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## The SFA Business Review Vol. 2 No. 2

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# THE SFA BUSINESS REVIEW

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AN IMPORTANT MESSAGE TO CHIEF EXECUTIVE OFFICERS  
AND OTHERS FROM THE DIRECTOR

The SFA Bureau of Business and Economic Research has plans to offer, in 1977, to banks, savings and loan associations, business and industrial firms, government entities and agencies, and professional groups--on a contract basis--a package of services from which to choose a personalized mix.

The package we are proposing will consist of such services as executive seminars, courses for selected employees, research, studies, including future studies, special projects, special executive briefings, problem solving, access to our data bank, and The SFA Business Review.

We will provide first class expertise from the School of Business in such general areas as accounting, business law, computer science, economics, finance, management, marketing, and office administration. In addition, we can provide first class expertise from other areas of the University and also from without.

However, before formalizing our group of services, we would like to hear from you with respect to those that you want--preferably in rank order of preference--and would like us to develop. We also would appreciate your giving us in round numbers an estimate that your firm, agency, or association would be prepared to spend on an annual basis for a given tailored mix of services.

Do write to us at your earliest convenience expressing your views.

It might be added that there is nothing to prevent, for example, a group of financial institutions or firms from joining together to pool their funds to obtain an agreed upon mix of services.

Finally, we should like to emphasize that we are seeking to become largely self-supporting in order to achieve our service objectives, and, thus, minimize our need for additional funding by the State Legislature.

\* \* \* \* \*

The Rule of 72

It is a simple, rule-of-thumb formula that states: Given the annual rate of compound interest, divide it into 72 to obtain the approximate number of years it takes for a given amount to double. Or, conversely, given the number of years it takes for a given amount to double, divide it into 72 to obtain the approximate annual rate of compound interest.

Example one:  $\frac{72}{i} = y$ ;  $\frac{72}{9\%} = 8$  years

Example two:  $\frac{72}{y} = i$ ;  $\frac{72}{6 \text{ yrs.}} = 12$  percent



## THE ECONOMIC REVIEW AND OUTLOOK

M. Dudley Stewart, Jr., Ph.D.  
Director  
and  
Associate Professor of Economics and Finance

### The Global Economy

There are several potential problems facing the United States and the international community of nations in 1977 and beyond.

The Oil Producing and Exporting Countries (OPEC) have scheduled a meeting in Qatar in December to decide on still another increase in the price of their crude oil. Estimates of the proposed increase range from five to 15 per cent.

A modest increase should not prove disruptive to our economy nor to most others; however, a one-shot injection of a small increase in global inflation is to be expected. There will be pressure on deficits in the balance of international payments of many nations as a result, of still another increase in the transfer of wealth to the OPEC nations.

Although conditions in The Middle East still present some cause for concern, the situation in southern Africa appears to be very precarious at this time.

Angola has become another Cuba and is capable of engaging in mischief-making in the area. Also, while not strategic to the United States in terms of natural resources, Angola may well decide to provide the U.S.S.R. with port facilities for its ever-growing navy, much to our detriment.

The risk of chaos in Rhodesia and South Africa is very great. It can be only hoped that cool heads will prevail in order that a political settlement acceptable to both sides can be reached. Otherwise, international political intrigue will surely emerge.

Another worrisome problem is that many of the less developed nations have, over time, borrowed funds from international lending institutions, commercial banks, and other lenders in the developed nations in amounts more than they are capable of servicing. Thus, the risk of defaults appears to be growing.

Should massive defaults begin to occur, international capital markets would be adversely affected. And, rising interest rates would most likely result.

Finally, the possibility of such factors as droughts, famines, plagues, other natural disasters, and wars should not be discounted.

### The United States Economy

As things stand now, our SWAG forecast for 1977 is as follows:

Real gross national product will increase at the average annual rate of approximately five per cent. Thus, no downturn is foreseen.

Inflation, as measured by the consumer price index, will continue at or near the six per cent level. The maximum acceptable rate of inflation of one to one and one-half per cent per year will not be achieved until the monetary authorities decide to reduce the money supply annual growth rate to a constant four or five per cent, and then only after a time lag of two to three years.

The rate of unemployment will fall slightly below seven per cent, well above the four per cent level considered to be full employment and the natural rate of unemployment for our economy of approximately five per cent.

The reasons that the unemployment rate will remain at such an unacceptably high level are: (1) a large number of women, including housewives, and teenagers have entered the labor force, (2) there are an estimated eight to twelve million illegal aliens in the



nation, (3) the economy is still in the process of recovering from the recent deep recession, and (4) there are too many built-in disincentives to work, not to mention the perverse effects of minimum wage legislation.

Interest rates in general will probably edge upward slightly as the demand for credit grows as a result of continued economic expansion, and as a result of continued inflationary expectations on the part of lenders.

### The Texas Economy

The economy of Texas has remained basically strong with the level of unemployment continuing to lie well below the national average. For example, whereas the U.S. rate in August was 7.9 per cent, the rate in Texas was almost one-third below it at 5.4 per cent.

Business activity has continued at a brisk pace. In August, it was approximately 20 per cent above that for the U.S. on a seasonally adjusted basis, as measured by the indexes of business activity for Texas and the U.S. published by the Bureau of Business Research at The University of Texas at Austin (BBR-UT/AUS).

According to the October, 1976 issue of the Texas Business Review, a BBR-UT/AUS publication, briskness in the energy field and population increases continue to contribute to the soundness and growth of the Texas economy. Industrial production, crude oil production, and the use of electric power registered modest increases over the twelve month period ending in August.

Also, during the same period, according to the October, 1976 issue of Building Construction in Texas, another BBR-UT/AUS publication, residential construction increased a substantial 31 per cent. However, nonresidential construction decreased a whopping 34 per cent.

Needless to say, the continued growth of the Texas economy will depend upon the sustained growth of the U.S. and global economies.

### The Deep East Texas Economy

Based upon the very limited data we have and intuition, we believe that our 16-county Deep East Texas economy has fared reasonably well during the 12-month period ending in August. It appears to have performed better than the U.S. economy but, perhaps, not quite as well as the Texas economy in general.

As of August, the unemployment rate for the U.S. was 7.9 per cent, for Texas, 5.4 per cent, and for Deep East Texas, 5.1 per cent. Thus, the rate for Deep East Texas was below both. A low of 3.2 per cent was reported in Houston County, while a high of 7.8 per cent occurred in Sabine County.

Using the September retail food price index for Houston, published by Region Six of the Bureau of Labor Statistics, as a proxy for the cost of food in Deep East Texas, a decline of 0.2 per cent was recorded from August to September. However, to September, 1976 from September, 1975, the cost of food rose by 2.2 per cent. The largest decrease, 5.6 per cent, was in meats, poultry, and fish, while the largest increase, 9.2 per cent, was in the food away from home category.

Given the continued growth of all of the other economies, there is no reason to believe that the Deep East Texas economy will not prosper likewise.



## A TRIBUTE TO MILTON FRIEDMAN

M. Dudley Stewart, Jr., Ph.D.  
Director  
and  
Associate Professor of Economics and Finance

### Nobel Prize in Economics Awarded to Milton Friedman

The inevitable has happened. Dr. Milton Friedman, Paul Snowden Russell Distinguished Service Professor of Economics at the University of Chicago, has been named the recipient of the 1976 Nobel Prize in Economics.

The Nobel laureate was cited for his outstanding contributions to consumption analysis, monetary theory and history, and for demonstrating the extreme complexity of conventional (Keynesian) economic stabilization policies.

Dr. Friedman might well be the most original and influential economist since Lord John Maynard Keynes (1883-1946), the renowned British economist.

\* \* \* \* \*

### The Essence of Some of Friedman's Views on Economic Instability and Conventional Demand Management Policies

Inflation is caused by the monetary authorities expanding the money supply at too rapid a rate for too long a period of time.

Recession is caused by the monetary authorities expanding the money supply at too slow a rate for too long a period of time.

Conventional fiscal policy, in the absence of an accomodative monetary policy, has little or no net effect on the economy in the short run (say, six to 18 months).

Conventional monetary policy is, contrary to current economic wisdom, actually pro-cyclical, not countercyclical. A major reason is the long and variable lags associated with it.

Friedman's Economic Policy Prescriptions: (1) Stop using conventional fiscal policy for stabilization purposes and balance the budget preferably at a lower level, and (2) cease using monetary policy as it is conventionally carried out.

Instead, the monetary authorities, given the still relatively inaccurate art and science of forecasting, should adopt and adhere to the following fixed rule: Expand the money stock at a constant rate equal to the long run growth rate of real gross national product, say, four per cent a year.

A rate greater than that would be inflationary. A rate less than that would be stagnating to deflationary.

\* \* \* \* \*

### Milton Friedman on Minimum Wage Laws

"Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended by the men of good will who support it."



"The effect of the minimum wage is . . . to make unemployment higher than it otherwise would be."

"A large part of the support for minimum wage laws comes not from disinterested men of good will but from interested parties. For example, northern trade unions and northern firms threatened by southern competition favor minimum wage laws to reduce the competition from the South."

Milton Friedman, Capitalism and Freedom (Chicago: The University of Chicago Press, 1962), pp. 180-81.

\* \* \* \* \*

#### Milton Friedman on Monetary and Fiscal Policy

"Is fiscal policy being oversold? Is monetary policy being oversold? I want to stress that my answer is yes to both of those questions."

Milton Friedman in Milton Friedman and Walter W. Heller, Monetary vs. Fiscal Policy: A Dialogue (New York: W. W. Norton & Company, Inc., 1969), p. 47.

\* \* \* \* \*

#### Milton Friedman on Freedom

"To the free man, the country is the collection of individuals who compose it, not something over and above them."

"The free man will ask neither what his country can do for him nor what he can do for his country. He will ask rather 'what can I and my compatriots do through government to help us discharge our individual responsibilities, to achieve our several goals and purposes, and above all, to protect our freedom? And he will accompany this question with another: How can we keep the government we create from becoming a Frankenstein that will destroy the very freedom we establish it to protect? Freedom is a rare and delicate plant."

Milton Friedman, Capitalism and Freedom (Chicago: The University of Chicago Press, 1962), pp. 1-2.

\* \* \* \* \*

#### Milton Friedman on Resistance to New Ideas

"The history of science and of invention shows that, time and again, it is the maveric the outsider, the person attacking vested intellectual or economic interests, who produces the new insight, the new invention, the fresh direction, the correction of long accepted error."

Milton Friedman, Dollars and Deficits (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1968), p. 5.



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TABLE USEF-1

SIX ECONOMIC FORECASTS FOR THE  
UNITED STATES ECONOMY: 1977

(In billions of dollars, except as noted)

Forecasting Unit	Month Forecast Made	Nominal GNP <sup>a</sup>	Real GNP <sup>b</sup>	Price Level Increase <sup>c</sup>	Real Growth Rate	Unemploymer Rate
CONSENSUS <sup>d</sup>	----	1,886.7	1,332.4	6.0%	5.1%	6.8%
Chase Econometric Associates, Inc.	Aug. 1976	1,897.4	1,328.4	6.6%	4.7%	7.1%
The Conference Board	do	1,894.3	1,336.0	5.9%	5.2%	6.7%
Data Resources, Inc.	do	1,855.5	1,333.4	5.6%	5.3%	6.8%
Lionel D. Edie & Co., Inc.	do	1,875.8	1,328.1	5.5%	4.9%	6.6%
Kent Econometric Associates, Inc.	do	1,905.6	1,339.4	6.3%	5.5%	6.4%
MAPCAST (General Electric Co.)	do	1,892.0	1,329.3	6.2%	4.9%	6.9%

Source: The Conference Board, The Conference Board Statistical Bulletin, September, 1976, pp. 10-11.

<sup>a</sup>In current dollars.

<sup>b</sup>In constant (1972) dollars.

<sup>c</sup>The forecasted change in the GNP Implicit Price Deflator (1972=100).

<sup>d</sup>Calculated by the SFA BBER.

\* \* \* \* \*

Faculty Members and the Protestant Ethic

Faculty members at senior level, state colleges and universities in Texas devote in excess of an average of 51 hours a week to their professional activities, according to an extensive, statistically valid study, How Texas Faculty Spend Their Time, recently undertaken and published by the Texas Association of College Teachers (TACT).

This study confirms others previously undertaken on a nation-wide basis that indicate faculty members have a 50 to 60 hour professional workweek.



## ESTATE PLANNING--NEW DEVELOPMENTS

Ralph L. White, Ed.D., C.P.A.  
Professor of Administrative Services  
and Head of Department

The recent Congressional revision of the federal tax structure on gifts and estates provides many families additional opportunities to protect their wealth from the federal tax collector. This revision, the first in forty-four years, changes completely the rules that determine how much tax must be paid on gifts to a taxpayer's spouse, children, or other people--and how much of an estate is consumed by taxes before the heirs receive any benefit.

The following represent some of the major changes and provisions provided in the new tax law:

1. Beginning January 1, 1977, gifts will be taxed at the same rate as estates. Previously, gifts were favored by a much lower tax rate than the tax rate on a person's estate.
2. Beginning January 1, 1977, every taxable gift made within three years of a person's death will be added back to his estate. Previously, the IRS had to prove that the gift was made "in contemplation of death."
3. Gifts between spouses.
  - a. The first \$100,000 given to one spouse by the other during his/her lifetime is tax free.
  - b. One half of all lifetime gifts to a spouse in excess of \$200,000 is not taxed.
4. Gifts up to \$3,000 each to an unlimited number of people are not taxed.
  - a. If the spouse joins in the gift, a total of \$6,000 per individual is not taxed.
  - b. Yearly gifts up to \$3,000 to a spouse are not counted in the \$100,000 exclusion mentioned above.
5. Taxpayers, beginning January 1, 1977, will be entitled to take a large credit against the tax on their combined estate and lifetime gifts. This credit replaces the specific exemptions of \$30,000 under the gift tax and \$60,000 under the estate tax provided for under the old law.
  - a. This credit will be applied against the sum of a person's total estate and gift taxes--first against gift taxes, with any remainder to be used to reduce estate taxes.
  - b. A credit of \$30,000 against total estate and gift taxes is available to the estates of persons dying in 1977.
  - c. The amount of the credit will rise gradually each year until, in 1981, it stabilizes at \$47,000.



6. Farmers or small businessmen whose business property forms the bulk of their estates will be allowed to revalue farm and business real estate at their worth in their current use, rather than at other, possibly more lucrative uses.
  - a. This revaluation of farm and business property may reduce the total value of the estate by no more than \$500,000.
  - b. If, within 15 years, the heirs sell the revalued farm or business real estate to others, or use it for different purposes, the Government will collect extra taxes.
  - c. If the bulk of the estate consists of holdings in a farm or business real estate, the heirs may be eligible to spread payment of estate taxes over a period of 15 years.
7. The original "basis" of assets--the cost or assigned value utilized in computing gain or loss on sale of assets--will be carried through to heirs, so that when they sell inherited assets they will pay capital gains taxes on the entire increase in value of the assets. Previously, heirs received the "stepped-up" value of assets as determined at the date of death.
  - a. Estates will be allowed to increase the basis value of their property by \$60,000, and to avoid capital gains taxes on \$10,000 of personal effects.
  - b. All assets will be given a "fresh start" on January 1, 1977. Assets owned on that date will be assigned their market value on December 31, 1976.
8. Annuities received by an heir under provisions of an Individual Retirement Account, U.S. Retirement Bonds, or a Keogh Retirement Plan for the self-employed, are not counted as part of the estate for estate tax purposes. The heir may not withdraw the amount of the annuity in a lump sum.
9. If the taxpayer and the Internal Revenue Service disagree on the valuation of property in an estate, the IRS must supply written explanations of the manner in which it arrived at its valuation.

Only a few of the major estate and gift tax revisions have been summarized in this article; the complete tax revision is very detailed and exact. There are, however, many provisions which save families tax dollars included in the new gift and estate tax regulations.

Estate planning is especially important after one spouse dies. There is no marital deduction to shelter one-half of the estate from the tax collector. Effective estate planning minimizes the total tax paid on the death of both husband and wife. Maximum savings will result only with careful, long-range planning. A well organized estate plan--reviewed each year by a professional tax advisor--will insure that the minimum tax is paid on an estate and that a person's heirs receive maximum benefit from the assets he has accumulated during his lifetime.



## CONSTRUCTING A FINANCIAL GAME-PLAN

John H. Lewis, D.B.A.  
Assistant Professor of Economics and Finance

### Introduction

Today, the ability to earn what might be considered an adequate income is not a guarantee of financial success. Many people who have earned a comfortable living during their working lives reach retirement age without having accumulated sufficient capital to retire in dignity. A primary reason for this failure is a lack of financial planning. The plain truth is that few people understand the importance of preparing a financial plan for themselves.

### Why Plan for Retirement?

Several sources of income will be available when you reach retirement age: (1) You can continue working. (2) You can trust the social security system to provide for retirement needs. However, before relying totally upon social security, you should realize that it is designed to provide for minimum retirement needs. Also, it is an unfunded pension plan and depends upon the present work force to meet the needs of the program's beneficiaries. (3) You can depend upon public or private charity. (4) You can rely upon the income from a retirement program where you are employed. (5) You can rely upon income generated from the capital that you have accumulated.

These sources of retirement income are not mutually exclusive. Even if you have a public or private retirement plan, additional income may be necessary to meet your needs. Unfortunately, the accumulated capital necessary to provide this income will not just appear automatically at retirement; it is most difficult to acquire.

It cannot be stressed enough that a major reason for failure to have sufficient income for a comfortable life at retirement is the lack of financial planning. A financial game-plan can provide for retirement income and for contingencies that arise prior to retirement. A sound plan should be organized to cover the following areas: (1) Necessary insurance; (2) A quick-recourse reserve; (3) Investments to meet personal needs; and (4) A general fund.

Life insurance is necessary to protect dependents against the loss of the family's primary breadwinner(s) through death or disability. Maximum protection is generally needed when the family is young. As the other three categories of assets increase, the need for insurance declines. However, the family is usually least able to afford high insurance premiums during the early years. This problem can be mitigated somewhat by the wise use of group insurance plans and term insurance.

A quick-recourse reserve is necessary to provide for contingencies that arise from time to time. Some authorities recommend that this fund should equal approximately one-half of a year's take-home pay. The fund should be invested in assets that can be quickly liquidated with minimum transaction costs, such as bank deposits, savings bonds, or insurance reserves.

Personal assets include such items as a home and business investments. Care should be taken not to over-invest in your house. Monthly payments including principal, interest, insurance, and taxes usually should not exceed one week's take-home pay.

General fund assets provide an investor with the highest rate of return. Assets in this group will also have the highest risk; however, risk can be reduced by adequate diversification. This fund should include both fixed-return and variable-return investments.



## How Much Should You Save?

Many people appear to have the opinion that a financial gameplan consists of a simple resolution to save whatever current income is "left over" at the end of each month. A policy should be adopted to fund your savings plan along with your bills. The adoption of such a policy is facilitated if you have a fixed amount to pay each month.

The proper amount to save will be different for each family unit and is dependent upon several factors. The most critical of these are listed below:

- (1) the amount of income desired at retirement
- (2) the number of working years until retirement
- (3) the rate at which money can be invested and the amount of risk that is acceptable
- (4) whether accumulated capital is to be consumed during retirement or whether the retiree will live only on income produced by the capital
- (5) the amount of wealth already accumulated
- (6) the rate of inflation present in the economy
- (7) the rate of taxation
- (8) retirement income available from other sources such as social security or company pension plans

The question of how much to save is obviously difficult to answer. However, by applying sound financial techniques and by using a stepwise solution process, the problem can be handled in a reasonable fashion.

The following steps are suggested:

Step 1. Estimate: (a) the monthly income in current dollars you will need at retirement. (b) the average rate of inflation over your working life. Although future rates of inflation are difficult to estimate, past rates shown in Table 1 may be helpful. (c) the number of working years left until retirement.

TABLE 1  
AVERAGE ANNUAL COMPOUND RATES OF CHANGE  
IN THE CONSUMER PRICE INDEX

<u>Time Period</u>	<u>Percent</u>
1970-75	6.75
1965-75	5.49
1960-75	4.11
1945-75	3.72

Step 2. The estimates made in step 1 can be used with Table 2 to compute the amount of future before-tax income necessary to preserve current purchasing power. For example, assume that a. is estimated at \$1,000, b. at 4%, and c. at 30 years. Table 2 shows that for each \$1,000 of current income desired, \$3,243 will be needed at retirement due to inflation.

Step 3. Estimate the before-tax rate of return on investment during retirement and decide whether to consume capital during retirement. Table 2 can be used to compute the amount of capital necessary to produce the desired income. In the example, assume that the



return is 9 per cent and that you will not consume capital, Table 2 indicates that \$432,400 of capital is required. This is found by dividing \$3243 by \$1,000 and multiplying the result by \$133,333.

This procedure does not allow for the effect of inflation during retirement. When capital is not consumed, this effect can be easily considered by using the difference between the rate of return on investment and the inflation rate.

Step 4. Estimate the after-tax rate of return on investment during your working life and use Table 4 to compute the monthly savings necessary to accumulate the capital found in step 3. Assume that the return is 8 per cent after-taxes. Table 4 shows that savings of \$290 per month invested at 8 per cent will grow to \$432,400 in thirty years, found as \$432,400 divided by \$100,000 times \$67.

TABLE 2  
COMPOUND VALUE OF \$1,000

Rate	Years to Retirement					
	10	15	20	25	30	35
2%	\$1219	\$1346	\$1486	\$1641	\$1811	\$2000
3	1344	1558	1806	2094	2427	2814
4	1480	1801	2191	2666	3243	3946
5	1629	2079	2653	3386	4322	5516
6	1791	2397	3207	4292	5743	7686
7	1967	2759	3870	5427	7612	10677
8	2159	3172	4661	6848	10063	14785
9	2367	3642	5604	8623	13268	20414
10	2594	4177	6727	10835	17449	28102
15	4046	8137	16367	32919	66212	133176

TABLE 3  
REQUIRED CAPITAL TO EARN \$1000 OF MONTHLY INCOME  
AT VARYING INVESTMENT RATES

Before-tax Investment Rate	Capital is Not Consumed	Capital is Consumed to Zero at age 100
3%	\$400,000	\$259,844
4	300,000	225,850
5	240,000	198,145
6	200,000	175,380
7	171,429	156,530
8	150,000	140,794
9	133,333	127,552
10	120,000	116,324
15	80,000	79,566

Note: Assumed retirement is at age 65.



TABLE 4  
MONTHLY INVESTMENT REQUIRED TO EQUAL  
\$100,000 AT END OF PERIOD

After-tax Rate of Return	Years to Retirement					
	10	15	20	25	30	35
3%	\$716	\$441	\$305	\$224	\$172	\$135
4	679	406	273	195	144	109
5	644	374	243	168	120	88
6	610	344	216	144	100	70
7	578	315	192	123	82	56
8	547	289	170	105	67	44
9	517	264	150	89	55	34
10	488	241	132	75	44	26
15	363	150	67	31	14	7

Note: Investment made at the end of each month.

#### Additional Considerations

Some allowance should be made for income during retirement from a company pension plan or the social security program. This can be done by projecting to retirement the amount of income available from such sources. Social security can be used as an example.

The amount of social security payments to which a family is entitled can be computed using the number of dependents expected at retirement and average yearly earnings.\* Since there is now a provision in the law that social security benefits will be inflation proof, Table 2 can be used to convert the present dollars into retirement dollars. Using the preceding example and further assuming that the family qualifies for \$400 per month today, this amount will convert into \$1,297 in retirement found by dividing \$400 by \$1,000 and multiplying the result by \$3,243. This means that \$3,243 less \$1,297 or only \$1,946 must be provided by savings.

If some capital has already been accumulated, the financial gameplan can be altered substantially. It can, depending on the form of capital, reduce liquidity requirement and insurance needs. It will also reduce monthly contributions necessary to accumulate the desired amount of retirement capital. In the original example, the estimate was made that \$432,400 of capital was needed at retirement. Suppose that \$10,000 has already been accumulated. If this amount can be invested at 8 per cent after-taxes, Table 2 shows that it will have a value of \$100,630 found by dividing \$10,000 by \$1,000 and multiplying the result by \$10,063. By repeating step 4, the monthly payment necessary to accumulate the remaining \$331,770 will be reduced to \$222.

\*A helpful leaflet is available from the Social Security office entitled Estimating Your Social Security Retirement Check.



### Conclusion

The procedure outlined in this article can be used to construct a financial gameplan. All of the calculations are based upon estimates. However, this does not negate the benefit of the procedure, but it does mean that several estimates of the variables should be made and the results checked to develop a "range of values".

A financial gameplan is not something that can be made once and filed away permanently. As time passes, the plan should be reviewed and updated to reflect changing conditions. The procedure outlined for handling previously accumulated capital can be very helpful for periodic updating.

\* \* \* \* \*

### Adam Smith on Self-Interest and the Social Good

"[An individual] generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand [*italics mine*] to promote an end which was no part of his intention. Nor is it always the worse for the society that was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it."

Adam Smith, The Wealth of Nations, 1776, p. 423 (New York: The Modern Library edition, 1937.).

\* \* \* \* \*

### Adam Smith on International Trade

"What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."

Adam Smith, The Wealth of Nations, 1776, p. 424 (New York: The Modern Library edition, 1937.).



## ATTRACTING RETAIL CUSTOMERS WITH A MARKETING PHILOSOPHY AND STRATEGY

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Of all the many problems and issues that require the attention of the retail store owner or manager, those that involve attracting and retaining customers are among the most crucial. Developing a plan for an appropriate marketing philosophy, strategy, and tactics is important to the success of the retail store. The purpose of this article is to present a functional marketing philosophy and a framework for determining marketing strategy that focuses on attracting and keeping customers.

### The Marketing Concept

For many years, various catch-phrases such as "The customer is king.", and "The customer is always right.", have been popular. Although timely and appropriate, these phrases alone do not provide adequate direction for retailing decisions.

However, in recent years the above phrases have evolved into what is known as the "marketing concept." More and more firms (both large and small) are adopting the marketing concept as the firm's overall operating philosophy. The marketing concept can be stated as ". . . a customer orientation backed by integrated marketing aimed at generating customer satisfaction as the key to satisfying organizational goals."<sup>1</sup> These three pillars of the marketing concept deserve further examination.

### Customer Orientation

The focus of customer orientation is quite similar to the "customer is king" philosophy. It calls for a reorientation of the firm from looking inward toward its products to looking outward toward the customer's needs and desires. To successfully implement customer orientation, five distinct steps can and should be taken.

1. Define the customer's generic needs. The retailer should adopt a definition of the basic needs that he intends to sense, serve, and satisfy. For example, the role of a shoe store should be viewed as providing foot comfort that is consistent with current fashion. The notion that a store just sells shoes constrains the retailer's thinking.
2. Define target groups. Few retailers can be all things to all people. The retailer should recognize that there are many market segments within each total market. Because of limited resources, further restrictions can be placed on potential operations. Specific needs for particular groups of customers can be selected. For example, the shoe store mentioned above could cater only to women or men or children.
3. Provide a differentiated merchandise offering. To effectively reach a chosen target group, the retailer should aim his product lines directly at that group. The target group should be kept in mind during every purchase decision. (Remember that more than one group can be chosen.)



4. Formulate a differential advantage strategy. Search for real values to offer the target groups, not just trivial differences. The retailer should examine his reputation, resources, and product opportunities for elements that can be featured as differentiated advantages over the products and services of the competitors. Unless some advantage exists, the customer will have no reason to choose one retailer over another.

5. Analyze the customer. The wants, attitudes, and behavior of the customer must be evaluated and interpreted. Frequently the experience and judgment of the retailer can provide adequate evaluation and interpretation. However, a small outlay for measurement of given consumer variables by a competent marketing researcher can many times be invaluable.

### Integrated Marketing

Integrated marketing is the second pillar of the marketing concept. It is obvious that actions taken by those personnel concerned directly with sales and marketing influence the customer. Integrated marketing means that every department and every employee must realize that the actions they take may have a profound effect on the firm's ability to create and retain customers. Some means must be developed to coordinate the impact on the customer of all the departments and employees.

### Customer Satisfaction

The third pillar of the marketing concept is customer satisfaction. The key factor in the firm's long run fortunes (or profits) is the amount of customer satisfaction generated.

The idea is not to attempt to maximize customer satisfaction--this would involve giving the merchandise away and a bankruptcy. Rather than seeking to optimize customer satisfaction directly, it is best achieved as a by-product of customer problem solving. The aim of the marketing concept is more to help and assist than to please.

### A Retailing Strategy

With the marketing concept firmly grasped and implemented, formulation of a reasonable retailing strategy can proceed more easily. Typically, the first steps are to define the product area and the target market. These steps would have been covered adequately if the market concept was properly implemented.

The next step is to develop an efficient retailing mix. A good retailing mix is one that fosters a desirable store image and provides a differential advantage over the competition. Developing the retailing mix involves answering two relevant questions: (1) What factors attract the customer into a retail store for the initial visit, and (2) What factors determine whether the customer will return for subsequent visits and develop a "loyalty" to the retail store? Some of these key factors are discussed below.

### Factors for Initial Visit

Customers visit those retail stores that appear most capable of satisfying their needs and desires. Before the first visit, how do they decide? What cues are relevant?

1. Promotion--information. One set of cues that the customer can receive from pro-



motion is informational cues. The retailer can get across three basic points: (1) products carried, (2) prices, and (3) location of store--(including store hours, if relevant).

2. Promotion--store image. Many retailers give the customer good informational factors in their promotion, but do not recognize that an image is also communicated. The overall image transmitted by the promotion can be crucial. Too many use a smooth, fast-talking spokesman on television that people associate with old horse-traders and get the impression that "they will do anything to get my money." (Many used-car dealers and mobile home dealers are guilty of this.) This impression puts the customer on the defensive and may create a strong avoidance motive. Remember that the tone and character must coincide with or match the specific message. If it does not, the desired effect of the informational factors can be completely destroyed. Also, the impression of trust and stability should be conveyed.

3. Location. Generally, a retail store should be located where it is exposed to the largest traffic count of its target customers, whether pedestrian or vehicular. Depending on the type of store, it may be advantageous for the retailer to be the only one of its kind in the area. But, stores that carry goods that are usually compared (i.e., shoe stores, women's shops, department stores) are many times located very close to similar stores.

4. Building exterior. The exterior of the retail store can also be crucial in attracting customers. Many times the potential customers will see a retail store several times while traveling around town before they have reason to stop at the store. These first impressions can go a long way in determining whether the customer will ever stop at the store.

5. Word-of-mouth. The four factors discussed above can be influenced directly by the retailer. Although word-of-mouth can not be similarly influenced, it can be influenced indirectly and should be carefully considered in the retailer's strategy planning. Word-of-mouth refers to the impressions, attitudes, opinions, and advice about a retail store that is transmitted from a previous customer to others. It usually is a very powerful cue for the potential customer. The information transmitted by the previous customers depends on what they found when they were inside the store. These influencing factors are discussed below.

#### Factors that Retain or Lose Customers

In keeping with the spirit of the marketing concept, it is critically important that these factors be viewed from the potential customer's standpoint. Then, the customer's view can be translated into positive action by the retailer.

1. Prices. The overall price level must be consistent with what the customers are looking for and with the other elements of the retailing mix. Specific prices must be consistent with the quality of the merchandise and convince the customers that they are getting good value for their money. Bear in mind that the price level may be higher than the competition and still be appropriate if it is consistent with the other factors.

2. Products. The overall selection and assortments of merchandise must be adequate. The retailer must have what the customer wants.

3. Location. If all other factors are the same, the customer will usually choose the store with the most convenient location. If the retailer does not have the "best"



location, some other retailing factor must be turned into an advantage to attract the customer.

4. Layout. How many times have you heard someone say "I can't find what I'm looking for when I go there, so I don't go any more."?

5. In-store service. Too few sales clerks, too many sales clerks, impolite sales clerks, and long check-out lines all serve to discourage patronage. Conversely, polite and efficient sales clerks and checkers contribute to increased customer satisfaction.

6. After-purchase service. Many products are sold with a warranty or guarantee. The adequacy of these policies will sometimes influence the customer's store-choice decision. Further, slow and/or inefficient service work can cause customers to shop elsewhere.

7. Atmosphere. Each retail store has its own character and atmosphere. It is composed of the interaction of many elements, including the sales personnel, clientele, fixtures, equipment, layout, lighting, smell, sound, etc. All the various elements should be blended together to focus on the target customers. Do not make it possible for a target customer to say or feel that "I always feel uncomfortable in that store."

8. Credit and Billing. The availability of credit may attract some customers. However, find out if granting credit is necessary to attract your target customers. Billing, on the other hand, can lose valuable customers if performed inefficiently.

9. Complaints. Poorly handled complaints, especially concerning returns and exchanges, can also lose customers for the retailer. Usually a satisfied customer is worth more to the retailer than a \$10 shirt.

The retailer should keep in mind that some of the above factors, such as price and product, will serve to encourage the customer to return to the store. Conversely, other factors, such as billing and complaints are more likely to discourage customer loyalty. In either case, the importance of each factor must be interpreted by the retailer for his store and translated into positive action.

### Conclusion

The customer is the focal point of retailing activity. The long run success of a retail store is determined by the amount of customer satisfaction generated. Successful generation of customer satisfaction depends on developing a marketing philosophy, understanding the customer's viewpoint, and translating this viewpoint into solid marketing strategy and tactics.

### FOOTNOTE

<sup>1</sup>Philip Kotler, Marketing Management (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1972), p. 17.



## ACCOUNTING, TAX, AND RATE PROBLEMS IN RURAL WATER SUPPLY CORPORATIONS

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### Introduction

In Texas there are over 800 rural water supply corporations that furnish potable water to virtually all the farmers of the state. They operate as non-profit cooperatives, and are financed largely by Farmers Home Administration (FHA) loans. The only capital supplied by the member-users consists of the \$50 to \$200 contribution made by each member upon joining. Approximately 99 per cent of the initial capital is furnished by FHA in the form of five per cent interest loans.

The officers of each corporation are members elected by the membership; consequently, they are not likely to be professional business managers. However, typically they are conscientious, civic-minded persons who do their work well. Generally, management needs counsel on accounting and income tax matters. Some corporations employ a professional accountant to keep the books and give counsel. In others, the accounting is handled by a non-accountant member of the corporation.

The FHA requires each corporation to submit annual financial reports audited by an independent public accountant. If the books have been kept under single-entry, cash-basis, or otherwise non-professional methods, the public accountant can usually reconstruct the recorded financial data to arrive at statements which conform to generally accepted accounting principles.

### Tax Exempt Status

The non-profit status granted in the state charter does not entitle the corporation to automatic exemption from federal income taxes. The exemption must be solicited on Internal Revenue Service Form 1026, accompanied by a copy of the corporate by-laws which must meet certain requirements prescribed by the IRS. If the by-laws do not provide for (1) mutual ownership and control by members, and (2) records sufficient to reflect the equity of each member in the assets acquired with corporate funds, the Board of the corporation must pass a resolution to make such provisions. The interest of members in the organization may be determined in proportion to either the value or quantity of water purchased from the organization.

Since the membership rolls of most rural water supply corporations show a high rate of turnover, accountants and auditors may be quite concerned about the work involved in keeping track of the equity interest of each member during the lifetime of the corporation. However, this author has access to a letter from the IRS District Director at Dallas to an East Texas rural water supply corporation which indicated that a "running record" is not necessary, but that records should be on hand which could show each member's annual patronage. This particular corporation has a contract with the local Independent School District Tax Office to tabulate and mail out monthly bills to its members. Copies of the

<sup>1</sup>IRS Revenue Ruling 72-36.



Tax Office summary reports to the corporation serve to show each member's monthly patronage.

### Possible Legal Headaches with Members' Equity Accounting

The Internal Revenue Service Revenue Ruling 72-36 is very specific in providing for the rights and interests of members in the equity, or net assets, of the corporation. Here is an excerpt:

If, under the by-laws, a member's rights and interests have been forfeited (by the Board of Directors), the organization has not operated on a mutual or cooperative basis and is therefore not exempt.

This provision could prove to be an impediment to the Board's authority to rid the corporation of members who do not pay their water bills.

Here is another excerpt of Revenue Ruling 72-36:

Gains (upon dissolution) from the sale of an appreciated asset should be distributed to all persons who were members during the period (in) which the asset was owned by the organization in proportion to the amount of business done by such members during that period, insofar as is practicable.

This provision has the potential of causing a bundle of accounting, financial, and legal problems.

### Texas Utility Commission

In September 1975, the Texas Public Utility Commission law became effective. It established a commission with "the general power to regulate and supervise the business of every public utility." It has been determined that rural water supply corporations come under its jurisdiction. The Commission was empowered to begin its rate regulating activities on September 1, 1976, and to assist it in this task, it has the authority "to prescribe the kind of records to be kept (by the corporation)." Furthermore, the Commission has veto authority over establishment of operating areas by each corporation and over sales and mergers involving a consideration in excess of \$100,000.

The regulatory functions outlined in the above paragraph were instigated for the purpose of safeguarding the public interest, but the same or similar functions have been carried out by the Farmers Home Administration since the beginning of rural water supply corporations. The FHA carries out its regulatory activities through its County Supervisors, who deal with the corporations on an individual, friendly manner, that is largely advisory rather than dictatorial. Many officers of rural water supply corporations, as well as attorneys and accountants who counsel the corporations, are apprehensive that there may be some problems with there being two supervisory bodies over the corporations. The FHA certainly has a financial interest in the corporations, and is thus motivated to guide them along courses of action which will tend to maintain solvency, in order that they can pay off their FHA loans.

One wonders just what effect the regulatory processes of the Texas Water Utility Commission will have upon the financial health of the corporations. Through rate settings, delays in rate hearings, and disallowance of expenses for rate determination, the Commission could contribute to the bankruptcy of a rural water supply corporation.



## THE ECONOMICS OF THE WORKING WIFE

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The continually increasing number of women who work outside the home has given rise to many questions and concerns dealing with families having an employed wife/mother. Questions such as ; "How much does the working wife actually contribute to the family earning power?"; "Why does she choose to work?"; and "What does she do with her money?"; are valid ones for a society experiencing such rapid change in its labor force. A recent study made by the Home Economics Department at Stephen F. Austin State University sought answers to some of those questions.

Earlier research had shown that one of the major factors contributing to the shift in numbers of families in the upper income brackets is the working wife. For example, among families in the \$10,000 to \$15,000 income bracket, an estimated 45 per cent have wives who are employed, while in the \$15,000 to \$25,000 bracket, 55 per cent of the wives work outside the home. Almost half of all families with incomes exceeding \$25,000 have employed wives. This has given rise to the inverted income pyramid in this country. Overall, 55 per cent of all U.S. wives are gainfully employed.

In the SFASU research, 216 families with working wives were studied. Each had a husband within the home and a wife employed full-time. One-half the women workers studied were from the small towns of East Texas, and one-half were from the metropolitan areas of Dallas and Houston. Average monthly income for the total group of wives studied was \$633.00. After required deductions (taxes, social security, and pensions) the average take-home pay was \$498.00. Husbands in the study averaged a monthly gross income of \$766.00, or 18 per cent more than their wives. While women from the metropolitan areas reported greater incomes than women from the non-metropolitan areas, the differences were not statistically significant. Salaries of the women from the Dallas/Houston areas averaged \$652.57 monthly, while the average monthly salary for the non-metropolitan workers was \$612.38.

The study supported other research which showed that the major reason for women's working is financial. While there are side benefits such as personal fulfillment, career development, etc., the majority of the women reported that they began work due to financial need. Accordingly, most contributed their earnings to the regular family budget. The following table summarizes the use of the earnings of the participants as reported in the study.

USE OF EARNINGS*	PER CENT
Regular Family Expenses	74
Purchase of Major Household Items	28
Personal Use	15
Debt Reduction	14
Savings for Children's Education	9
Savings for Family Vacations	6

\*Some women reported multiple use of income.

The earning power of the working wife cannot be adequately evaluated without consideration of her job-related expenses. The working woman clearly has different consumer product and service needs than the one who stays home. Job-related expenses were reported by all the women who participated in the SFASU study. Major costs outlined were child care, transportation, meals while working, extra personal clothing, grooming care and



supplies, professional dues, and household help. In addition, a majority of the wives reported spending more money for food for the family after the wife began working away from home. More convenience foods were purchased, as well as more baked goods, and more snack foods. Families also tended to eat out more when the wife worked away from home.

For the total group of working wives studied, the average monthly work-related expenses totaled \$132.00, leaving the worker with \$366.00 realized from her work. That realized income was 58 per cent of her gross earnings.

While many of the women questioned seemed to realize that an additional effect on family finances due to their working might be increased taxes, few had any concept of the amount. Therefore, it was not possible in the study to include that factor; however, other studies have suggested something of the effect. For example, a typical husband's salary of \$12,000 carries a net income of \$10,466 after federal income taxes. When the wife adds a salary of \$8,000, the family net income after federal incomes taxes is \$16,600. With the wife working the tax was more than twice the amount it was when she did not work, even though her salary was only two-thirds as much as her husband's.

Extensive study of the job-related expenses reveal another, more positive view of such costs. For example, while many of the costs are mandated by the job, as in the case of more attractive clothing, they may have intrinsic value for the worker as well--that is, the woman receives pleasure from being able to wear the finer clothing. In addition, the business community enjoys larger sales of products and services due to the 27 per cent of her take-home pay which the working wife spends on job-related expenses.

When the women workers were studied by occupation, there was a considerable difference in levels of earnings as well as in job-related expenses. Workers were grouped according to occupation, with the ten most frequently held female occupations in the United States represented. Workers were teachers, nurses, clerical workers, food service personnel, managers, maids, factory workers, welfare workers, salespersons, and cosmetologists.

Workers who reported the greatest incomes were managers, welfare workers, and teachers, while workers with the lowest reported incomes were maids, salespersons, and cosmetologists. When the women were studied according to occupational group and percentage of income used for work-related expenses, the rank order differed from the order occurring when dollar amounts of income were studied. Workers who used the largest percentage of their income for work-related expenses were salespersons, cosmetologist, and factory workers, while groups spending the lowest percentage of their incomes for such costs were food service personnel, managers, and maids. Salespersons (women who worked as clerks in retail stores) had the lowest amount of money remaining after deductions and expenses.

Women from the rural areas reported more work-related costs than did women from the cities, perhaps due to transportation needs. The metropolitan workers used 25.5 per cent of their take-home pay for the job-related costs, while the non-metropolitan workers used 30 per cent.

Types of expenses varied according to varying occupations. Clerical workers found additional family food and transportation to be their highest cost. Teachers, nurses, managers, maids, and social workers reported transportation as their highest cost, while factory workers, salespersons, and food service personnel reported additional food for their families as the greatest expenditure. Only cosmetologists reported meals while working as the greatest work-related cost.

Paid services included two categories--child care and household help--both of which ranked in the lower third of the work-related expenses for all workers. Although 54 per cent of the families had children, only 18 per cent had preschool aged children, thus only a small percentage of the workers required paid services for child care. Overall, 30 per cent of the families had some form of paid household help--either in child care or maid service. All the metropolitan families with preschool aged children hired help, and 85 per cent of non-metropolitan families did so. The incidence of paid help decreased as children grew older, with only seven per cent of the local all-adult families hiring outside help.



Women in the SFASU study were asked what practices they followed in order to reduce work-related expenses, thus providing more discretionary income for their families. Many practices were reported; however, they fell into three major categories. Foremost among the practices mentioned were activities relating to transportation. Women reported that they used economy cars, purchased gasoline at self-service stations, and carpooled to work. Other frequent practices related to meals while working. Thirty-four per cent of the women said that they carried a sack lunch to work. The final major area of practices was in the area of personal clothing and grooming. Many women reported sewing their own clothing, caring for their own hair, and wearing washable clothing. Workers also reported using careful shopping practices, avoiding overpurchasing, shopping sales, and utilizing discount centers.

Finally, the study revealed some evidence of upward mobility for Texas female workers. Within the year in which the study was conducted, approximately 20 per cent of the women had received promotions from the firms in which they were employed.

Major conclusions drawn from the study of working wives included:

1. Women generally seek employment in order to improve family financial security. Their earnings are generally contributed to the regular family budget.
2. When required deductions and work-related expenses are removed, realized income is slightly more than one-half of the working woman's gross income.
3. While the working wife from the city may expect to make a slightly higher salary than her rural counterpart, the difference is not significant.
4. When transportation costs are lowered, a major cost associated with the second family income is reduced.
5. The occupations requiring some formal education beyond high school continue to provide the most attractive salaries for women workers.
6. Women workers are currently experiencing upward mobility in the world of work.
7. Among occupations, overall work-related expenses do not differ significantly.
8. When the ten most frequently held female occupations are considered, women in managerial positions realize the greatest monetary benefits from working, while women who work as salespersons in retail stores realize the least.



## SMALL BUSINESS INSTITUTE UP-DATE

Janelle C. Ashley, Ph.D.  
Director of the Small Business Institute  
and  
Professor of Management and Marketing

The Small Business Institute (SBI) program continues to gain momentum at SFASU. The Spring, 1976 SFA Business Review reported that some 120 client cases had been given assistance. To that number may now be added 42 more.

The SBI program is a cooperative venture between the Small Business Administration (SBA) and selected schools of business throughout the U.S. It was initiated during the Fall, 1972, and has achieved excellent results during its brief history. The SBI approach relies upon students of schools of business to furnish management assistance to the small business community. At SFASU, senior and graduate students, working under the guidance of a qualified school of business faculty member, act as consultants for selected small business clients. Both SBA loan holders and non-loan holders are eligible for participation. Students who participate in the SBI program earn some type of academic credit for the time spent counseling the business.

Of the 42 cases completed during the Spring, Summer, and Fall, 1976 academic semesters by SFASU students, fifteen were located in Nacogdoches and fifteen in Lufkin. The students also served six clients in San Augustine, three in Center, and one each in Alto, Huntington, and Woden.

Though the majority of businesses served by the SBI program are of the retail variety, student teams have worked with several wholesale operations and now count three manufacturing firms among their clients. Representative of the types of businesses served are auto parts, grocery, furniture, sporting goods, hardware, lumber and flower shops. Also tire/service stations, air conditioning sales and service, auto dealerships, plus shoes and clothing outlets. Two "firsts" added to the growing lists of SBI clients include a municipal hospital and two different franchise operations.

The types of problems encountered by SBI teams vary as much as the variety of clients served. Record keeping and accounting problems seem to top the list, however. Student teams have set up complete accounting systems, devised credit procedures complete with collection letters, and implemented systems for aging accounts receivable. They have conducted feasibility and market research studies, designed advertising campaigns, and set up inventory control systems. One client requested and received a complete financial analysis of his organization. Another had the student team work with him on organization structure, authority relationships, and delegation.

Anyone interested in learning more about the SBI program should write or call:

Dr. Janelle C. Ashley, Director  
Small Business Institute  
Box 9070; SFA Station  
Nacogdoches, Texas 75961  
Telephone: 713/569-3102



ECONOMIC AND FINANCIAL STATISTICAL APPENDIX

- I. Deep East Texas
- II. Texas
- III. The United States
  - A. Domestic
  - B. International

DEEP EAST TEXAS DATA





TABLE DET-1

VALUE OF URBAN BUILDING PERMITS FOR SIXTEEN COUNTIES  
IN DEEP EAST TEXAS, BY COUNTY SEAT  
AND LARGEST CITY

(In dollars, except as noted)

County Seat and Largest City	Aug. 1976	Per Cent Change From	
		July 1976	Aug. 1975
Anderson Palestine	283,815	1	53
Angelina Lufkin	840,487	-7	-15
Cherokee Rusk	17,000	na	na
Jacksonville	268,000	-5	-61
Houston Crockett	46,500	na	na
Jasper Jasper	44,000	-92	36
Nacogdoches Nacogdoches	928,063	35	-1
Newton Newton	na	na	na
Panola Carthage	123,800	-3	-63
Polk Livingston	174,320	na	na

Source: Bureau of Business Research, The University of Texas at Austin, Building Construction in Texas, October, 1976, pp. 8-19, and Texas Business Review, October, 1976, pp. 237-44.

naNot available.

\*\*Absolute change is less than one-half of one per cent.



TABLE DET-1 (continued)

County Seat and Largest City	Aug. 1976	Per Cent Change From	
		July 1976	Aug. 1975
Rusk			
Henderson	310,825	1	**
Sabine			
Hemphill	na	na	na
Pineland	na	na	na
San Augustine			
San Augustine	nil	na	na
San Jacinto			
Coldspring	na	na	na
Shepherd	na	na	na
Shelby			
Center	115,000	na	na
Trinity			
Groveton	na	na	na
Trinity	2,000	na	na
Tyler			
Woodville	na	na	na

See source and footnotes at the beginning of the table.



TABLE DET-2

BANK DEBITS FOR SIXTEEN COUNTIES IN DEEP  
EAST TEXAS, BY COUNTY SEAT AND LARGEST CITY

(In thousands of dollars, except as noted)

County Seat and Largest City	Aug. 1976	Percent of Change From	
		July 1976	Aug. 1975
Anderson Palestine	47,875	13	31
Angelina Lufkin	na	na	na
Cherokee Rusk	na	na	na
Jacksonville	44,733	-6	21
Houston Crockett	na	na	na
Jasper Jasper	35,372	-4	29
Nacogdoches Nacogdoches	na	na	na
Newton Newton	na	na	na
Panola Carthage	8,784	1	**
Polk Livingston	na	na	na

Source: Bureau of Business Research, The University of Texas at Austin, Texas Business Review, October, 1976, pp. 237-44.

na Not Available.

\*\*Absolute change is less than one-half of one per cent.



TABLE DET-2 (continued)

County Seat and Largest City	Aug. 1976	Per Cent Change From	
		July 1976	Aug. 1975
Rusk			
Henderson	na	na	na
Sabine			
Hemphill	na	na	na
Pineland	na	na	na
San Augustine			
San Augustine	na	na	na
San Jacinto			
Coldspring	na	na	na
Shepherd	na	na	na
Shelby			
Center	na	na	na
Trinity			
Groveton	na	na	na
Trinity	na	na	na
Tyler			
Woodville	na	na	na

See source and footnotes at the beginning of the table.



TABLE DET-3

LABOR FORCE AND EMPLOYMENT ESTIMATES FOR  
SIXTEEN COUNTIES IN DEEP EAST TEXAS

(In persons)

County	August 1976		July 1976		April 1975 <sup>a</sup>		April 1974 <sup>a</sup>	
	Labor Force	Employ- ment	Labor Force	Employ- ment	Labor Force	Employ- ment	Labor Force	Employ- ment
Anderson	11,331	10,623	11,350	10,581	11,035	10,201	10,463	9,914
Angelina	22,423	21,428	22,340	21,330	22,481	21,428	21,086	20,385
Cherokee	13,730	13,122	13,889	13,262	13,710	12,898	13,389	13,073
Houston	6,580	6,369	6,618	6,398	6,986	6,627	6,623	6,435
Jasper	9,858	9,242	9,725	9,093	8,850	8,135	8,983	8,486
Nacogdoches	15,135	14,555	15,206	14,584	16,154	15,468	16,312	16,043
Newton	3,793	3,551	3,768	3,530	3,770	3,449	3,360	3,139
Panola	6,757	6,419	6,845	6,497	6,871	6,554	6,777	6,428
Polk	5,849	5,539	5,888	5,570	5,981	5,626	6,105	5,893
Rusk	16,869	16,132	16,986	16,245	17,197	16,287	15,420	14,710
Sabine	2,435	2,246	2,446	2,283	2,581	2,299	2,592	2,455
San Augustine	2,486	2,318	2,505	2,335	2,814	2,612	2,106 <sup>b</sup>	1,998 <sup>b</sup>
San Jacinto	2,185	2,081	2,262	2,157	2,206	2,045	2,106 <sup>b</sup>	1,998 <sup>b</sup>
Shelby	7,542	7,185	7,907	7,522	8,339	7,915	7,974	7,689
Trinity	2,532	2,443	2,538	2,455	2,614	2,510	3,113	3,041
Tyler	4,977	4,742	4,933	4,677	5,048	4,762	4,490	4,303

Source: Texas Employment Commission, "Labor Force Estimates for Texas Counties," Various issues.

<sup>a</sup>Estimated annually in April prior to 1976; estimates now made on a monthly basis.

<sup>b</sup>The identical data may be as a result of a clerical or typographical error.



TABLE DET-4

UNEMPLOYMENT ESTIMATES FOR SIXTEEN COUNTIES  
IN DEEP EAST TEXAS

(In persons, except as noted)

County	August 1976		July 1976		April 1975 <sup>a</sup>		April 1974 <sup>a</sup>	
	Unemploy- ment	Unemploy- ment Rate	Unemploy- ment	Unemploy- ment Rate	Unemploy- ment	Unemploy- ment Rate	Unemploy- ment	Unemploy- ment Rate
Anderson	708	6.2	769	6.8	834	7.6	549	5.2
Angelina	995	4.4	1010	4.5	1053	4.7	701	3.3
Cherokee	608	4.4	627	4.5	812	5.9	316	2.4
Houston	211	3.2	220	3.3	359	5.1	188	2.8
Jasper	616	6.2	632	6.5	715	8.1	497	5.5
Nacogdoches	580	3.8	622	4.1	686	4.2	269	1.6
Newton	242	6.4	238	6.3	321	8.5	221	6.6
Panola	338	5.0	348	5.1	317	4.6	349	5.1
Polk	310	5.3	318	5.4	355	5.9	212	3.5
Rusk	737	4.4	741	4.4	910	5.3	710	4.6
Sabine	189	7.8	163	6.7	282	10.9	137	5.3
San Augustine	168	6.8	170	6.8	202	7.2	108 <sup>b</sup>	5.1 <sup>b</sup>
San Jacinto	104	4.8	105	4.6	161	7.3	108 <sup>b</sup>	5.1 <sup>b</sup>
Shelby	357	4.7	385	4.9	424	5.1	285	3.6
Trinity	89	3.5	83	3.3	104	4.0	72	2.3
Tyler	235	4.7	256	5.2	286	5.7	187	4.2

Source: Texas Employment Commission, "Labor Force Estimates for Texas Counties," various issues.

<sup>a</sup>Estimated annually in April prior to 1976; estimates now made on a monthly basis.

<sup>b</sup>The identical data may be as a result of a clerical or typographical error.



TABLE DET-5

RETAIL FOOD PRICE INDEX FOR HOUSTON:  
SEPTEMBER, 1976<sup>a</sup>

(1967 = 100)

Category	Sept. 1976	Per Cent Change From	
		Aug. 1976	Sept. 1975
ALL ITEMS	189.2	-0.2	2.2
Food at home	183.6	-0.3	0.1
Cereal and bakery products	175.1	-1.2	-1.2
Meats, poultry, and fish	187.2	-1.1	-5.6
Dairy products	184.0	1.8	6.0
Fruits and vegetables	178.3	-1.0	2.6
Other food at home	187.6	0.5	4.6
Food away from home	208.7	0.1	9.2

Source: Bureau of Labor Statistics, Region Six, Consumer Prices: September, 1976, October 22, 1976, p. 2.

<sup>a</sup>Used as a proxy for the cost of food in Deep East Texas.



TABLE DET-6

BUSINESS LOANS APPROVED UNDER ALL PROGRAMS,  
EXCEPT DISASTER, BY THE U.S. SMALL BUSINESS  
ADMINISTRATION FOR SIXTEEN COUNTIES IN  
DEEP EAST TEXAS, BY COUNTY SEAT AND  
LARGEST CITY: FISCAL YEAR 1975

(In thousands of dollars, except as noted)

County Seat and Largest City	Number	Total	Highest	Lowest	Average <sup>a</sup>
TOTAL <sup>b</sup>	57	4,836	407	5	84.8
Anderson Palestine	nil	-----	---	--	-----
Angelina Lufkin	19	1,404	315	5	73.9
Cherokee Rusk	nil	-----	---	--	-----
Jacksonville	8	1,106	400	8	138.3
Houston Crockett	2	165	100	65	82.5
Jasper Jasper	2	90	60	30	45.0
Nacogdoches Nacogdoches	5	761	350	30	152.2
Newton Newton	nil	-----	---	--	-----
Panola Carthage	1	40	---	--	40.0

Source: U.S. Small Business Administration, Fiscal Year 1975 Report (Washington, D.C.: Government Printing Office, 1975), various pages.

<sup>a</sup>Rounded to the nearest \$100. Calculated by the SFA BBER.

<sup>b</sup>Calculated by the SFA BBER.



TABLE DET-6 (continued)

County Seat and Largest City	Number	Total	Highest	Lowest	Average <sup>a</sup>
Polk Livingston	4	255	95	35	63.8
Rusk Henderson	8	407	139	15	50.9
Sabine Hemphill	1	225	---	--	225.0
Pineland	nil	-----	---	--	-----
San Augustine San Augustine	3	175	115	30	58.3
San Jacinto Coldspring	nil	-----	---	--	-----
Shepherd	nil	-----	---	--	-----
Shelby Center	3	168	75	28	56.0
Trinity Groveton	1	40	---	--	40.0
Trinity	nil	-----	---	--	-----
Tyler Woodville	nil	-----	---	--	-----

See source and footnote at the beginning of the table.



STATISTICS CONCERNING TEXAS AGRICULTURE  
 PREPARED BY THE U.S. GOVERNMENT PRINTING OFFICE  
 FOR THE YEAR 1975

TABLE 2 (continued)

Value of output of principal agricultural products

County Seat and Largest City	Value of output, 1975 (1000)	1974	1973	1972	1971	1970
<b>TEXAS DATA</b>	20,734,000	19,250,000	18,500,000	17,800,000	17,100,000	16,400,000
Abilene	1,000	1,000	1,000	1,000	1,000	1,000
Amarillo	2,500	2,500	2,500	2,500	2,500	2,500
Arlington	1,000	1,000	1,000	1,000	1,000	1,000
Beaumont	1,000	1,000	1,000	1,000	1,000	1,000
Brownsville	1,000	1,000	1,000	1,000	1,000	1,000
Corpus Christi	1,000	1,000	1,000	1,000	1,000	1,000
Dallas	1,000	1,000	1,000	1,000	1,000	1,000
El Paso	1,000	1,000	1,000	1,000	1,000	1,000
Fort Worth	1,000	1,000	1,000	1,000	1,000	1,000
Houston	1,000	1,000	1,000	1,000	1,000	1,000
Lubbock	1,000	1,000	1,000	1,000	1,000	1,000
McAllen	1,000	1,000	1,000	1,000	1,000	1,000
Midland	1,000	1,000	1,000	1,000	1,000	1,000
Odessa	1,000	1,000	1,000	1,000	1,000	1,000
Port Neches	1,000	1,000	1,000	1,000	1,000	1,000
Randallville	1,000	1,000	1,000	1,000	1,000	1,000
San Antonio	1,000	1,000	1,000	1,000	1,000	1,000
San Marcos	1,000	1,000	1,000	1,000	1,000	1,000
Seagraves	1,000	1,000	1,000	1,000	1,000	1,000
Temple	1,000	1,000	1,000	1,000	1,000	1,000
Victoria	1,000	1,000	1,000	1,000	1,000	1,000
Waco	1,000	1,000	1,000	1,000	1,000	1,000
Weslaco	1,000	1,000	1,000	1,000	1,000	1,000

TEXAS DATA

Source: U.S. Dept. of Agriculture, Agricultural Statistics, 1975. Output is value of principal agricultural products, excluding farm products. Values are in thousands of dollars.  
 \*Rounded to the nearest 1000. Data for 1970-74 are preliminary.  
 †Estimated by the USDA.



TABLE T-1

## SELECTED INDICATORS OF TEXAS BUSINESS ACTIVITY

(Seasonally adjusted, 1967=100)

Index	Aug. 1976	July 1976	Year-to- Date Average 1976	Per cent Change	
				Aug. 1976 from July 1976	Year-to- Date Average 1976 from 1965
Business Activity	200.8	220.5	224.0	9	17
Estimated Personal Income	249.0 <sup>P</sup>	239.4 <sup>P</sup>	237.8	4	11
Bank Debits	441.4	406.0	406.3	9	22
Total Electric Power Use	182.2 <sup>P</sup>	175.5 <sup>P</sup>	183.0	4	12
Total Industrial Production	130.1 <sup>P</sup>	130.0 <sup>P</sup>	129.9	**	4
Urban Building Permits Issued	228.6 <sup>P</sup>	232.2 <sup>P</sup>	228.1	-2	23
Total Nonfarm Employment	138.8 <sup>P</sup>	138.9 <sup>P</sup>	138.6	**	3

Source: Bureau of Business Research, The University of Texas at Austin, Texas Business Review, October, 1976, p. 227.

<sup>P</sup>Preliminary.

\*\*Change is less than one-half of one per cent.



TABLE T-2

## EMPLOYMENT ESTIMATES FOR TEXAS

(In persons, except as noted)

Item	August 1976	July 1976	April 1975 <sup>a</sup>	April 1974 <sup>a</sup>
Labor Force	5,406,500	5,466,700	5,238,400	5,070,300
Employed	5,114,300	5,152,200	4,961,300	4,878,000
Unemployed	292,200	314,500	277,100	192,300
Unemployment Rate	5.4%	5.8%	5.3%	3.8%

Source: Texas Employment Commission, "Labor Force Estimates for Texas Counties", various issues.

<sup>a</sup>Estimated annually in April prior to 1976; estimates now made on a monthly basis.

TABLE T-3

PERSONAL INCOME IN TEXAS AND THE UNITED STATES:  
JULY, 1976

(In millions of dollars, except as noted)

Entity	July 1976	July 1975	Per Cent Change
Texas	6,374 <sup>P</sup>	5,856	8.8
The United States	117,045 <sup>P</sup>	105,633	10.8

Source: Business Week, October 25, 1976, p. 134.

<sup>P</sup>Preliminary.



UNITED STATES DOMESTIC AND INTERNATIONAL DATA



TABLE USD-1

## AGGREGATE DEMAND AND SUPPLY

(In billions of dollars)

Item	2nd Qtr. 1976 <sup>a</sup>	1st Qtr. 1976 <sup>a</sup>	1975	1974
Gross National Product in Current Dollars	1,674.1	1,636.2	1,516.3	1,413.2
Gross National Product in Constant (1972) Dollars	1,259.4	1,246.3	1,191.7	1,214.0

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, p. A54.

<sup>a</sup>Seasonally adjusted quarterly totals at annual rates.

TABLE USD-2

## INDUSTRIAL PRODUCTION

(Seasonally adjusted, 1967=100)

Item	Aug. 1976 <sup>e</sup>	July 1976 <sup>p</sup>	1975	1974
Federal Reserve Board Index of Industrial Production	131.4	130.7	117.8	129.3

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, various issues.

<sup>e</sup>Estimated.

<sup>p</sup>Preliminary.



TABLE USD-3

## MONETARY AGGREGATES

(Seasonally adjusted, in billions of dollars)

Item	July 1976	June 1976	Dec. 1975	Dec. 1974
Money Stock (M <sub>1</sub> ) <sup>a</sup>	304.8	303.1	294.8	283.1
Money Stock (M <sub>2</sub> ) <sup>b</sup>	707.6	700.3	664.3	612.4
Monetary Base <sup>c,d</sup>	112.6	111.9	108.5	104.4

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, pp. A12 and A13.

<sup>a</sup>Demand deposits, plus currency and coin in circulation.

<sup>b</sup>M<sub>1</sub> plus savings and time deposits in commercial banks other than negotiable CDs of \$100,000 and larger.

<sup>c</sup>Total reserves of member banks plus currency and coin in circulation.

<sup>d</sup>Calculated by the SFA BBER.

TABLE USD-4

## STOCK MARKETS

Item	Aug. 1976	July 1976	1975	1974
New York Stock Exchange Index (Dec. 31, 1965 = 50)	55.06	55.70	45.73	43.84
Average Daily Volume (Thousands of shares)	15,758	18,977	18,568	13,883
American Stock Exchange Index (Aug. 31, 1973 = 100)	102.79	105.24	83.15	79.97
Average Daily Volume (Thousands of shares)	1,605	2,280	2,150	1,908
Standard & Poor's Corp. Composite Index of 500 Stocks (1941-43 = 10)	103.29	104.20	85.17	82.85

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, p. A29.



TABLE USD-5

## EMPLOYMENT

(In thousands of persons, except as noted)

Item	Aug. 1976 <sup>a</sup>	July 1976 <sup>a</sup>	1975	1974
Civilian Labor Force	95,487	95,333	92,613	91,011
Employed	87,981	87,907	84,783	85,935
Unemployed	7,506	7,426	7,830	5,076
Unemployment Rate	7.9%	7.8%	8.5%	5.6%

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, p. A52.

<sup>a</sup>Seasonally adjusted.



TABLE USD-6

## PRICE INDICATORS

(1967 = 100)

Index	Month and Year	Present Month	Previous Month	1975	1974
Consumer Price Index	Sept. 1976	172.6	171.9	161.2	147.7
Wholesale Price Index	Aug. 1976	183.7	184.3	174.9	160.1

Sources: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, September, 1976, p. A53, and Bureau of Labor Statistics, Region Six, Consumer Prices: September, 1976, October 22, 1976, p. 4.

TABLE USD-7

## PURCHASING POWER OF THE DOLLAR

(Values rounded to nearest cent)

Index	Sept. 1976	Aug. 1976	1975	1976
Consumer Price Index (1967 = \$1.00)	\$0.58	\$0.58	\$0.62	\$0.68

Calculated by the SFA BBER from Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, September, 1976, p. A53, and Bureau of Labor Statistics, Region Six, Consumer Prices: September, 1976, October 22, 1976, p. 4.



TABLE USD-8

## INTEREST RATES AND YIELDS

(In per cent per annum)

Item	Month and Year	Present Month	Previous Month	1975	1974
Federal Funds Rate	Aug., 1976	5.29	5.31	5.82	10.51
U.S. Treasury Bills (3 mos.)	do	5.14	5.23	5.80	7.84
U.S. Government Bonds	do	6.79	6.85	6.98	6.99
Corporate Bonds	do	8.85	8.97	9.46	8.98
Common Stocks	do	3.74	3.64	4.31	4.47
Preferred Stocks	do	7.99	8.08	8.38	8.23
Conventional New Home Mortgages					
Contract Rate	July, 1976 <sup>P</sup>	8.78	8.69	8.75	8.71
Fees and Charges	do	1.30	1.27	1.54	1.30
Commercial Bank Finance Rates on:					
New Automobiles (36 mos.)	July, 1976 <sup>P</sup>	11.06	11.02	11.25 <sup>a</sup>	11.62 <sup>a</sup>
Personal Loans (12 mos.)	do	13.38	13.32	13.60 <sup>a</sup>	13.46 <sup>a</sup>

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, pp. A27, A28, and A45.

<sup>P</sup>Preliminary.

<sup>a</sup>December of year.



TABLE USI-1

## U.S. INTERNATIONAL TRANSACTIONS

(In millions of dollars)

Item	2nd Qtr. 1976	1st Qtr. 1976	1975	1974
Merchandise Exports	na	26,939	107,133	98,310
Merchandise Imports	na	28,447	98,150	103,679
Merchandise Trade Balance	na	-1,508	8,983	-5,369
U.S. Direct				
Investments Abroad (net)	na	-1,580	-6,307	-7,753
Foreign Direct Investments in the United States (net)	na	-689	2,437	2,745

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, p. A58.

<sup>na</sup>Not available.

TABLE USI-2

## FOREIGN EXCHANGE RATES

(In cents per unit of foreign exchange rounded to nearest cent or fraction thereof)

Currency Unit	Aug. 1976	July 1976	1975	1974
British Pound <sup>a</sup>	178	179	222	234
Canadian Dollar	101	103	98	102
French Franc	20	21	23	21
German Mark	40	39	41	39
Japanese Yen	0.008	0.003	0.003	0.003
Mexican Peso <sup>b</sup>	8	8	8	8
Swiss Franc	40	40	39	34

Source: The Federal Reserve Board of Governors, Federal Reserve Bulletin, September, 1976, p. A75.

<sup>a</sup>The British pound has since depreciated to between 155 and 165 cents.

<sup>b</sup>The Mexican peso has since been allowed to float, devalued, and to float again. It is now valued in the foreign exchange market at between 3 and 5 cents.



\* \* \* \* \*

### The Essence of Malthus' Theory of Population

There is a general tendency for the world's population, at whatever number, to increase at a geometric rate (1, 2, 4, 8, 16, 64, 128), while the means of subsistence--primarily the supply of food--tends to increase at an arithmetic rate (1, 2, 3, 4, 5, 6, 7). As one can tell, the first power is immense relative to the second.

T. R. Malthus, An Essay on the Principle of Population (London: Printed for J. Johnson, in St. Paul's Church-Yard, 1798.), various pages.

\* \* \* \* \*

### John Maynard Keynes on the Power of Ideas

"... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."

John Maynard Keynes, The General Theory of Employment, Interest and Money, 1936, p. 383 (New York: Harcourt, Brace and Company edition, n.d.).

\* \* \* \* \*

### Schools Doing Poor Job in Teaching English Composition?

In an article, "Teaching the Boss to Write," that appeared in the October 25, 1976 issue of Business Week on pages 56 and 58, the following points were made: (1) In some firms, the quality of written reports is so appallingly low that senior-level executives are sending their key employees--and occasionally themselves--to take courses in writing. (2) Writing consultants are finding their services increasingly in demand. (3) The courses more than pay for themselves by enabling the executives to save time both in reading and writing reports, and in avoiding costly mistakes caused by misinterpretation. (4) Many executives believe that the impact of their corporate efforts will be minimal until the schools [at all levels] begin to place greater emphasis on teaching students to write in a clear, logical, organized, and concise manner.



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