than 38 percent. Over a longer horizon, the pattern still holds—particularly since 1966.

NOTE: Health and social welfare spending is comprised of expenditures for health and hospitals, income support, employment, employment security and welfare. Because of data limitations, local expenditures have also been added.

SOURCE: Bureau of the Census

Recent Trends in Local Finances

Comprehensive data at the local level is available only with a considerable lag. To compensate for this, the NLC conducts an annual survey of the fiscal conditions of several hundred cities including most of the major ones.⁶ According to the NLC, city governments have improved their general fund balances since 1990 and 1991. Per capita general fund balances in 1994 were nearly 25 percent of expenditures, the highest since 1989 and substantially higher than the 20.7 percent registered in 1992.

Unlike the states, few city governments have been in a tax-cutting mood, preferring instead to bolster their rainy day funds. Nevertheless, while nearly 70 percent of all surveyed cities raised taxes or fees during 1994, the amount of new revenue collected (\$721 million) was the smallest in four years and was down considerably from the \$3.5 billion collected in 1991.

City governments project some deterioration in their general fund balances in 1995, as revenues are forecast to increase only 2 percent, with expenditures projected to rise 6 percent. As a result, ending general fund balances are forecast to fall to 21.3 percent. This projection, though, reflects the rather conservative budgeting practices of city governments, which in recent years have routinely overestimated their expenditures and underestimated revenues. For example, while the average budgeted increase in general fund expenditures from 1987 to 1994 was 5.6 percent, the actual increase was 5.1 percent. Budgeted revenue increases averaged 4.2 percent over this period, but the actual increases were 5.3 percent per year. Thus, the discrepancy between actual and budgeted ending general fund balances in recent years has been significant: From 1987 to 1994, the average expected ending balance as a percent of expenditures was 19.7 percent, while the actual ending balance was 24 percent.

Finally, to reduce costs further and improve efficiency, city governments have been increasingly willing to enter into cost-sharing agreements with other city or county governments or privatize services. As the NLC reports, nearly three-quarters of the largest cities contracted out at least one service in the past year, while half of them engaged in some form of inter local agreements. While larger cities pursued this route, small- and medium-size cities were more likely to reduce employment, in an effort to pare expenditures.

Conclusion

State and local finances appear to be in good shape, especially when compared with a few years back. As a result, several states are implementing, or planning, tax cuts. Much of this improvement can be attributed to strong U.S. economic growth, the restraint of budgets over the past few years and innovations to reduce costs and improve efficiency.

Despite these positive developments, states have increasingly relied on federal funds to finance their expenditures. Although some of this represents a policy change at the national level, it is also the result of an increasing share of resources allocated to programs like Medicare, Medicaid and AFDC. Given the widespread consensus for letting states try new and innovative programs, combined with the recent Congressional resolution to eliminate the federal budget deficit in seven years, states would perhaps be wise to plan for fewer federal dollars in the near future. While perhaps disconcerting, states will also probably have fewer constraints on how to spend those dollars and—more important—how much to spend. As a rule of thumb, though, prudent reforms by federal, state and local policymakers to rein in double-digit spending increases for mandatory social programs, combined with sound macroeconomic policies that promote strong growth, is a recipe for continued financial health at all levels of government.

Heidi L. Beyer provided research assistance.

Endnotes

1. Unless noted otherwise, years will refer to fiscal years. The fiscal year for the federal government begins on October 1, whereas the fiscal years for 46 of the 50 states begins in July. Figures in the table and chart are for 1991, the last year that data are available for all three levels of government. [back to text]
2. See Pagano (1995). [back to text]
3. Medicaid is a joint federal-state program that provides medical benefits chiefly to low-income individuals, including the elderly, blind and disabled. Each state is responsible for administering its own

program, subject to minimum federal eligibility guidelines, but each state also has some discretion as to who can qualify. [back to text]

4. See Zaretsky (1995). [back to text]

5. See Congressional Budget Office (1995). [back to text]

6. The National League of Cities, unlike the National Governors Association or the National Association of State Legislatures, use data on a per capita basis. Of the 408 cities surveyed, 309 had populations less than 100,000. [back to text]

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REGIONAL ECONOMIST | OCTOBER 1995

<https://www.stlouisfed.org/publications/regional-economist/october-1995/how-statistics-can-mislead-the-case-of-family-caps-in-state-welfare-programs>

How Statistics Can Mislead: The Case of "Family Caps" in State Welfare Programs

Adam M. Zaretsky

There's no question [that reducing welfare benefits] would be some incentive for people not to have dependent children out of wedlock.

—President Bill Clinton

Nonsense. We really don't know what to do, and anyone who thinks that cutting benefits can affect sexual behavior doesn't know human nature.

—Sen. Daniel Patrick Moynihan

Whenever the results of a study are released, the media, interest groups and policymakers often use the findings to declare victory or dispute the ill-founded methods by which the results were obtained. Headlines like "Reform Proves Overwhelmingly Effective" are quite adept at luring readers into an article, where terms like "statistically significant" are relegated to small notes in charts or left out altogether. When used, these terms are seldom defined, and, when they are, their definitions are often inaccurate.

Recently, announcements about an experimental welfare program in New Jersey illustrated well how jumping the gun to release preliminary findings without careful analysis of the procedures used to obtain them can lead to a misinterpretation. This example demonstrates clearly how injudicious interpretation of data can lead to a particular conclusion, one that was later rebutted by a more in-depth study. The reversal of direction in this instance hinged on the concept of statistical significance.

What's Significant about Statistical Significance?

In a nutshell, statistical significance refers to the probability that a relationship apparent in the data is not merely a coincidence, but, rather, is a result of a performed experiment. For example, suppose a researcher wants to determine whether a drug helps relieve the symptoms of a particular disease. He gives the drug to a randomly selected group of patients—the experimental group—while giving a placebo to another group of patients—the control group. Presumably, some patients in each group will get better. The researcher hypothesizes, though, that more patients in the experimental group will improve because of the drug.

Statistical significance describes the likelihood that the observed improvement rate for the experimental group occurred because the drug was effective. In other words, relative to the control group's outcome, is the observed outcome for the experimental group caused by the drug, or is it just a fluke? The result is statistically significant if the researcher can determine that the outcome is not likely to be just a coincidence.

The same analysis can be applied to economic questions too. For example, determining whether the observed outcomes—say, a change in the birth rate—from the experiment of withholding money from some program participants, while giving it to others, is coincidence or the result of the experiment is answered using statistical

methods. The interpretation of these outcomes—or the difference between the outcomes of the two groups—should, therefore, be couched in terms of statistical significance. Otherwise, the reader is left to guess which scenario better reflects the true state of affairs. The progress reports about New Jersey's welfare reform program illustrate this point.

New Jersey's Experiment

In October 1992, New Jersey enacted the Family Development Program (FDP). One provision of this program is the child exclusion law, more commonly known as the "family cap." This provision essentially stipulates that a family receiving Aid to Families with Dependent Children (AFDC) benefits will receive cash assistance for only those children born or conceived before the mother's application for AFDC.¹ Effectively, then, the family cap did not start until August 1993. It eliminates the additional cash benefit, between \$64 and \$102 each month, upon the birth of an additional child. The infant's eligibility for Medicaid and food stamps is not affected.

It Works...Or Does It?

About three months after the family cap became effective, the administration of then-Gov. Jim Florio issued a press release claiming a 16 percent reduction in the number of children born to AFDC families as a result of the new regulations. This claim was based on a comparison of the AFDC birth rates for August 1993 and September 1993 with the same two months of 1992. Because of this sizable reduction in the birth rate, the family cap was declared an "obvious success." It later became obvious, though, that this conclusion was too much, too soon. When the data were revised just four months later, the 16 percent reduction had dwindled to 9 percent.

Compounding the problem, a more relevant piece of information was ignored: the relationship between the birth rate in the project's experimental group—those subject to the family cap—and that in the control group—those not subject to the family cap. In fact, the releases did not report if *any* change in the birth rate of the control group had occurred. This omission prevents the comparison, leaving the crucial question about the statistical significance of the difference unanswered.

More Concrete Evidence

In August 1994, a study was released that reported a substantial reduction in AFDC birth rates during the first 10 months of the FDP.² June O'Neill, currently director of the Congressional Budget Office and formerly of Baruch College, conducted this analysis, in which she found a 19 percent reduction in births, at the request of the New Jersey attorney general's office.

The accompanying table, which is Table 2 from O'Neill's study, records the birth rates for AFDC mothers both before and after the family cap became effective. The 19 percent reduction represents the ratio of the -1.29 in the "Difference" column and the 6.75 in the "Control Group" column. No statistical significance is attached to this 1.29 percentage point difference in birth rates, however, so the reader does not know whether this gap is statistically different from zero or not.

Moreover, it is not clear whether the 1.29 percentage point difference between the two groups' birth rates is the most relevant piece of information for determining the FDP's success because it does not measure the change in the birth rates over time. The more interesting comparison requires calculating the change in the birth rate *within* each of the two groups between the pre-cap and post-cap periods. These calculations are included in the table as the bottom row marked "Difference between periods." The question to ask is whether -5.96 is statistically different from -5.24 ; in other words, is the gap between these two numbers statistically significant? An answer of "yes" would represent evidence that the family cap is achieving its goal. Unfortunately, this information was not reported.

The Rutgers Study

To obtain better information about the effects of the FDP, New Jersey commissioned Rutgers University to conduct a five-year study. In June 1995, it released its preliminary findings; the actual study has not been officially released. For the period August 1993 to July 1994, the study reports that 6.7 percent of women in the control group gave birth, and that 6.9 percent of those in the experimental group gave birth. The 0.2 percentage point difference between these rates is *not* statistically significant; that is, the birth rates are essentially the same number. More important, this result was the same when controls for the pre-cap birth rate differences were included in the analysis. This last step is tantamount to testing whether one birth rate changed "significantly" more than the other across periods. It is important to remember, though, that the results do reflect only one year of available data. Further information from the study will be available with time, and it is quite possible—even probable—that these numbers will be revised again, although it is unlikely the revisions will qualitatively alter the result.

Table 1

Birth Rates of Mothers on AFDC in New Jersey between August 1992 and June 1994

	Experimental Group	Control Group	Difference ¹ (Experimental-Control)
Number in sample	1,777	859	
Percentage with a birth in the period August 1992 through July 1993	11.42%	11.99%	-0.57%
Percentage with a birth in the period August 1993 through June 1994	5.46%	6.75%	-1.29%
Difference between periods (percentage points) ²	-5.96	-5.24	

¹ Although these percent signs are included in O'Neill's original table, it is more accurate to refer to these figures as percentage point changes rather than percent changes.

² This row is not in O'Neill's original table, but was added for illustration.

SOURCE: O'Neill (1994)

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Spillover Effects

Whenever states initiate experimental or demonstration projects, their effectiveness can be gauged only after sufficient time has passed to allow for reasonable data accumulation and processing. Clearly, three months into a project the scope of New Jersey's is too early to draw any definitive conclusions. One year is probably also too soon. This is the reason five-year studies are usually conducted with experimental projects in federally funded programs. Perhaps prematurely, other states jumped on the bandwagon to institute similar changes in their welfare laws after New Jersey's initial reports of success were announced. The release of the Rutgers study, with its more in-depth analysis, should cause these states to re-evaluate their initiatives and pay closer heed to preliminary findings in which critical bits of information—like the statistical significance of results—are glossed over or ignored.

Thomas A. Pollmann provided research assistance.

Endnotes

1. AFDC is the national welfare program for which both the federal and state governments share expenditures. The federal government sets the rules for eligibility, but the states are free to determine actual benefit levels and administer the funds. Generally, poorer states receive more funds from the federal government than wealthier states. This skewed distribution, however, does not necessarily translate into higher benefits for recipients. [back to text]
2. This study was conducted as a defense report in a case brought against the State of New Jersey challenging the family cap provision of the FDP. [back to text]

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Will the Mutual Fund Boom Be a Bust for Banks?

Michelle Clark Neely

While Congress labors with legislation that would remove most of the six-decade-old barriers between commercial and investment banking, the blurring of differences between these two industries continues. And nowhere is this erosion more evident than in the entry of banks into the booming mutual fund industry, a move that started in the late 1980s and has accelerated in the 1990s. More than 2,000 U.S. commercial banks—about one fifth of the industry—now sell mutual funds to their customers. This total includes about 170 Eighth District banks, or roughly 15 percent of the District total.

Mutual Funds' Rising Popularity

Mutual funds' growing popularity over the last decade has come at the expense of other financial intermediaries, especially commercial banks, whose low rate offerings on certificates of deposit (CDs) and other traditional products drove savers willing to trade some risk for reward into the stock and bond markets, often for the first time. This substitution phenomenon, frequently referred to as *disintermediation*, explains a significant portion of the tremendous growth in mutual fund assets in the 1990s.

Other factors have been important too, however. Corporate America's move from defined benefit plans—or the traditional corporate pension—to defined contribution plans, like 401(k) plans, has forced many to take control over the management of their retirement assets, which are increasingly comprised of mutual funds. New innovations in mutual funds, like check-writing privileges, have also been important to mutual fund growth.

Banks and Mutual Funds

Banks entering the mutual fund business generally fall into one of two camps. The first consists of banks that are taking the offensive with mutual funds, believing that fee income from the sale and, in some cases, management of them will add significantly to the bottom line at a time when profits from traditional lines of business are being competed away. The second group of banks is taking a more defensive posture in response to real or perceived disintermediation, believing that offering mutual funds to their customers is necessary to keep them.

Bank involvement in the mutual fund business ranges from very little to very significant. The vast majority of banks sell third-party funds, that is, funds that are managed and distributed by an independent and unaffiliated mutual fund or other securities firm, like Fidelity or Vanguard. Banks broker third-party funds to their retail customers either through an authorized securities brokerage subsidiary or a networking arrangement with an outside service provider that sells funds on bank premises.

About 120 U.S. banks have chosen to become much more actively involved in the mutual fund business by managing and advising their own proprietary funds. Although the Glass-Steagall Act prohibits banking organizations from underwriting and distributing mutual fund shares, they are permitted to conduct most

activities related to mutual funds, including managing mutual fund assets and selling shares of their own and outside funds to their customers.¹

Recent Trends in Bank Mutual Fund Sales

Banks of all sizes sell mutual funds to their retail and trust customers, though large banks are more likely to sell funds than smaller banks. In the District, for example, just 6.9 percent of banks with average assets of less than \$100 million sell mutual funds, compared with 78.3 percent of banks with average assets of more than \$1 billion. These 18 large institutions accounted for more than two-thirds of the \$588.4 million in gross mutual funds sales at District banks in the second quarter of 1995.²

Sales of money market mutual funds (MMMFs) dominate third-party and proprietary bank mutual fund sales at the District and national levels. MMMF sales accounted for 76 percent of total sales in the second quarter of 1995 in the District and 95 percent at all U.S. banks. District banks sold \$77.47 million in equity funds and \$48.49 million in fixed income funds in the second quarter, accounting for 13.2 percent and 8.2 percent of total sales, respectively.

MMMF dominance in bank mutual fund sales likely reflects several factors: consumer preference for liquidity; consumer familiarity with MMMFs, which are very similar to the money market deposit accounts (MMDAs) offered by banks since 1982; and the strong likelihood that a sizable proportion of buyers are first-time investors who view long-term funds (equity and fixed income) as too risky.

Despite the preponderance of MMMF sales in total bank mutual fund sales, about two-fifths of the District banks that sell mutual funds do not sell MMMFs. In the second quarter of 1995, about 55 percent of District bank mutual fund sellers sold MMMFs, compared with 89 percent that sold long-term funds. Just under half of all District bank sellers sold both short- and long-term funds in the second quarter, compared with just over 30 percent one year ago.

Proprietary Mutual Funds

The select group of U.S. banking organizations that have chosen to offer and manage their own funds includes nine bank holding companies headquartered in the District (see table). Not surprisingly, these institutions are among the area's largest. Four of the nine—Boatmen's Bancshares, Mercantile Bancorp, National Commerce Bancorp and Mark Twain Bancshares—manage all of the major types of mutual fund portfolios: money market, fixed income, municipal debt and equity. Another District banking organization, Trans Financial Inc., of Bowling Green, Ky., recently announced that it would manage a full complement of funds consisting of six portfolios, pending Securities and Exchange Commission (SEC) approval.³

To date, bank fund managers have been only moderately successful in generating sales, particularly sales of relatively lucrative long-term funds. Sales of proprietary mutual funds and annuities accounted for just 7.3 percent of total mutual fund and annuity sales at District banks in the second quarter of 1995. The proportion for all U.S. banks was a whopping 83 percent, a figure that analysts believe is mostly comprised of MMMF sales, since the bulk of bank mutual fund assets are still in MMMF portfolios.

Although they do not constitute major players yet, banks are making their presence felt in the mutual fund industry. According to Lipper Analytical Services, banks' share of total mutual fund assets doubled in the last six years, from 7 percent in 1989 to 15 percent in mid-1995. More important, the composition of bank-managed funds is changing. In 1989, long-term fund assets comprised just 16.3 percent of total bank mutual fund assets; by mid-1995, that share had increased to 42.4 percent. In terms of performance, bank managed, long-term mutual funds are generally holding their own against nonbank funds, though they typically trail most nonbank fund types. According to Lipper, for the period ending June 30, 1995, bank-managed general equity

funds posted a five-year annualized total return of 10.95 percent, compared with 11.11 percent for nonbank funds. Over the same period, the annualized five-year total return for bank-managed, taxable fixed-income funds averaged 8.27 percent, compared with a 9.08 percent total return for nonbank funds.⁴ Despite the comparable returns, most analysts believe that banks need to outperform their nonbank rivals if they are to increase their market share against the large mutual fund companies.

The Bottom Line

Although sales figures and market share numbers are useful guides for assessing how successful banks have been in the mutual fund business, the real test is the effect on the bottom line. To date, income from mutual fund and annuity sales has accounted for just a fraction of noninterest income at selling banks. In the District, for example, mutual fund and annuity income averaged 1.64 percent of noninterest income in the second quarter of 1995, with just 20 percent of mutual fund sellers reporting mutual fund income shares of more than 5 percent. Moreover, no comprehensive information about the costs of starting and administering mutual fund sales programs, whether third-party or proprietary, exists. Without cost data, it is impossible to gauge whether bank mutual fund programs are making a net contribution to the bottom line or whether the resources spent on mutual fund programs would be better deployed elsewhere. In the end, these are the most important measures of success.

Table 1

District Banks that Manage Proprietary Mutual Funds

Ranked by Assets under Management

Organization	Location	Total Fund Assets at 6/30/95 (US \$ millions)	Total Number of Portfolios	Money Market	Fixed Income	Muni	Equity
Boatmen's Bancshares Inc.	St. Louis, MO	\$4,738.5	31	✓	✓	✓	✓
Mercantile Bancorp Inc.	St. Louis, MO	1,820.8	27	✓	✓	✓	✓
First Tennessee National Corp.	Memphis, TN	475.0	7	✓	✓		✓
National Commerce Bancorp	Memphis, TN	328.7	7	✓	✓	✓	✓
Mark Twain Bancshares Inc.	Ladue, MO	250.7	4	✓	✓	✓	✓
Magna Group	St. Louis, MO	79.3	2		✓		✓
Commonwealth Bancshares Inc.	Shelbyville, KY	74.4	1				✓
Union Planter's Corp.	Memphis, TN	36.1	1			✓	
Trans Financial Inc. ¹	Bowling Green, KY	N/A	6	✓	✓	✓	✓

¹ Pending SEC approval

SOURCES: Lipper Analytical Services; *American Banker*

[back to text]

Thomas A. Pollmann provided research assistance.

Endnotes

1. See Clark (1995) for more detailed analysis of the Act's history and recent efforts to repeal it. Also see Clark (1993) for more detail on banks' permitted mutual fund activities. [back to text]
2. Banks report gross sales of mutual funds and annuities—rather than the industry standard of net sales, which are sales less redemptions—on the balance sheet and income statements (call reports) they file quarterly with their primary regulators. The reporting of gross sales tends to overstate banks' share of the mutual fund business because some funds, especially MMMFs, experience frequent sales and redemptions because of their use as a cash management tool. [back to text]
3. See Plasencia (1995). [back to text]
4. See Kimelman (1995). The five-year return for bank proprietary funds includes 77 bank funds that have existed for at least five years. [back to text]

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<https://www.stlouisfed.org/publications/regional-economist/october-1995/news-bulletins-from-the-eighth-federal-reserve-district>

Pieces of Eight: News Bulletins from the Eighth Federal Reserve District

Exploring Price Stability

Does price stability contribute to long-term economic growth? That's the question more than 100 economists from around the world discussed at the St. Louis Fed's twentieth annual Economic Policy Conference, held Oct. 26-27 at the Bank.

The conference featured seven papers on the topic, as well as discussions of them by other economists.

The proceedings from this fall's conference will be published in the *Review* this spring. If you would like a copy when it becomes available, or if you would like a copy of last year's conference issue, please call Debbie Dawe of our Public Affairs Office at (314) 444-8809.

Franklin Gets a Face Lift

He hasn't had a thing done to his appearance in nearly 70 years, but Ben Franklin, whose face graces the \$100 bill, will be spruced up and sent out to banks nationwide in early 1996.

The currency redesign is far from just cosmetic, according to the Treasury Department, which will issue modified versions of other denominations in later years. The real reason for the change is to stem counterfeiting efforts, which have become increasingly sophisticated, thanks to technological improvements, such as color copiers, printers and scanners. While retaining the same basic size, color and texture, the redesigned notes will feature a larger portrait that is placed off-center, a watermark and ink that changes from green to black when viewed from different angles. The old series will continue to be honored at full face value, with the new series phased in as notes are returned to the Fed.

Because the currency redesign is the first major one since 1928, the St. Louis Fed distributed information about the new features and held educational seminars for bankers in November.

Do Data Deceive?

With a seemingly never-ending string of indicators out there, tracking economic data can be difficult. And the job's made even tougher when you consider, as two recent issues of *National Economic Trends* encourage us to, that the numbers cannot always be taken at face value.

In the August issue of *NET*, St. Louis Fed economist Alton Gilbert addresses the problem of data revisions. Because economic statistics like payroll employment are often revised quite substantially, data for the most recent months can be misleading. "Given the size of these revisions, how can you use an indicator like payroll employment to gauge trends in the economy?"

Gilbert asks. Gilbert says a safer course is to derive an economic outlook from more than just the latest numbers, which are based on incomplete information.

Fed economist Donald Allen, writing in the September issue of *NET*, says a similar problem occurs when data have not been seasonally adjusted. According to Allen, weather, scheduled plant shutdowns and holiday periods all can cause production indexes to skitter.

Factoring out the seasonal fluctuations by using statistical models captures a clearer picture of the economy's health, Allen says, even if it creates less-than perfect estimates. "Most economists believe such imprecision is a reasonable sacrifice to reveal underlying trends in the data," he says.

For a copy of either issue of *NET*, or any of our other statistical publications, call Debbie Dawe of our Public Affairs Office at (314) 444-8809.

District Leads Nation in Income Growth

Rank Among 50 States	District State	Percent Growth 1993-94	1994 Per Capita Income
4	Mississippi	7.3%	\$15,793
9	Missouri	5.4	20,562
9	Indiana	5.4	20,262
10	Tennessee	5.3	19,446
11	Arkansas	5.2	16,817
12	Kentucky	5.1	17,753
15	Illinois	4.8	23,607
National Average:		4.3	21,699

Source: U.S. Department of Commerce, Bureau of Economic Analysis

District Data

Selected economic indicators of banking,
agricultural and business conditions in
the Eighth Federal Reserve District

Commercial Bank Performance Ratios

U.S., District and State

	All U.S.	U.S. <\$15B ¹	District	AR	IL	IN	KY	MS	MO	TN
Return on Average Assets (Annualized)										
2nd quarter 1995	1.13%	1.29%	1.28%	1.24%	1.22%	1.23%	1.22%	1.41%	1.29%	1.41%
1st quarter 1995	1.09	1.28	1.24	1.19	1.15	1.21	1.19	1.39	1.28	1.30
2nd quarter 1994	1.16	1.28	1.26	1.32	1.24	1.10	1.26	1.24	1.25	1.33
Return on Average Equity (Annualized)										
2nd quarter 1995	14.37%	14.87%	14.73%	13.43%	12.52%	13.20%	13.94%	15.63%	15.91%	17.50%
1st quarter 1995	14.03	14.90	14.44	13.06	12.00	13.05	13.74	15.71	16.03	16.34
2nd quarter 1994	14.79	14.90	14.69	14.44	12.81	11.72	14.41	13.48	15.78	17.00
Net Interest Margin (Annualized)										
2nd quarter 1995	4.47%	4.78%	4.32%	4.24%	4.51%	4.47%	4.22%	5.03%	4.19%	4.29%
1st quarter 1995	4.46	4.75	4.32	4.25	4.47	4.46	4.23	5.05	4.21	4.28
2nd quarter 1994	4.19	4.40	4.03	3.96	3.99	4.00	4.11	4.40	3.90	4.19
Nonperforming Loans² ÷ Total Loans										
2nd quarter 1995	1.26%	1.07%	0.70%	0.68%	1.04%	0.53%	0.83%	0.64%	0.57%	0.62%
1st quarter 1995	1.32	1.10	0.66	0.68	0.97	0.55	0.78	0.61	0.53	0.58
2nd quarter 1994	1.61	1.36	0.78	0.77	1.00	0.58	0.84	0.78	0.72	0.70
Net Loan Losses ÷ Average Total Loans (Annualized)										
2nd quarter 1995	0.39%	0.46%	0.18%	0.10%	0.32%	0.13%	0.23%	0.22%	0.14%	0.19%
1st quarter 1995	0.36	0.39	0.15	0.08	0.28	0.16	0.10	0.16	0.16	0.15
2nd quarter 1994	0.51	0.45	0.17	0.10	0.28	0.12	0.23	0.11	0.07	0.33
Loan Loss Reserve ÷ Total Loans										
2nd quarter 1995	2.11%	1.88%	1.57%	1.37%	1.61%	1.43%	1.59%	1.65%	1.67%	1.57%
1st quarter 1995	2.16	1.93	1.64	1.42	1.71	1.43	1.65	1.71	1.75	1.63
2nd quarter 1994	2.35	2.12	1.74	1.52	1.74	1.49	1.68	1.78	1.92	1.79

NOTE: Data include only that portion of the state within Eighth District boundaries.

¹ U.S. banks with average assets of less than \$15 billion are shown separately to make comparisons with District banks more meaningful, as there are no District banks with average assets greater than \$15 billion.

² Includes loans 90 days or more past due and nonaccrual loans

SOURCE: FFIEC Reports of Condition and Income for Insured Commercial Banks

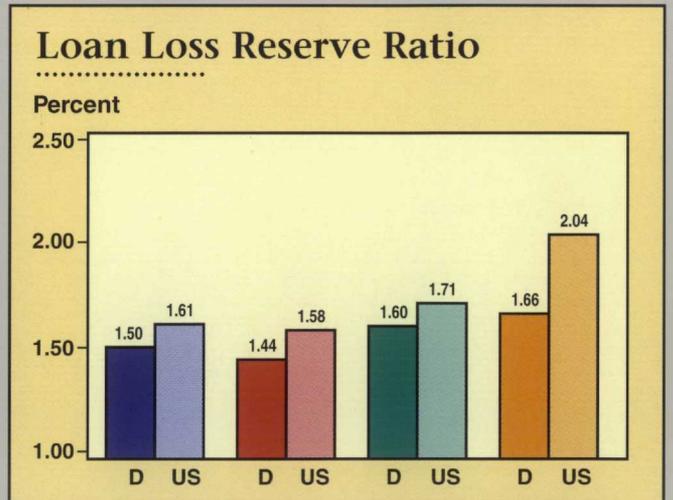
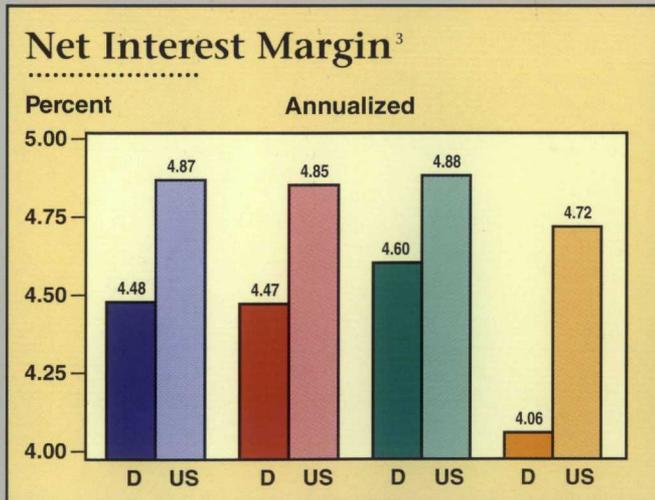
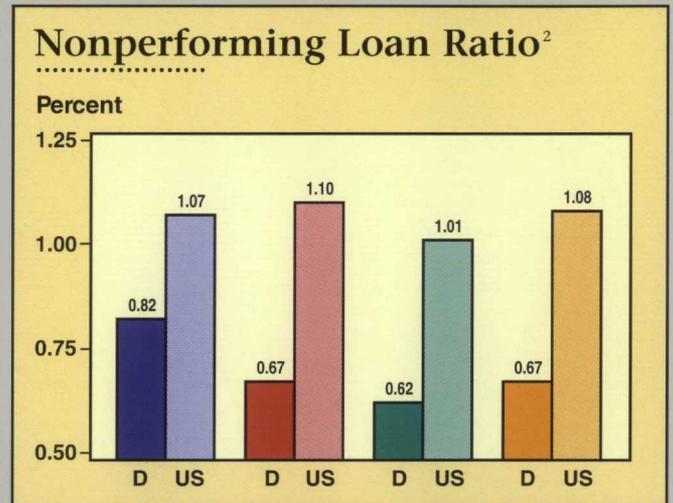
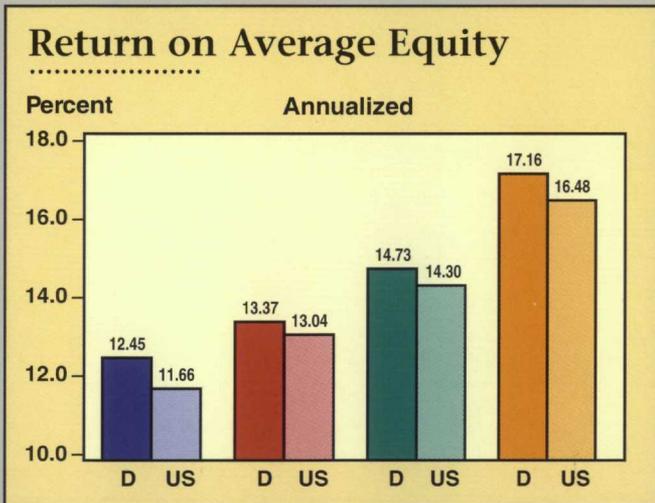
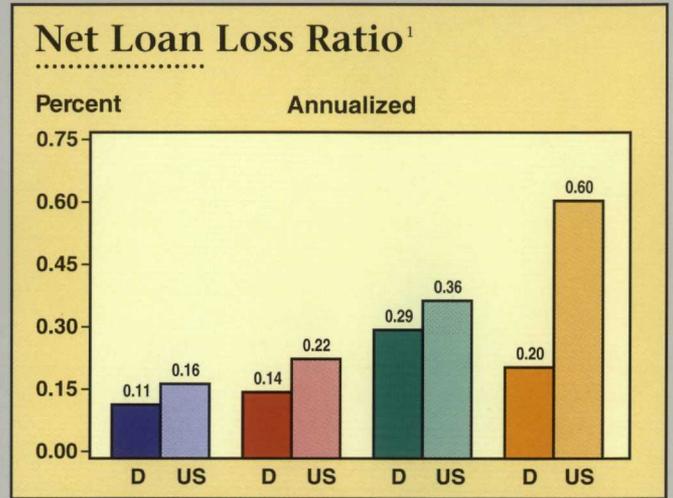
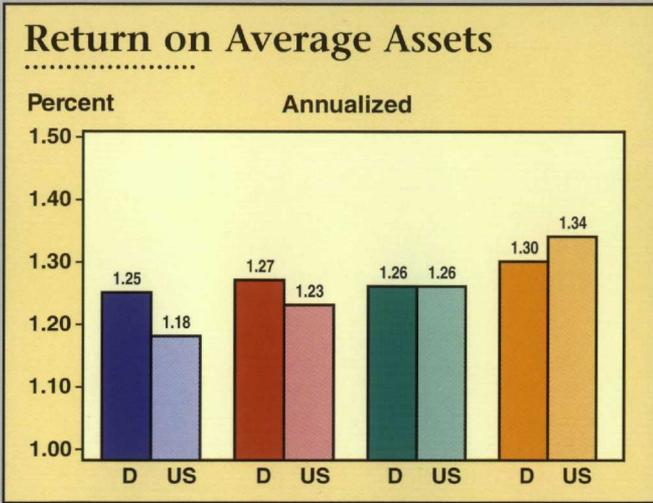
Commercial Bank Performance Ratios

by Asset Size

2nd Quarter 1995

Earnings

Asset Quality



D = District
US = United States

< \$100 Million

 \$100 Million - \$300 Million

 \$300 Million - \$1 Billion

 \$1 Billion - \$15 Billion

NOTE: Asset quality ratios are calculated as a percent of total loans.

¹ Loan losses are adjusted for recoveries.

² Includes loans 90 days or more past due and nonaccrual loans

³ Interest income less interest expense as a percent of average earning assets

SOURCE: FFIEC Reports of Condition and Income for Insured Commercial Banks

Agricultural Bank Performance Ratios

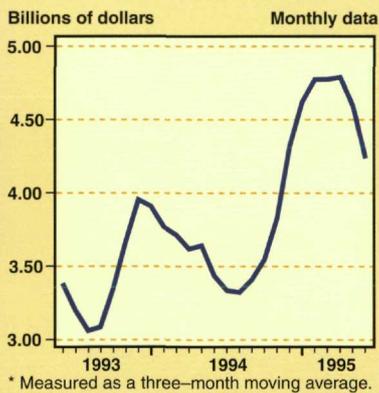
	U.S.	AR	IL	IN	KY	MS	MO	TN
Return on average assets (annualized)								
2nd quarter 1995	1.23%	1.23%	1.22%	1.20%	1.44%	1.54%	1.26%	1.19%
1st quarter 1995	1.22	1.20	1.18	1.15	1.48	1.53	1.25	1.25
2nd quarter 1994	1.25	1.24	1.19	1.14	1.34	1.48	1.33	1.23
Return on average equity (annualized)								
2nd quarter 1995	12.01%	11.86%	11.24%	12.24%	14.37%	16.41%	12.32%	12.40%
1st quarter 1995	12.03	11.31	11.21	11.69	14.96	16.26	12.55	12.31
2nd quarter 1994	12.45	11.87	11.48	11.17	13.64	14.29	13.38	12.15
Net interest margin (annualized)								
2nd quarter 1995	4.58%	4.29%	4.15%	4.71%	4.69%	5.27%	4.51%	4.36%
1st quarter 1995	4.58	4.20	4.15	4.74	4.72	5.00	4.54	4.22
2nd quarter 1994	4.09	3.86	3.70	4.24	4.12	4.58	4.10	3.89
Ag loan losses ÷ average ag loans (annualized)								
2nd quarter 1995	0.14%	-0.06%	-0.07%	-0.05%	0.09%	0.39%	-0.10%	0.10%
1st quarter 1995	0.08	-0.17	-0.08	0.03	0.35	0.04	-0.25	-0.54
2nd quarter 1994	0.09	0.60	-0.04	-0.04	0.01	0.18	0.21	-0.02
Ag nonperforming loans¹ ÷ total ag loans								
2nd quarter 1995	1.43%	0.62%	1.57%	0.67%	1.73%	1.96%	1.05%	0.32%
1st quarter 1995	1.49	0.83	1.43	0.28	1.48	3.50	1.09	0.00
2nd quarter 1994	1.31	0.93	1.33	1.35	2.03	3.07	0.91	0.28

NOTE: Agricultural banks are defined as those banks with a greater than average share of agricultural loans to total loans.
Data include only that portion of the state within Eighth District boundaries.

¹ Includes loans 90 days or more past due and nonaccrual loans

SOURCE: FFIEC Reports of Condition and Income for Insured Commercial Banks

U.S. Agricultural Exports*



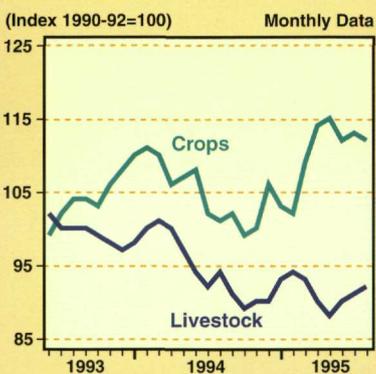
U.S. Agricultural Exports by Commodity

Dollar amounts in billions

Commodity	Apr	May	Jun	Year-to-date	Change from year ago
Livestock & products	.80	.90	.88	7.53	110.8%
Corn	.47	.60	.51	4.56	53.7
Cotton	.44	.29	.17	3.13	76.3
Rice	.08	.08	.09	.82	15.8
Soybeans	.49	.28	.22	4.25	21.0
Tobacco	.17	.10	.06	1.12	3.8
Wheat	.35	.31	.33	3.41	11.6
TOTAL ¹	4.51	4.23	3.97	41.08	23.4

¹ Includes commodities not listed here

U.S. Crop and Livestock Prices



Indexes of Food and Agricultural Prices

	Level			Growth ¹	
	II/95	I/95	II/94	I/95-II/95	II/94-II/95
Prices received by U.S. farmers ²	100	99	101	5.5	-1.0
Prices received by District farmers ³					
Arkansas	118	122	135	-10.5	-12.1
Illinois	94	91	104	13.9	-9.6
Indiana	97	94	107	13.4	-9.4
Missouri	122	124	138	-6.3	-11.4
Tennessee	130	133	144	-8.7	-9.5
Prices paid by U.S. farmers					
Production items	107	106	108	3.8	-0.9
Other items	108	108	107	0.0	0.9
Consumer food prices	148	147	144	3.7	3.3
Consumer nonfood prices	153	152	148	3.4	3.1

NOTE: Data not seasonally adjusted except for consumer food prices and nonfood prices

¹ Compounded annual rates of change are computed from unrounded data.

² Index of prices received for all farm products and prices paid (1990-92=100)

³ Indexes for Kentucky and Mississippi are unavailable.

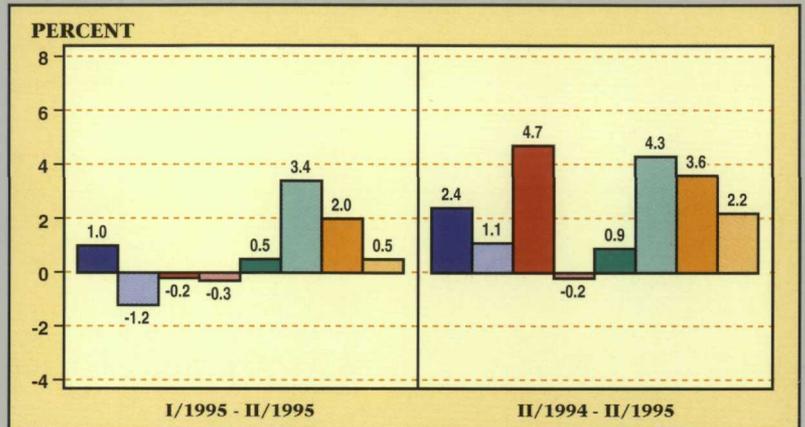
Selected U.S. and State Business Indicators

Compounded Annual Rates of Change in Nonagricultural Employment

United States

	II/1995	I/1995	II/1994
Labor force (in thousands)	132,139	132,318	130,675
Total nonagricultural employment (in thousands)	116,368	116,078	113,648
Unemployment rate	5.7%	5.5%	6.2%

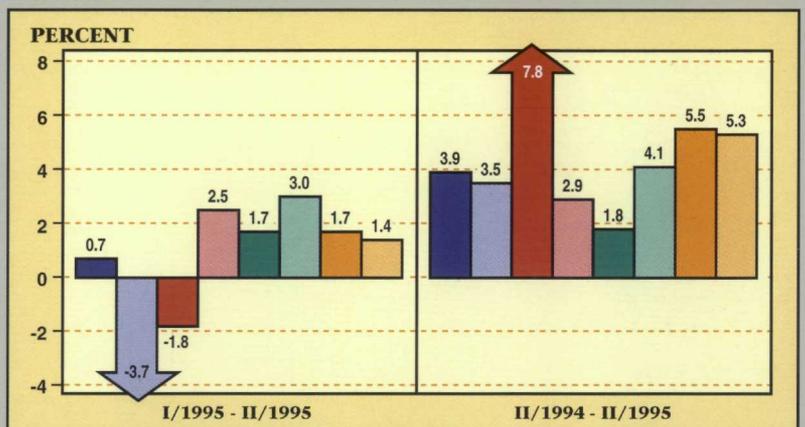
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$3,901.6	\$3,863.3	\$3,761.7



Arkansas

	II/1995	I/1995	II/1994
Labor force (in thousands)	1,212.1	1,228.5	1,202.5
Total nonagricultural employment (in thousands)	1,068.9	1,067.2	1,028.3
Unemployment rate	4.4%	5.3%	5.6%

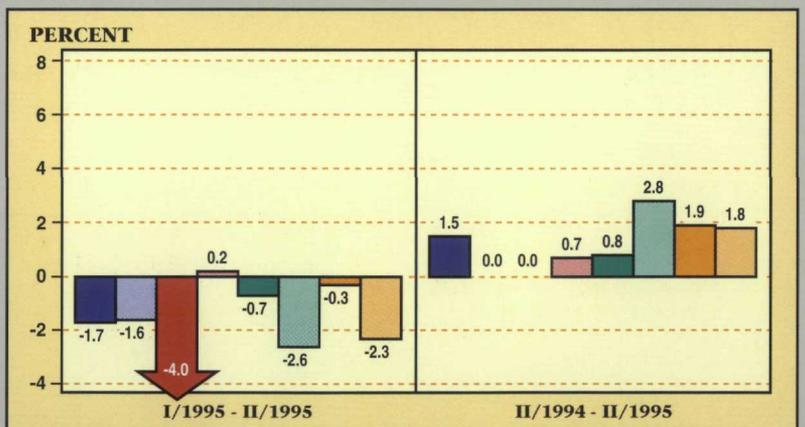
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$28.8	\$28.0	\$27.7



Illinois

	II/1995	I/1995	II/1994
Labor force (in thousands)	6,115.4	6,092.9	6,038.1
Total nonagricultural employment (in thousands)	5,531.6	5,555.8	5,452.3
Unemployment rate	5.1%	5.0%	5.5%

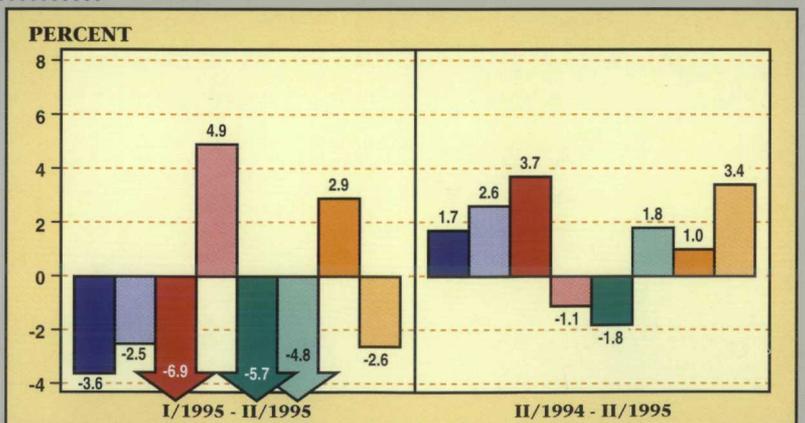
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$190.7	\$188.3	\$185.2



Indiana

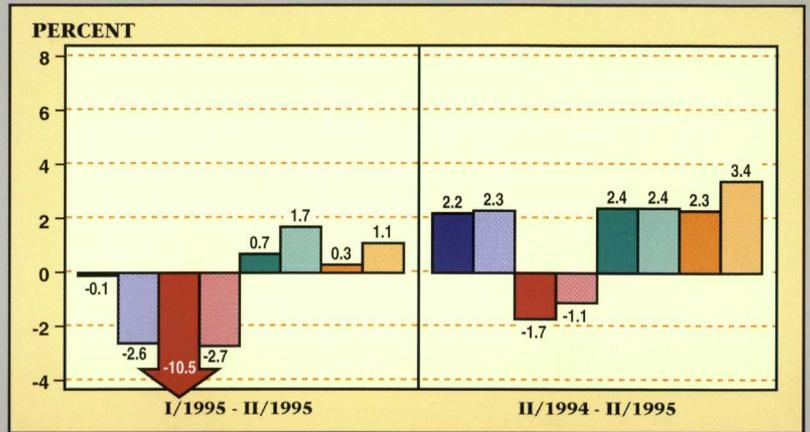
	II/1995	I/1995	II/1994
Labor force (in thousands)	3,137.6	3,159.6	3,035.7
Total nonagricultural employment (in thousands)	2,750.2	2,775.5	2,703.6
Unemployment rate	4.7%	4.2%	4.9%

	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$79.9	\$79.2	\$77.6



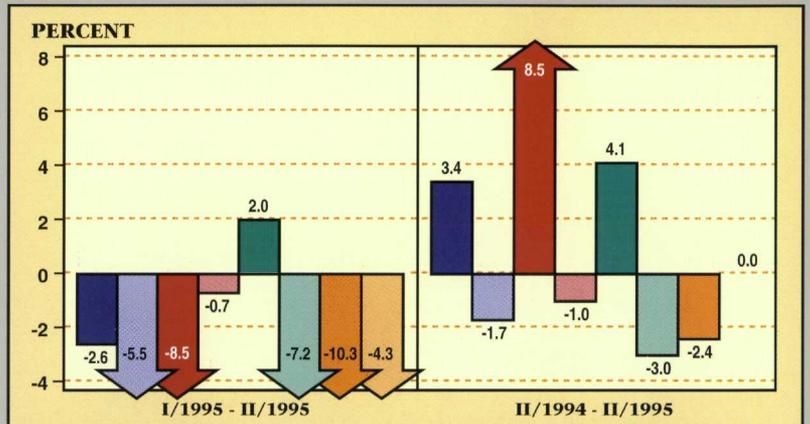
Kentucky

	II/1995	I/1995	II/1994
Labor force (in thousands)	1,865.9	1,877.3	1,813.5
Total nonagricultural employment (in thousands)	1,626.8	1,627.3	1,592.3
Unemployment rate	4.9%	4.7%	5.4%
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$46.8	\$46.5	\$45.1



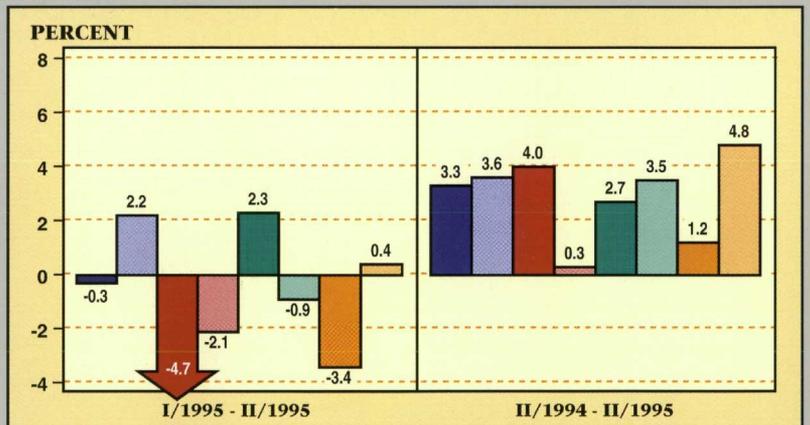
Mississippi

	II/1995	I/1995	II/1994
Labor force (in thousands)	1,242.6	1,256.4	1,252.5
Total nonagricultural employment (in thousands)	1,066.8	1,073.9	1,031.3
Unemployment rate	5.8%	5.4%	6.5%
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$29.1	\$28.8	\$28.2



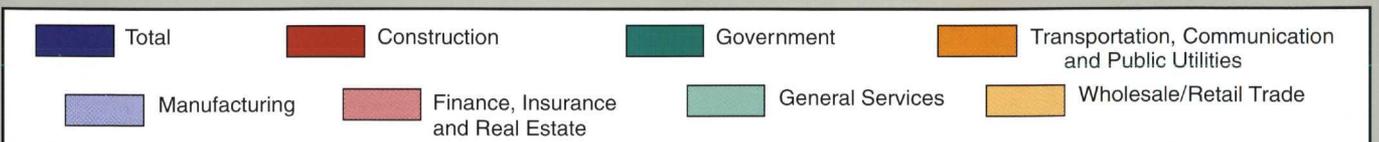
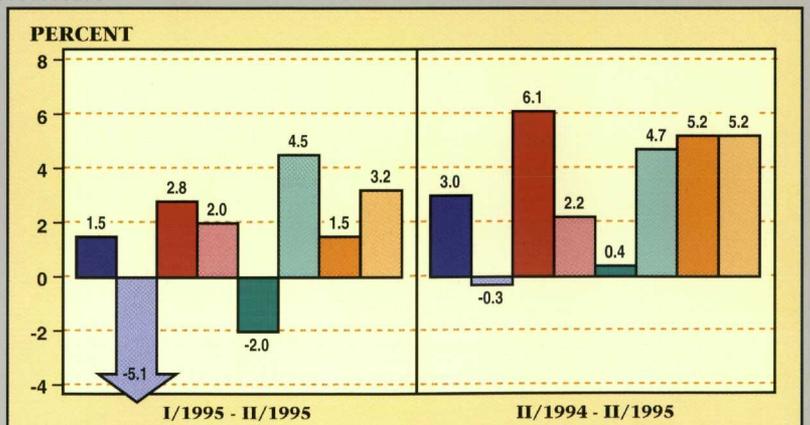
Missouri

	II/1995	I/1995	II/1994
Labor force (in thousands)	2,841.7	2,777.6	2,677.8
Total nonagricultural employment (in thousands)	2,539.9	2,541.6	2,459.8
Unemployment rate	4.8%	4.6%	4.9%
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$75.1	\$74.4	\$72.3



Tennessee

	II/1995	I/1995	II/1994
Labor force (in thousands)	2,682.1	2,656.5	2,654.0
Total nonagricultural employment (in thousands)	2,486.1	2,477.1	2,413.0
Unemployment rate	4.6%	4.0%	4.9%
	I/1995	IV/1994	I/1994
Real personal income* (in billions)	\$70.1	\$69.3	\$66.7



NOTE: All data are seasonally adjusted. The nonagricultural employment data reflect the 1994 benchmark revision.
* Annual rate. Data deflated by CPI, 1982-84=100.